



Half-yearly Economic Report 2008

Government of the Hong Kong
Special Administrative Region

HALF-YEARLY ECONOMIC REPORT 2008

ECONOMIC ANALYSIS DIVISION
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

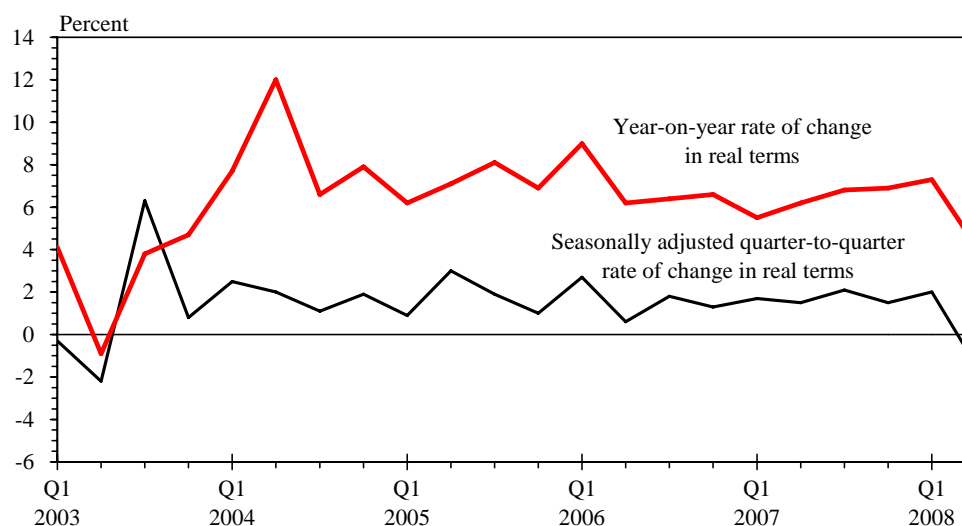
- *The Hong Kong economy grew moderately by 4.2% in the second quarter of 2008 over a year earlier. This followed a strong 7.3% growth in the first quarter. The moderation indicated that the headwinds from the slowing growth in the advanced economies and lingering financial market turbulence had increasingly posed a drag on the economic growth of the Asian region, including that of Hong Kong. Yet the labour market conditions stayed firm in the second quarter.*
- *Merchandise exports fell in June amidst the increasingly challenging external environment. But they grew moderately for the second quarter as a whole. The demand from the Mainland and other emerging economies, which stayed firm during most of the second quarter, as well as the continued expansion in the EU economy, provided the major support to Hong Kong's export performance.*
- *Exports of services grew notably in the second quarter, yet the performance was not as sanguine as in the previous quarters. There was further expansion in offshore trade and inbound tourism, but the impact on financial service activities due to the ongoing turbulence in the global financial markets had become more evident.*
- *Domestic demand also showed a slower growth in the second quarter. The growth of consumption spending moderated after a long period of exceptionally strong performance. While the firm labour market remained a supportive factor, the stock market correction, rising inflation and dimmer global economic prospects had probably dented consumer sentiments. Investment spending expanded further despite the high base in the same quarter last year. The latest business survey results suggested that large business establishments were still largely positive about the business situation.*
- *Inflationary pressure continued to trend upward in the second quarter. The surge in food prices amidst the global food inflation contributed significantly to the recent pick-up in consumer price inflation. Pressure from the demand side after a prolonged period of economic expansion was also reflected in the faster increases in private housing rentals and, to a lesser extent, prices for other goods and services. Nevertheless, the relief measures announced in the 2008-09 Budget and by the Chief Executive in mid-July would help to lower the headline inflation notably in the latter part of the year.*

Overall situation

1.1 After a prolonged period of strong economic expansion, the Hong Kong economy recorded a moderate growth in the second quarter of 2008, which was largely in line with the average annual growth pace over the past decade. The moderation in growth reflected the strong headwinds from the slowing growth in the advanced economies and lingering financial market turbulence, which had increasingly posed a drag on the economic growth of the region, including that of Hong Kong. Both exports of goods and services showed slower growth in the second quarter amidst the increasingly challenging external environment. Despite the firm labour market conditions, consumption demand decelerated notably after a long period of exceptionally strong growth, amidst the stock market correction, rising inflation and dimmer economic prospects. Meanwhile, investment spending continued to expand despite the high base in the same quarter last year. Driven by pressures from higher global food prices and the strong expansion of the local economy in the past quarters, inflationary pressure trended further upward in the second quarter.

1.2 In the second quarter of 2008, the *Gross Domestic Product (GDP)*⁽¹⁾ grew by 4.2% in real terms over a year earlier. This followed the vibrant growth of 7.3% in the first quarter (revised up from the earlier estimate of 7.1%). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP fell by 1.4% in real terms in the second quarter. This was the first quarter-to-quarter decline since the second quarter of 2003. Yet this has to be viewed against the very strong performance in the first quarter.

Diagram 1.1 : Economy grow moderately in the second quarter over a year earlier



1.3 Merchandise exports fell in June over a year earlier, amidst an increasingly challenging external economic environment. But they grew moderately for the second quarter as a whole. The demand from the Mainland and other emerging economies, which held firm during most of the second quarter, as well as the continued expansion in the EU economy, provided the major support. The earlier weakness of the US dollar, and hence the Hong Kong dollar, against other major currencies also helped to sustain the price competitiveness of Hong Kong's exports to such markets as the EU and some emerging market economies. *Total exports of goods* grew by 4.4% in real terms in the second quarter, moderated from the growth of 8.3% in the first quarter.

1.4 Trade in services has become more important in Hong Kong's changing structure of external trade. *Exports of services* grew further by 7.1% in the second quarter, though less robust than the 10.2% growth in the first quarter. There was further expansion in offshore trade and inbound tourism, but the impact on financial service activities due to the ongoing turbulence in the global financial markets had become more evident. Exports of financial services grew less rapidly than in the preceding quarters, albeit still at a double-digit pace.

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

	<u>2006#</u>	<u>2007#</u>	<u>2007</u>				<u>2008</u>	
			<u>Q1#</u>	<u>Q2#</u>	<u>Q3#</u>	<u>Q4#</u>	<u>Q1#</u>	<u>Q2+</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	6.0	7.8	4.5 (1.5)	6.6 (3.0)	10.6 (3.2)	9.5 (1.6)	7.9 (-0.1)	3.1 (-1.6)
Government consumption expenditure	0.1	2.3	2.3 (1.6)	3.0 (-0.3)	1.5 (-0.3)	2.3 (1.2)	0.3 (-0.4)	3.5 (3.1)
Gross domestic fixed capital formation	7.0	4.2	0.8	8.1	-0.5	8.2	9.9	4.3
<i>of which :</i>								
Building and construction	-7.3	1.0	-1.9	7.3	-0.2	-1.2	8.2	-1.7
Machinery, equipment and computer software	19.1	3.5	0.3	7.8	-2.7	8.5	6.1	6.5
Total exports of goods	9.3	7.0	6.5 (0.3)	10.0 (3.0)	6.2 (0.2)	5.7 (1.8)	8.3 (1.4)	4.4 (1.0)
Imports of goods	9.2	8.8	7.1 (0.1)	11.5 (4.1)	8.1 (0.5)	8.5 (3.1)	8.4 (-1.1)	4.9 (2.4)
Exports of services	10.1	12.5	11.3 (3.5)	11.6 (2.8)	13.7 (4.2)	13.1 (2.2)	10.2 (0.6)	7.1 (-0.3)
Imports of services	8.1	8.5	6.6 (0.5)	8.9 (5.8)	8.7 (0.3)	9.7 (2.8)	10.1 (1.2)	2.6 (-2.1)
Gross Domestic Product	7.0	6.4	5.5 (1.7)	6.2 (1.5)	6.8 (2.1)	6.9 (1.5)	7.3 (2.0)	4.2 (-1.4)
<i>Change in the main price indicators (%)</i>								
GDP deflator	-0.3	3.0	1.4 (0.6)	2.0 (0.9)	3.2 (1.1)	4.9 (2.1)	2.3 (-1.7)	2.0 (0.6)
Composite Consumer Price Index	2.0	2.0	1.7 (*)	1.3 (0.3)	1.6 (0.8)	3.5 (2.2)	4.6 (1.1)	5.7 (1.5)
<u>Change in nominal GDP (%)</u>	6.7	9.5	7.0	8.4	10.2	12.1	9.8	6.3

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(#) Revised figures.

(+) Preliminary figures.

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

(*) Change of less than 0.05%.

1.5 Domestic demand continued to contribute to overall economic growth in the second quarter despite showing a slower growth. The growth of consumer spending moderated notably in the second quarter after a long period of exceptionally strong performance. While the firm labour market conditions constituted a supportive factor, the stock market correction, rising inflation, and dimmer global economic prospects began to weigh on consumer sentiment. *Private consumption expenditure (PCE)* rose by 3.1% in real terms in the second quarter, slower than the rapid increase of 7.9% in the first quarter. Meanwhile, *government consumption expenditure* increased steadily in the second quarter.

1.6 Overall investment spending in terms of *gross domestic fixed capital formation* expanded further in the second quarter of 2008 despite the relatively high base in the same quarter of last year. It rose by 4.3% in the second quarter, after a strong 9.9% growth in the preceding quarter. Machinery and equipment investment continued to rise solidly by 6.5%. Also, as suggested by the results of the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department, large private sector business establishments in most economic sectors were still largely positive about the near-term economic prospects. Building and construction activities in both private and public sectors reverted to declines in the second quarter. Taking altogether, overall expenditure on building and construction decreased slightly by 1.7%. There was a further notable increase in ownership transfers in the second quarter due to the higher level of property market activity than in the same quarter of last year. The increase was nevertheless not as hectic as in the first quarter.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)	Food	Durables	Non-durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2007	Annual	8.8	1.6	19.1	10.8	8.0	4.5	14.0	7.8
	Q1	5.3	2.4	10.3	7.4	4.5	1.3	9.3	4.5
	Q2	6.6	1.7	16.3	7.3	6.0	8.2	8.6	6.6
	Q3	11.9	3.5	25.8	12.5	11.1	3.8	15.4	10.6
	Q4	11.2	-0.8	23.5	15.4	10.4	5.1	21.7	9.5
2008	Q1	8.0	*	18.6	11.4	6.6	7.1	8.7	7.9
	Q2	4.5	-0.4	13.8	8.3	2.9	-5.7	8.4	3.1

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

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

(*) Change of less than 0.05%.

Diagram 1.2 : Consumer spending growth moderated in the second quarter after a long period of strong performance

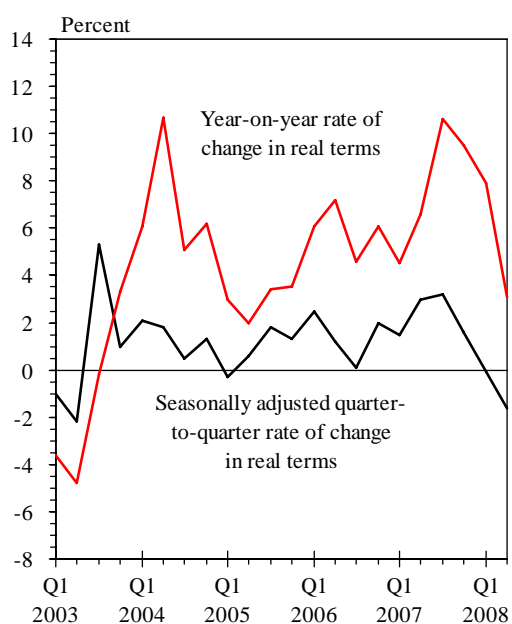
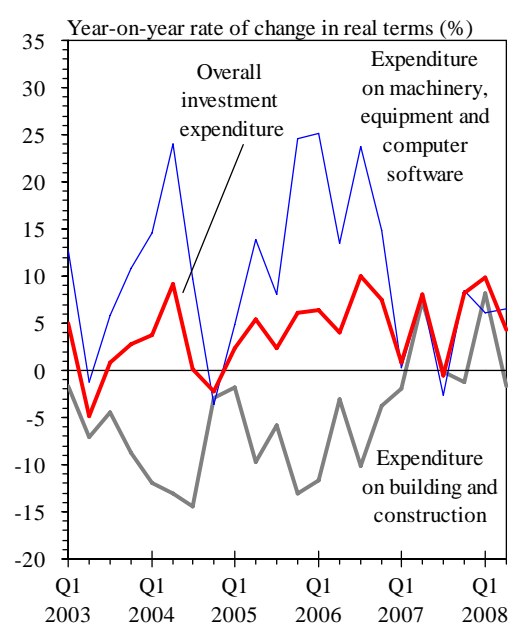
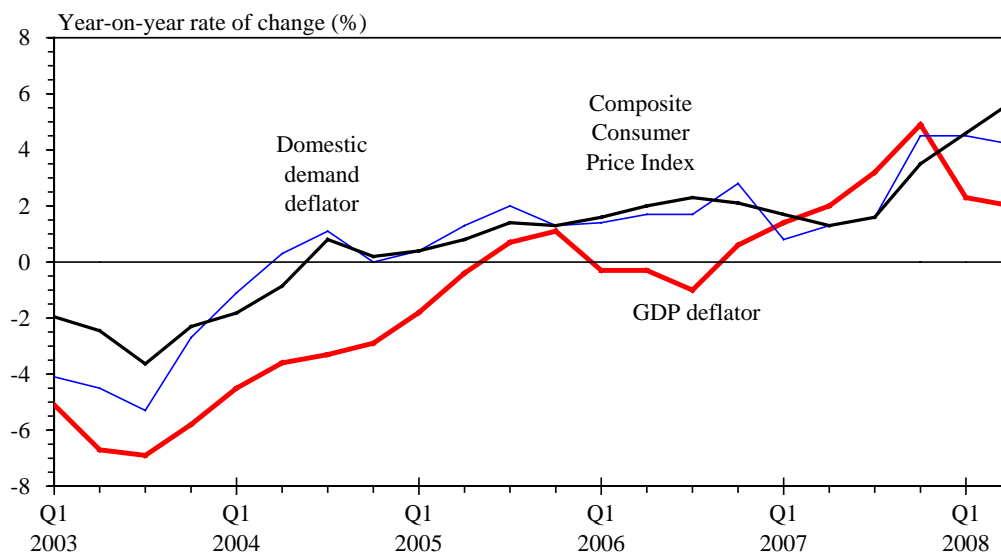


Diagram 1.3 : Investment grew further despite the high base in the same quarter last year



1.7 *Consumer price inflation*, in terms of the Composite CPI, rose further to an average of 5.7% in the second quarter, up from 4.6% in the first quarter. The sustained surge in food prices against the background of global food price inflation was the main factor underlying the recent pick-up in the consumer price inflation. The pressure generated from the demand side after several years of rapid expansion of the local economy had also become increasingly visible, as reflected in the faster increases in private housing rentals and, to a lesser extent, prices for other goods and services. The elevated energy prices, the gradual appreciation of the renminbi and the weak US dollar also added to the inflationary pressure. Meanwhile, *underlying consumer price inflation*, after netting out the effects of one-off policy measures, also stood at 5.7%, the same as its headline counterpart in the second quarter. This was because the alleviation effect of the rates concession in the second quarter this year was offset by the similar measure implemented in the same quarter last year. As to the *GDP deflator*, a smaller increase was recorded in the second quarter, largely reflecting the continued deterioration in the terms of trade.

Diagram 1.4 : Consumer price inflation went up notably in the second quarter



GDP by major economic sector

1.8 The services sector remained the key driver of overall economic growth. Latest available figures indicate that net output in the services sector as a whole rose markedly further by 6.8% in real terms in the first quarter of 2008, after a 7.5% increase in 2007. Wholesale and retail trade was vibrant, benefiting from the strong growth in consumer spending in the local market in that quarter. Import and export trade, as well as transport and storage again registered notable growth in the backdrop of the vibrant trade flows in the Asian region. The financing, insurance, real estate and business services posted a rapid growth in the first quarter, though not as hectic as that in the previous quarters amidst the ongoing financial turbulence and the less active local property market. The net output of the construction sector showed a rebound along the increase in construction activities in the first quarter. On the other hand, the manufacturing sector saw a continued decline in net output.

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

	<u>2007</u>					<u>2008</u>
	<u>2007</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	-1.5	-1.5	-2.3	-2.1	-0.3	-4.4
Construction	-2.1	-6.1	3.8	-2.8	-2.6	8.3
Services ^(b)	7.5	7.1	7.5	7.3	7.8	6.8
Wholesale, retail and import and export trades, restaurants and hotels	7.3	6.9	7.5	7.3	7.3	8.9
Import and export trade	6.7	6.6	7.3	6.8	6.3	9.5
Wholesale and retail trades	9.4	6.2	7.5	10.7	12.5	8.8
Restaurants and hotels	8.7	8.4	7.0	9.8	9.7	4.6
Transport, storage and communications	5.4	4.1	4.8	6.0	6.6	7.2
Transport and storage	5.6	3.8	4.5	6.5	7.4	7.9
Communications	4.7	5.5	6.3	3.9	3.2	4.3
Financing, insurance, real estate and business services	15.0	13.6	14.1	15.5	16.6	10.4
Financing and insurance services	19.3	17.4	17.2	22.0	20.7	11.4
Real estate and business services	7.5	7.2	7.7	5.6	9.5	8.7
Community, social and personal services	1.2	1.8	0.9	0.9	1.3	0.7

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

(a) The GDP figures shown in this table are compiled from the production approach, in parallel with those shown in Table 1.1 which are compiled from the expenditure approach. For details, see Note (1) to this chapter.

(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.

Some highlights of economic policy

1.9 Inflationary pressures have been building up around the world, due to a large extent, to rising food and energy prices. Hong Kong is of no exception. The Government is very concerned about the impact of inflation on the community, particularly the livelihood of the lower-income group and the underprivileged. In July, the Government announced further relief measures to alleviate the impact of inflation, on top of those already announced in the 2008-2009 Budget. Measures to be introduced included, among others, two extra months' payment of Old Age Allowance, an extra month's payment of CSSA and Disability Allowance, electricity charge subsidies for a further six months and waiving the employee retraining levy on foreign domestic helpers for two years. The Government will also pay another two months' rent for the low-income families living in public housing estates.

1.10 With a view to implementing the competition policy, which aims at enhancing economic efficiency and thus the benefit of consumers, more effectively, the Government plans to introduce a cross-sector competition law in Hong Kong. In May 2008 the Government launched a three-month public consultation on its proposals for such a law. After receiving the public's views, the Government will finalise the Competition Bill and introduce it into the Legislative Council.

1.11 Following the announcement made by Vice-President Xi during his visit to Hong Kong in early July, the Ministry of Commerce and the Hong Kong SAR Government signed the Supplement V to the Closer Economic Partnership Arrangement (CEPA) on 29 July 2008⁽³⁾. The Central People's Government also approved a number of services liberalisation and facilitation measures for early and pilot implementation in Guangdong so as to deepen the economic and trade cooperation with Guangdong. This would mean more new opportunities for Hong Kong's service providers in the Mainland market.

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The Hong Kong SAR Government has agreed with the Central People's Government a total of 29 liberalisation measures covering 17 services sectors, including 15 existing CEPA services sectors and two new services sectors. As a result, the total number of services sectors covered by CEPA will be expanded from 38 to 40. Both sides also agreed to enhance cooperation in e-commerce, trademark, branding, and in mutual recognition of professional qualifications. Of note is that the package :
 - covers important services sectors to Hong Kong such as accounting, construction and related engineering, medical, placement and supply services of personnel, convention and exhibition, distribution, environment, social service, tourism, maritime transport, air transport, road transport, and individually-owned stores etc;
 - offers new sectors offered in the Chile-China Free Trade Agreement(CCFTA) but yet to be covered by CEPA, i.e. services incidental to mining and prospecting services;
 - apart from trade in services, the new CEPA package also includes agreement on trade and investment facilitation measures in the area of branding cooperation, trademark cooperation and electronic business, as well as mutual recognition of professional qualifications in accounting and construction sectors. In conjunction with the signing of Supplement V, an agreement on trademark cooperation and two agreements on accounting were also signed.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The external sector showed a solid performance in the second quarter of 2008 as a whole, in the face of the increasingly challenging trading environment. However, the growth in both exports of goods and services moderated as compared to the first quarter, along with the slowing global economic growth.*
- *The economic downturn in the US, the lingering financial turbulence and the surges in food and energy prices had led to a slower pace of expansion in the advanced economies amidst relatively weak consumer and investor sentiments. The emerging and developing economies grew solidly further, but different extents of moderation in activity were observed in many of these economies. The external trading environment facing Hong Kong is expected to become even more difficult going forward. In particular, the threat of rising inflation and weakened global economy will pose an increasing challenge to economies in the region.*
- *Merchandise exports saw slowing yet solid growth in the second quarter as a whole. The growth momentum in exports to the Mainland and other emerging markets in Asia was broadly maintained in April and May. This together with the further steady growth in exports to the EU rendered support to offset the negative impact from the US market. However, merchandise exports moderated considerably in June, mainly reflecting the slower economic expansions in many of Hong Kong's overseas markets.*
- *Exports of services likewise grew less rapidly in the second quarter, after a long period of robust performance. Exports of trade-related services held up well, despite weaker performance of the overseas markets. Exports of travel services grew solidly further, along with the expansion of inbound tourism. Exports of finance, business and other services continued to register a double-digit growth, albeit at a much less hectic pace than before amidst the global financial turbulence.*

Visible trade

Total exports of goods

2.1 With a growth of 5.4% in *total exports of goods* (comprising re-exports and domestic exports) in real terms⁽¹⁾, merchandise exports saw slowing yet solid growth in the second quarter of 2008 as a whole, amidst the increasingly challenging trading environment. However, merchandise exports moderated considerably towards the end of the quarter, mainly reflecting the slower economic expansions in many of Hong Kong's overseas markets.

2.2 The global economy continued to decelerate in the second quarter. This was particularly notable in the advanced economies, which were hit by the headwinds from the weak US economy, surges in food and energy prices, and the lingering financial turbulence. Both consumer and investor sentiments in the advanced economies had fallen to the lowest in years. Meanwhile, many emerging and developing economies still held up well, although different extents of moderation in growth were observed amongst these economies. Also, the rise of inflationary pressures around the world had been posing a significant threat to the emerging market economies, as highlighted by the World Economic Outlook Update released by the International Monetary Fund in July. Against this background, international organisations generally projected a deceleration in growth in the emerging Asian economies⁽²⁾.

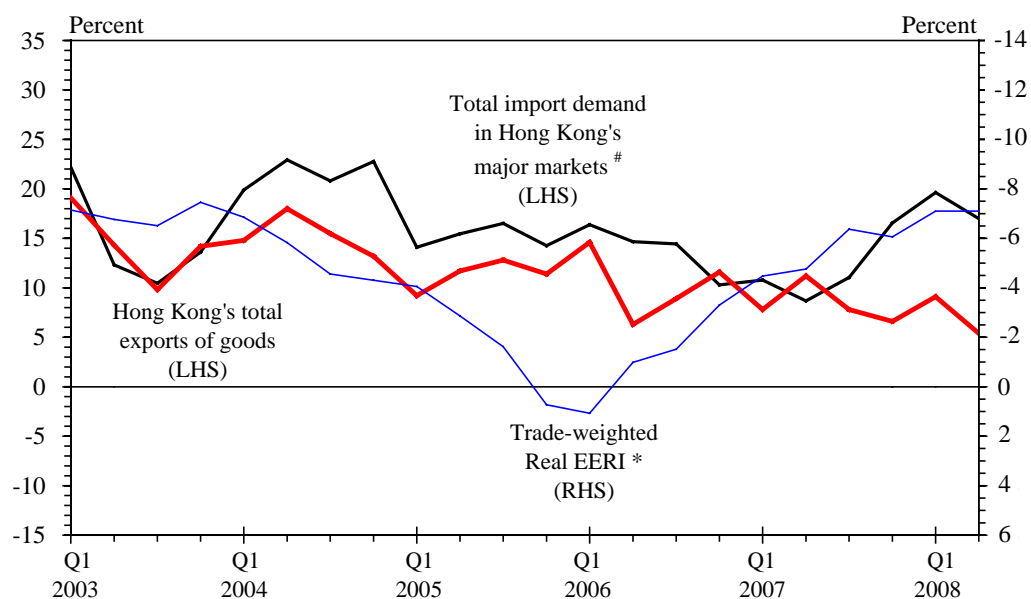
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

	<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>
2007 Annual	9.2	8.3	2.3	10.8	9.9	2.4	-18.9	-19.8				0.8
H1	10.4	9.6	2.3	12.7	11.9	2.4	-25.8	-26.4				0.5
H2	8.2	7.2	2.4	9.3	8.3	2.5	-12.0	-13.2				0.9
Q1	9.0	7.8	(0.8)	2.7	11.8	10.6	(0.9)	2.8	-33.4	-33.5	(-0.6)	0.4
Q2	11.7	11.2	(2.7)	2.0	13.5	13.1	(2.4)	2.1	-18.4	-19.4	(8.2)	0.6
Q3	8.2	7.8	(0.9)	2.0	10.0	9.6	(1.3)	2.1	-20.9	-21.0	(-7.9)	0.8
Q4	8.2	6.6	(1.8)	2.7	8.6	7.1	(1.9)	2.8	-0.7	-3.4	(0.0)	1.0
2008 H1	9.1	7.1	3.3	9.8	8.0	3.3	-7.8	-13.3				4.2
Q1	10.5	9.1	(1.8)	2.6	10.9	9.6	(2.1)	2.6	0.3	-5.0	(-5.2)	3.3
Q2	7.8	5.4	(1.0)	3.9	8.8	6.6	(1.3)	3.9	-14.3	-20.0	(-8.2)	5.0

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

2.3 Accounting for 96.7% of the total value of overall merchandise exports, *re-exports*⁽³⁾ remained the backbone of merchandise exports in the second quarter of 2008. These exports grew further by 6.6% in the second quarter, after a 9.6% increase in the first quarter. On the other hand, *domestic exports* continued to decline, by 20.0% in the second quarter of 2008.

Diagram 2.1 : Merchandise exports continued to grow in the second quarter of 2008 (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.

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

(#) Import demand figure for the second quarter of 2008 is based on information available up to May 2008.

Diagram 2.2 : Re-exports were the driving force of total exports

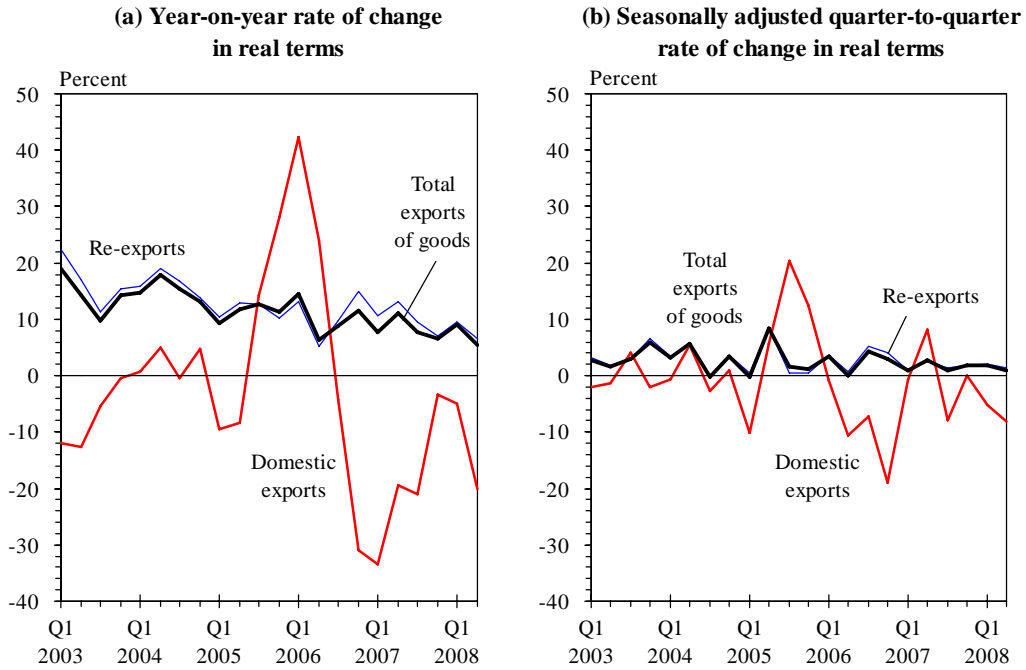
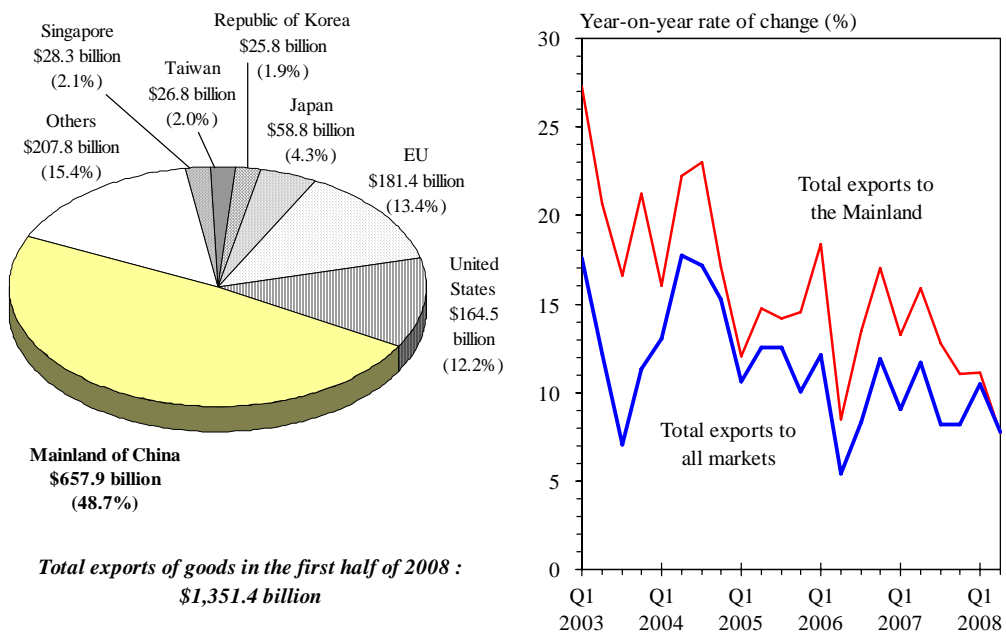


Diagram 2.3 : The Mainland market remained highly important to Hong Kong's exports



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

		Mainland of China	United States	European Union	Japan	Republic of Korea	Taiwan	Singapore
2007	Annual	12.9	-2.5	3.8	-0.8	0.0	-0.2	1.0
	H1	14.3	0.9	4.0	2.3	-2.7	3.7	2.3
	H2	11.8	-5.2	3.7	-3.7	2.6	-3.6	0.0
	Q1	13.1	0.7	2.7	0.6	-8.9	-1.4	0.7
	Q2	15.5	1.0	5.2	4.0	3.8	9.0	3.9
	Q3	12.9	-3.9	4.3	-5.9	0.2	-3.2	0.2
	Q4	10.7	-6.6	3.2	-1.6	5.2	-4.1	-0.2
2008	H1	10.3	-6.6	3.0	-3.7	-1.6	1.2	17.7
	Q1	12.2	-5.8	4.6	-3.2	2.8	-0.2	21.6
	Q2	8.6	-7.4	1.6	-4.1	-5.7	2.6	13.8

2.4 Taking the second quarter as a whole, there was a deceleration in Hong Kong's total exports of goods to many markets. Nevertheless, the Mainland remained the major driver of Hong Kong's total exports of goods, on the back of its strong domestic demand and vibrant external sector. The rapid economic growth in other Asian emerging markets, like India, Thailand and Malaysia also provided further strength to their import demand, and thus supporting the growth momentum of Hong Kong's exports to these economies. Exports to Singapore surged, probably reflecting the better performance of its electronics industry. However, going forward, many of these Asian economies will face increasing challenges from the weaker global economy and the threat of rising inflation.

2.5 Considering the weak consumer sentiment in the US alongside its economic slowdown, Hong Kong's exports to the US, most of which were consumer goods, continued to fall in the second quarter. Exports to the EU market maintained some mild growth on the back of its continued economic expansion and the strength of the euro. Exports to Japan remained weak as its domestic demand was still sluggish. Exports to Korea also fell, presumably under the influence of the moderation in demand from the advanced economies.

Diagram 2.4 : Exports to the Mainland remained the major driver of Hong Kong's exports in the second quarter

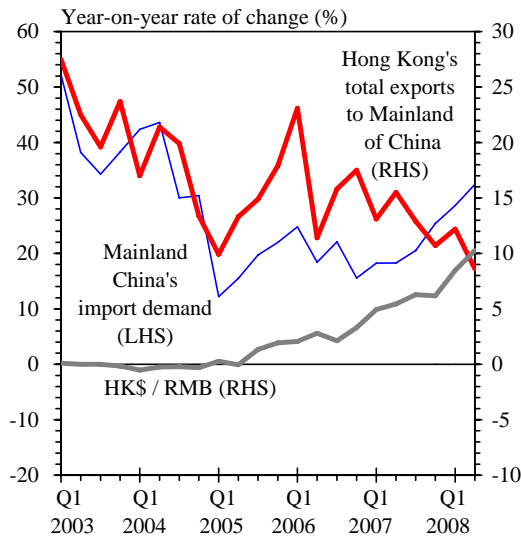
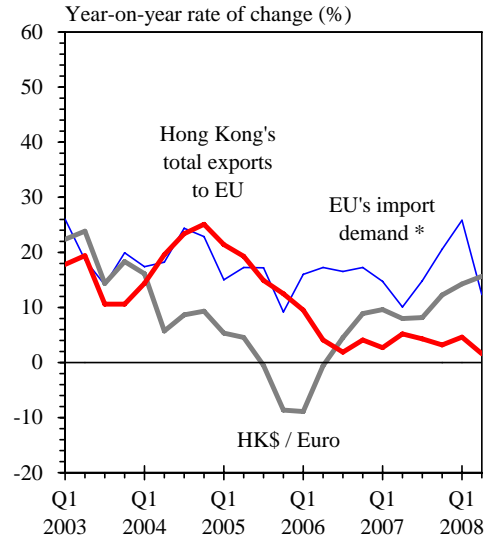


Diagram 2.5 : Exports to EU was supported by continued economic expansion



Note: (*) Import demand figure for the second quarter of 2008 is based on information available up to May 2008.

Diagram 2.6 : Exports to US continued to fall amidst its weak consumer sentiments

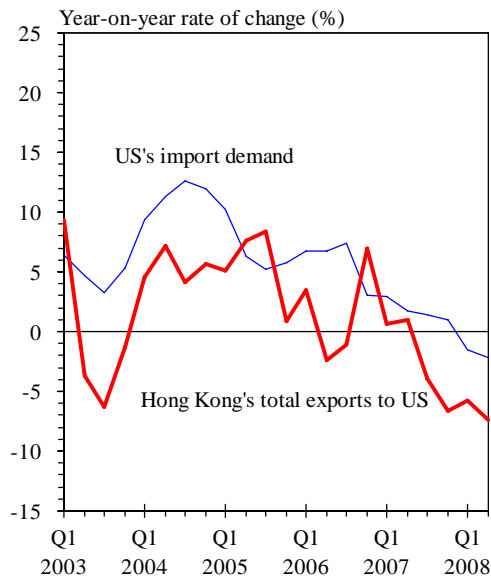


Diagram 2.7 : Exports to Japan remained weak

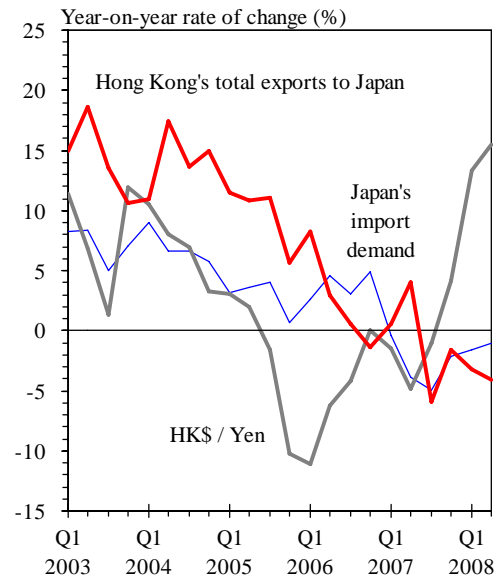


Diagram 2.8 : Exports to Singapore surged

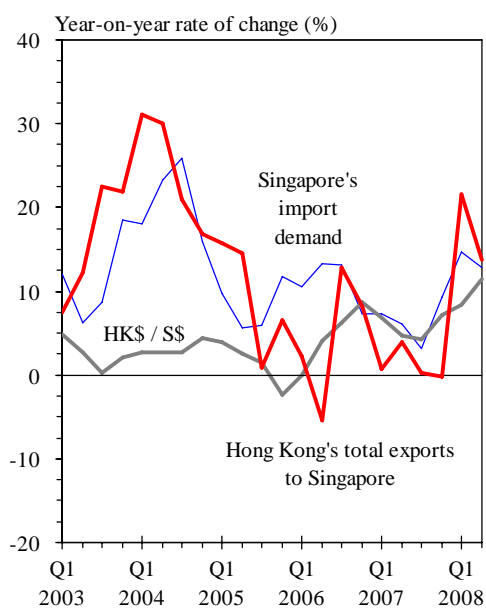
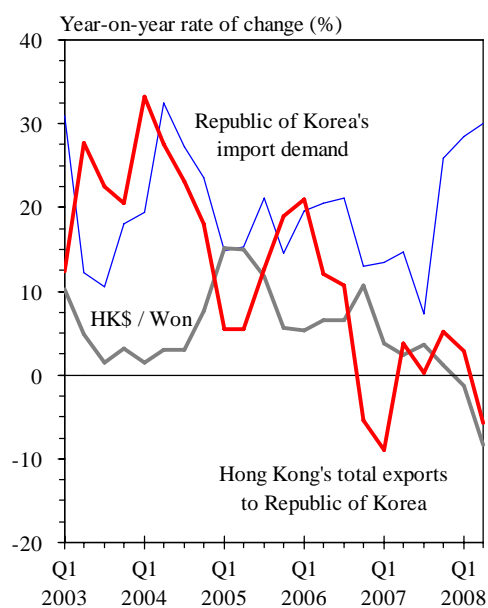


Diagram 2.9 : Exports to Korea fell



Imports of goods

2.6 *Imports of goods* rose by 5.6% in real terms in the second quarter of 2008, after an increase of 9.6% in the first quarter. Meanwhile, *retained imports*, which accounted for around one quarter of the total imports, increased by 3.0% in real terms. Analysing retained imports by end-use, retained imports of raw materials and semi-manufactures dropped notably. In face of surging prices, retained imports of fuels continued to drop in real terms. In contrast, reflecting the continued expansion in domestic demand, retained imports of foodstuffs, consumer goods and capital goods continued to grow rapidly.

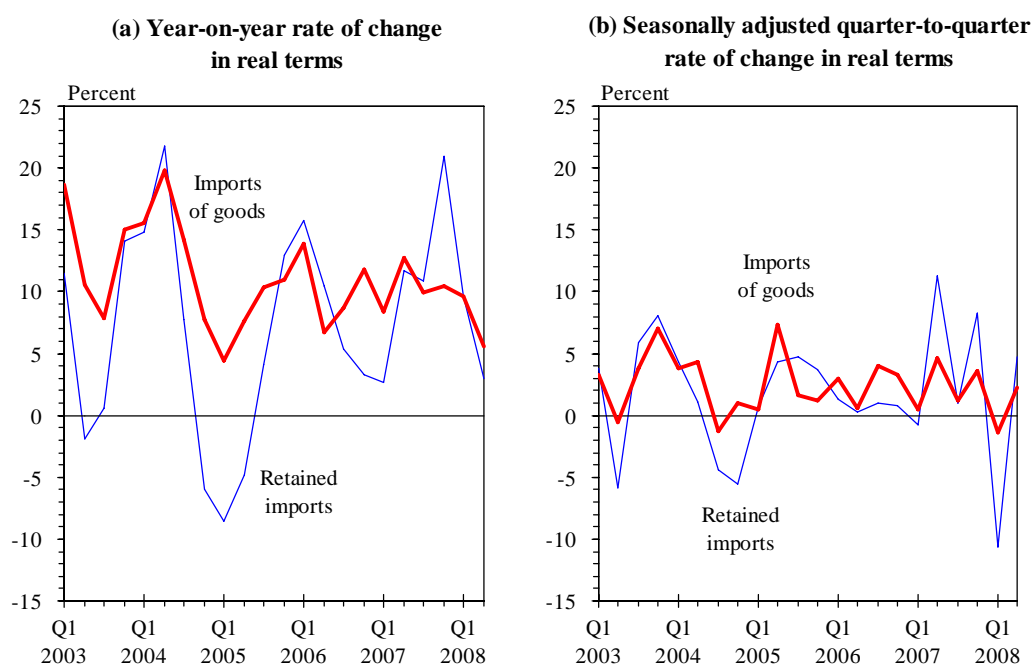
**Table 2.3 : Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2007	Annual	10.3	10.4	2.3	9.4	11.7	2.4
	H1	10.9	10.6	2.2	6.6	7.4	2.3
	H2	9.8	10.2	2.3	12.0	15.9	2.4
	Q1	9.0	8.4	(0.5)	2.0	2.7	(-0.8)
	Q2	12.6	12.7	(4.7)	10.8	11.7	(11.3)
	Q3	9.1	9.9	(1.2)	7.2	10.9	(1.0)
	Q4	10.5	10.5	(3.6)	16.9	20.9	(8.3)
2008	H1	10.3	7.5	4.3	11.7	6.0	7.1
	Q1	11.6	9.6	(-1.4)	13.7	9.6	(-10.6)
	Q2	9.1	5.6	(2.2)	10.1	3.0	(4.7)

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

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

Diagram 2.10 : Total imports rose moderately



Box 2.1**Impact of Guangdong's industrial restructuring on Hong Kong's external trade**

Hong Kong's external trade is an important segment of our economy. In 2006, our import/export trade sector accounted for 21.4% of our Gross Domestic Product (GDP) at current factor cost. As a neighbouring province that maintains the strongest economic ties with Hong Kong, Guangdong's economic restructuring has significant effects on our external trade. In recent years, amidst the aggravating problems such as tight land and energy supplies, labour shortage and environmental pollution issues in the Pearl River Delta (PRD) region, the Guangdong Provincial Government has committed to develop its services sector on the one hand, and to adjust its industrial policy on the other. The share of the services sector in the Guangdong economy has remained rather stable in recent years, at slightly above 40%. Yet the adjustments of its industrial policy have produced considerable effects, leading to the gradual shrinking of light industries which are mostly low-skilled, low value-added and labour intensive. The ratio of light industries to heavy industries in Guangdong changed from 48 : 52 in 2000 to 39 : 61 in 2007. Thus the Guangdong Province has undergone an industrial transformation from light industries to heavy industries.

In a broad sense, heavy industries refer to industries concerning mining and processing of raw materials, including electricity, oil and coal, as well as metal processing, and manufacturing of machinery and equipments. The major characteristic of such industries is that they are along the upstream of a production chain, providing the basis for the development of downstream industries. Heavy industries are capital and technology-intensive industries. According to the statistics of Guangdong Province, in 2006 its heavy industries' per capita industrial value-added (total industrial value-added/total number of persons engaged) was more than double the corresponding figure for light industries, and its heavy industries' ratio of profits before taxation to total industrial output value was also higher than that for light industries by 17%.

As Guangdong undergoes industrial restructuring, its export structure also undergoes adjustment. While its exports of capital goods as well as imports of raw materials and energy have been growing fast, there has been a slowdown in the growth of its exports of consumer goods. Such changes are also partly reflected in the external trade statistics of Hong Kong, the most important entrepot of Guangdong.

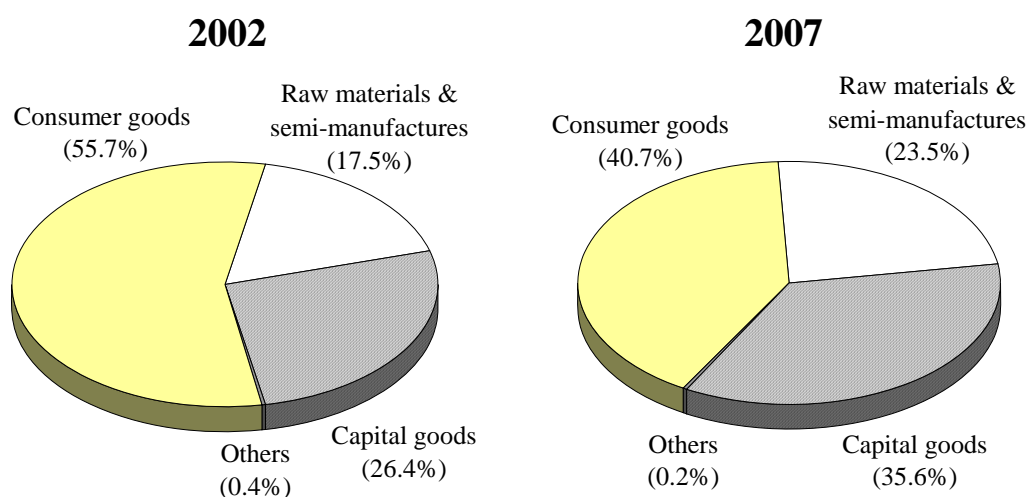
In 2007, exports from Guangdong to Hong Kong accounted for about 76% of Hong Kong's imports from the Mainland, or 35% of Hong Kong's total import value. Analysed by end-use category, the share of capital goods in Hong Kong's re-exports originating from the Mainland increased annually from 26.4% in 2002 to 35.6% in 2007, while the share of consumer goods dropped from 55.7% to 40.7%. The trend reflects in a large part the industrial restructuring in Guangdong over the period.

From the perspective of economic benefits, the rates of re-export margins of consumer goods, capital goods, and raw materials and semi-manufactures from the Mainland were about 27.8%、22.6% and 15.5% respectively. The margin of consumer goods is the highest, partly because the majority of these goods handled in Hong Kong are manufactured by Hong Kong-owned enterprises in the Mainland. However, owing to the economic restructuring in Guangdong, the growth of consumer goods re-exported through Hong Kong

Box 2.1 (Cont'd)

has recently slowed down and its share has also diminished. This is likely to cause a decline in profits gained from our re-export services for goods coming from Guangdong, meaning that the value added of the re-export trade for the same value of goods has become smaller.

Chart 1 Share of the Mainland products re-exported through Hong Kong by end-use category



Among Hong Kong's exports to the Mainland, 97% of them are re-exports. Statistics by modes of transport on Hong Kong - Mainland trade data show that, roughly, about 70% of Hong Kong's total re-exports to the Mainland are shipped to Guangdong. Against the background of strengthening domestic demand in the Mainland, Hong Kong's re-exports to the Mainland has performed rather well in recent years. However, comparatively speaking, the profits derived from re-exports originating from overseas are much lower than those originated from the Mainland. As an indication, for re-exports of overseas origin, the rates of re-export margins of consumer goods, capital goods as well as raw materials and semi-manufactures are about 11.8%, 9.9% and 5.5% respectively.

Guangdong's economic restructuring has varying impacts on different sectors of Hong Kong. Our external trade and Guangdong's industrial restructuring are closely related. The adjustment in Guangdong's export structure, namely a decrease in the proportion of consumer goods in exports, may lower the value added of our re-exports. Yet at the same time, the industrial restructuring of Guangdong should increase the demand of the PRD region for higher-end services. In particular, the growth of Guangdong's exports of high value-added products would induce Hong Kong's logistics industry to move towards high value-added activities. Reflecting this trend, air cargo as a percentage of Hong Kong's re-export value has surged from 24.4% in 2002 to 31.4% in 2007. Our financial services, professional services and other commercial services should also benefit from the recent economic restructuring of Guangdong.

**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>
2007	Annual	6.4	6.6	11.1	18.5	8.5
	H1	0.8	3.9	10.4	7.1	16.0
	H2	11.9	9.3	11.7	31.4	2.0
	Q1	-1.0	4.4	6.4	-2.9	8.6
	Q2	2.3	3.5	14.2	16.1	24.4
	Q3	6.6	8.9	1.6	33.7	-0.8
	Q4	17.7	9.7	22.0	29.3	4.7
2008	H1	22.6	15.8	12.7	-16.9	-9.2
	Q1	30.3	12.7	14.5	-11.7	-11.3
	Q2	16.2	19.0	11.2	-20.8	-7.0

Invisible trade

Exports of services

2.7 Exports of services grew less rapidly by 7.1% in the second quarter of 2008 as compared to the strong 10.2% growth in the first quarter. Although the trade flows within the region as well as those originating from the region to the rest of the world expanded at a somewhat slower pace, exports of trade-related services continued to hold up well in the second quarter. Exports of travel services grew solidly along with the further growth in the number of visitor arrivals. Exports of finance, business and other services still attained a double-digit growth, but decelerated noticeably, mainly reflecting the less hectic financial market activities. Exports of transportation services grew moderately further, broadly in line with the steady expansion in Hong Kong's port and airport throughputs.

Diagram 2.11 : Trade-related and transportation services accounting for three-fifths of service exports, reflecting the important role of Hong Kong as a trading hub

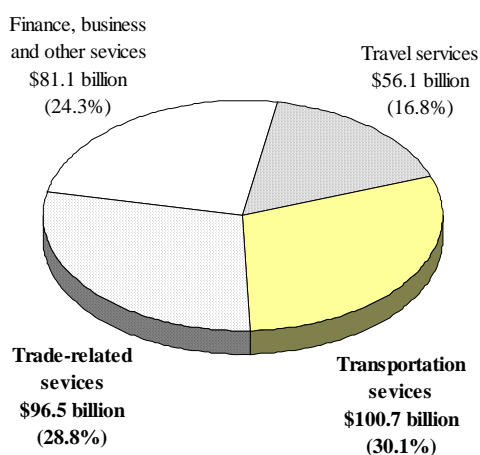


Diagram 2.12 : Exports of services grew further in the second quarter

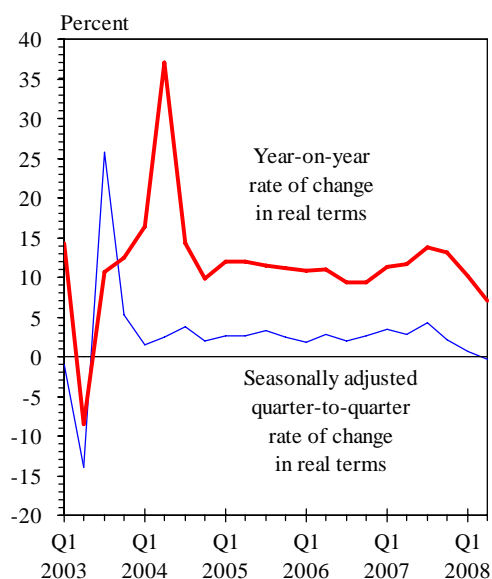


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		<i>Of which :</i>				Finance, business and other services
		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	
2007	Annual	12.5	10.4	5.3	14.1	24.6
	H1	11.5	10.4	5.3	9.0	23.1
	H2	13.4	10.4	5.3	18.8	26.1
	Q1	11.3	(3.5)	4.2	9.4	24.1
	Q2	11.6	(2.8)	6.3	8.6	22.0
	Q3	13.7	(4.2)	5.7	15.5	27.9
	Q4	13.1	(2.2)	4.9	21.8	24.3
	2008	H1	8.7	9.4	3.7	8.6
	Q1	10.2	(0.6)	5.2	8.8	17.7
	Q2	7.1	(-0.3)	2.3	8.5	10.2

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

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

Imports of services

2.8 *Imports of services* grew by 2.6% in real terms in the second quarter of 2008, representing a sharp deceleration from the 10.1% growth in the preceding quarter. Owing to the Easter holiday in March, a weak Hong Kong dollar and higher traveling costs, the demand for outbound tourism reduced and imports of travel services dropped. Imports of trade-related services continued to expand notably along with the further expansion of regional trade, while imports of transportation services expanded moderately further. The growth momentum in imports of finance, business and other services lost some steam as financial markets turned less active.

Diagram 2.13 : Travel service, transportation services, and services involving finance and business are the main components in imports of services

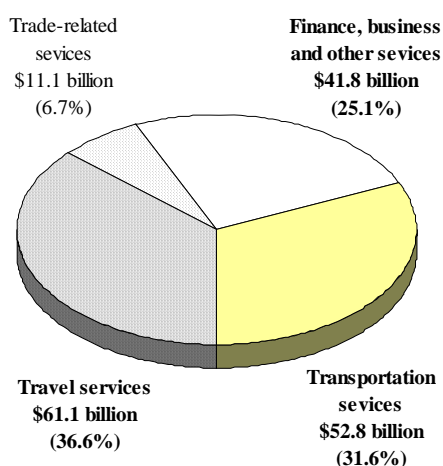
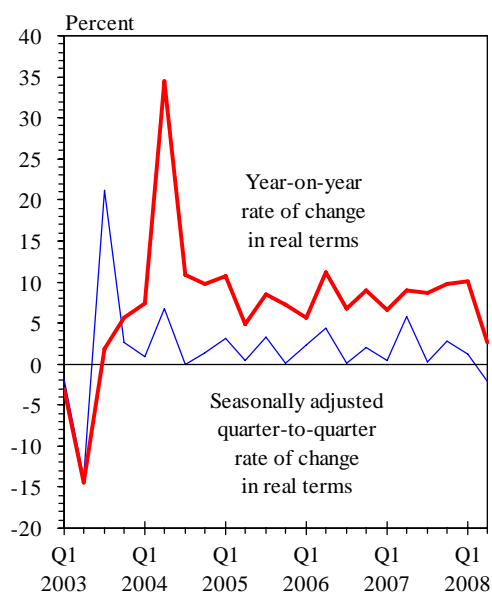


Diagram 2.14 : Growth in imports of services moderated



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

Of which :

		<u>Imports of services</u>		<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services</u>
2007	Annual	8.5		4.5	6.4	11.0	17.1
	H1	7.8		3.9	4.8	10.9	17.3
	H2	9.2		5.1	7.8	11.0	16.8
	Q1	6.6	(0.5)	1.3	3.4	10.2	18.6
	Q2	8.9	(5.8)	6.5	6.1	11.7	16.1
	Q3	8.7	(0.3)	4.5	5.7	12.0	18.5
	Q4	9.7	(2.8)	5.7	9.9	10.0	15.2
2008	H1	6.3		3.6	7.8	9.9	7.6
	Q1	10.1	(1.2)	9.9	11.0	10.2	9.5
	Q2	2.6	(-2.1)	-2.3	4.5	9.7	5.7

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

2.9 As the deficit in the merchandise trade account was more than offset by the surplus in the invisible trade account, there was a combined surplus of \$19.8 billion in the second quarter of 2008, equivalent to 2.3% of the total value of imports of goods and services, still notable though not as high as in the second quarter of 2007 (\$24.3 billion in value and equivalent to 3.1% of total value of imports of goods and services). The sizable surplus continued to underscore Hong Kong's external competitiveness in the global economy.

**Table 2.7 : 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>
2007	Annual	2,698.9	651.8	2,852.5	321.7	-153.7	330.2	176.5
	H1	1,243.8	296.5	1,324.2	149.3	-80.4	147.2	66.8
	H2	1,455.0	355.3	1,528.3	172.4	-73.2	182.9	109.7
	Q1	587.3	148.6	621.5	71.9	-34.2	76.7	42.5
	Q2	656.5	147.9	702.7	77.4	-46.2	70.5	24.3
	Q3	722.1	173.2	749.4	86.2	-27.4	87.0	59.6
	Q4	733.0	182.1	778.8	86.2	-45.9	95.9	50.1
2008	H1	1,359.4	334.5	1,467.5	166.8	-108.1	167.7	59.6
	Q1	650.6	169.2	696.7	83.4	-46.1	85.9	39.8
	Q2	708.7	165.2	770.8	83.4	-62.0	81.8	19.8

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

Trade policy and other developments

2.10 Being a small and open economy, the external sector has brought forth significant contribution towards Hong Kong's economic development. It is important for the Government to cultivate a more favourable trading environment. Following Vice-President Xi's announcement during his visit to Hong Kong in mid-July, the supplement V to the Close Economic Partnership Arrangement (CEPA) was signed on July 29. The new package comprises 29 liberalisation measures in 17 services sectors and will come into effect from 1 January 2009. This potentially would mean greater opportunities for Hong Kong's service providers to tap into the Mainland market.

2.11 As at end-June 2008, the Trade and Industry Department (TID) and five Government Approved Certification Organisations issued 35 230 Certificates of Hong Kong Origin – CEPA (CO(CEPA)) to goods produced in Hong Kong, involving a total of \$13.6 billion worth of goods. TID also issued 1 994 certificates of Hong Kong Service Supplier. Striving to improve our external competitiveness further, the Government will continue to work with the Mainland authorities on more liberalisation measures under CEPA, which, along with its five supplements, had provided a solid platform for further economic co-operation and integration between Hong Kong and the Mainland.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) In mid-July 2008, the International Monetary Fund (IMF) released an update on its World Economic Outlook, in which global economic growth was projected to moderate to 4.1% in 2008 (revised up from 3.7% in its April update) from the 5.0% in 2007. Specifically, economic growth in the developing Asia was projected to be 8.4% in 2008, a deceleration from the 10.0% in 2007. As for mainland China, the IMF projected a growth of 9.7% in 2008, as compared to the 11.9% in 2007. Separately, the World Bank recently released its *China Quarterly Update, June 2008*. In the publication, the World Bank maintained its view that the Mainland economy will continue to grow vibrantly in 2008, by 9.8%.
- (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.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

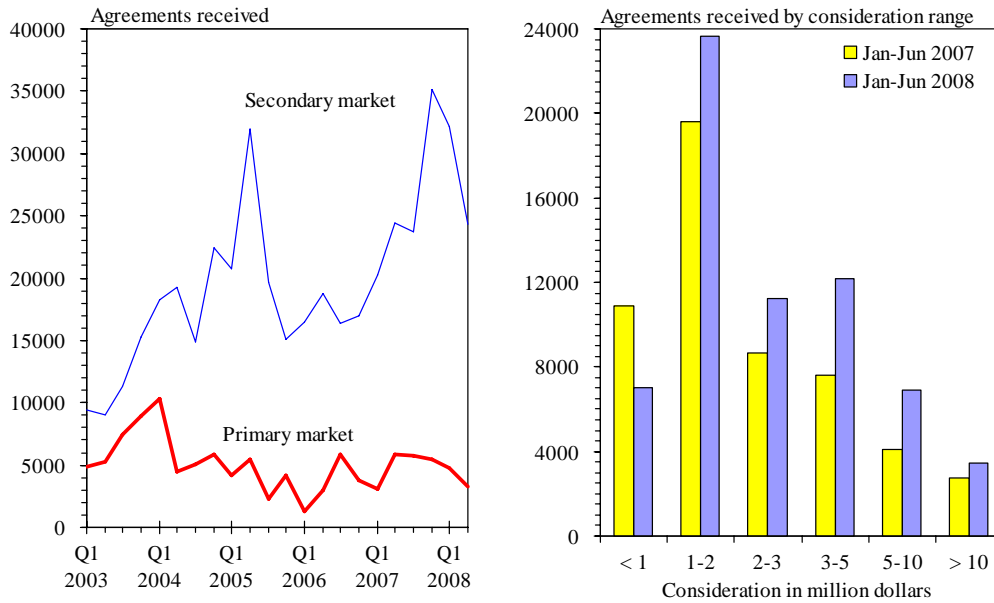
Summary

- *The property market was generally buoyant during the first half of 2008, but activities turned quieter in the latter part of the period as more investors stayed on the sideline in face of the uncertain global economic and interest rate outlook.*
- *Inbound tourism broadly maintained its growth momentum, with a continued surge in Mainland visitors. The long-haul markets however showed some moderation, partly attributable to the worsening in economic situation overseas.*
- *The logistics sector grew steadily further, alongside the sustained expansion in external trade and transshipment activities.*
- *Economic co-operation between Hong Kong and Shenzhen has been broadening and deepening on various fronts, with joint technological projects and exchanges being one notable example more recently. The closer links have helped promote synergy and complementarity between the two places.*

Property

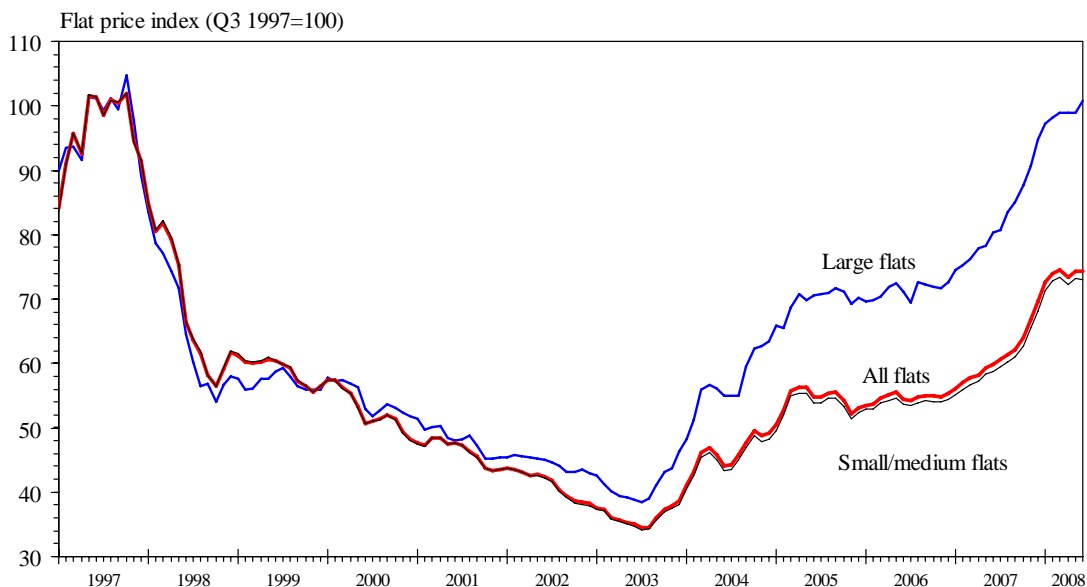
3.1. The *property market* remained active for most of the first half of 2008. Trading activities however slackened off in the second quarter, when more investors adopted a wait-and-see attitude in face of growing uncertainties in the external economic and financial environment. To add to the jitters, the local banks trimmed the discount between mortgage rates and prime lending rates during the first half. Whereas the total number of sale and purchase agreements received by the Land Registry for registration rose by 18.6% in the first half of 2008 over a year earlier to 75 320, this was lower than the hectic level of 82 184 in the second half of 2007. A similar pattern was observed for residential property: the sale and purchase agreements went up by 20.2% year-on-year to 64 450, yet were again down from the 69 954 in the preceding half-year period. In terms of total consideration for all transactions received, there was a surge of 35.1% year-on-year to \$288.7 billion in the first half of 2008, but a distinct fall from \$312.0 billion in the second half of 2007.

Diagram 3.1 : Sales momentum for residential units slowed in the second quarter of 2008



3.2. *Residential flat* prices moved higher by an average of 7% between December 2007 and June 2008, with most of the gain occurring in the first quarter. Yet against the peak in 1997, the prices of large and small/medium flats were still 4% and 28% lower respectively. By comparison, the leasing market for residential property fared better during the first half of 2008, as borne out partly by the 10% rise in flat rentals over the period. By June, the average rental yield for residential flats edged up to 4.3%.

Diagram 3.2 : Flat prices rose further in the first half of 2008

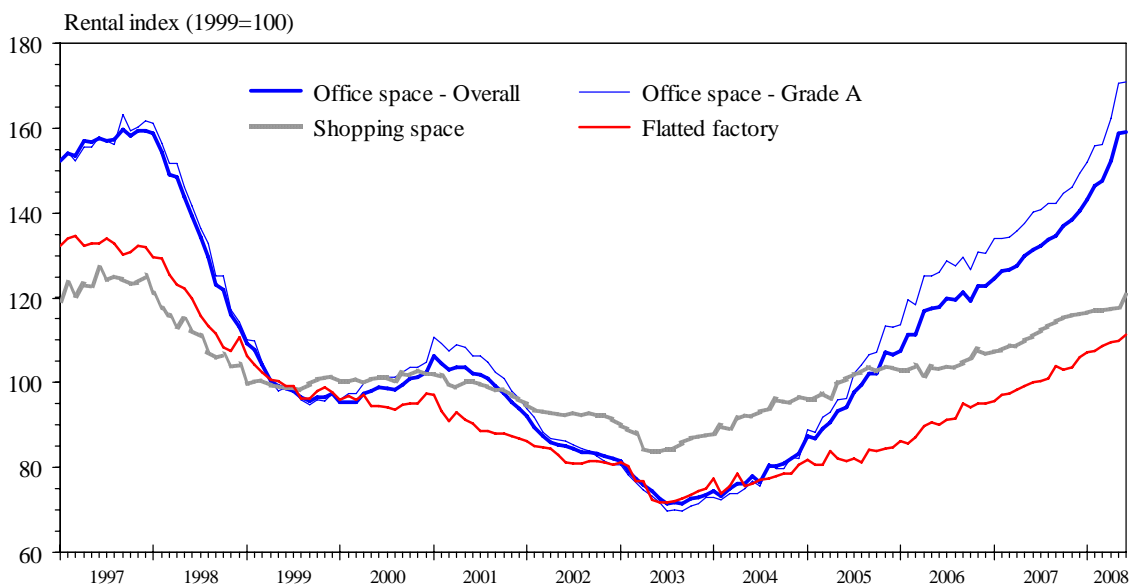


Note: Large flats refer to those with saleable area of 100 m² or above while small/medium flats refer to those with saleable area less than 100 m². The price indices pertain to secondary market transactions only.

3.3. As to the *commercial* and *industrial properties*, both markets maintained a robust performance, on the back of continued buoyancy in local business activities. Comparing June 2008 with December 2007, office prices and rentals on average gained by about 7% and 13% respectively. Analysed by type of office space, Grade C office recorded a larger-than-average increase of 11% in sales prices. For Grades A and B offices, the rental market seemed to have performed somewhat better than the sales market. Reflecting this, the average rental yields for Grades A and B offices went up to 3.9% and 4.6% in June 2008 respectively, from 3.7% and 4.2% in December 2007. Concurrently, the average rental yield for Grade C office fell slightly from 4.7% to 4.5%.

3.4. Favourable developments were also observed in the markets for *retail shop* and *flatted factory space*. Regarding retail shop space, the sales prices jumped by 7% between December 2007 and June 2008, whereas the rentals had a smaller rise of 4%. As to flatted factory space, the prices likewise had a larger increase than the rentals, by 9% as against 5%. Consequently, the rental yields for retail shop space and flatted factory space edged down to 4.2% and 5.6% in June respectively.

Diagram 3.3 : Leasing demand for commercial and industrial properties remained sturdy in general



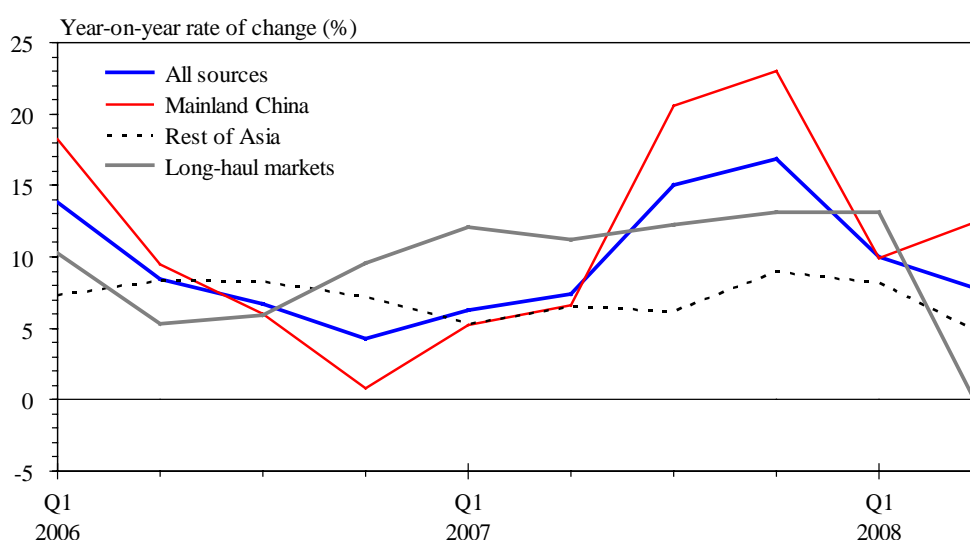
Land

3.5. The land sales market stayed subdued in the first half of 2008. Apparently, property developers were still taking a cautious attitude towards the land sites on the *Application List* for the 2008/09 fiscal year, as announced by the Government at end-February. Despite the still active transactions in the local property market during the first half, the near-term prospects were clouded by developments on the interest rate and wider economic fronts. Thus between January and June, only one land site on the Application List was triggered and sold by public auction, while four other sites were sold by way of public tender. Taken together, these five plots of land yielded \$1.07 billion of land sales proceeds.

Tourism

3.6 Inbound tourism continued to enjoy solid growth in the first half of 2008, with the total number of *incoming visitor arrivals* rising by 8.9% over a year earlier to 14.2 million. Mainland arrivals were again the principal engine of growth, registering a surge of 11.2% to 7.9 million. Around 55% of them came under the Individual Visit Scheme (**Box 3.1**), translating into a gain of 13.2%. Performance among other markets however varied. Whilst visitor arrivals from emerging markets like South Korea, India and Russia kept faring well, those from a few other countries in Asia and from the long-haul markets saw slowdown in tempo more recently.

Diagram 3.4 : Inbound tourism had a slower yet still solid growth in the first half of 2008



Box 3.1**Individual Visit Scheme: An anecdote**

The Individual Visit Scheme (IVS), which was first introduced in July 2003 as a liberalisation measure under the Closer Economic Partnership Arrangement (CEPA), has just celebrated its fifth anniversary. Under the existing scheme, Mainland residents in 49 cities are allowed to visit Hong Kong in their individual capacity with seven-day visas issued by the Mainland's Public Security Bureau. Previously, Mainlanders could only travel to Hong Kong under business visas or by joining organised group tours. The enhanced ease of travel brought by IVS, together with other positive factors such as the increasing affluence of Mainland residents and the appreciation of renminbi, led to a tremendous growth in Mainland arrivals over the past five years. Comparing 2007 with 2002, the number of Mainland residents visiting Hong Kong more than doubled from 6.8 million to 15.5 million, representing an average growth of 17.8% per annum. Within this total, the number of IVS visitor arrivals shot up from 4.3 million in 2004 (first annual figure available) to 8.6 million in 2007, or by an even faster pace of 26.4% per annum. As a consequence, the share of IVS visitors in the total Mainland arrivals leapt from 35% to 55% over the period 2004-2007. In the first half of 2008, the share remained unchanged at 55%.

The number of IVS versus non-IVS visitor arrivals from the Mainland ('000)

	<u>Number of Mainland visitor arrivals</u>			<u>Total number of incoming</u>
	<u>IVS</u>	<u>Non-IVS</u>	<u>Total</u>	<u>visitor arrivals from</u> <u>all destinations</u>
2002	<i>n.a.</i>	<i>n.a.</i>	6,825 (41.2)	16,566 (100.0)
2003	667* (4.3)*	7,800 (50.2)	8,467 (54.5)	15,537 (100.0)
2004	4,260 (19.5)	7,986 (36.6)	12,246 (56.1)	21,811 (100.0)
2005	5,550 (23.8)	6,991 (29.9)	12,541 (53.7)	23,359 (100.0)
2006	6,673 (26.4)	6,918 (27.4)	13,591 (53.8)	25,251 (100.0)
2007	8,593 (30.5)	6,893 (24.5)	15,486 (55.0)	28,169 (100.0)
Average annual growth rate (2002-2007)	26.4[^]	- 4.8[^]	17.8	11.2

Notes: () Figures in brackets represent percentage shares in the corresponding total.
 (*) Figures only available from July 2003 onwards.
 (^) Average annual growth rate for 2004-2007.
 n.a. Not available.

Box 3.1 (Cont'd)

Characteristics of IVS visitors

A number of distinct characteristics can be observed for IVS visitors, apart from the rapid growth pace. First, the greater majority of these visitors came from the neighbouring Mainland cities, in particular Shenzhen and Guangzhou. Statistics shows that while visitors from the Guangdong Province accounted for approximately 70% of the total incoming visitor arrivals from the Mainland in 2007, the corresponding share for IVS arrivals was even higher at 80%.

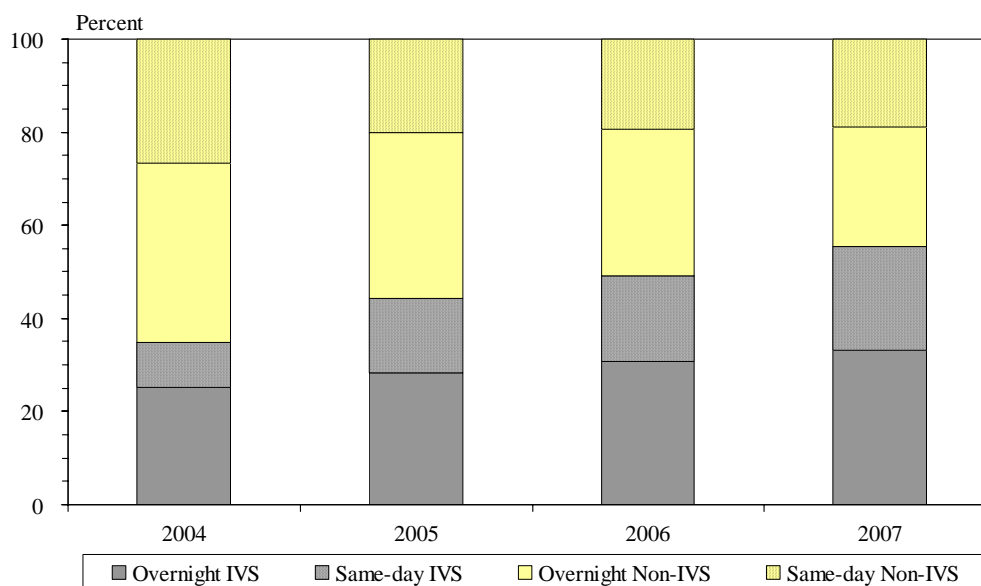
Second, benefiting from the simplified procedure of obtaining visas, IVS travellers had a greater proportion of repeated visitors than their non-IVS counterparts. According to the Hong Kong Tourism Board's Travel Pattern Survey & Departing Visitor Survey 2007, more than three-quarters of IVS visitors took repeated trips to Hong Kong, much larger than the proportion of 35% recorded for non-IVS visitors. The scheme has thus facilitated more Mainlanders to make leisure and casual trips to Hong Kong on a recurrent basis, thereby creating a win-win situation for both visitors from the Mainland and the tourism sector in Hong Kong.

Third, besides the higher frequency for trips, IVS visitors exhibited a higher level of spending in Hong Kong. For overnight visitors, the per capita spending of IVS visitors amounted to \$4,980 in 2007, somewhat below the \$5,583 for their non-IVS counterpart. However, the average length of stay for the latter group of visitors was 5.6 nights, longer than that of 2.3 nights for the former group comprising more frequent travellers. Seen in this perspective, the average daily spending for IVS overnight visitors, at \$2,185, in fact more than doubled that of their non-IVS counterparts, at \$995. Likewise, the average daily spending of IVS same-day visitors, at \$2,232, was distinctly higher than that of non-IVS day-trippers, at \$1,188. As for IVS same-day visitors more specifically, they spent more of their money on shopping, at around \$2,000 per capita, which was twice as much as that for non-IVS visitors. Ready-made wear, cosmetics and skin care products were the most popular items on the IVS visitors' shopping lists.

Last but not least, among the IVS visitors, those making same-day trips registered the most spectacular increase in recent years. This indicated that a large number of Mainland residents had made use of IVS for day-trips to Hong Kong to enjoy the city's high-quality consumer goods and services. The share of leisure travel amongst Mainland same-day travellers in Hong Kong thus soared from 18% in 2002 to 48% in 2007. In stark contrast, whereas Mainland visitors en route to other destinations still took up 15% (956 139 arrivals) of Mainland same-day travellers in 2007, the share fell markedly from 54% (3 466 466 arrivals) in 2002, just before the launch of IVS.

Box 3.1 (Cont'd)

Composition of Mainland visitor arrivals

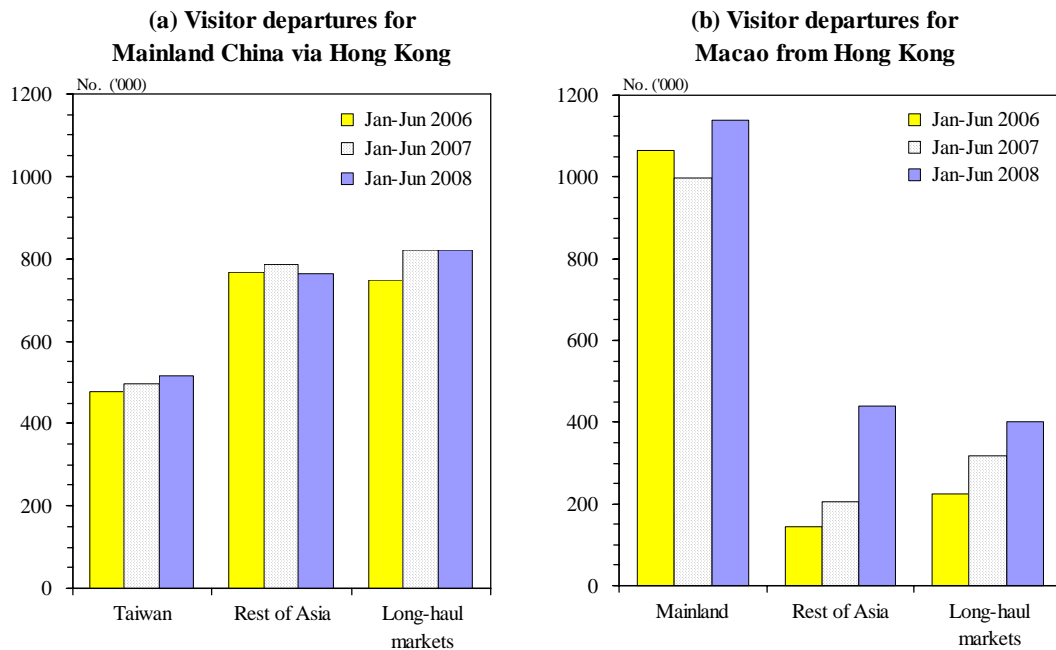


Conclusion

The implementation of IVS has enabled Mainland residents, especially those in the southern part of the country, to make more frequent visits to Hong Kong. Such a development has not only brought about substantial direct benefits to the local economy generally and inbound tourism in particular, which is one of the four key industries in Hong Kong, but also enhanced greatly the economic links between Hong Kong and the Mainland to the mutual benefits of both places.

3.7 In the first half of 2008, overnight visitor arrivals grew moderately by 4.7% over a year earlier and as a result, their share in total visitor arrivals to Hong Kong declined to 58.2% from 60.5% a year ago. Meanwhile, same-day visitor arrivals had a more rapid increase of 15.2%, with their share expanding further from 39.5% to 41.8%. It was worth noting that around 70% of the total visitor arrivals from Taiwan comprised same-day in-town visitors, which was the highest ratio amongst all visitor groups. Another salient development was that over the past several years, there had been increasingly more visitors travelling to the Mainland and Macao via Hong Kong. This reflected the significance of Hong Kong's favourable location as an inter-modal city in the region. Coupled with its well-developed transport and other infrastructural facilities, this should enable more and more visitors to have wider coverage with greater ease.

Diagram 3.5 : Hong Kong continued to serve as a key inter-modal city in the region

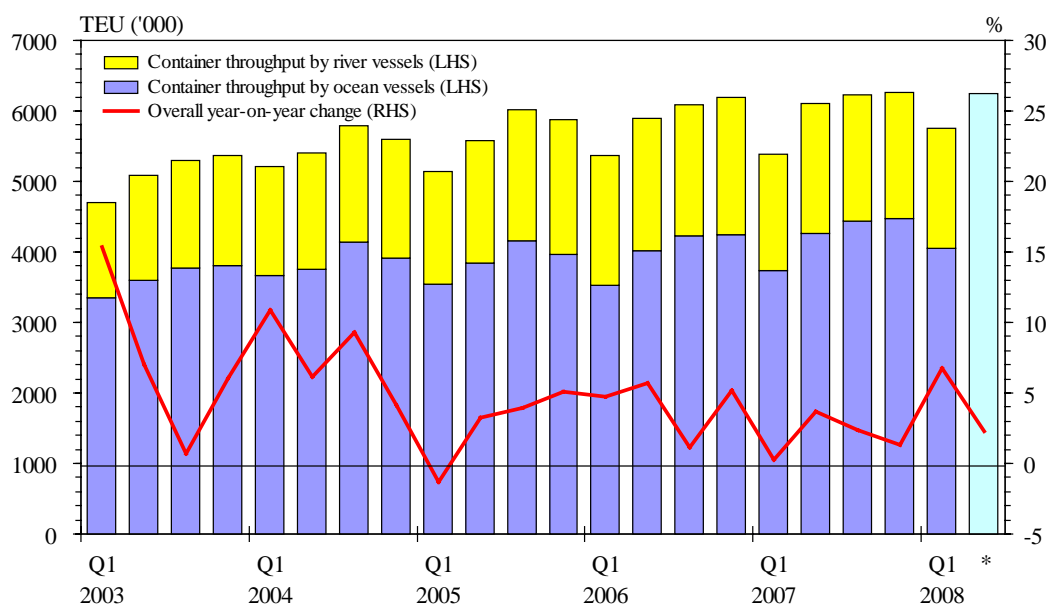


3.8 On hotels, the occupancy rate stayed high throughout the first half of 2008, averaging at 83%, same as the level of a year earlier. Meanwhile, the average hotel room rate attained went up by 4.8% year-on-year to \$1,238 per night⁽¹⁾. Reflecting continued optimism among business operators about the near-term prospects, a number of new hotel projects are being constructed and scheduled for completion in the months ahead.

Logistics

3.9 The logistics sector maintained its steady course, in spite of intensifying competition in the region and sluggish economic conditions in the US. The *total container throughput* of Hong Kong Port recorded a further rise of 4.4% over a year earlier to 12.0 million TEUs in the first half of 2008, as compared to the 2.0% growth for 2007 as a whole. A strong expansion in transshipment activities continued to be the key contributory factor. Concurrently, the value of trade (not including transshipment cargoes) handled at Hong Kong Port moved up by 7.0%, with its share in the overall trade value remaining at 31%.

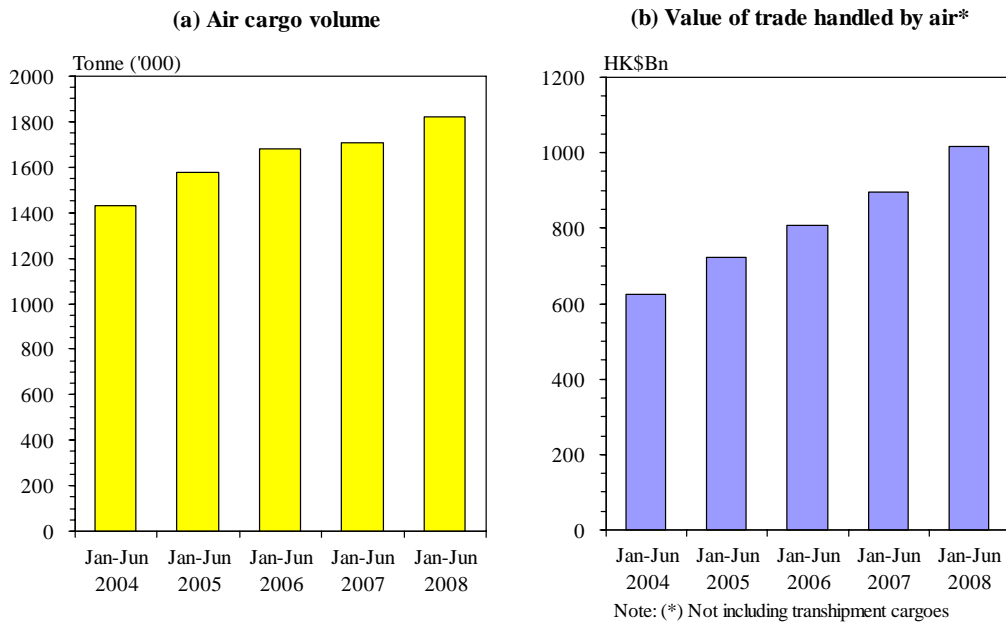
Diagram 3.6 : Port container traffic expanded solidly in the first half of 2008 on the back of growth in external trade and transshipment activities



Note : (*) Figure for the latest quarter is the preliminary estimate by Hong Kong Port Development Council, and breakdown in throughput by ocean and river vessels is not available yet.

3.10 On *air freight*, air cargo movements showed continuous growth, rising by 6.8% in the first half of 2008 over a year earlier to 1.8 million tonnes. In value terms, the air-borne trade (not including transshipment cargoes) had a more visible gain of 13.4%, partly boosted by a further expansion in the share of high-value merchandise trade conducted with the Mainland. In proportionate terms, the air-borne trade constituted 36% of the total trade value. However, the high oil prices and uncertainties in the global economy can be expected to adversely affect the growth in the near term.

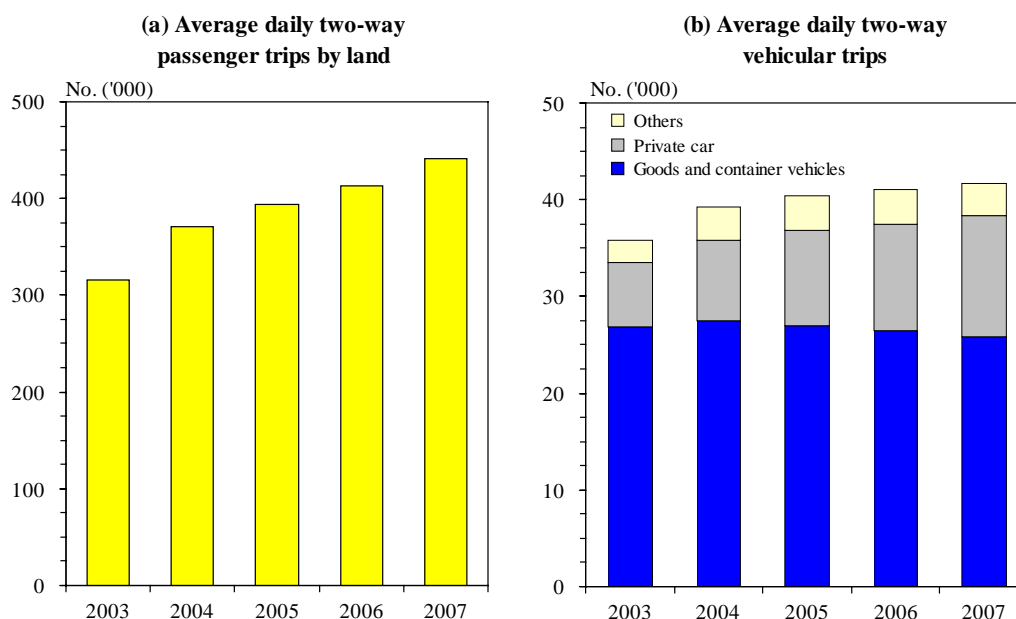
**Diagram 3.7 : Continuous growth in air freight
in both volume and value terms**



Transport

3.11 Cross-boundary traffic flows continued on the increase, in tandem with the improving economic relations between Hong Kong and the Mainland. In the first six months of 2008, the two-way vehicular movements amounted to a daily average of 41 000 trips, up by 4% over a year earlier. For land-based passenger movements, the corresponding figures were 447 000 and 6%. These were roughly in line with the trend growth seen in the past several years. With a view to enhancing further Hong Kong's competitiveness as a regional transport hub, the Government has been striving to provide not only efficient transport infrastructures inside the territory, but also improve external links with the Mainland and other countries.

Diagram 3.8 : Cross-boundary traffic on a steady uptrend



3.12 The “Shenzhen-Hong Kong Joint Preliminary Planning Study on Developing the Liantang/Heung Yuen Wai Control Point” has proceeded to its final stage. Specific development details of the new boundary control point (BCP) will be finalised by the end of this year. The proposed BCP will provide an efficient access to the Eastern part of Guangdong Province and adjacent provinces via Shen-hui and Shen-shan Expressways, thereby facilitating traffic flows between Hong Kong and the Eastern Guangdong, Fujian and Jiangxi Provinces. This will also expand the economic hinterland of Hong Kong and strengthen regional co-operation and development in the future. In addition, the governments of Hong Kong, Guangdong and Macao have reached consensus on the financing arrangements for the Hong Kong-Zhuhai-Macao Bridge (HZMB). Each government will be responsible for constructing their own Boundary Crossing Facilities and link roads within their own territories. The three sides have further agreed to take up the responsibility for the construction of the Main Bridge as well. The Mainland side would be contributing a total of RMB 7 billion, whilst Hong Kong and Macao would each contribute RMB 6.75 billion and RMB 1.98 billion respectively. With the three governments agreeing to fund the construction of the Main Bridge, the submission of the feasibility study report for the project can be greatly accelerated, and the programme of the HZMB would be much more certain.

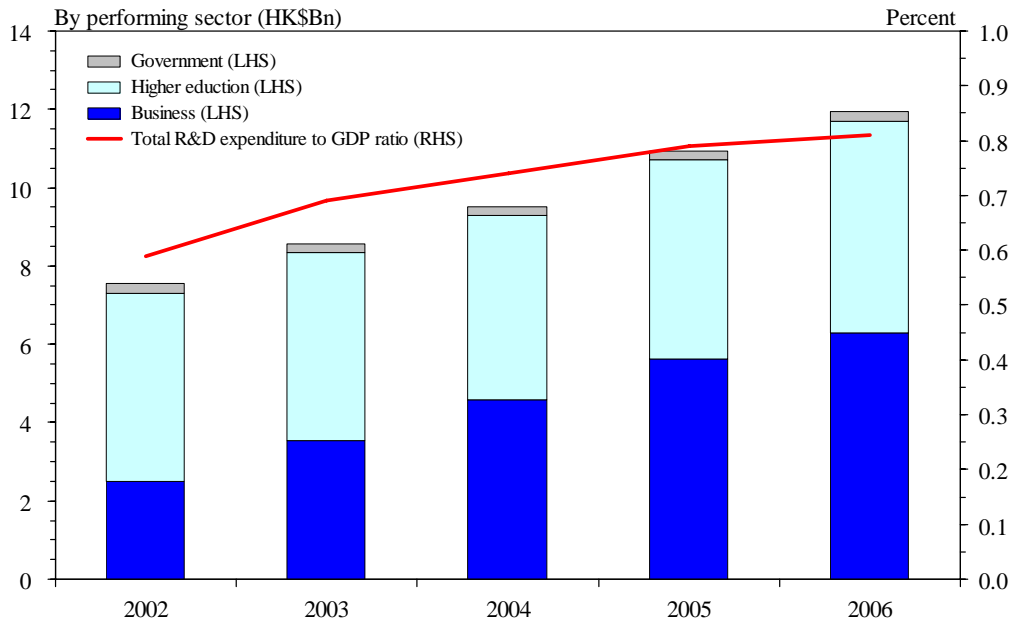
3.13 Regarding the Guangzhou–Shenzhen–Hong Kong Express Rail Link, the HKSAR Government has announced that further planning and design of the Hong Kong section will be conducted by the Mass Transit Railway Corporation Limited. The planning and design of the project is targeted to complete by end-2008 and the construction works to start in 2009 for completion by 2014 or 2015. The rail link will integrate Hong Kong into the rapidly developing national express rail network, thereby further strengthening Hong Kong’s economic ties and co-operation with the Mainland.

3.14 On *air transport*, in order to strengthen Hong Kong’s position as a leading international and regional aviation hub, the Airport Authority will formulate Master Plan 2030 to examine how the airport infrastructure should be enhanced, including the feasibility of a new run way and ancillary facilities, to meet the longer-term needs of both Hong Kong and the region. Moreover, the Task Force on Airport Co-operation between Hong Kong and Shenzhen has commissioned a consultancy study on the feasibility and economic viability of connecting the two airports with a high-speed rail link. This study is targeted for completion by end-2008.

Creativity, innovation and technology

3.15 To promote the transition of Hong Kong into a knowledge-based economy, concerted efforts by the Government and private enterprises in innovation and technology are essential. Latest indicators revealed that over the period 2002-2006, the total expenditure on research and development (R&D) surged by almost 60% from \$7.5 billion to \$11.9 billion, with the latter representing 0.8% of GDP for that year. For the business sector in particular, the relevant spending jumped from \$2.5 billion to \$6.3 billion, which accounted for over half of the overall R&D expenditure in 2006.

Diagram 3.9 : R&D on a continuous uptrend in recent years



3.16 The West Kowloon Cultural District project, as an important strategic investment for arts, culture and creative industry developments in Hong Kong, received blessings from the Legislative Council (LegCo) recently. Specifically, the West Kowloon Cultural District Authority Bill was passed on 3 July, thereby providing a legal framework for the establishment of the Authority, while approval of a \$21.6 billion upfront endowment for the new entity was also given. Upon receipt of the LegCo approval, the Government is pressing ahead with the establishment of the Authority for early implementation of the project.

3.17 As to cross-boundary technology co-operation, the "Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology" held its second meeting in May 2008. The authorities in the two cities agreed to carry out more in-depth and comprehensive collaboration and exchange in various spheres, such as promoting technological development and transfers, strengthening co-operation in intellectual property protection, radio frequency identification technology and technology affecting people's daily lives, as well as promoting the exchange of talent and sharing of resources.

3.18 Work is also in hand on promoting large-scale technological collaborative projects involving the two places. Through their joint efforts, in May 2008 Hong Kong and Shenzhen have successfully invited a multi-national technology company to set up its global photovoltaic business headquarter and R&D centre in Hong Kong, together with a supporting manufacturing base in Shenzhen. The establishment of this solar energy research and industrial

platform marked the first major technology co-operation project under the “Shenzhen Hong Kong Innovation Circle”.

Energy and environment

3.19 The Energy Efficiency (Labelling of Products) Ordinance was gazetted on 9 May 2008. The first phase of the mandatory scheme will cover room air conditioners, refrigerating appliances and compact fluorescent lamps, which currently account for about 70% of local electricity consumption in the residential sector. The labelling scheme will facilitate consumers in choosing energy efficient appliances and raise public awareness on energy saving. It is reckoned that additional electricity savings of 150 GWh per year will be attained under the mandatory scheme.

3.20 Environmental improvement efforts extend beyond the local boundary. At the 11th Working Meeting of the Hong Kong-Guangdong Co-operation Joint Conference held in June 2008, the Hong Kong and Guangdong governments agreed to further strengthen and deepen co-operation in improving the environment, as well as work together to achieve joint emission reduction targets⁽²⁾ by 2010.

Notes :

- (1) The figures on hotel occupancy and achieved room rate do not include tourist guesthouses.
- (2) In 2002, the HKSAR Government and the Guangdong Provincial Government have agreed to reduce, on a best endeavour basis, the regional emissions of sulphur dioxide, nitrogen oxides, respirable suspended particulates and volatile organic compounds by 40%, 20%, 55% and 55% respectively by 2010, using 1997 as the base year. For details concerning measures undertaken by the two Governments with the aim of achieving the emission reduction targets, please refer to Air Pollution Control Strategies at “http://www.epd.gov.hk/epd/english/environmentinhk/air/prob_solutions/strategies_apc.html#point_4”.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *Global financial market turbulence continued in the first half of 2008, amid lingering worries about the sluggish US economic performance and further sharp escalation in fuel prices. By comparison, the Asian financial markets suffered a larger setback as investment sentiment was dampened additionally by the worsening economic and financial situations in a few Asian countries.*
- *Hong Kong dollar interest rates edged up in the second quarter, but ended lower for the first half as a whole. Uncertainties surrounding the future directions of the US monetary policy and international capital movements clouded the near-term outlook for Hong Kong's interest rates.*
- *The Hong Kong dollar held steady against the US dollar during the first half of 2008. Nevertheless, aided by firming of the greenback vis-à-vis most other currencies, the Hong Kong dollar effective exchange rate indices stabilised in the second quarter, arresting the downtrend seen in the earlier period.*
- *The local stock market in the first half was characterised by enlarged price volatility in reduced trading. Fund raising activities were way below the levels prevalent in 2007.*
- *Yet the long-term outlook for Hong Kong's financial sector remains promising, so long as its competitive strengths such as large pool of professional talents, free flow of capital, and sound regulatory and institutional framework can be sustained and where possible enhanced for generating products and services of top quality in different spheres.*

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

Overall situation

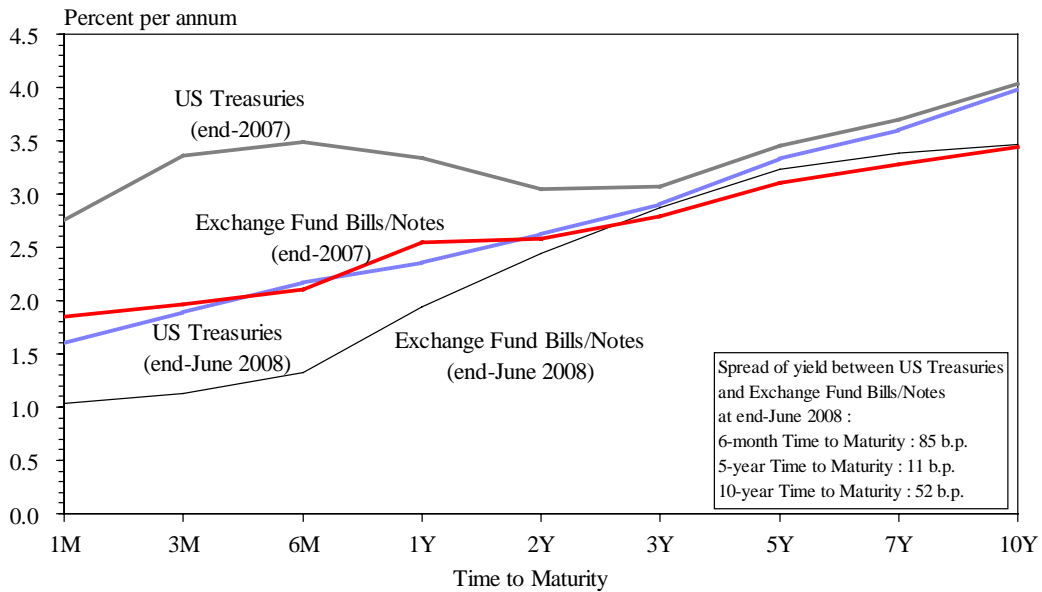
4.1 The state of flux in overseas financial markets and the economic slowdown in major advanced countries have deeply dented investors' confidence. Investment sentiment in the Asian markets has been eroded additionally by the economic turmoil in a few Asian countries. This had the effect of sending the Asian securities down by a larger magnitude. Hong Kong's stocks were no exception with their prices plunging in tandem. Yet for the Hong Kong financial sector as a whole, the system remains sound and is operating well, underpinned partly by good risk management among the regulatory authorities and participants, including in particular their limited exposure to the troubled markets in question.

4.2 Hong Kong has been devoting continuous efforts to upgrading market infrastructure, promoting intermediation activities, encouraging financial innovation and broadening service offerings, with the recent notable examples being the development of Islamic finance and commodities markets. These efforts will undoubtedly help strengthen Hong Kong's position as the premier financial centre in the region.

Interest rates and exchange rates

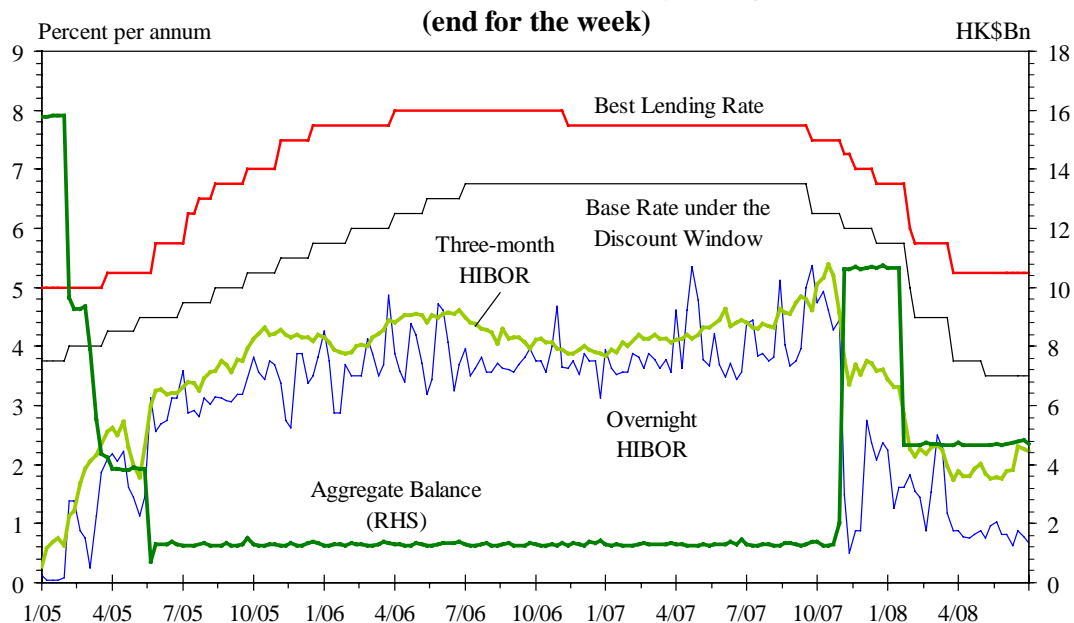
4.3 In line with the cumulative 225-basis-point cut in the US Federal Funds Target Rate in the first half of 2008, the *Base Rate* under the Discount Window operated by the HKMA was adjusted downwards by the same magnitude to 3.50% at end-June⁽¹⁾. Broadly tracking their US dollar counterparts, *Hong Kong dollar interbank interest rates* declined in the first quarter of 2008 but bounced back somewhat in the second quarter. For the first half as a whole, the overnight and three-month HIBORs were lower at 0.88% and 2.15% respectively at end-June, compared to 1.88% and 3.31% at end-2007. Meanwhile, the negative interest rate differentials between the Hong Kong dollar and the US dollar generally narrowed over this six-month period, with the discount of three-month HIBOR over the corresponding Euro-dollar deposit rate contracting from 144 basis points to 85 basis points. Concurrently, the *Hong Kong dollar yield curve* shifted downward at the short end but rose slightly at the long end.

Diagram 4.1 : Short end of the Hong Kong dollar yield curve shifted down during the first half



4.4 At the retail level, banks lowered their best lending rates three times during the first quarter of 2008 but kept the rates on hold during the second quarter. The two best lending rates in the market declined from 6.75-7.00% at end-2007 to 5.25-5.50% on 20 March 2008, and then remained unchanged through June. As for savings deposits, the average interest rate quoted by major banks was slashed from 1.26% at end-2007 to 0.02% at end-June. The composite interest rate⁽²⁾, as an indication of the average cost of funds for banks, also fell from 2.29% in December 2007 to 0.75% in May 2008, though rebounded slightly by 10 basis points in June. On the other hand, the proportion of newly approved loans priced at more than 2.5% below the best lending rate went up from 87.9% in December 2007 to 90.0% in March 2008, due partly to the easing of local interest rates. Yet with tighter interbank liquidity and the rises in HIBORs in the second quarter, the ratio dropped back to 86.3% in June. Meanwhile, the Aggregate Balance was reduced by roughly \$6 billion after an additional issue of Exchange Fund papers in mid-January, and then held broadly stable at around \$5 billion up to end-June.

Diagram 4.2 : Hong Kong dollar interest rates declined for the first half as a whole amid monetary easing in the US



4.5 Between January and mid-February 2008, the Hong Kong dollar spot exchange rate against the US dollar fluctuated around the central parity rate of 7.80. Strong-side pressure on the Hong Kong dollar emerged in late February and mid-March, under the influences of a marked depreciation of the US dollar and an expected narrowing of interest rate gap between the Hong Kong and US currencies. Partly reflecting interest rate arbitrage activities, the Hong Kong dollar weakened from mid-March to mid-June, but strengthened thereafter towards the centre of the Convertibility Zone to close at 7.801 at end-June. In line with the generally narrowing interest rate spread, the discount of the *12-month Hong Kong dollar forward rate* over the spot rate contracted to 340 pips (each pip equivalent to HK\$0.0001) at end-June, from 660 pips at end-2007.

4.6 Under the Linked Exchange Rate system, movements in the exchange rate of the Hong Kong dollar against other currencies closely followed those in the US dollar. During the first quarter of 2008, the Hong Kong dollar weakened against other major currencies as the US dollar slumped amid the significant monetary easing in the US. Nevertheless, the Hong Kong dollar exchange rate vis-à-vis other currencies stabilised in the second quarter alongside a steadier greenback. For the first half of 2008 as a whole, the trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ were down by 3.9% and 4.3% respectively.

Diagram 4.3 : Forward spread narrowed in the first half (end for the week)

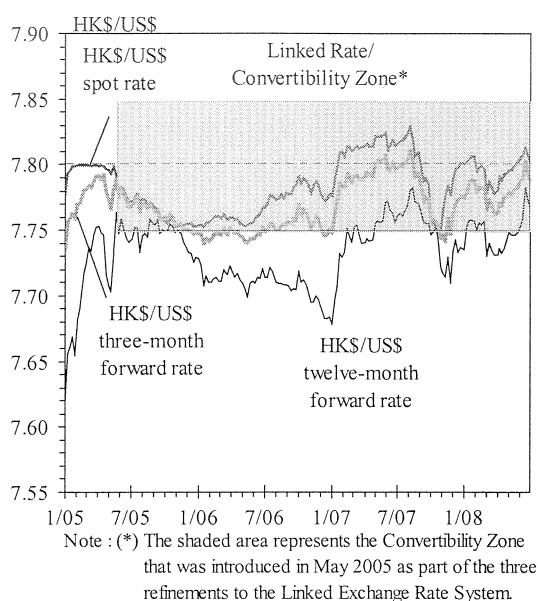
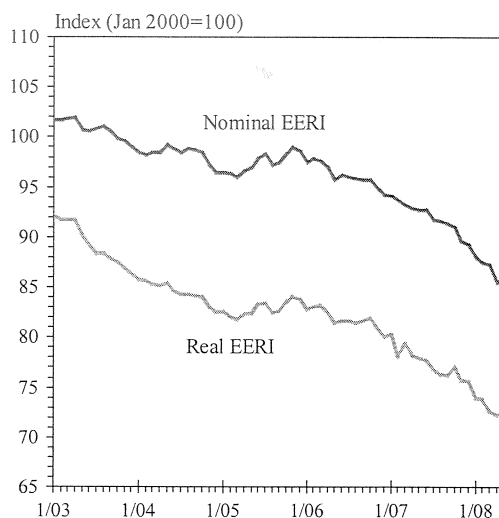


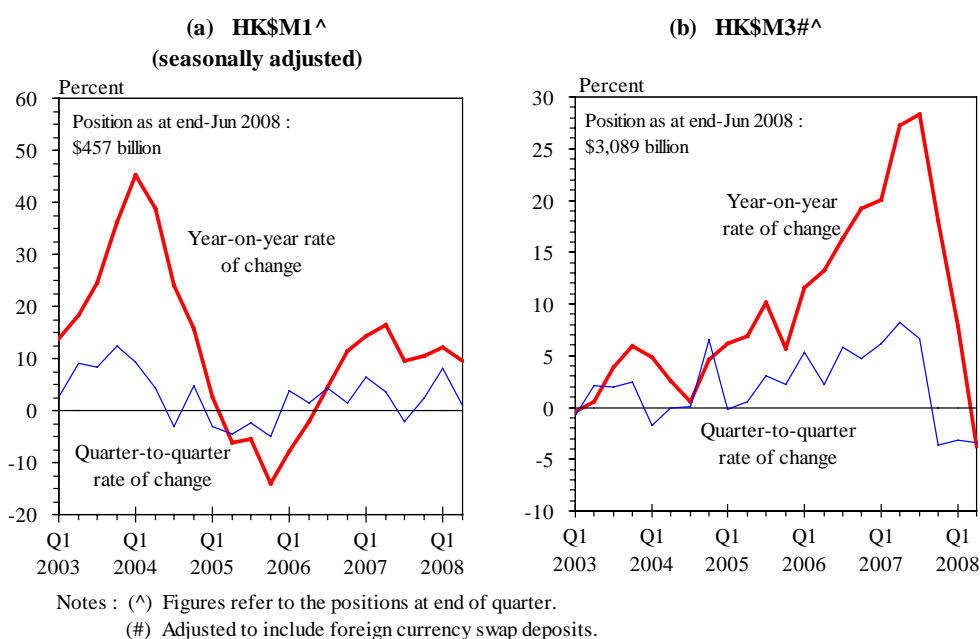
Diagram 4.4 : Trade-weighted EERI fell further in the first quarter of 2008 but stabilised in the second quarter (average for the month)



Money supply and banking sector

4.7 Growth in Hong Kong dollar narrow money and broad money showed divergent trends in the first half of 2008. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1)⁽⁴⁾ increased by 9.2% between end-2007 and end-June 2008, whereas the corresponding broad money supply (HK\$M3) fell by 6.4%. This was mainly caused by a progressive shift away from time deposits, amid the prevailing low interest rate environment. *Total deposits* with authorised institutions (AIs)⁽⁵⁾ shrank by 2.8% during the first half of 2008 to \$5,705 billion (comprising Hong Kong dollar deposits of \$2,873 billion and foreign currency deposits of \$2,832 billion), with a decrease in Hong Kong dollar deposits more than offsetting the increase in foreign currency deposits.

Diagram 4.5 : Broad money shrank in the first half of 2008 after the marked expansion in the past few years



4.8 In the first half of 2008, *total loans and advances* increased by 13.1% to \$3,349 billion (comprising Hong Kong dollar loans of \$2,354 billion and foreign currency loans of \$994 billion), alongside continued expansion of the economy. Loans for use outside Hong Kong continued to grow at a faster pace than those for use locally. An analysis of loans for use in Hong Kong by economic sector indicated that lending to the wholesale and retail trades, loans to manufacturing and trade finance registered solid increases during the first half. In addition, growth in the outstanding stock of residential mortgage loans accelerated somewhat, supported by low mortgage interest rates under keen competition in the mortgage market. On the other hand, loans to stockbrokers declined further due to diminishing initial public offering (IPO) activity and downward adjustments in the local stock market. Meanwhile, the Hong Kong dollar loan-to-deposit ratio rose to 81.9% at end-June 2008, from 71.0% at end-2007.

Table 4.1 : Loans and advances

All loans and advances for use in Hong Kong												
Loans to :												
% change during the quarter		Finance visible trade		Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
2007	Q1	-1.0	3.5	1.9	1.0	-0.1	5.9	994.1	7.6	12.4	8.3	
	Q2	12.2	7.4	4.0	6.2	1.2	10.2	35.6	6.4	10.7	7.0	
	Q3	4.2	4.8	1.8	5.7	1.4	6.2	11.8	5.8	10.1	6.4	
	Q4	4.1	1.7	2.8	4.2	2.2	9.5	-86.4	-4.5	7.7	-2.7	
2008	Q1	8.4	16.1	16.6	6.2	2.4	7.2	-4.2	6.3	10.4	7.0	
	Q2	15.2	4.8	15.6	4.7	2.7	1.5	-19.0	4.7	10.0	5.6	
Total amount at end-June 2008 (\$Bn)		229	148	157	642	655	274	15	2,736	613	3,349	
% change from end-2007		24.9	21.7	34.8	11.2	5.2	8.8	-22.4	11.3	21.5	13.1	
% change over a year earlier		35.4	29.6	41.0	22.5	9.0	26.5	-88.2	12.4	44.0	17.1	

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

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

4.9 Asset quality of the local banking sector continued to improve during the first half of 2008. The ratio of classified loans to total loans of retail banks declined further, from 0.85% at end-2007 to 0.81% at end-March 2008. Over the same period, the arrears for over three months in credit card repayment edged down from 0.35% to 0.32%. The delinquency ratio for residential mortgage loans also decreased, from 0.11% at end-2007 to 0.06% at end-June 2008.

Table 4.2 : Asset quality of retail banks*

(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)
2007 Q1	97.11	1.89	1.00
Q2	97.37	1.73	0.90
Q3	97.47	1.64	0.89
Q4	97.59	1.57	0.85
2008 Q1	97.72	1.47	0.81

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

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

4.10 Hong Kong implemented the new capital adequacy framework promulgated by the Basel Committee on Banking Supervision for banks (commonly referred to as “Basel II”) on 1 January 2007. Under the new framework, the capital adequacy ratio (CAR) for Hong Kong incorporated AIs continued to be strong, with an average CAR of 14.3% at end-March 2008. All individual AIs’ CARs have been above the statutory minimum ratios as required under the Banking Ordinance. In view of recent market events associated with the US sub-prime turmoil, the Basel Committee has announced its intention to introduce refinements to further strengthen Basel II. The HKMA is monitoring developments in this regard and will consider their implications for supervisory policies.

4.11 Since February 2004, banks in Hong Kong have been offering renminbi services to customers including deposit taking, currency exchange and remittance. By end-June 2008, a total of 40 licensed banks had been engaged in this line of business. During the first four months of 2008, renminbi deposits with licensed banks in Hong Kong surged by 129% to RMB76.6 billion, under the combined influence of low interest rates in Hong Kong dollar deposits, the renminbi’s appreciating trend and outlook, and investors seeking alternatives to local stock investment. However, following the Mainland’s policy to increase the transaction cost of converting Hong Kong dollar deposits into renminbi deposits, growth in renminbi deposits slowed in May and turned slightly negative in June. At end-June, renminbi deposits outstanding amounted to RMB77.6 billion, accounting for around 3.1% of total foreign currency deposits in Hong Kong.

Table 4.3 : Renminbi deposits in licensed banks

<u>As at end of</u>		<u>Interest rates on^(a)</u>				Number of licensed banks engaged in <u>RMB business</u>	
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Saving deposits^(b)</u> (%)		<u>Three-month time deposits^(b)</u> (%)
2007	Q1	13,643	11,595	25,238	0.46	0.65	38
	Q2	17,228	10,391	27,618	0.46	0.65	38
	Q3	18,458	9,045	27,503	0.46	0.65	37
	Q4	22,539	10,861	33,400	0.46	0.65	37
2008	Q1	39,364	18,221	57,585	0.46	0.65	40
	Q2	51,242	26,398	77,640	0.46	0.65	40
% change from end-2007		127.3	143.1	132.5	N.A.	N.A.	N.A.
% change over a year earlier		197.4	154.1	181.1	N.A.	N.A.	N.A.

Notes : N.A. : Not available.

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

(b) Period average figures.

The debt market

4.12 The Hong Kong dollar debt market contracted in the first half of 2008, largely as a result of the heightened stress in funding markets. Total outstanding amount of debt declined to HK\$722 billion at end-June 2008, 5.5% lower than the end-2007 level⁽⁶⁾. This was equivalent to 23% of HK\$M3 or 19% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁷⁾. In terms of debt issuance, the first half of 2008 recorded a 13.0% fall from the first half of last year but a 10.1% increase from the second half, possibly reflecting that the effect of the global financial turmoil on the local debt market had eased to some extent. As a matter of fact, in response to a pick-up in demand, the issuance jumped by 57% quarter-on-quarter in the second quarter of 2008, with issuance by overseas non-Multilateral Development Banks (MDBs) more than tripled.

4.13 In a move to strengthen Hong Kong's role as an international financial centre, the Government has continued to make efforts to promote the domestic debt market through facilitating the introduction of new instruments and enhancing market liquidity. In May, the Hong Kong Monetary Authority signed a Memorandum of Understanding with the Dubai International Financial Centre Authority to foster co-operation in developing the market for Sharia-compliant financial products in both jurisdictions. Several local organisations have already expressed interest in issuing the first Islamic bond in Hong Kong.

4.14 In July, Standard & Poor's raised the long-term issuer credit rating on Hong Kong from AA to AA+, citing "a further improvement in the credit strength of the Chinese central government" and Hong Kong's continued fiscal health as the main reasons behind the rating action⁽⁸⁾.

Table 4.4 : New issuance and outstanding value of Hong Kong dollar debt securities (\$Bn)

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New issuance											
2007	Annual	223.5	19.4	-	242.9	50.8	18.7	130.7	200.2	1.7	444.8
	Q1	55.0	4.0	-	59.0	13.3	5.4	37.9	56.6	1.5	117.1
	Q2	56.9	6.9	-	63.8	20.2	6.5	40.9	67.6	-	131.4
	Q3	56.1	1.5	-	57.6	6.7	5.7	18.7	31.1	-	88.7
	Q4	55.4	7.0	-	62.5	10.6	1.1	33.2	44.9	0.2	107.6
2008	Q1	62.8	5.5	-	68.2	8.6	1.2	6.1	15.9	-	84.1
	Q2	77.2	8.7	-	85.9	15.4	8.4	22.3	46.2	-	132.0
	During the first half of 2008	140.0	14.1	-	154.1	24.0	9.7	28.4	62.0	-	216.2
	% change over a year earlier	25.0	30.6	N.A.	25.5	-28.4	-18.5	-64.0	-50.1	N.A.	-13.0
Outstanding (period-end figures)											
2007	Q1	133.0	54.6	7.7	195.3	147.7	54.3	335.3	537.3	16.5	749.1
	Q2	134.4	58.0	7.7	200.1	151.6	58.9	350.5	561.0	14.4	775.5
	Q3	135.6	57.2	7.7	200.5	140.7	62.9	338.9	542.4	13.4	756.3
	Q4	136.6	58.5	7.7	202.8	137.5	60.6	350.1	548.2	13.2	764.2
2008	Q1	143.3	60.3	7.7	211.3	122.1	60.8	320.0	502.9	12.5	726.7
	Q2	144.3	64.5	7.7	216.5	107.2	68.4	317.9	493.5	12.5	722.4
	% change from end-2007	5.6	10.3	0.0	6.8	-22.0	12.9	-9.2	-10.0	-5.3	-5.5
	% change over a year earlier	7.4	11.2	0.0	8.2	-29.3	16.1	-9.3	-12.0	-13.2	-6.8

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

N.A. : Not available.

(a) AIs : Authorised institutions.

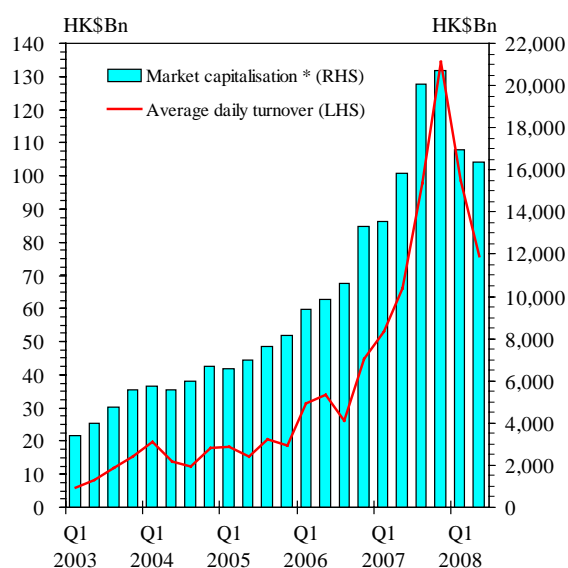
(b) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.15 The *local stock market*, save for the temporary rally in April, mostly followed a downward trend during the first half of 2008. This was consistent with the general weakness observed in major overseas bourses, as the sluggish growth of the US economy and the upsurge in international oil prices continued to weigh on the minds of most investors. The dismal performance of the Mainland stock markets weakened the sentiment further. At the end of June 2008, the *Hang Seng Index (HSI)* stood at 22 102, 20.5% down from the end-2007 level. *Daily turnover* for the first half averaged \$87.3 billion. While this was broadly comparable to the \$88.1 billion for the whole of 2007, it was still distinctly below the average of \$116.0 billion recorded for the second half of the year. One major reason for the high turnover in 2007 was increased participation from retail investors in different types of securities products (**Box 4.1**).

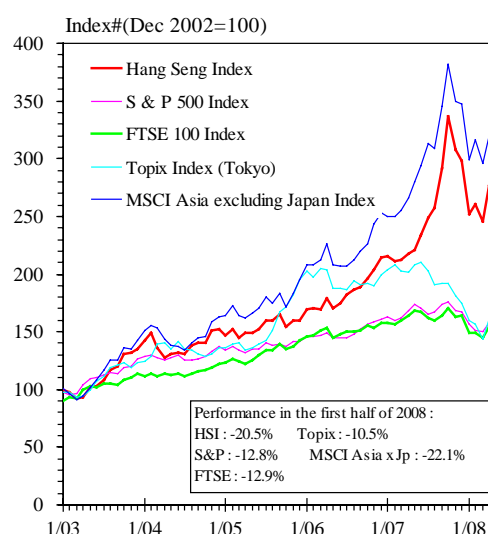
4.16 Consistent with the decline in share prices during the first half of 2008, *market capitalisation* shrank to \$16.4 trillion at end-June. According to the *World Federation of Exchanges*⁽⁹⁾, the Hong Kong stock market was the eighth largest in the world and the third largest in Asia in terms of market capitalisation. For the first half as a whole, equity capital raised through new share flotations and post-listing in the Main Board and the GEM totalled \$122 billion⁽¹⁰⁾.

Diagram 4.6 : Reduced activities in the stock market during the first half



Note : (*) Position at end of quarter.

Diagram 4.7 : Global stock markets weakened considerably



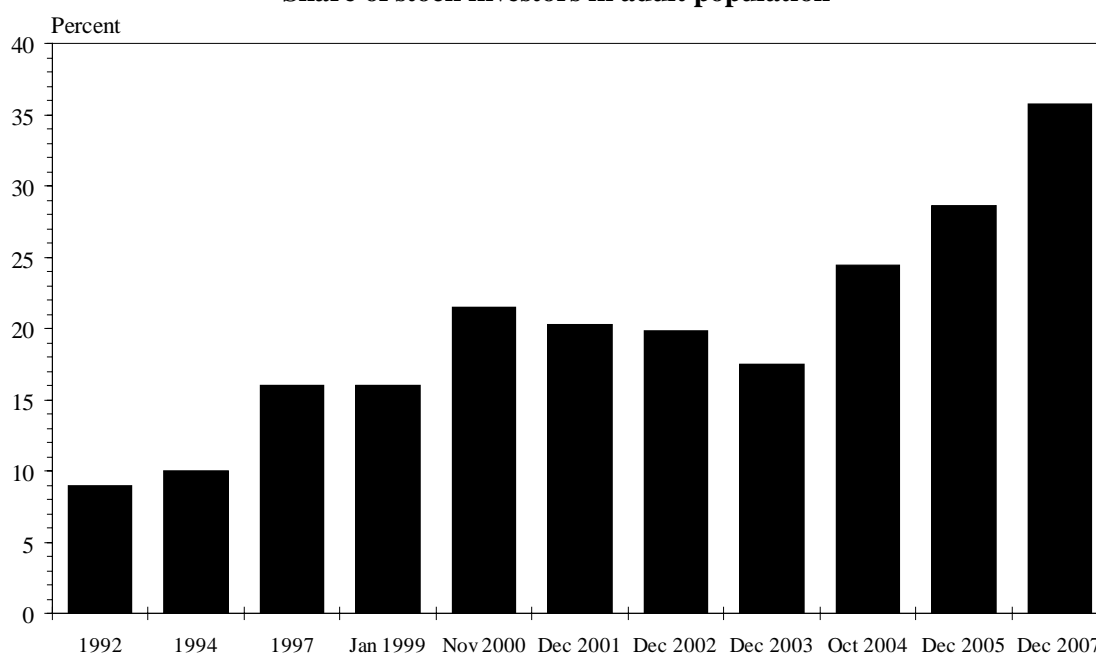
Note : (#) Position at end of month.

Box 4.1

Retail investors in Hong Kong

According to the “Retail Investor Survey 2007” conducted by the Hong Kong Exchanges and Clearing Limited (HKEx), as many as 35.7% of the adult population (or about 2.02 million individuals) were retail investors in stocks traded on the HKEx in 2007¹. This more than doubled the share of about 16% in 1997.

Share of stock investors in adult population



Profile of stock investors

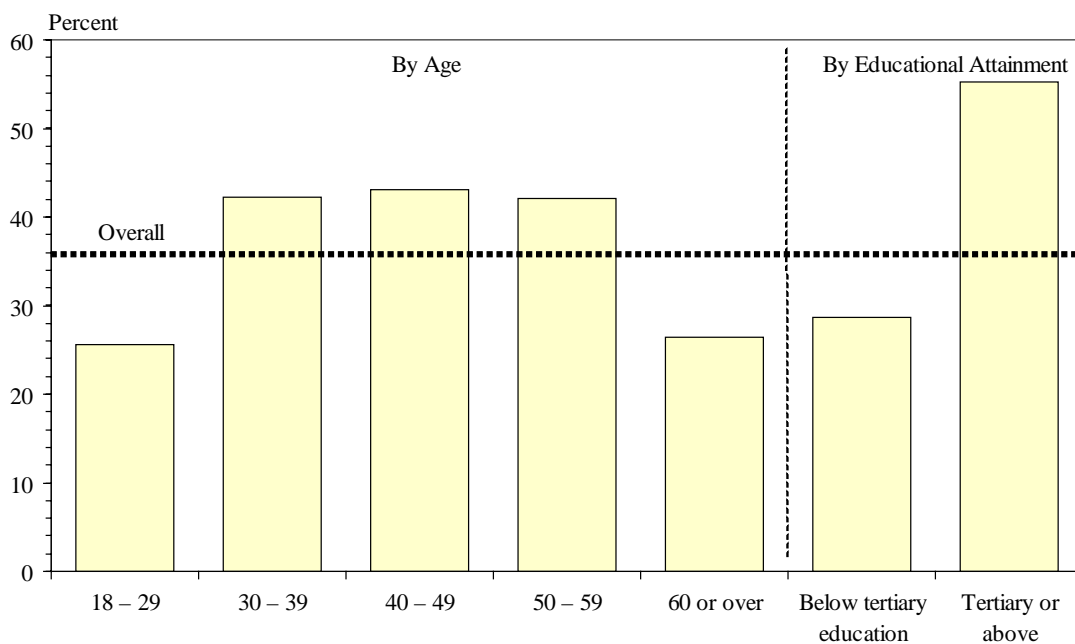
Further analysis of HKEx’s survey data yielded the following observations about the characteristics of stock investors. Firstly, the distribution profile showed that the participation rate tended to be lower at both ends of the age spectrum. Specifically, for younger respondents aged 29 or below and the older ones aged 60 or above, their participation rates (i.e. the share of stock investors in the respective age groups) were estimated to be around 25% each. This was smaller than that of around 40% estimated for people in the age groups of 30-39, 40-49 and 50-59.

¹ “Retail investors in stocks” are defined as individuals who had traded stocks in the 12 months preceding the interview (also defined as “stock traders”) or holding stocks at the time of interview. “Adult population” is defined to include individuals aged 18 or above in the Hong Kong population. Survey field work was conducted from 16 November 2007 to 15 January 2008.

Box 4.1 (Cont'd)

Another noteworthy point was that stock investors generally had higher-than-average income and educational attainment. Their median monthly personal income (among those who were engaged in full-time or part-time employment) was \$22,500 in 2007, distinctly higher than that of \$13,750 for the entire adult population in Hong Kong. Whereas persons with employment income accounted for about two-thirds of stock investors in the 2007 survey, those with no employment (homemakers, retirees and students etc.) had a share of 33%. But the latter figure was still larger than those of 28% and 19% respectively recorded in the 2005 and 1997 surveys. Analysed by educational attainment, 41% of the stock investors attained at least tertiary education, as against 26% for the entire adult population. In other words, among those adults with tertiary education or above, about 55% were stock investors. As for persons with lower educational attainment, the corresponding figure was smaller at 29%. Nevertheless, the participation rates for both groups have been on an uptrend since 2004.

Rate of participation in stock investment



In terms of types of securities invested, stock investors generally showed growing interest in the non-traditional securities listed on the HKEx. Specifically, about 20% of stock investors had traded in warrants and another 22% in Exchange Traded Funds, according to the 2007 survey.

Box 4.1 (Cont'd)

Drivers behind the growth in stock investor population

A number of factors were thought to have been responsible for the expansion in the size of investor population in Hong Kong over the years. On the demand side, increased awareness of wealth management and success in investor education have bolstered the interest in stock investment among private individuals. The increasing affluence of local workers since 2003 alongside the improving labour market conditions has also contributed. On the supply side, the increasing number of listed Mainland enterprises, with their profitability being propelled by the robust Mainland economy, has presented investors with more opportunities to invest in Hong Kong-listed stocks. Furthermore, there were increasing channels and enhanced convenience for stock transactions, including in particular online trading and the proactive stance adopted by banks in promoting stock trading businesses in more recent years. As the survey revealed, almost 60% of stock traders had made use of online trading services, in contrast to just 30% in 2003 and below 20% in 2001. In terms of trading channels, 63% of stock traders used only trading services at banks for transactions, again substantially up from 30% in 1997. As a matter of fact, the growth in stock investors over the past decade has been largely boosted by this segment, and fee income from stock brokering and related services has become an increasingly important component for banks' non-interest income in recent years.

4.17 Mainland enterprises still formed a key part of the listed stocks on HKEx. At end-June 2008, there were 449 listed Mainland enterprises (including 150 H-share companies, 93 "Red Chips" companies and 206 private enterprises), accounting for 36% of the total number of listed companies and 57% of the total market capitalisation. For the first half as a whole, 71% of equity turnover in the market was attributed to the Mainland-related stocks. During the period, equity capital raised by these enterprises amounted to \$57.4 billion, accounting for about half of the total. On a cumulative basis, Mainland enterprises have raised \$1,916 billion of capital through the Hong Kong stock market since January 1993.

4.18 The *derivatives market* stayed relatively active in the first half of 2008. Compared with a year earlier, the average daily trading volume for futures and options contracts⁽¹¹⁾ increased by 54%, supported largely by the 81% and 68% gains in stock options and H-shares Index futures respectively. The callable bull/bear contracts market recorded buoyant transactions as well, with average daily turnover surging to \$2.15 billion over the same period. This far exceeded \$489 million in the second half of 2007 and \$85 million a year earlier. On the other hand, trading in derivative warrants saw some further decrease in

value terms in the first half, alongside the reduction in securities turnover in the overall market.

Table 4.5 : Average daily turnover of derivative products of the Hong Kong market

		<u>Hang Seng Index futures</u>	<u>Hang Seng Index options</u>	<u>H-shares Index futures</u>	<u>Stock options</u>	<u>Total futures and options traded*</u>	<u>Derivative warrants (\$Mn)</u>
2007	Annual	69 760	30 407	44 091	186 923	357 665	19,081
	Q1	61 184	30 495	31 059	124 662	268 878	10,837
	Q2	62 301	31 774	34 783	137 742	285 315	11,662
	Q3	76 286	37 952	54 210	240 131	438 005	18,810
	Q4	78 803	21 353	55 698	241 918	433 668	34,659
2008	Q1	88 938	14 946	60 579	263 980	468 118	26,851
	Q2	78 023	13 776	50 238	210 452	385 751	15,715
	During the first half of 2008	83 436	14 357	55 366	236 995	426 594	21,237
	% change over a year earlier	35.2	-53.9	68.4	80.9	54.1	89.0

Note : (*) Turnover figures for individual futures and options do not add up to the total futures and options traded as data for some products is not included in this table.

4.19 On 20 June 2008, a comprehensive streamlining of the admission procedures for Exchange Participants (EPs) on the Hong Kong Stock and Futures Exchanges and the registration and approval procedures for their staff members and substantial shareholders were effected. The changes represented part of the authorities' continuing efforts in providing a quality operating environment for market participants in Hong Kong, which should help significantly reduce EPs' compliance workload.

4.20 Substantial progress has also been attained in widening the range of products on the local financial scene. The framework for issuers to list in Hong Kong via Hong Kong depositary receipts has come into effect on 1 July, providing an alternative listing route for overseas companies and facilitating the diversification of investment products in the Hong Kong stock market. In addition, Hong Kong Futures Exchange has announced plans to reintroduce trading of gold futures in the fourth quarter of this year.

Fund management and investment funds

4.21 According to the latest Fund Management Activities Survey conducted by the Securities and Futures Commission (SFC), at end-2007 *fund management business* in Hong Kong reached \$9.63 trillion⁽¹²⁾, compared with \$6.15 trillion at end-2006 and \$1.64 trillion five years ago. In particular, asset management business at licensed corporations jumped 56.1% year-on-year to \$6.21 trillion at end-2007, while fund advisory business at licensed corporations and other private banking business at registered institutions also surged by 102.9% and 36.7% to \$1.12 trillion and \$1.93 trillion respectively. To enhance the attractiveness and adaptability of Hong Kong's market, the SFC has undertaken further initiatives to streamline and speed up existing regulatory processes, to reduce costs to market players and to smooth the licensing process for asset managers in Hong Kong, as well as to work closely with its Mainland regulatory counterparts to facilitate the implementation of Mainland's Qualified Domestic Institutional Investors (QDII) scheme.

4.22 In the first half of 2008, gross retail sales of *mutual funds*⁽¹³⁾ amounted to US\$13.8 billion, down from US\$20.6 billion a year earlier. Conceivably, the immense volatility in the financial markets worldwide might have resulted in increased redemption by some of the retail mutual fund investors, with some other investors staying on the sideline. As for retail hedge funds, there were 12 SFC-authorized funds with combined net asset size of US\$2.01 billion at end-June 2008. This figure represented a 16.1% increase from end-2007 level, in spite of the challenging market conditions, and was more than 10 times that at end-2002, the year when the hedge funds guidelines were first issued. Under the *MPF schemes*, the aggregate net asset value of the approved constituent funds went down to \$250 billion at end-June 2008, from \$265 billion at end-2007⁽¹⁴⁾, as inflow from new contributions was more than offset by the loss in asset value resulting from the poor performance of equity markets.

Insurance sector

4.23 The *insurance sector* nevertheless continued to put up a comparatively decent performance in the first quarter of 2008. Gross premium income from new long-term business increased by 33.4% over a year earlier⁽¹⁵⁾, although this figure showed some decrease on a quarter-to-quarter comparison. Increased risk-aversion amid the growing uncertainties in the asset markets caused some buyers to switch from investment-linked policies to non-linked ones. Meanwhile, premium for general business rose by 12.5% year-on-year in the first quarter.

Table 4.6 : Insurance business in Hong Kong (\$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>	<u>Gross premium from long-term business and general business</u>
2007	Annual	24,057	17,008	2,301	20,314	60,040	261	162	80,777	104,834
	Q1	6,792	4,904	441	5,982	10,122	62	45	16,211	23,003
	Q2	6,156	4,451	598	3,307	13,189	62	50	16,608	22,764
	Q3	5,861	4,122	744	5,028	16,445	76	40	21,589	27,450
	Q4	5,248	3,531	518	5,997	20,284	61	27	26,369	31,617
2008	Q1	7,640	5,478	638	8,212	13,308	64	49	21,633	29,273
% change from 2007 Q1 to 2008 Q1		12.5	11.7	44.7	37.3	31.5	3.2	8.9	33.4	27.3

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

Notes :

- (1) At present, the Base Rate is set at either 150 basis points above the prevailing US Fed Funds Target Rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is higher.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds of banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 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.

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

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

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

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

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

- (5) Authorised institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2008, there were 144 licensed banks, 29 restricted licence banks and 29 deposit-taking companies in Hong Kong. Altogether, 202 authorised institutions (excluding representative offices) from 31 countries and territories (including Hong Kong) had 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 authorised 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) The agency also raised China's long-term sovereign credit rating from A to A+, and its short-term credit rating from A-1 to A-1+.
- (9) The ranking is made by the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 55 securities exchanges (as of 31 July 2008), covering almost all globally recognised stock exchanges.
- (10) At end-June 2008, there were 1 065 and 189 companies listed on the Main Board and GEM respectively.
- (11) At end-June 2008, there were 50 classes of stock options contracts and 43 classes of stock futures contracts.
- (12) For a more complete landscape of the asset management industry in Hong Kong, the Securities and Futures Commission has, for the first time, surveyed the asset management activities conducted by Life Insurance Councillors' members of the Hong Kong Federation of Insurers in 2007. To avoid double counting, the amount of assets sub-contracted or delegated by the surveyed insurance companies to other licensed corporations / registered institutions in Hong Kong has been excluded from the amount of assets under management by insurance companies. At end-2007, asset under management by the major insurance companies engaging in long-term business amounted to \$113 billion.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. 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. At end-June 2008, there were 1 273 authorised funds, according to the survey.
- (14) There were 19 approved trustees at end-June 2008. On MPF products, 34 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 326 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 236 000 employers, 2.16 million employees and 267 000 self-employed persons have participated in MPF schemes.
- (15) As at end-June 2008, there were 176 authorised insurers in Hong Kong. Within this total, 46 were engaged in long term insurance business, 111 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 24 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

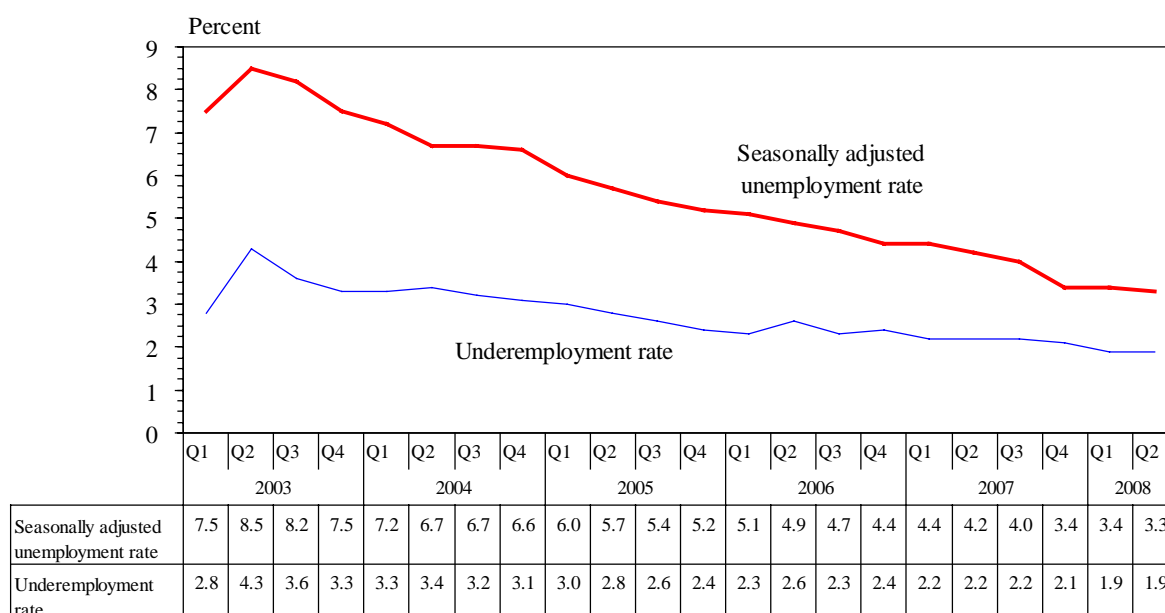
Summary

- *The labour market remained broadly stable in the second quarter of 2008, with little changes in total employment, total labour force and the number of unemployed. The seasonally adjusted unemployment rate nevertheless edged down further to 3.3%, the lowest level in the recent ten years. Job vacancies in the private sector surged in March 2008 to the highest level for this particular month since 1997.*
- *The near-term outlook hinges on whether job creation would be sufficient to absorb the influx of fresh graduates and school leavers, especially given a less sanguine economic environment over the remainder of 2008.*
- *Labour earnings continued to register broad-based increase in the first quarter of 2008, though significant variations still existed across different economic sectors and occupations.*

Overall labour market situation

5.1 The labour market, though remaining active, was broadly stable in the second quarter of 2008, with most of the key labour statistics showing little changes. Total employment decreased moderately to 3 532 800, whilst total labour force expanded slightly, in part boosted by the usual influx of fresh graduates and school leavers into the labour market upon the beginning of the summer vacation. As a result, the number of unemployed persons increased modestly by 2 500 from 119 000 to 121 500. After removing the influence of seasonal factors, the seasonally adjusted unemployment rate⁽¹⁾ actually edged down to 3.3%, the lowest level in the recent ten years. Meanwhile, the underemployment rate⁽²⁾ remained stable at 1.9%.

Diagram 5.1 : Both the unemployment and underemployment rates edged down during the first half of 2008



Total employment and labour supply

5.2 *Total employment*⁽³⁾ fell slightly in the second quarter of 2008 over the preceding quarter to 3 532 800, partly as a reflection of the normal softening of business activities after the Lunar New Year. On a year-on-year basis, total employment increased further by 1.8%, following the 2.3% growth in the first quarter. Despite deceleration, employment growth continued to outstrip labour supply growth at 0.8%, indicating that the continual improvement in labour market conditions has been largely demand-led.

5.3 On a quarter-to-quarter comparison, notable job gains were observed in the amusement and recreational services, financing, real estate, and wholesale/retail trades (especially wholesale trade) sectors in the second quarter of 2008. These increases were outweighed by job losses in such sectors as import/export trade, public administration and welfare services. Analysed in terms of other attributes, decreases in employment were mainly found among craft and related workers, managers and administrators, and young persons aged 15-24 of both sexes. In contrast, employment of professionals, associate professionals, service workers and shop sales workers, as well as those aged 50-64 of both sexes increased during the period. Conceivably, the buoyant labour market has attracted more persons of higher age and with better experience to seek jobs and rejoin the work force.

5.4 *Labour supply*⁽⁴⁾ also showed little change, up merely to 3 654 300 in the second quarter of 2008, from 3 653 500 in the first quarter. Though the overall labour force participation rate fell from 61.1% to 61.0% between these two quarters, this effect was mitigated by continuing expansion in the working-age population. By virtue of active labour market conditions, the trend of increasing participation of older people remained prevalent throughout the first half of 2008. On the other hand, the labour supply of youths, especially individuals aged 15-19, shrank noticeably compared with the same period in 2007 (please refer to **Box 5.1** for details).

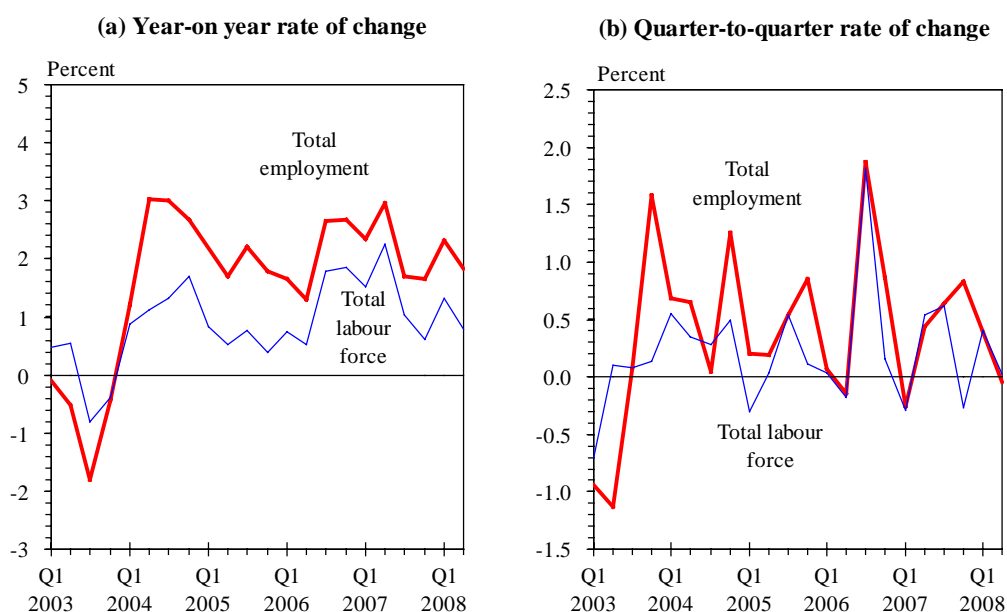
Table 5.1 : The labour force, and persons employed, unemployed and underemployed

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> ^(a)	<u>Persons underemployed</u>
2007	Annual	3 629 600 (1.6)	3 483 800 (2.4)	145 700	79 200
	Q1	3 606 100 (1.5)	3 454 100 (2.3)	152 000	80 200
	Q2	3 625 700 (2.2)	3 469 300 (3.0)	156 300	80 900
	Q3	3 648 300 (1.0)	3 491 700 (1.7)	156 600	80 400
	Q4	3 638 600 (0.6)	3 520 500 (1.7)	118 200	74 700
2008	Q1	3 653 500 (1.3)	3 534 500 (2.3)	119 000	70 500
	<i>Three months ending</i>				
	Apr	3 658 200 (1.4)	3 537 300 (2.5)	120 900	65 800
	May	3 655 800 (1.1)	3 533 700 (2.2)	122 100	67 200
	Jun	3 654 300 (0.8)	3 532 800 (1.8)	121 500	67 800
		<*>	<*>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () Year-on-year % change.
 < > % change between Q1 and Q2 (i.e. Apr-Jun).
 (*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

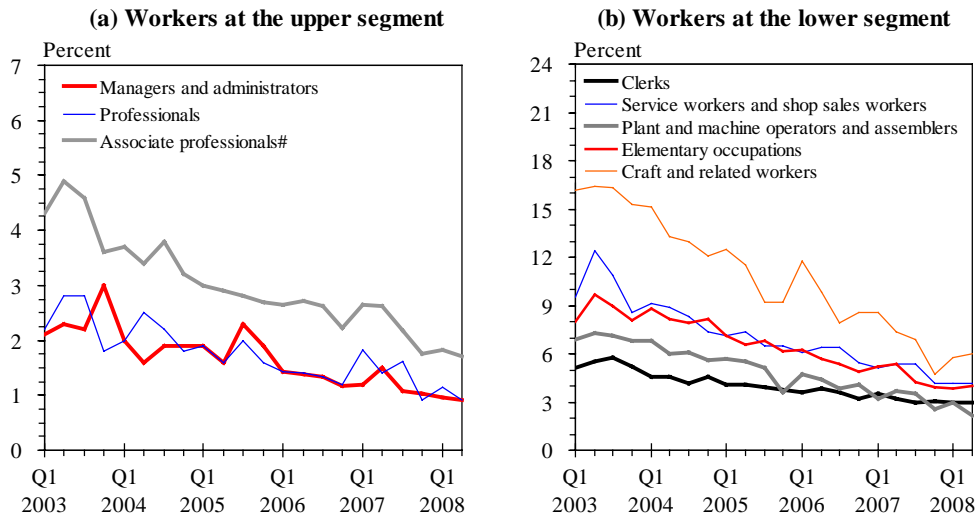
Diagram 5.2 : Total employment continued to expand at a faster pace than labour supply on a year-on-year basis



Profile of unemployment

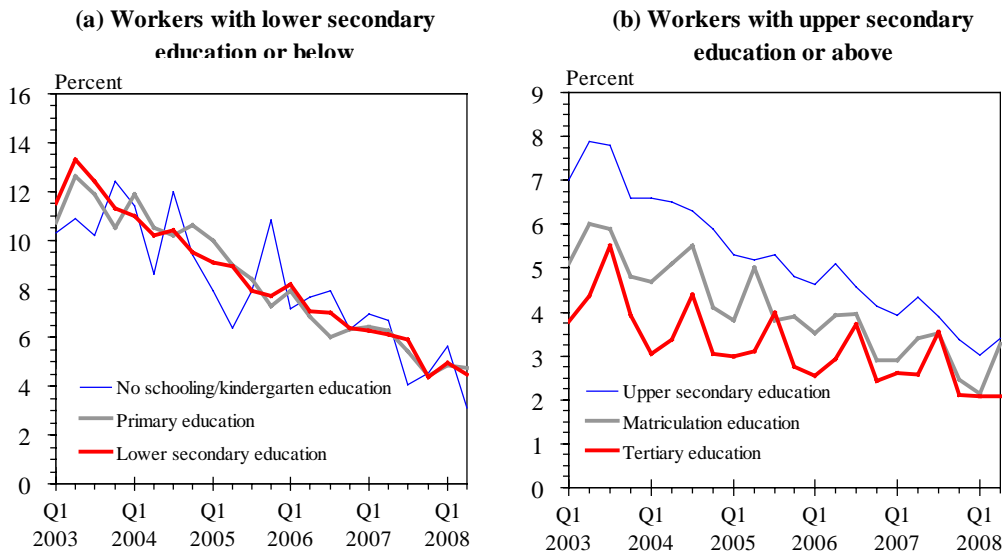
5.5 The unemployment situation remained broadly stable in the first half of 2008. Comparing the second with the first quarter, there was however a slight increase in the number of unemployed persons from 119 000 to 121 500. This was partly due to the influx of fresh graduates and school leavers into the labour market, as reflected by an upsurge in the proportion of first-time job-seekers in the total number of unemployed from 4.6% to 8.9%, and also by an increase in the unemployment rate for persons with upper secondary and matriculation education. After discounting for seasonal factors, the seasonally adjusted unemployment rate edged down to 3.3%, the lowest level in the recent ten years. The number of long-term unemployed persons (i.e. individuals unemployed for six months or longer) has continued to fall from 28 100 in the first quarter to 22 300 in the second quarter. So did the long-term unemployment rate, from 0.8% to 0.6%. Both of the above statistics are at ten-year lows. In fact, the number of unemployed persons plummeted by 22.3% in the second quarter of 2008 as compared to one year earlier. The number of long-term unemployed has fallen even more, by 40.6% over the same period. Analysed by economic sector for a quarter-to-quarter comparison, more visible declines in unemployment rate were observed in some service sectors like sanitary services, business services, restaurants and hotels, and transport sectors. In terms of other attributes, people aged 40-49, those with lower secondary education or below, and plant and machine operators and assemblers enjoyed more notable declines in unemployment rate.

Diagram 5.3 : All occupations except craft and related workers and elementary occupations enjoyed lower unemployment rate* in the second quarter of 2008



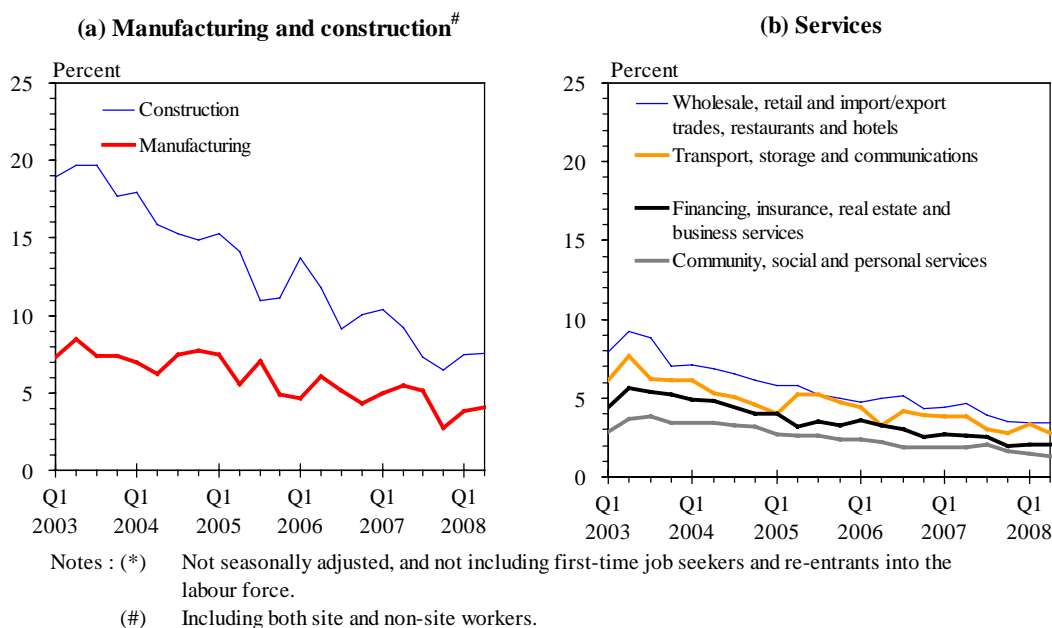
Notes : (*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.
(#) Including technicians and supervisors.

Diagram 5.4 : Unemployment rates* of higher-educated workers went up as school leavers and summer workers entered the labour market, whereas those of less-educated worker moved down



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

Diagram 5.5 : Although the overall unemployment situation remained broadly stable, increases in unemployment rate* were seen in manufacturing and construction



Profile of underemployment

5.6 The underemployment situation has also held steady in the first half of 2008. The underemployment rate stood at 1.9% in the second quarter of 2008, same as that in the first quarter, though the total number fell from 70 500 to 67 800. Indeed, the underemployment rate had fallen to a ten-year low of 1.8% in the three-month periods ending April and May. Comparing the second quarter with the first quarter, increases in underemployment rate were found in the transport, wholesale/retail trades and business services sectors, as well as craft and related workers, which were offset by the decreases emerging in the amusement and recreational services, communications, and sanitary services sectors, as well as workers in elementary occupations. In line with these sectoral and occupational development trends, the groups enjoying lower underemployment in the recent period included people aged 15-19 and 60 or over, as well as individuals with primary education or below.

Box 5.1

An analysis of youth unemployment since 2003^(*)

Sustained economic expansion over the past few years has led to a broad-based improvement in labour market conditions. Youths, who are aged 15-24, tend to experience greater difficulties in securing jobs, due to relative lack of working experience and high degree of mobility as perceived by many employers. This article focuses on this group, especially with regard to the question of whether youths have been able to share the fruits of the current economic upturn.

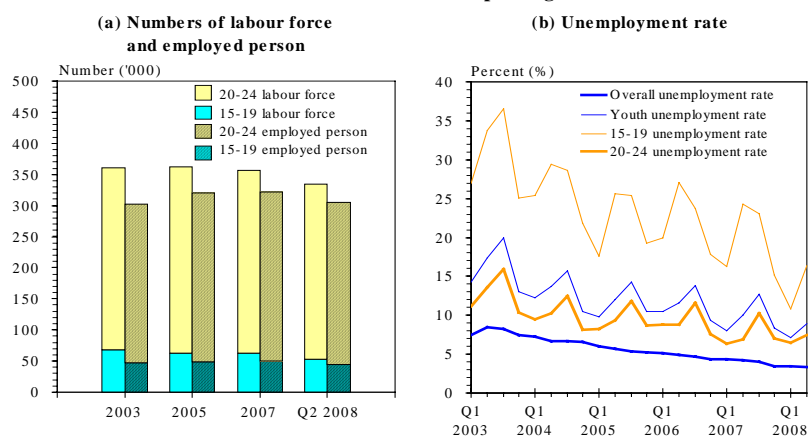
Unemployment situation of the youth group

The unemployment rate in the youth group has been persistently higher than that of the overall labour force. Between 2003 and 2007, the unemployment rate averaged 12.4%, as compared to the economy-wide average of 5.8%. Within the youth group, unemployment rate of teenagers aged 15-19 was much higher, averaging at 24.2%, 2.5 times that in the 20-24 group (9.8%). In Q2 2008, the youth group experienced an unemployment rate of 8.9% (16.4% and 7.5% for the 15-19 and 20-24 age groups respectively), while the territory-wide figure was 3.3%.

Despite a less favourable labour market position, the youth group has been able to benefit from the economic upswing since 2003. Comparing 2007 with 2003, employment for this group rose by an annual average of 1.4%. This rate is notably lower than the 2.2% growth per year in total employment over the same period. These figures however have to be viewed in conjunction with the concurrent shrinkage in the youth labour force, by 0.4% per annum, in contrast to an average annual growth of 1.1% in total labour force. As a result, the youth unemployment rate has dropped considerably, from 16.1% in 2003 to 9.7% in 2007, leading to a much narrower gap between youth unemployment and overall unemployment. For the same reasons, median duration of unemployment and long-term unemployment rate (i.e. unemployed for six months or longer) in the youth group also fell noticeably, from 77 days and 3.7% to 58 days and 1.3% respectively over the same period.

A similar development trend has been observed in the more recent period. In Q2 2008, total youth employment was 3.6% lower than a year earlier. Given a larger decline of 4.7% in the labour supply of this group, the youth unemployment situation continued to improve. To a certain extent, this reflects the increased opportunities for higher education in the sense that more youngsters have delayed their entry into the labour force or have opted out to pursue further studies. Reflecting this, the school attendance rates of youths aged 15-19 and 20-24 in Q2 2008, at 89.4% and 35.8% respectively, were both higher than the corresponding figures of 83.2% and 28.7% in Q2 2003. Meanwhile, the labour force participation rate (LFPR) of the two age groups fell from 15.5% and 70.3% to 12.2% and 66.2% over the same period.

The youth group has also been able to benefit from the current economic upswing



(*) This analysis excludes foreign domestic helpers (FDHs). The overall unemployment and underemployment figures in this analysis include FDHs, however.

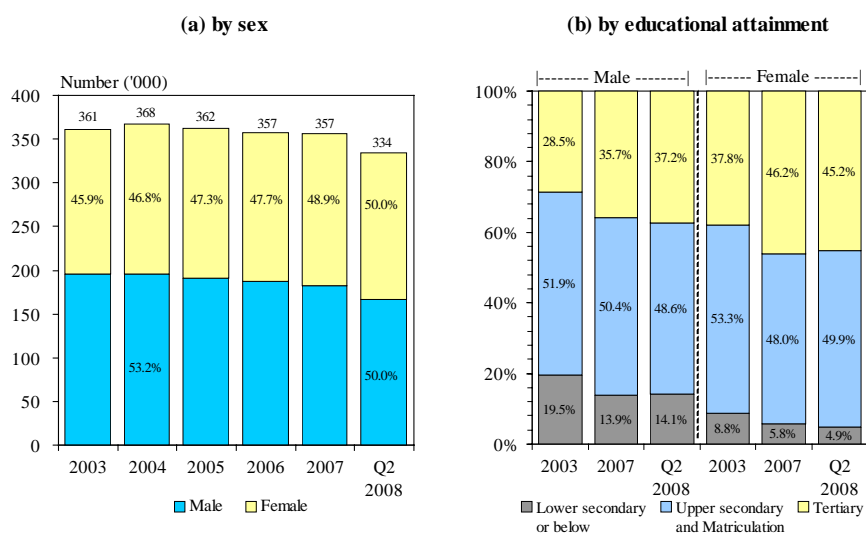
Box 5.1 (Cont'd)

The youth labour force by sex, educational attainment and industry

Although across-the-board dips in labour force were observed in all the four age-sex cohorts in recent years, the decline has been most prevalent among teenagers aged 15-19. As a result, the share of 20-24 age group in the total youth labour force rose from 81.5% in Q2 2003 to 84.0% in Q2 2008. The gender mix of the youth labour force has also changed. Labour supply of female youths increased whilst a decrease was recorded in the case of their male counterparts. As a result, the female share in the total youth labour force increased from 45.5% in Q2 2003 to 50.0% in Q2 2008. Regarding the LFPR, that of female youths was higher than that of male youths throughout the period, with the gender gap even widening over time.

The increasing prominence of females in the youth labour force and the specific trends exhibited by youth's LFPR can be partly contributed to a more rapid improvement in educational attainment up to tertiary level among females than males. Indeed, within the youth labour force, males generally possessed lower educational attainment than females. In Q2 2008, 37.2% of males had attained tertiary education or above, smaller than the corresponding proportion of 45.2% for females. It is worth noting, however, that both male and female youths have raised their level of educational attainment at a faster pace than the overall workforce. In addition, a sectoral analysis indicates substantial declines of youth labour supply in the manufacturing and construction sectors, amid the increasing service orientation of the Hong Kong economy. On the other hand, notable increases in youth labour supply were observed in such service sectors as financing, hotels, business services and import/export trade.

A declining youth labour force has nevertheless become increasingly well-educated



Employment status of the youth group(^)

Like the trend observed in the youth labour force, different genders showed divergent movements in terms of employment. Between Q2 2003 and Q2 2008, the number of employed female youths increased by 14 700, while that of employed male youths fell by 5 800. In terms of employment status, declines in the number of underemployed were found regardless of gender, which were more than offset by the increase in employment of voluntary part-time workers. Regarding full-time employment, females have fared much better than males during the period, which explains the key factor underlying the different employment trends of the two sexes. However, these findings have to be interpreted with and viewed in conjunction with supply side developments, especially the larger shrinkage in the supply of male youth workers.

(^) Employment status can be defined in terms of 3 groups: (1) full-time workers refer to those working 35 hours or longer and those working less than 35 hours due to vacation during the 7 days before the enumeration; (2) underemployed workers who are *involuntarily* working less than 35 hours a week; and (3) voluntary part-timers who are working less than 35 hours owing to reasons other than vacation and underemployment.

Box 5.1 (Cont'd)

In sum, the most notable development trend in recent years is the increasing prevalence of voluntary part-time employment among the youth group, as this kind of work arrangement offers greater flexibility to both employers and workers and hence better fit their interests, bearing in mind that many youths are still full-time students who may not find it easy to assume full-time employments. Those who wish to have employment income to supplement their daily expenses are therefore likely to become voluntary part-timers. For instance, 84.2% of employed full-time students were voluntary part-timers in Q2 2008.

A shift towards voluntary part-time employment was seen regardless of sex

	Male			Female		
	Q2 2003	Q2 2008	Change	Q2 2003	Q2 2008	Change
Full-time	135 100	129 800	-5 300	121 800	124 700	+2 900
Underemployed	10 800	3 500	-7 300	6 500	2 800	-3 700
Voluntary part-time	10 400	17 200	+6 800	10 900	26 500	+15 600
Total	156 300	150 500	-5 800	139 300	154 000	+14 700

International comparison of youth unemployment

As mentioned at the beginning, the youth unemployment figure has remained significantly higher than the economy-wide average. This phenomenon is not unique for Hong Kong. For the United States, the youth unemployment rate in 2007 was 15.7%, 3.4 times the overall figure of 4.6%. The corresponding multiple for Hong Kong's youth unemployment rate was only 2.3 times, which was lower than those in the United Kingdom, Taiwan and South Korea.

Comparison of overall and youth unemployment rates in Hong Kong and selected economies in 2007

	<u>Overall unemployment rate (a)</u>	<u>Youth unemployment rate (b)</u>	<u>Ratio (a):(b)</u>
United States	4.6	15.7	1:3.4
South Korea	3.3	8.8	1:2.7
Taiwan	3.9	10.6	1:2.7
United Kingdom	5.5	14.4	1:2.6
Hong Kong	4.0	9.0	1:2.3
Australia	4.4	9.3	1:2.1
Japan	3.8	7.7	1:2.0

Sources: CEIC database; Websites of respective economies' statistical offices.

Conclusion

With the general improvement in education, Hong Kong's younger generation should be better equipped to face the ongoing transformation towards a knowledge-based economy. Females, in particular, have become a key driving force of youth employment. The Administration has spared no efforts to promote youth employment. The Chief Executive pledged in his 2007-08 Policy Address to expand the training capacities of the Employees Retraining Board, with a view to providing more training opportunities for youths. For the three years starting from 1 April 2008, the Administration has also earmarked \$1 billion to create 3 000 jobs for those aged 15-29 in collaboration with non-government organisations. To enhance the employability of youths, the Labour Department, apart from providing pre-employment and on-the-job training through the Youth Pre-employment Training Programme and the Youth Work Experience and Training Scheme, has set up two Youth Employment Resource Centres to provide one-stop advisory and support services on employment and self-employment to young people aged 15-29. All these initiatives underline the Administration's determination to promote youth employment.

Profile of employment in establishments

5.7 Statistics on employment, vacancies and labour income collected from business establishments are available only up to the first quarter of 2008. Comparing March 2008 over a year earlier, employment in *private sector establishments* increased by 2.5%. More notable job creation was observed in three economic sectors, viz financing, insurance, real estate and business services (6.4%), transport and storage (4.9%), and the retail trade (3.3%). Although greater volatility has emerged in local asset markets, the financial services sector as a whole remained fairly buoyant in the first quarter, thereby fuelling continued robust employment expansion in financing, insurance and real estate companies. Continuation of the solid expansion in external trade and freight cargo flows underpinned employment growth in the transport and storage services sector. Supported by strong domestic consumption and vibrant inbound tourism, employment in retail trade also registered an appreciable increase. Employment in the building and construction sites⁽⁵⁾, having shrunk for six consecutive years, reverted to a mild year-on-year increase of 0.3% in March 2008, mainly led by a rebound in public sector construction activity. On the other hand, the 2.2% reduction in manufacturing employment in 2007 was followed by a further 3.6% year-on-year decline in March 2008, alongside the increasing service orientation of the Hong Kong economy. In terms of establishment size, larger enterprises continued to drive job creation. In March 2008, such establishments accounted for 64% of the job gains, with the remainder being contributed by small and medium-sized enterprises (SMEs)⁽⁶⁾.

5.8 Regarding the civil service, employment edged down by 0.2% in March 2008 from a year earlier. This outcome notwithstanding, civil service employment looks set to return on an uptrend in the period ahead, in view of the recent rise in vacancies upon the unfreezing of recruitment for the grades covered by the second Voluntary Retirement Scheme as from 1 April.

Table 5.2 : Employment by major economic sector

	<u>2007</u>					<u>2008</u>
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Wholesale, import and export trades	587 600 (0.7)	587 500 (1.1)	588 200 (1.1)	586 500 (0.4)	588 200 (0.3)	587 200 (-0.1)
Retail trade	232 900 (2.0)	229 100 (1.4)	232 600 (1.5)	233 100 (2.0)	236 800 (3.2)	236 800 (3.3)
Restaurants and hotels	235 100 (3.8)	231 700 (4.4)	232 500 (3.0)	237 300 (4.9)	238 900 (3.1)	236 800 (2.2)
Transport and storage	159 500 (2.4)	155 900 (1.2)	160 100 (3.1)	160 000 (2.5)	162 000 (2.9)	163 500 (4.9)
Communications	29 900 (1.3)	30 300 (0.8)	30 100 (2.7)	29 800 (1.1)	29 600 (0.6)	30 500 (0.7)
Financing, insurance, real estate and business services	505 400 (5.5)	492 000 (5.1)	503 200 (5.7)	509 300 (6.0)	517 300 (5.2)	523 700 (6.4)
Community, social and personal services	466 600 (2.6)	464 200 (2.9)	467 900 (3.6)	465 400 (2.2)	469 100 (1.8)	477 200 (2.8)
Manufacturing	157 000 (-2.2)	158 700 (-1.7)	157 300 (-2.3)	156 000 (-2.6)	156 000 (-2.0)	153 100 (-3.6)
Building and construction sites	50 200 (-5.1)	50 400 (-8.3)	51 100 (-2.2)	49 200 (-7.7)	50 100 (-1.8)	50 500 (0.3)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 432 300 (2.3)</i>	<i>2 407 800 (2.1)</i>	<i>2 430 900 (2.6)</i>	<i>2 434 500 (2.2)</i>	<i>2 455 900 (2.1)</i>	<i>2 467 200 (2.5)</i>
		<i><0.4></i>	<i><0.7></i>	<i><0.4></i>	<i><0.6></i>	<i><0.7></i>
<i>Civil service^(b)</i>	<i>153 800 (-0.4)</i>	<i>153 800 (-0.8)</i>	<i>153 700 (-0.5)</i>	<i>153 800 (-0.2)</i>	<i>153 900 (*)</i>	<i>153 500 (-0.2)</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. Judges, judicial officers, ICAC officers, locally engaged staff working in Hong Kong Economic and Trade Offices abroad, 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.

(*) Less than 0.05%.

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

Vacancies

5.9 In March 2008, job vacancies in *private sector establishments* reached 56 200, up 14.0% over a year earlier to the highest level for the month of March since 1997. A similar observation applied to the vacancy rate, which edged up to 2.2% from 2.0% a year earlier. Economic sectors with relatively high vacancy rates in March 2008 included communications (3.0%); financing, insurance, real estate and business services (2.9%) and community, social and personal services (2.8%). In terms of the absolute number, all the broad industry groups except manufacturing recorded year-on-year increases, with particularly notable growth found in the community, social and personal services (especially miscellaneous amusement and recreational services), restaurants and hotels, transport and storage, and retail trade sectors. In parallel with this sectoral development, job openings for the lower-skilled grew faster as compared to the higher-skilled by 19.5% as against 7.1%, with particular strong vacancy growth in the elementary occupations. This outcome suggests that the economic upturn is continuing to feed through to benefit lower-end workers as well. Introducing unemployment statistics for further analysis, 47 job vacancies were available among every 100 job-seekers in March 2008, up from 32 a year earlier. Concurrently, the corresponding ratio for higher-skilled jobs increased significantly from 82 to 125 and that for lower-skilled jobs from 24 to 36. Analysed by establishment size, vacancies at large enterprises increased much faster than in SMEs, by 29.2% as against 1.0%. With regard to the *civil service*, a total number of 5 500 vacancies were recorded in March 2008, more than quadrupled the level a year earlier owing to the complete fade-out of recruitment freeze.

5.10 Statistics supplied by the Employment Services of the Labour Department revealed the more recent trend in job vacancies. In the second quarter of 2008, the Labour Department received 173 063 private sector vacancies, representing an increase of 33.1% over the same quarter in 2007. On average, some 2 800 vacancies were received per working day. At the same time, the department achieved 37 958 placements, up by 14.6%.

5.11 In addition to regular employment and placement services, the Labour Department has arranged many general or theme-specific job fairs at different locations. In the first half of 2008, 6 large-scale and 104 district-based job fairs were organised to facilitate job matching. The large-scale job fairs were well attended by over 105 employers, offering some 9 200 vacancies. The most recent event was held in Tuen Mun Town Hall on 29-30 May 2008. To cater for young school leavers seeking to enter the labour market for the first

time, the Labour Department has pressed ahead with two flag-ship youth employment programmes, namely the Youth Pre-employment Training Programme and the Youth Work Experience and Training Scheme. Joint application of the two programmes for 2008/09 has commenced since 2 August 2008.

Diagram 5.6 : Vacancies for March reached a post-1997 high, with larger increases observed for lower-end jobs

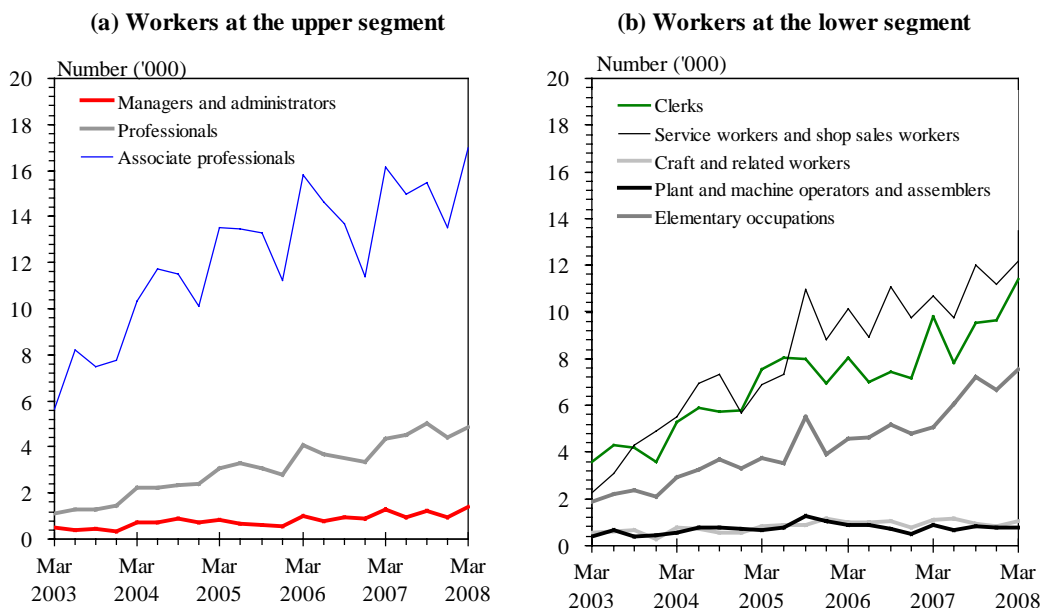
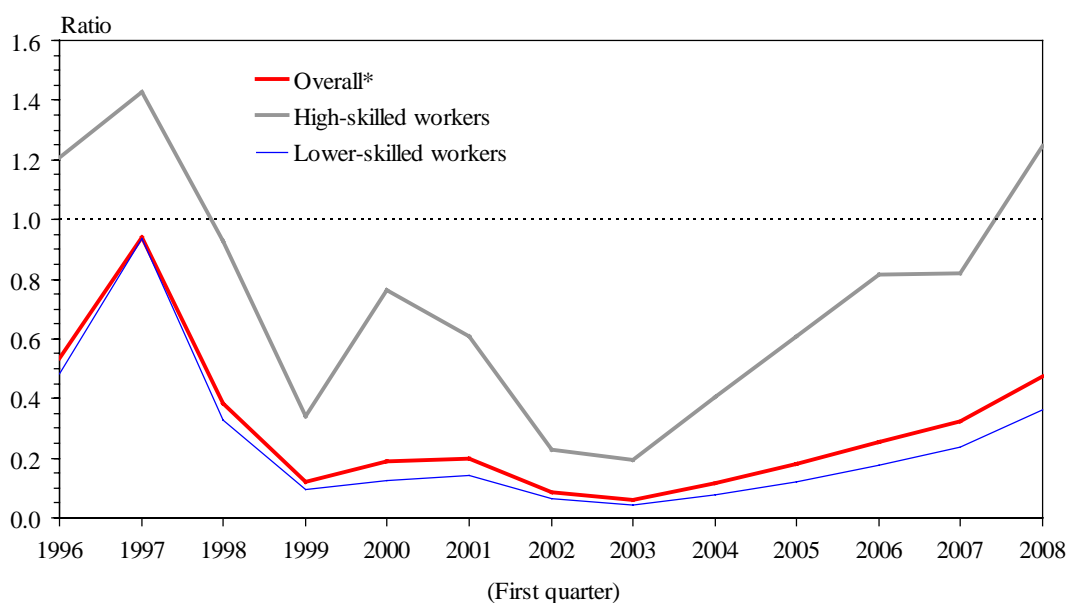


Diagram 5.7: Vacancy-to-applicant ratio continued to rise



Note : (*) Including first-time job seekers and re-entrants into the labour force.

Table 5.3 : Vacancies by major economic sector

	<u>Number of vacancies</u>						Vacancy rate in Mar 2008 (%)
	<u>Annual average</u>	<u>2007</u>					
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Wholesale, import and export trades	9 100 (9.2)	10 400 (-1.8)	9 000 (8.6)	8 800 (13.5)	8 300 (21.9)	9 900 (-4.3)	1.7
Retail trade	4 700 (9.7)	5 100 (5.5)	4 200 (10.3)	5 100 (17.3)	4 500 (6.0)	5 900 (15.3)	2.4
Restaurants and hotels	5 200 (24.0)	4 300 (6.8)	4 500 (12.7)	6 600 (31.5)	5 300 (44.8)	5 300 (25.2)	2.2
Transport and storage	2 200 (13.9)	2 200 (7.1)	2 200 (-0.4)	2 300 (26.3)	2 200 (27.0)	2 400 (12.4)	1.5
Communications	800 (13.7)	800 (3.0)	800 (-3.8)	1 000 (51.9)	800 (9.3)	900 (17.8)	3.0
Financing, insurance, real estate and business services	14 100 (14.5)	14 600 (7.7)	13 700 (11.8)	14 800 (16.2)	13 000 (24.6)	15 700 (7.5)	2.9
Community, social and personal services	10 600 (23.3)	9 600 (22.3)	9 500 (16.6)	11 400 (23.6)	12 000 (29.9)	13 700 (42.1)	2.8
Manufacturing	2 100 (11.4)	2 400 (23.3)	2 000 (-1.6)	2 100 (11.7)	1 900 (12.8)	2 300 (-2.3)	1.5
Building and construction sites	# (137.5)	# (660.0)	# (77.8)	# (160.0)	# (-6.3)	# (*)	0.1
<i>All establishments surveyed in the private sector^(a)</i>	48 900 (15.5)	49 300 (8.3)	45 900 (10.5)	52 300 (19.9)	48 100 (24.6)	56 200 (14.0)	2.2
		<5.6>	<-1.2>	<9.5>	<9.1>	<-3.5>	
<i>Civil service^(b)</i>	2 500 (*)	1 200 (-55.0)	3 200 (27.0)	3 000 (6.0)	2 700 (28.1)	5 500 (366.2)	3.4

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. A general open recruitment freeze to the civil service was imposed during the period from 1 April 2003 to 31 March 2007. The civil service vacancies during this period refer only to the number of vacant posts for which exemptions from open recruitment freeze have been granted.

() % change over a year earlier.

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

(#) Less than 50.

(*) Less than 0.05%.

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

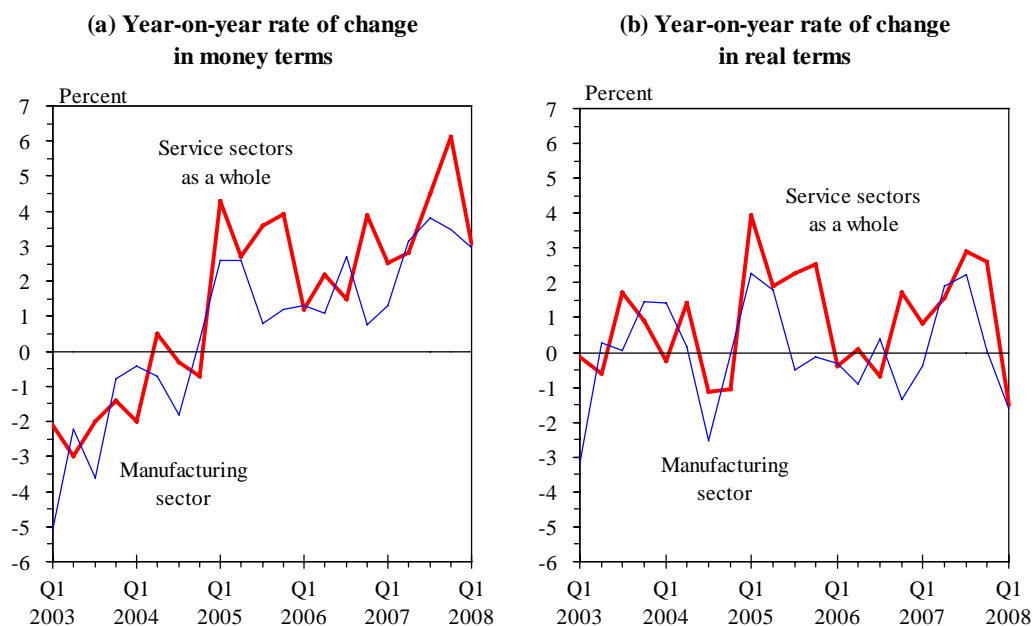
Earnings and wages

5.12 Along with the continued improvement in labour market conditions, employment income entered an uptrend beginning in early 2005. In the first quarter of 2008, *labour earnings*⁽⁷⁾, as measured by payroll per person engaged in the private sector, grew further by 3.1% year-on-year in money terms. After adjusting for inflation, a decrease of 1.5% emerged in real terms⁽⁸⁾.

5.13 Nominal pay rises remained broadly based in the first quarter of 2008. However, reflecting demand and supply differences, earnings growth varied considerably across different economic sectors. Also notable was a change in occupation mix in the different economic sectors during the period. Workers in financial institutions, many of whom boasted education and skill advantages, continued to enjoy the biggest pay rise, at 13.9% in money terms, almost 4.5 times the overall average. This figure can conceivably be attributed to the generous bonus payouts in early 2008 and the competitive remuneration packages offered amid robust demand for experienced financial professionals. Workers in wholesale, retail and import/export trades also enjoyed an appreciable increase of 4.7% in nominal earnings, thanks to the vibrant external trade performance and consumer spending. Labour earnings in the manufacturing and community, social and personal services sectors increased more moderately in money terms, at 3.0% and 1.6% respectively.

5.14 More recent data from the General Household Survey indicated that the overall average monthly employment earnings (excluding foreign domestic helpers) grew further by 5.4% year-on-year in money terms in the second quarter of 2008, after the 6.2% increase in the first quarter⁽⁹⁾. Further analysis shows that the larger earnings growth in the first quarter of 2008 reflected in large part the enormous bonuses awarded to high-paid workers before the Lunar New Year. When bonuses were excluded from employment earnings data, earnings growth actually picked up somewhat in the second quarter. In the case of lower-end workers, earnings growth has remained relatively modest and lagging behind inflation.

Diagram 5.8 : Nominal earnings posted a broad-based yet moderate increase in early 2008



5.15 In comparison with labour earnings, *labour wages*, as a measure of regular payments to employees at the supervisory level or below, exhibited a larger year-on-year increase of 3.8% in money terms in the first quarter of 2008. However, labour wages edged down by 0.1% in real terms after netting out the price change over the same period.

5.16 Analysed by economic sector, nominal wages increased across-the-board in March 2008, similar to the situation reflected by labour earnings. Larger wage gains were found in service sectors such as non-Chinese restaurants (5.4%), banking (4.7%) and transport services (4.5%). In terms of occupation category, operatives, supervisory and technical workers, and service workers enjoyed relatively large increases in nominal wages, by 6.2%, 4.4% and 4.3% respectively. These groups also enjoyed moderate real wage growth on a year-on-year basis.

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.

Starting from May 2008, the seasonally adjusted unemployment rate is compiled by the X-12 ARIMA method to replace the previous X-11 ARIMA method. The seasonally adjusted unemployment rates since November 2006 – January 2007 have also been revised using the new method. The X-12 ARIMA method, being an update to the X11-ARIMA method, has now been a standard method used by statistical offices for performing seasonal adjustment of statistical series in many countries/territories. Since the two seasonal adjustment methods are indeed very similar, the revision made to the seasonally adjusted unemployment rate series due to the use of the new method is insignificant.

- (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) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (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) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector declined by 2.3% in the second quarter of 2008 over a year earlier.

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

- (6) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (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.
- (9) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 6 : PRICES

Summary

- *Inflationary pressures around the world have been increasing, mainly due to the run-up in food and energy prices on a global scale. Against this background, consumer price inflation in Hong Kong also went up notably in the second quarter of 2008, reaching 5.7% year on year.*
- *As food prices, including charges for meals bought away from home, account for over a quarter of the expenditure of an average household, the rise in food prices has contributed significantly to the recent pick-up in inflation. On the other hand, with fuels accounting for a small share in household expenditure, Hong Kong's inflation is less directly affected by the surge in oil prices.*
- *The pressure from the demand side after a prolonged period of above-trend economic expansion had also become increasingly visible, as evidenced by the faster increase in private housing rentals. Yet the US dollar, and along with it the Hong Kong dollar, turned more stable against the other major currencies during the second quarter. Also, the sustained labour productivity growth helped provide some cushioning effect to the cost pressure. In the second quarter, Hong Kong's inflation was still lower than in many other Asian economies.*
- *The rate of headline Composite CPI inflation in the second quarter of 2008 was the same as the underlying one because the effect of rates concession was offset by a similar measure implemented in the second quarter of 2007. In the second half of 2008, certain relief measures, such as public housing rental waiver for lower-income families and electricity charge subsidy, would help to lower notably the headline CCPI inflation.*

Consumer prices

6.1 Inflation has become a major concern in the international economy. Inflationary pressures have been rising in most economies around the world, particularly notable in the emerging market economies, mainly due to the surges in food and energy prices on a global scale. Against this background, consumer price inflation in Hong Kong also picked up notably in the second quarter of 2008. The *Composite Consumer Price Index*⁽¹⁾ (CCPI) rose by 5.7% in the second quarter of 2008 over a year earlier, continuing its upward trend

that started since mid-2004. The year-on-year rate of increase in the headline CCPI in the second quarter of 2008 was the same as the corresponding underlying rate (which nets out the effects of the relevant one-off relief measures), because the effect of the rates concession was offset by a similar measure implemented in the second quarter of 2007.

6.2 The pick-up in inflation in the second quarter was mainly attributable to the upsurge of international food prices and, to a lesser extent, that of energy prices. Since mid-2007, food items were the prime sources of the consumer price inflation, on the back of the worldwide food inflation. The pressures from the demand side had also built up after a prolonged period of economic expansion, leading to faster rises in private housing rentals and, to a lesser extent, in prices for other goods and services. The strengthening of the Renminbi continued to bring about some inflationary pressures, yet the US dollar, along with it the Hong Kong dollar, turned more stable against other major currencies during the second quarter. Meanwhile, labour productivity continued to rise, thereby containing the increase in unit labour cost and providing some cushioning effect to cost increases.

6.3 The current inflation is a global phenomenon. In this context, Hong Kong's inflation in June was still lower than those in many other Asian economies⁽²⁾. Nevertheless, inflation is a major concern in Hong Kong, particularly in view of its impact on the lower-income group and the underprivileged in the community.

6.4 In June, the Food and Agriculture Organisation (FAO) of United Nations and the OECD jointly published a report on world food outlook. The report pointed out that almost all agricultural commodities at present were at or above previous record levels, but this would not last and prices would gradually come down because of the transitory nature of some of the factors behind the recent price hikes. However, the report also indicated that as a result of the dynamics of supply and demand, agricultural commodity prices over the medium term would still average substantially above the levels that prevailed in the past 10 years. In addition, prices would also be more volatile than in the past⁽³⁾.

6.5 Inflation outlook for Hong Kong in the rest of 2008 is rather uncertain, depending much on how soon the volatile international food prices will be stabilised and whether the current above-trend economic growth will be sustained amidst the slowing global economic growth. It should be noted that certain relief measures as announced in the 2008-09 Budget and by the Chief

Executive recently, such as the public housing rental waiver for the lower-income families and the electricity charge subsidy, will take effect in the latter half of 2008. These measures will help to reduce the burden of inflation on the community and directly lower the headline CCPI inflation.

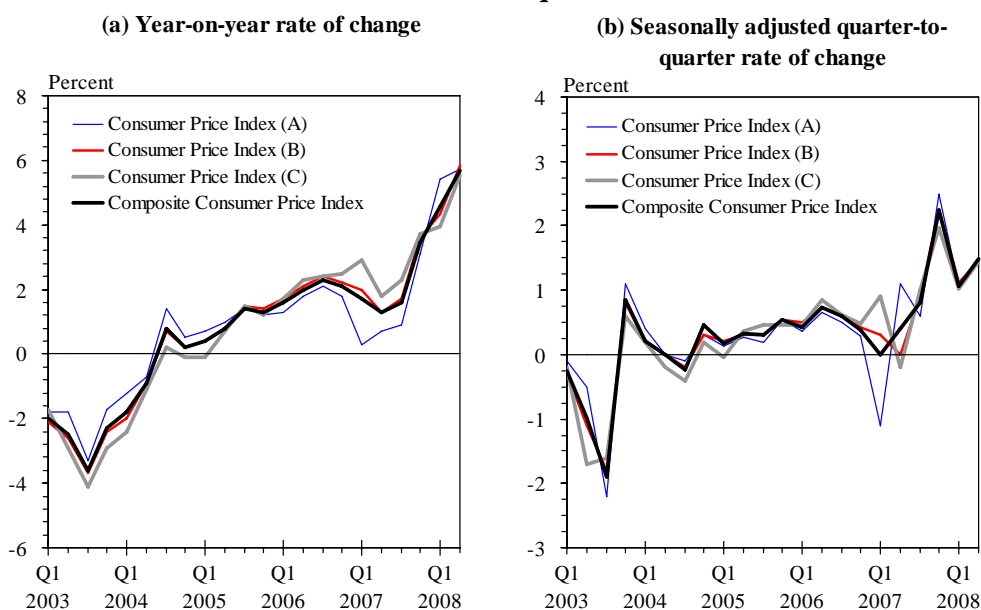
Table 6.1 : Consumer Price Indices
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying</u>	<u>Headline</u>			
2007	Annual	2.8	2.0	1.3	2.2	2.7
	H1	2.4	1.5	0.5	1.7	2.3
	H2	3.1	2.5	2.0	2.7	3.0
	Q1	2.5	1.7 (*)	0.3 (-1.1)	2.0 (0.4)	2.9 (0.8)
	Q2	2.4	1.3 (0.3)	0.7 (1.1)	1.3 (*)	1.8 (-0.1)
	Q3	2.7	1.6 (0.8)	0.9 (0.6)	1.7 (0.9)	2.3 (1.0)
	Q4	3.5	3.5 (2.2)	3.1 (2.5)	3.6 (2.3)	3.7 (2.0)
	2008	H1	5.3	5.1	5.6	5.1
	Q1	4.9	4.6 (1.1)	5.4 (1.1)	4.3 (1.1)	3.9 (1.0)
	Q2	5.7	5.7 (1.5)	5.7 (1.5)	5.9 (1.4)	5.5 (1.4)

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

(*) Change of less than 0.05%

Diagram 6.1 : Consumer price inflation went up notably in the second quarter



Box 6.1**Recent trends of food prices in the international markets**

As a service-oriented economy, the food supplies in Hong Kong rely heavily on imported foodstuffs from elsewhere in the world. Due to the fact that Hong Kong economy is small as compared to the global economy, the prices of foodstuffs being sold in Hong Kong hinge much on the prices of these food commodities in the international markets.

According to the Food Price Index compiled by the Food and Agriculture Organisation (FAO) of the United Nations, worldwide food prices started to pick up more distinctly in 2007, and remained at an elevated level in 2008. Over the past few months, worldwide food prices tended to stabilise in overall terms, but were still over 40% higher in June than a year earlier.

Table 1 Price indices for basic foodstuffs in the international markets

		Food Price Index	Meat	Dairy	Cereals	Oils and Fats
2000		92	100	106	85	72
2001		94	100	117	87	72
2002		93	96	86	95	91
2003		102	105	105	99	105
2004		114	118	130	108	117
2005		117	121	145	105	109
2006		127	115	138	123	117
2007		156	121	247	169	174
2007	Jun	150	120	252	156	170
	Jul	155	120	277	157	175
	Aug	161	123	287	168	181
	Sep	170	124	290	192	190
	Oct	174	122	297	198	202
	Nov	180	126	302	200	221
	Dec	186	123	295	220	226
2008	Jan	196	126	281	236	250
	Feb	215	128	278	279	273
	Mar	218	132	276	278	285
	Apr	215	132	266	279	276
	May	216	141	265	271	280
	Jun	216	135	263	274	292

Box 6.1 (Cont'd)

Summarising the views of international organizations like the IMF and the FAO, there are several factors behind the current round of surge in global food prices:

- *Growing demand for commodities from emerging and developing economies*

Over the past couple of years, there has been a strong growth in emerging and developing economies. This has catalysed demand for various commodities. Economic growth in these economies is relatively more commodity-intensive in nature than that of advanced economies, given industrialization take-off and strong per capita income growth from a low base. These are reflected in rising consumption in food with higher protein content (e.g. meats, milk, etc.).

- *Unfavourable weather conditions*

The demand-supply situation of various cereals had been tight in recent years. Against this backdrop, the unfavourable weather conditions led to reduced harvest yields in both 2007 and 2008 in an unusually large number of countries. For example, there was a bad wheat harvest in 2007 for the second consecutive year, followed by a sharp bidding-up of wheat prices, with spillovers into other crops through substitution effects. Environmental factors such as the severe winter weather in Northern Vietnam and Southern China also dented the supply of rice in 2008, thus driving the prices of rice markedly higher.

- *The surge in oil prices*

The impact from the surge in oil prices on food prices is two-folded. First, it boosted production costs of food commodities, through the impact on transportation fuels and fertilizer prices. Second, the continued surge in oil prices prompted rising biofuels production in advanced economies in the backdrop of increasingly generous policy support. This has boosted food demand. In particular, rising corn-based ethanol production has accounted for about 75% of the increase in global corn consumption in 2006-07, according to the IMF. This has not only pushed up corn prices, but also prices of other food crops through substitution effect, and to a lesser extent, edible oils through consumption and acreage substitution effects, and poultry and meats through feedstock costs.

- *Restrictive trade policies*

Following the surge in food prices and worries of the food-producing countries, many of which are still developing economies, on their ability to feed their own population, there has been a growing use of export restrictions by food exporters, attempting to raise domestic food supplies and lower domestic food prices. In the case of rice, there have been a growing number of countries having imposed restrictions on exports, through initiation of export taxes, minimum export prices, export ceilings or outright export bans.

Box 6.1 (Cont'd)

While food prices stayed high in recent months, they showed some signs of leveling off. With the prospect being driven by the above-mentioned factors and the relatively “thin” nature of many of these food commodity markets (according to the estimates of the FAO, only less than 10% of the global production in rice, meat and meat products, and dairy products, are being traded in the international markets), global food prices are expected to be volatile in the period ahead. Yet the higher prices of foodstuff should also serve as a stimulus for more production. Meanwhile, the FAO projected food production to increase in 2008/09 across most of the commodities. If materialized, this will help to provide some alleviation to the tight demand-supply situation in the international food markets.

6.6 Among the major components of CCPI, food prices contributed most to the CCPI inflation in the second quarter of 2008. Prices for basic foodstuffs continued to surge and charges at restaurants went up further. Private housing rentals also rose notably, reflecting the increasing housing demand along with sustained income growth. The prices of electricity, gas and water increased further in line with the rising import prices of fuels. Miscellaneous goods saw larger pressures for price increase due to higher demand amidst the sustained expansion of the economy. Prices of transport went up, mainly reflecting the increases in fuel prices and franchised bus fares. In contrast, the price pressures on miscellaneous services and the other components – clothing and footwear; alcoholic drinks and tobacco – were rather subdued. Prices of durable goods continued to fall.

Diagram 6.2 : Food prices and private housing rentals showed the fastest increases

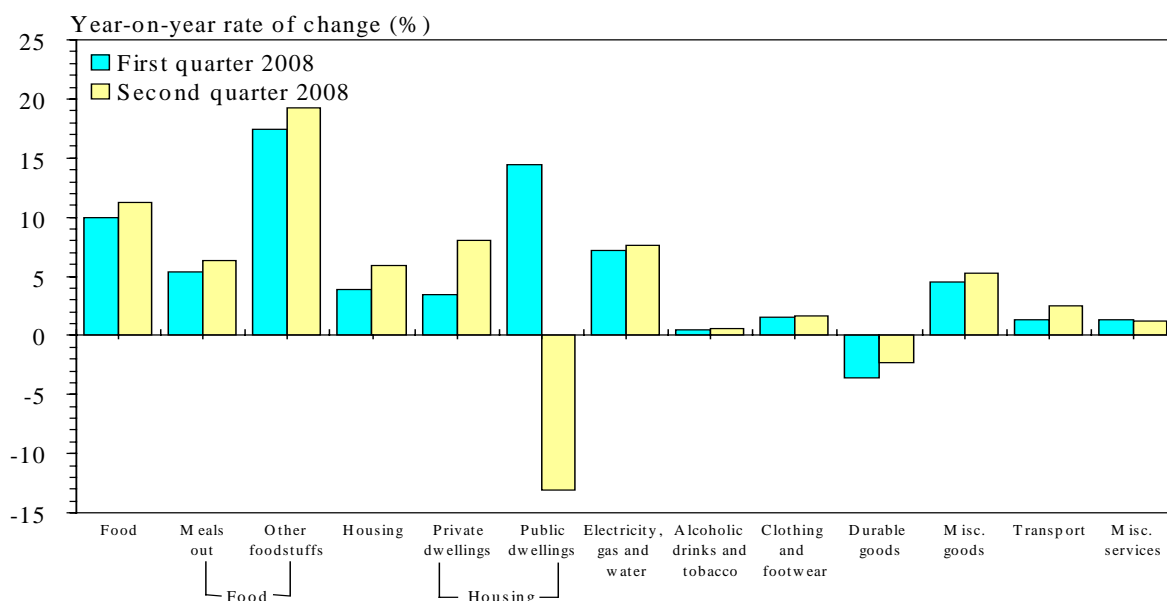


Table 6.2 : Composite Consumer Price Index by component
(year-on-year rate of change (%))

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2007</u>				<u>2008</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	26.94	2.9	2.8	4.8	6.7	10.0	11.2
<i>Meals bought away from home</i>	<i>16.86</i>	<i>1.8</i>	<i>2.0</i>	<i>2.6</i>	<i>3.7</i>	<i>5.4</i>	<i>6.3</i>
<i>Other foodstuffs</i>	<i>10.08</i>	<i>4.4</i>	<i>4.1</i>	<i>8.2</i>	<i>11.6</i>	<i>17.4</i>	<i>19.2</i>
Housing ^(a)	29.17	2.2	1.0	0.7	4.2	3.9	5.9
<i>Private dwellings</i>	<i>23.93</i>	<i>5.6</i>	<i>2.0</i>	<i>2.3</i>	<i>5.9</i>	<i>3.5</i>	<i>8.0</i>
<i>Public dwellings</i>	<i>2.49</i>	<i>-31.7</i>	<i>-10.5</i>	<i>-17.8</i>	<i>-10.8</i>	<i>14.4</i>	<i>-13.0</i>
Electricity, gas and water	3.59	-1.3	-2.2	-2.7	3.4	7.2	7.7
Alcoholic drinks and tobacco	0.87	-3.9	-0.1	-1.1	0.5	0.5	0.6
Clothing and footwear	3.91	7.2	3.9	3.7	2.0	1.6	1.6
Durable goods	5.50	-5.8	-4.6	-4.2	-4.0	-3.5	-2.3
Miscellaneous goods	4.78	2.8	1.8	2.1	3.4	4.6	5.3
Transport	9.09	-0.6	-0.5	-0.1	0.7	1.3	2.5
Miscellaneous services	16.15	2.2	2.2	1.3	1.0	1.3	1.2
All items	100.00	1.7 (2.5)	1.3 (2.4)	1.6 (2.7)	3.5 (3.5)	4.6 (4.9)	5.7 (5.7)

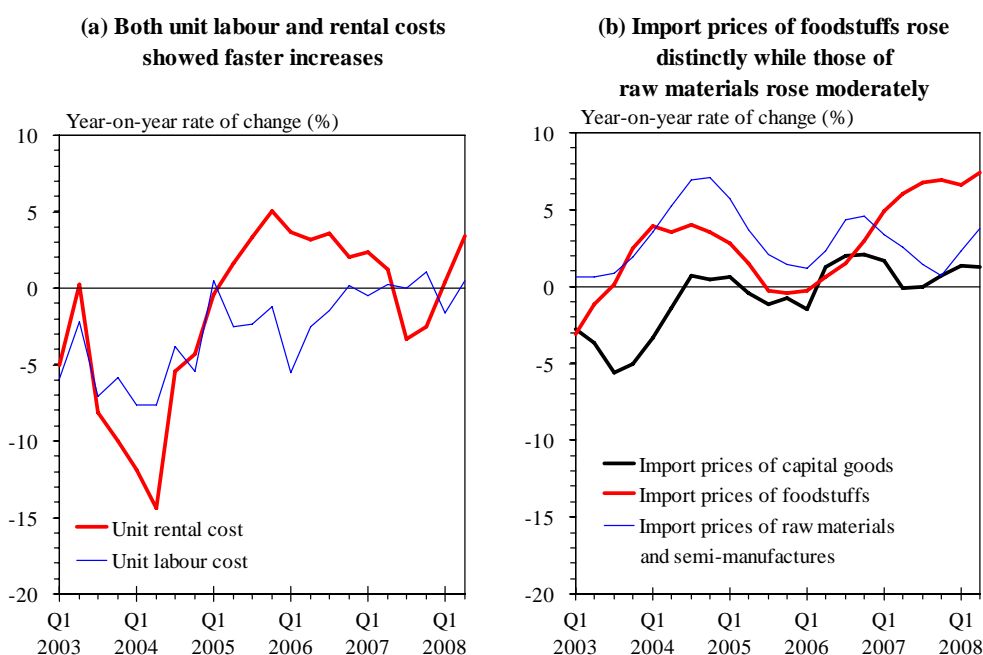
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

() Figures in brackets are the underlying inflation rates, which net out the effects of all relevant one-off measures, including the lower base effect of public rental waiver in February 2007, and the rates concession in the second and third quarters of 2007 and the first and second quarters of 2008.

Costs of factor inputs and import prices

6.7 Wages and rentals went up further in line with the sustained economic growth. These had added some pressures on business costs in the second quarter of 2008, particularly from the rental front, as reflected by the rising unit rental cost amidst the moderation in business expansion. In contrast, *unit labour cost*⁽⁴⁾ remained largely in check, thanks to the continued growth of labour productivity, which helped offset the increase in labour earnings.

Diagram 6.3 : Costs of factor inputs and import prices



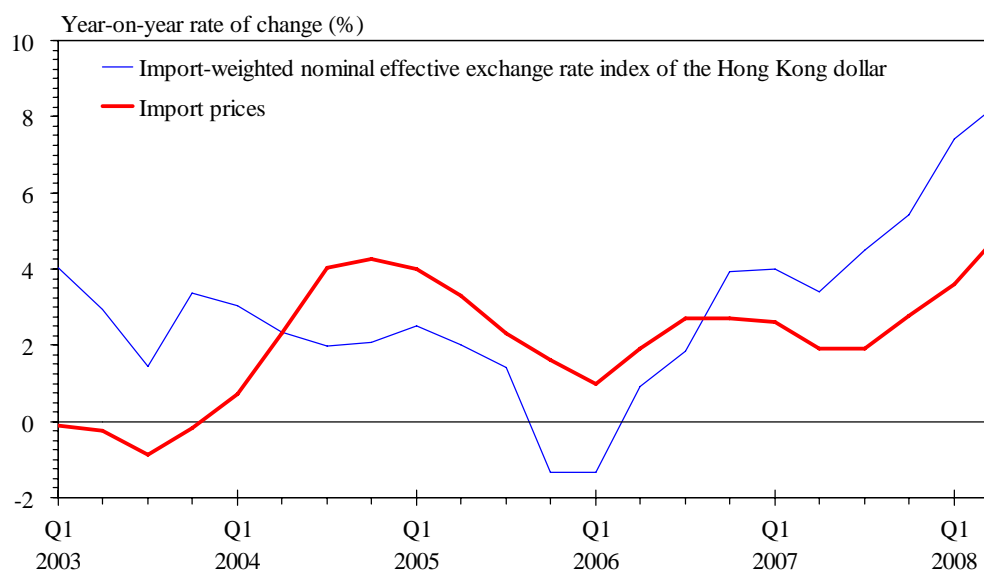
6.8 On the external front, import prices rose faster in the second quarter amidst higher inflation in the import sources. As the international oil prices kept on rising to record highs, import prices of fuels soared further. Import prices of foodstuffs also rose distinctly following the upsurge in food prices in the international markets. Meanwhile, import prices of raw materials and consumer goods rose moderately, and those of capital goods showed a small increase.

**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>
2007	Annual	6.2	3.3	2.0	11.2	0.5	2.3
	H1	5.4	2.8	3.0	0.3	0.7	2.2
	H2	6.9	3.7	1.1	22.2	0.3	2.3
	Q1	4.9	2.3	3.4	1.9	1.7	2.6
	Q2	6.0	3.2	2.6	-2.0	-0.1	1.9
	Q3	6.8	3.4	1.4	7.9	*	1.9
	Q4	6.9	4.0	0.7	37.1	0.7	2.8
2008	H1	7.0	3.9	3.1	51.2	1.3	4.3
	Q1	6.6	3.7	2.3	41.5	1.4	3.6
	Q2	7.4	4.1	3.8	59.3	1.3	4.9

Note : (*) Change of less than 0.05%

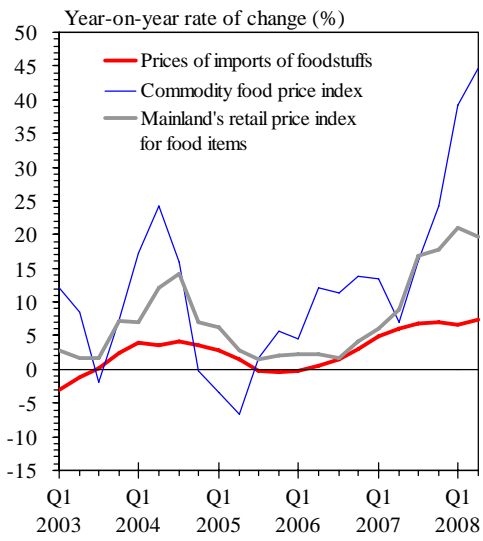
Diagram 6.4 : Import prices continued to rise amidst higher inflation in import sources



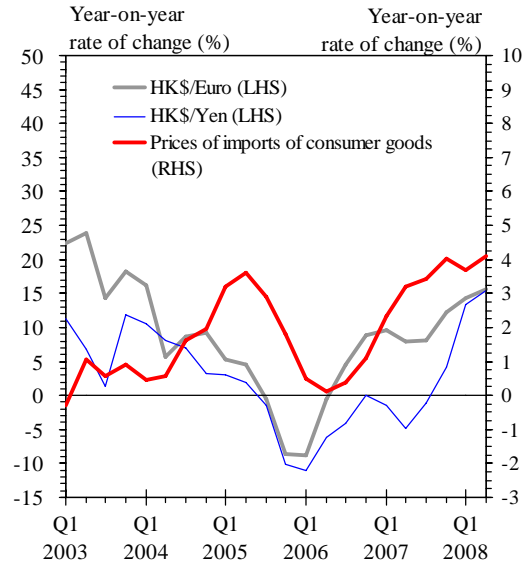
Note: The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

Diagram 6.5 : Prices of imports by end-use category

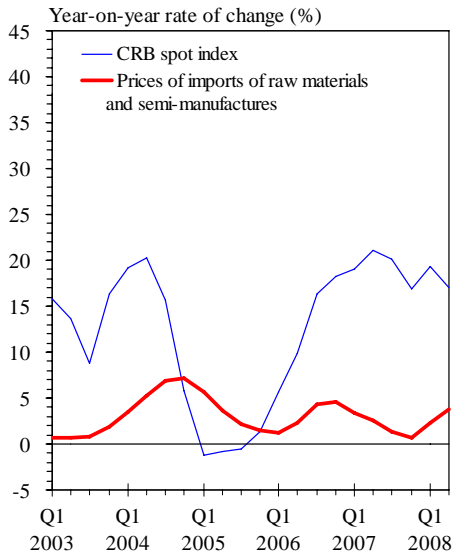
(a) Import prices of foodstuffs rose distinctly amidst global food inflation



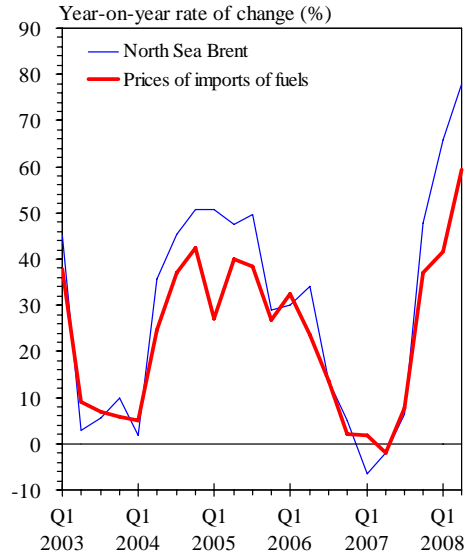
(b) Import prices of consumer goods rose moderately



(c) Import prices of raw materials rose moderately



(d) Fuel prices further shot up as international oil prices rose to record highs



Output prices

6.9 Output prices, as measured by the *Producer Price Indices*⁽⁵⁾, rose in the first quarter of 2008 for most sectors. Prices of local manufacturing output rose further, mainly prompted by the faster increase in prices for basic metals and fabricated metal products. Among the service sectors, prices for hotels and boarding houses rose sharply amidst the sustained expansion of inbound tourism. Output prices of maritime transport and air transport continued to rise under the environment of high fuel costs. In contrast, prices in telecommunications decreased persistently, reflecting the keen competition and technological advancement in the sector.

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>2007</u>				<u>2008</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u> [@]
Manufacturing	3.0	2.5	2.6	2.5	4.2	5.7
Selected service sector ^(#)						
Hotels and boarding houses	8.8	8.4	9.2	10.0	7.7	11.0
Land transport	*	-0.8	-0.4	0.2	0.9	*
Maritime transport	0.9	1.8	-0.8	0.1	2.3	3.0
Air transport	1.1	0.8	1.4	-0.5	2.7	3.3
Telecommunications	-2.7	-3.4	-3.8	-2.6	-1.1	-1.9
Miscellaneous communications services	1.0	-0.3	-0.7	-0.4	5.6	3.9

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

(*) Change of less than 0.05%

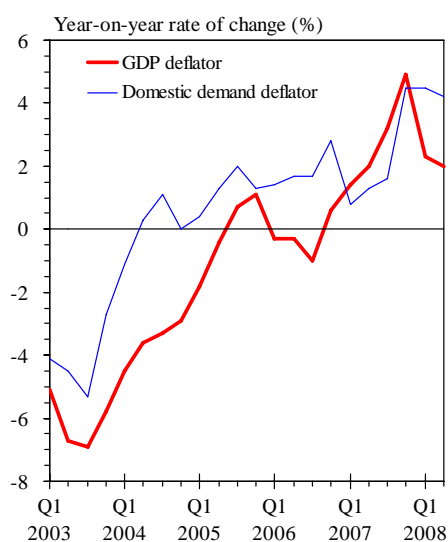
([@]) Provisional figures

GDP deflator

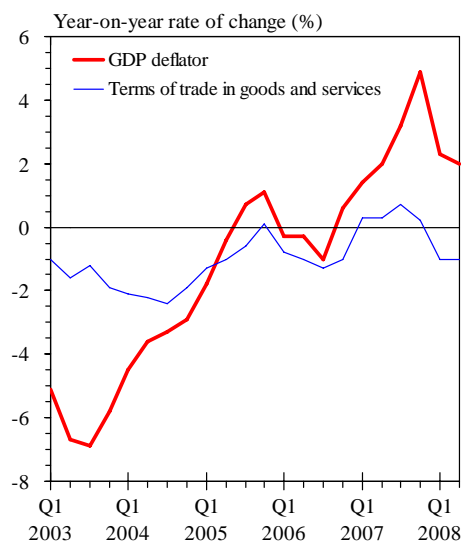
6.10 The *GDP deflator*⁽⁶⁾, a broad measure of the overall change in prices of the economy, rose by 2.0% in the second quarter of 2008, slightly down from 2.3% in the first quarter. This was mainly attributable to the worsening of the *terms of trade*⁽⁷⁾, a dominant item in the GDP deflator, due to import prices rising faster than export prices. The increase in the *domestic demand deflator* also eased slightly in the second quarter of 2008, mainly due to the slower increase in the price deflator for gross domestic fixed capital formation.

Diagram 6.6 : GDP deflator

(a) The increase in GDP deflator continued to be moderate



(b) ...due to import prices rising faster than export prices



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

	<u>2007</u>				<u>2008</u>		
	<u>Annual</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
Private consumption expenditure	3.6	1.9	2.2	3.7	6.4	4.4	4.9
Government consumption expenditure	3.3	1.3	3.9	3.9	4.1	4.1	5.2
Gross domestic fixed capital formation	-2.1	-2.2	-3.0	-5.1	1.4	4.8	0.3
Total exports of goods	2.2	2.4	1.7	1.9	2.7	2.3	3.4
Imports of goods	1.7	2.1	1.3	1.1	2.5	3.4	4.6
Exports of services	2.5	2.5	1.9	2.3	3.3	3.3	4.3
Imports of services	3.0	2.4	2.6	3.0	3.6	5.3	5.1
Gross Domestic Product	3.0	1.4 <0.6>	2.0 <0.9>	3.2 <1.1>	4.9 <2.1>	2.3 <-1.7>	2.0 <0.6>
Total final demand	2.2	1.9	1.6	1.9	3.4	3.1	3.8
Domestic demand	2.1	0.8	1.3	1.6	4.5	4.5	4.2

Notes : Figures are derived based on the new series of chain volume measures of GDP. They are subject to revision later on as more data become available.

(#) Revised figures

(+) Preliminary figures

< > Seasonally adjusted quarter-to-quarter % change

Notes :

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

The expenditure ranges of the households covered in the 2004/05-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2004 to Sep 2005</u> (\$)
CPI(A)	50	4,000 to 15,499
CPI(B)	30	15,500 to 27,499
CPI(C)	10	27,500 to 59,999

The weightings of the various components in the 2004/05-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	26.94	32.10	27.32	20.41
<i>Meals bought away from home</i>	16.86	18.63	17.65	13.74
<i>Other foodstuffs</i>	10.08	13.47	9.67	6.67
Housing	29.17	30.54	27.70	29.66
<i>Private dwellings</i>	23.93	22.07	23.89	26.11
<i>Public dwellings</i>	2.49	6.18	1.25	--
<i>Maintenance costs and other housing charges</i>	2.75	2.29	2.56	3.55
Electricity, gas and water	3.59	4.84	3.37	2.45
Alcoholic drinks and tobacco	0.87	1.35	0.79	0.42
Clothing and footwear	3.91	2.81	4.28	4.67
Durable goods	5.50	4.01	5.67	6.99
Miscellaneous goods	4.78	4.68	4.76	4.91
Transport	9.09	8.07	9.05	10.35
Miscellaneous services	16.15	11.60	17.06	20.14
All items	100.00	100.00	100.00	100.00

- (2) The year-on-year rates of consumer price inflation in selected Asian economies in June 2008 were given below. Inflation in Hong Kong was lower than in many of the other Asian countries.

Consumer price inflation in selected Asian economies (%)
(year-on-year rate of change)

	<u>2007</u>	<u>2008</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>
Hong Kong	2.0	4.6	5.7	5.4	5.7	6.1
Mainland China	4.8	8.0	7.8	8.5	7.7	7.1
India	6.4	6.3	7.8	7.8	7.8	7.7
Singapore	2.1	6.6	7.5	7.5	7.5	7.5
Korea	2.5	3.8	4.8	4.1	4.9	5.5
Taiwan	1.8	3.6	4.2	3.9	3.7	5.0
Indonesia	6.4	7.6	10.1	9.0	10.4	11.0
Malaysia	2.0	2.6	4.9	3.0	3.8	7.7
Thailand	2.2	5.0	7.5	6.2	7.6	8.9
Macao	5.6	9.1	8.9	8.7	8.9	9.1
Philippines	2.8	5.5	9.7	8.3	9.5	11.4
Vietnam	8.3	16.4	24.5	21.4	25.2	26.8

- (3) The report was entitled “OECD-FAO Agricultural Outlook 2008-2017” published jointly by the OECD and FAO in June. In a recent report entitled “Crop Prospects and Food Situation – No.3, July 2008” published by the FAO, world cereal production in 2008 was forecast to increase by 2.8% to a record high. If materialised, the FAO believed that the current tight global cereal supply situation could be improved to some extent.
- (4) Unit labour cost represents the labour cost per unit of output produced. It differs from the nominal wage index in that it discounts the effect of labour productivity growth in arriving at the labour cost measure. Technically, it refers to the product of the nominal index of payroll per person engaged and the total employment, divided by the real GDP.
- (5) 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.
- (6) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (7) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
	(\$Mn)					
Private consumption expenditure	795,948	765,248	777,141	782,984	748,402	719,873
Government consumption expenditure	116,550	119,993	120,172	128,866	131,291	130,151
Gross domestic fixed capital formation	388,731	325,328	347,375	333,044	286,025	261,576
<i>of which:</i>						
Building and construction	208,235	171,930	155,441	142,659	131,757	116,628
Machinery, equipment and computer software	165,177	141,349	180,204	180,011	144,832	136,537
Changes in inventories	-15,651	-10,612	14,399	-4,060	5,660	9,111
Total exports of goods	1,347,649	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089
Imports of goods	1,408,317	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059
Exports of services	262,099	276,385	315,012	320,799	347,836	362,420
Imports of services	194,245	185,174	192,427	194,180	202,494	203,400
GDP	1,292,764	1,266,668	1,317,650	1,299,218	1,277,314	1,234,761
<i>Per capita GDP (\$)</i>	<i>197,559</i>	<i>191,731</i>	<i>197,697</i>	<i>193,500</i>	<i>189,397</i>	<i>183,449</i>
GNP	1,317,362	1,291,436	1,326,404	1,327,761	1,282,966	1,263,252
<i>Per capita GNP (\$)</i>	<i>201,318</i>	<i>195,480</i>	<i>199,010</i>	<i>197,751</i>	<i>190,235</i>	<i>187,682</i>
Total final demand	2,895,326	2,825,342	3,146,788	3,042,620	3,081,335	3,232,220
Total final demand excluding re-exports ^(a)	1,952,900	1,886,157	2,048,719	1,983,301	1,923,623	1,896,483
Domestic demand	1,285,578	1,199,957	1,259,087	1,240,834	1,171,378	1,120,711
Private	1,107,816	1,014,313	1,078,515	1,053,973	986,542	939,104
Public	177,762	185,644	180,572	186,861	184,836	181,607
External demand	1,609,748	1,625,385	1,887,701	1,801,786	1,909,957	2,111,509

Definitions of Terms :

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

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

	(\$Mn)							
	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>		<u>2008</u>	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Private consumption expenditure	767,923	804,936	864,416	966,074	241,639	266,045	248,164	257,659
Government consumption expenditure	127,327	121,435	123,066	130,004	32,058	33,197	35,773	33,176
Gross domestic fixed capital formation	275,034	289,170	322,386	328,637	79,604	91,651	85,529	86,963
<i>of which:</i>								
Building and construction	107,692	105,993	105,960	113,542	27,538	28,726	34,180	32,185
Machinery, equipment and computer software	150,545	163,287	199,634	190,618	45,691	54,875	42,112	47,355
Changes in inventories	7,076	-4,761	-2,129	15,013	862	7,752	898	6,545
Total exports of goods	2,027,031	2,251,744	2,467,357	2,698,850	722,092	732,951	650,631	708,742
Imports of goods	2,099,545	2,311,091	2,576,340	2,852,522	749,449	778,838	696,708	770,762
Exports of services	429,584	495,394	565,054	651,815	173,188	182,097	169,233	165,224
Imports of services	242,507	264,237	287,900	321,656	86,207	86,155	83,365	83,406
GDP	1,291,923	1,382,590	1,475,910	1,616,215	413,787	448,700	410,155	404,141
<i>Per capita GDP (\$)</i>	<i>190,451</i>	<i>202,928</i>	<i>215,238</i>	<i>233,358</i>	--	--	--	--
GNP	1,315,333	1,384,238	1,503,258	1,678,482	424,447	466,830	428,117	N.A.
<i>Per capita GNP (\$)</i>	<i>193,902</i>	<i>203,170</i>	<i>219,226</i>	<i>242,349</i>	--	--	--	--
Total final demand	3,633,975	3,957,918	4,340,150	4,790,393	1,249,443	1,313,693	1,190,228	1,258,309
Total final demand excluding re-exports ^(a)	2,062,142	2,212,697	2,407,414	2,650,203	676,499	733,174	671,693	691,918
Domestic demand	1,177,360	1,210,780	1,307,739	1,439,728	354,163	398,645	370,364	384,343
Private	1,001,588	1,048,026	1,149,899	1,277,979	315,030	357,150	323,689	343,848
Public	175,772	162,754	157,840	161,749	39,133	41,495	46,675	40,495
External demand	2,456,615	2,747,138	3,032,411	3,350,665	895,280	915,048	819,864	873,966

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

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

(--) Not applicable.

N.A. Not yet available.

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

(%)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Private consumption expenditure	-5.5	1.2	5.1	1.8	-0.9	-1.3
Government consumption expenditure	0.5	3.1	2.0	6.0	2.4	1.8
Gross domestic fixed capital formation	-7.6	-16.7	7.9	2.6	-4.7	0.9
<i>of which:</i>						
Building and construction	-1.6	-16.4	-7.9	-1.1	-1.3	-5.4
Machinery, equipment and computer software	-7.5	-17.6	27.3	6.2	-7.6	7.0
Total exports of goods	-4.6	3.6	16.9	-3.3	8.6	14.0
Imports of goods	-6.9	-0.1	18.4	-1.9	7.9	13.1
Exports of services	-3.9	8.9	13.4	6.4	11.1	7.6
Imports of services	2.8	-3.4	2.2	2.0	3.9	-2.2
GDP	-6.0	2.6	8.0	0.5	1.8	3.0
<i>Per capita GDP</i>	-6.8	1.6	7.0	-0.2	1.4	3.2
GNP	-4.1	2.6	6.6	2.0	0.1	4.9
<i>Per capita GNP</i>	-4.9	1.6	5.6	1.3	-0.3	5.1
Total final demand	-5.9	0.9	12.6	-0.7	5.0	7.9
Total final demand excluding re-exports ^(a)	-6.8	-1.3	9.8	0.3	2.0	3.1
Domestic demand	-7.7	-3.6	7.7	0.9	-0.7	-0.2
Private	-8.4	-4.6	9.5	0.5	-1.0	-0.5
Public	-3.5	2.4	-2.1	3.3	1.1	1.4
External demand	-4.5	4.5	16.3	-1.7	9.0	12.8

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

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

(--) Not applicable.

N.A. Not yet available.

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

(%)

	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>		<u>2008</u>		Average annual rate of change:	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 1997 to 2007 [#]	5 years 2002 to 2007 [#]
Private consumption expenditure	7.0	3.0	6.0	7.8	10.6	9.5	7.9	3.1	2.3	4.4
Government consumption expenditure	0.7	-3.2	0.1	2.3	1.5	2.3	0.3	3.5	1.6	0.3
Gross domestic fixed capital formation	2.5	4.1	7.0	4.2	-0.5	8.2	9.9	4.3	-0.3	3.7
<i>of which:</i>										
Building and construction	-10.7	-7.6	-7.3	1.0	-0.2	-1.2	8.2	-1.7	-6.0	-6.1
Machinery, equipment and computer software	10.3	12.8	19.1	3.5	-2.7	8.5	6.1	6.5	4.6	10.4
Total exports of goods	14.9	10.4	9.3	7.0	6.2	5.7	8.3	4.4	7.4	11.1
Imports of goods	13.7	8.0	9.2	8.8	8.1	8.5	8.4	4.9	6.8	10.5
Exports of services	18.0	11.6	10.1	12.5	13.7	13.1	10.2	7.1	9.4	11.9
Imports of services	14.6	7.8	8.1	8.5	8.7	9.7	10.1	2.6	4.3	7.2
GDP	8.5	7.1	7.0	6.4	6.8	6.9	7.3	4.2	3.8	6.4
<i>Per capita GDP</i>	<i>7.6</i>	<i>6.6</i>	<i>6.3</i>	<i>5.3</i>	--	--	--	--	<i>3.1</i>	<i>5.8</i>
GNP	7.9	5.3	8.8	8.5	6.4	9.7	4.3	N.A.	4.2	7.1
<i>Per capita GNP</i>	<i>7.0</i>	<i>4.8</i>	<i>8.1</i>	<i>7.4</i>	--	--	--	--	<i>3.5</i>	<i>6.5</i>
Total final demand	11.8	7.7	8.4	8.0	7.7	8.0	8.2	4.5	5.4	8.7
Total final demand excluding re-exports ^(a)	8.9	5.4	7.3	7.5	7.5	9.8	7.8	3.6	3.5	6.4
Domestic demand	5.0	1.6	5.9	7.8	8.2	10.3	7.1	3.7	1.5	4.0
Private	6.2	3.0	7.5	8.9	9.3	11.8	7.7	3.7	1.9	5.0
Public	-1.2	-6.2	-4.0	-0.3	-0.5	-0.4	3.1	3.6	-1.0	-2.1
External demand	15.4	10.6	9.4	8.0	7.5	7.1	8.7	4.9	7.8	11.2

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

	<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>		<u>2006[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,002	0.1	824	0.1	886	0.1	847	0.1	849	0.1
Mining and quarrying	136	*	116	*	72	*	100	*	93	*
Manufacturing	51,396	4.2	44,403	3.7	44,455	3.6	45,547	3.4	45,761	3.2
Electricity, gas and water	39,609	3.2	38,839	3.3	39,726	3.2	39,924	3.0	40,364	2.8
Construction	51,534	4.2	44,910	3.8	40,376	3.2	38,538	2.9	38,688	2.7
Services	1,079,476	88.3	1,062,714	89.2	1,119,304	89.9	1,207,873	90.6	1,297,545	91.2
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>310,500</i>	<i>25.4</i>	<i>308,872</i>	<i>25.9</i>	<i>345,092</i>	<i>27.7</i>	<i>386,726</i>	<i>29.0</i>	<i>397,252</i>	<i>27.9</i>
<i>Transport, storage and communications</i>	<i>121,766</i>	<i>10.0</i>	<i>117,420</i>	<i>9.9</i>	<i>126,820</i>	<i>10.2</i>	<i>135,119</i>	<i>10.1</i>	<i>137,166</i>	<i>9.6</i>
<i>Financing, insurance, real estate and business services</i>	<i>247,045</i>	<i>20.2</i>	<i>251,085</i>	<i>21.1</i>	<i>266,855</i>	<i>21.4</i>	<i>294,260</i>	<i>22.1</i>	<i>356,371</i>	<i>25.0</i>
<i>Community, social and personal services</i>	<i>259,893</i>	<i>21.2</i>	<i>256,134</i>	<i>21.5</i>	<i>257,630</i>	<i>20.7</i>	<i>253,312</i>	<i>19.0</i>	<i>256,347</i>	<i>18.0</i>
<i>Ownership of premises</i>	<i>140,273</i>	<i>11.5</i>	<i>129,203</i>	<i>10.8</i>	<i>122,906</i>	<i>9.9</i>	<i>138,455</i>	<i>10.4</i>	<i>150,408</i>	<i>10.6</i>
GDP at current factor cost	1,223,153	100.0	1,191,807	100.0	1,244,819	100.0	1,332,830	100.0	1,423,299	100.0
Taxes on production and imports	43,325	--	48,057	--	58,729	--	62,891	--	71,071	--
Statistical discrepancy (%)	0.8	--	-0.4	--	-0.9	--	-0.9	--	-1.3	--
GDP at current market prices	1,277,314	--	1,234,761	--	1,291,923	--	1,382,590	--	1,475,910	--

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

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

(*) Less than 0.05%.

(--) Not applicable.

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

	(%)									
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>			<u>2008</u>
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Agriculture and fishing	-1.1	-6.3	2.7	-1.0	-5.0	-9.2	-8.0	-9.7	-10.7	-20.7
Mining and quarrying	-11.3	2.3	-16.7	10.1	10.2	13.7	16.6	9.8	12.5	1.1
Manufacturing	-10.0	-10.3	1.7	2.1	2.2	-1.5	-2.3	-2.1	-0.3	-4.4
Electricity, gas and water	3.8	1.8	2.3	2.5	0.8	1.1	2.5	0.4	*	4.7
Construction	-1.9	-4.6	-9.3	-8.1	-9.8	-2.1	3.8	-2.8	-2.6	8.3
Services	2.7	4.3	9.9	7.5	7.1	7.5	7.5	7.3	7.8	6.8
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	4.4	8.9	15.1	14.1	8.8	7.3	7.5	7.3	7.3	8.9
<i>Transport, storage and communications</i>	6.4	0.6	13.9	7.4	6.8	5.4	4.8	6.0	6.6	7.2
<i>Financing, insurance, real estate and business services</i>	2.7	5.5	13.4	8.6	12.2	15.0	14.1	15.5	16.6	10.4
<i>Community, social and personal services</i>	-0.4	0.4	2.6	-0.1	1.3	1.2	0.9	0.9	1.3	0.7
<i>Ownership of premises</i>	1.8	2.8	1.5	2.9	2.4	2.7	2.8	2.9	2.4	2.0
Taxes on production and imports	-0.2	2.6	12.3	0.8	6.8	15.1	10.1	25.0	18.0	18.8
GDP in chained (2006) dollars	1.8	3.0	8.5	7.1	7.0	6.4	6.2	6.8	6.9	7.3

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

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

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

	(\$Mn)								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007[#]</u>	<u>2007</u>			<u>2008</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Current account	128,240	122,512	156,933	178,166	218,732	25,769	65,190	63,361	51,748
Goods	-44,970	-72,514	-59,347	-108,983	-153,672	-46,204	-27,357	-45,887	-46,077
Services	159,020	187,077	231,157	277,154	330,159	70,499	86,981	95,942	85,868
Income	28,491	23,410	1,648	27,348	62,267	6,057	10,660	18,130	17,962
Current transfers	-14,301	-15,461	-16,524	-17,353	-20,022	-4,583	-5,094	-4,824	-6,005
Capital and financial account	-179,086	-184,640	-182,431	-209,935	-250,457	-40,224	-80,154	-76,075	-33,762
Capital and financial non-reserve assets (net change)	-171,497	-159,155	-171,752	-163,199	-135,959	-30,243	-66,271	2,188	21,267
Capital transfers	-8,292	-2,561	-4,939	-2,900	10,651	3,730	7,048	1,070	2,650
Financial non-reserve assets (net change)	-163,205	-156,594	-166,812	-160,300	-146,611	-33,973	-73,319	1,119	18,617
<i>Direct investment</i>	63,372	-91,038	49,996	635	52,404	23,778	22,187	5,141	56,177
<i>Portfolio investment</i>	-264,619	-306,368	-245,017	-207,879	36,673	-19,988	12,019	38,801	-186,885
<i>Financial derivatives</i>	78,288	44,319	30,502	25,925	58,545	16,070	12,335	3,760	10,705
<i>Other investment</i>	-40,247	196,492	-2,294	21,019	-294,232	-53,832	-119,859	-46,583	138,621
Reserve assets (net change) ^(a)	-7,589	-25,486	-10,679	-46,735	-114,498	-9,981	-13,882	-78,263	-55,029
Net errors and omissions	50,846	62,128	25,498	31,769	31,726	14,456	14,964	12,714	-17,986
Overall balance of payments	7,589	25,486	10,679	46,735	114,498	9,981	13,882	78,263	55,029

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.

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

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

	(\$Mn)								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>		<u>2008</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Total exports of goods	1,749,089	2,027,031	2,251,744	2,467,357	2,698,850	722,092	732,951	650,631	708,742
Imports of goods	1,794,059	2,099,545	2,311,091	2,576,340	2,852,522	749,449	778,838	696,708	770,762
Visible trade balance	-44,970	-72,514	-59,347	-108,983	-153,672	-27,357	-45,887	-46,077	-62,020
	(-2.5)	(-3.5)	(-2.6)	(-4.2)	(-5.4)	(-3.7)	(-5.9)	(-6.6)	(-8.0)
Exports of services	362,420	429,584	495,394	565,054	651,815	173,188	182,097	169,233	165,224
Imports of services	203,400	242,507	264,237	287,900	321,656	86,207	86,155	83,365	83,406
Invisible trade balance	159,020	187,077	231,157	277,154	330,159	86,981	95,942	85,868	81,818
	(78.2)	(77.1)	(87.5)	(96.3)	(102.6)	(100.9)	(111.4)	(103.0)	(98.1)
Exports of goods and services	2,111,509	2,456,615	2,747,138	3,032,411	3,350,665	895,280	915,048	819,864	873,966
Imports of goods and services	1,997,459	2,342,052	2,575,328	2,864,240	3,174,178	835,656	864,993	780,073	854,168
Visible and invisible trade balance	114,050	114,563	171,810	168,171	176,487	59,624	50,055	39,791	19,798
	<5.7>	<4.9>	<6.7>	<5.9>	<5.6>	<7.1>	<5.8>	<5.1>	<2.3>

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

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

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

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		<u>2008</u>	
	(% change)		(% change)		(\$Mn)		Q3	Q4	Q1	Q2
						(% change over a year earlier)				
All markets	11.7	15.9	11.4	9.4	9.2	2,687,513	8.2	8.2	10.5	7.8
Mainland of China	21.1	19.7	14.0	14.2	13.2	1,308,332	12.8	11.1	11.1	7.7
United States	-2.6	5.4	5.6	2.9	-0.8	368,202	-2.4	-3.0	-1.0	-1.5
Japan	12.3	14.4	10.3	1.6	-0.7	119,568	-6.2	-0.8	-1.9	-0.6
Germany	15.1	11.9	15.6	4.0	7.2	81,119	12.1	6.6	17.5	14.6
United Kingdom	5.8	14.8	5.2	6.3	1.7	74,862	-5.3	1.6	1.2	2.8
Taiwan	22.2	16.2	2.7	3.3	1.6	52,934	-3.8	-2.1	3.2	6.9
Republic of Korea	16.9	24.0	9.5	7.5	2.0	52,930	1.6	7.2	4.8	-2.5
Singapore	13.0	22.0	6.8	4.4	3.8	50,450	2.4	4.3	20.7	19.9
Rest of the world	7.1	17.3	13.3	8.5	13.2	579,118	13.2	14.4	19.7	15.6

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		<u>2008</u>	
	(% change)				(% change)	(\$Mn)	Q3	Q4	Q1	Q2
							(% change over a year earlier)			
All sources	11.5	16.9	10.3	11.6	10.3	2,868,011	9.1	10.5	11.6	9.1
Mainland of China	9.6	16.9	14.3	13.7	11.5	1,329,652	8.7	10.7	10.2	5.3
Japan	17.2	19.7	0.1	4.5	7.2	287,329	5.6	5.9	8.9	9.3
Taiwan	8.0	22.8	9.4	15.9	5.2	205,102	7.0	7.8	9.8	0.4
Singapore	19.6	22.5	21.8	21.9	18.2	194,775	17.9	15.6	10.0	5.1
United States	7.9	13.4	6.5	3.6	12.3	138,768	8.3	12.6	7.7	18.4
Republic of Korea	15.0	15.0	2.6	16.1	-0.2	119,393	7.5	-5.5	1.9	16.8
Rest of the world	12.1	13.6	8.4	7.6	10.7	592,991	10.5	15.1	19.9	18.7

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>		<u>2007</u>		<u>2008</u>	
	(% change)				(% change)	(\$Mn)	Q3	Q4	Q1	Q2
							(% change over a year earlier)			
Overall	2.6	14.8	7.3	14.3	9.4	731,633	7.2	16.9	13.7	10.1
Foodstuffs	1.5	8.6	3.1	4.3	12.9	59,778	16.0	16.1	19.9	29.8
Consumer goods	-1.8	7.4	5.5	3.1	11.4	146,857	18.1	29.2	32.4	10.2
Raw materials and semi-manufactures	10.7	17.6	4.2	8.8	17.7	276,516	21.4	15.1	3.4	-0.6
Fuels	12.9	37.5	23.5	22.8	20.1	84,031	6.2	46.3	25.5	49.2
Capital goods	-6.6	13.3	10.8	33.2	-8.3	164,426	-19.9	0.8	6.3	4.6

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

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>		<u>2007</u>		<u>2008</u>	
	(% change)				(% change)	(\$Mn)	Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
							(% change over a year earlier)			
Exports of services	4.2	18.5	15.3	14.1	15.4	651,815	16.3	16.9	13.9	11.7
Transportation	3.8	25.5	16.9	10.2	6.9	186,208	6.0	11.1	16.1	14.6
Travel	-4.4	26.1	14.2	12.9	18.8	107,391	18.7	25.8	14.6	14.3
Trade-related	12.2	12.6	10.7	9.9	13.0	201,423	13.5	12.5	12.5	13.4
Other services	-1.4	12.8	22.3	28.4	28.3	156,793	34.8	25.0	12.3	4.6
Imports of services	0.4	19.2	9.0	9.0	11.7	321,656	11.9	13.7	15.9	7.8
Transportation	7.8	29.4	20.3	10.9	10.4	99,615	9.9	15.1	17.1	10.5
Travel	-8.0	15.9	0.1	5.4	7.9	117,692	8.0	10.1	16.9	3.6
Trade-related	9.2	3.2	12.8	12.6	12.2	23,533	13.0	11.5	12.2	12.3
Other services	8.2	19.7	10.5	11.2	19.5	80,816	20.9	17.9	14.2	9.5
Net exports of services	9.4	17.6	23.6	19.9	19.1	330,159	21.0	20.0	11.9	16.1

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

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

Table 11 : Incoming visitors by source

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u> Q3	Q4	<u>2008</u> Q1	Q2
<u>('000)</u>									
All sources	15 536.8	21 810.6	23 359.4	25 251.1	28 169.3	7 334.4	7 805.5	7 275.5	6 910.0
Mainland of China	8 467.2	12 245.9	12 541.4	13 591.3	15 485.8	4 212.4	4 173.6	4 153.6	3 741.4
South and Southeast Asia	1 359.6	2 077.7	2 413.0	2 659.7	2 888.1	649.4	923.3	639.3	783.0
Taiwan	1 852.4	2 074.8	2 130.6	2 177.2	2 238.7	608.1	564.5	534.3	550.6
Europe	780.8	1 142.7	1 398.0	1 548.2	1 772.2	413.4	525.5	472.7	412.8
Japan	867.2	1 126.3	1 210.8	1 311.1	1 324.3	333.5	348.3	325.4	307.4
United States	683.8	1 051.7	1 143.1	1 159.0	1 230.9	285.3	356.5	298.3	303.8
Others	1 525.8	2 091.7	2 522.6	2 804.5	3 229.2	832.3	913.9	851.9	811.0
<u>(% change over a year earlier)</u>									
All sources	-6.2	40.4	7.1	8.1	11.6	15.1	16.9	10.0	7.7
Mainland of China	24.1	44.6	2.4	8.4	13.9	20.6	23.0	9.9	12.6
South and Southeast Asia	-28.6	52.8	16.1	10.2	8.6	7.9	12.8	12.9	4.5
Taiwan	-23.7	12.0	2.7	2.2	2.8	1.5	4.8	1.6	1.9
Europe	-28.0	46.3	22.3	10.7	14.5	14.8	11.3	14.2	-1.6
Japan	-37.8	29.9	7.5	8.3	1.0	-1.0	*	-3.5	0.7
United States	-31.7	53.8	8.7	1.4	6.2	3.2	12.0	7.5	-2.5
Others	-20.8	37.1	20.6	11.2	15.1	17.5	15.6	18.8	5.9

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

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

Table 12 : Property market

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	22 278	35 322	25 790	26 262	31 052	26 397	26 036
Commercial property	945	634	160	208	304	417	371
<i>of which :</i>							
Office space	737	428	96	76	166	299	280
Other commercial premises ^(b)	208	206	64	132	138	118	91
Industrial property ^(c)	300	191	62	45	29	15	1
<i>of which :</i>							
Industrial-cum-office premises	145	40	37	14	0	15	0
Conventional flatted factory space	31	4	19	30	3	0	1
Storage premises ^(d)	124	147	6	0	27	0	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	14 267	26 733	40 944	47 590	20 154	13 705	20 614
Subsidized sales flats ^(e)	21 993	26 532	22 768	25 702	1 072	320	0
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	1 472.0	1 692.8	1 142.7	1 002.5	790.0	1 038.4	530.0
Commercial property	395.7	287.5	337.5	265.0	365.3	200.0	161.3
Industrial property ^(f)	69.5	84.9	129.2	45.7	107.1	0.8	16.4
Other properties	201.5	125.8	240.2	75.0	109.3	444.2	407.1
Total	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3	1 114.8
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	85 616	77 087	65 340	69 667	72 974	71 576	100 630
Primary market	23 441	18 325	13 911	18 366	23 088	26 498	25 694
Secondary market	62 175	58 762	51 429	51 301	49 886	45 078	74 936
Selected types of non-residential properties ^(h)							
Office space	N.A.	N.A.	1 724	1 774	1 639	1 817	3 213
Other commercial premises	N.A.	N.A.	2 411	2 989	3 167	4 142	7 833
Flatted factory space	N.A.	N.A.	N.A.	N.A.	3 756	3 813	5 889

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

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

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

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

Table 12 : Property market (Cont'd)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>		<u>2008</u>	
				Q3	Q4	Q1	Q2
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	17 321	16 579	10 471	1 444	6 107	958	678
Commercial property	145	291	503	4	156	117	59
<i>of which :</i>							
Office space	34	108	320	0	145	112	53
Other commercial premises ^(b)	111	183	183	4	11	5	6
Industrial property ^(c)	17	27	16	2	14	0	11
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	0	0	0	0
Conventional flatted factory space	0	0	16	2	14	0	11
Storage premises ^(d)	13	27	0	0	0	0	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	24 691	4 430	4 795	0	0	13 726	5 866
Subsidized sales flats ^(e)	0	0	2 010	810	0	576	0
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	550.7	706.7	956.1	471.6	135.5	168.6	189.0
Commercial property	481.9	468.4	327.5	45.4	108.4	106.9	39.5
Industrial property ^(f)	35.1	23.9	103.5	18.0	4.4	49.6	54.0
Other properties	408.0	199.2	207.7	40.4	50.5	74.1	52.9
Total	1 475.8	1 398.2	1 594.8	575.3	298.8	399.2	335.5
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	103 362	82 472	123 575	29 421	40 533	36 917	27 533
Primary market	15 994	13 986	20 123	5 722	5 430	4 791	3 236
Secondary market	87 368	68 486	103 452	23 699	35 103	32 126	24 297
Selected types of non-residential properties ^(h)							
Office space	3 431	2 874	4 129	997	1 491	1 182	915
Other commercial premises	7 143	4 402	5 490	1 360	1 606	1 392	1 339
Flatted factory space	6 560	7 409	9 072	2 313	2 422	2 100	1 904

Notes (e) The Housing Authority's housing production figures have been revised as from 1998. The revision is to exhaustively cover all housing production and to count projects (including surplus HOS projects) which undergo transfer of usage at the time of disposal and according to their actual usage. Moreover, surplus HOS courts and blocks pending disposal are excluded from production statistics until they are disposed. Rental and sales flats projects of the Housing Society are included.

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

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

(h) Timing of the figures for non-residential properties is based on the date on which the S&P Agreement is signed, which may differ from the date on which the Agreement is received for registration.

N.A. Not available.

Table 13 : Property prices and rentals

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	117.1	100.0	89.6	78.7	69.9	61.6	78.0
Office space ^(b)	134.5	100.0	89.9	78.7	68.4	62.5	99.3
Shopping space	128.3	100.0	93.6	86.8	85.0	85.5	119.3
Flatted factory space	131.8	100.0	91.2	82.0	74.8	71.7	88.6
Property rental indices ^(c) :							
Residential flats	112.6	100.0	98.1	95.4	83.4	73.6	77.7
Office space ^(b)	135.9	100.0	98.5	101.0	85.4	74.6	78.1
Shopping space	111.2	100.0	101.3	99.4	92.9	86.4	92.8
Flatted factory space	118.1	100.0	95.4	90.3	82.7	74.9	77.3
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	-28.2	-14.6	-10.4	-12.2	-11.2	-11.9	26.6
Office space ^(b)	-36.9	-25.7	-10.1	-12.5	-13.1	-8.6	58.9
Shopping space	-27.6	-22.1	-6.4	-7.3	-2.1	0.6	39.5
Flatted factory space	-22.0	-24.1	-8.8	-10.1	-8.8	-4.1	23.6
Property rental indices ^(c) :							
Residential flats	-16.3	-11.2	-1.9	-2.8	-12.6	-11.8	5.6
Office space ^(b)	-13.3	-26.4	-1.5	2.5	-15.4	-12.6	4.7
Shopping space	-10.0	-10.1	1.3	-1.9	-6.5	-7.0	7.4
Flatted factory space	-10.9	-15.3	-4.6	-5.3	-8.4	-9.4	3.2

Notes : (a) Figures pertain 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, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u> Q3	Q4	<u>2008</u> Q1 [#]	Q2 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	92.0	92.7	103.5	104.0	113.2	125.0	125.5
Office space ^(b)	133.0	139.3	165.5	167.5	189.6	206.2	210.8
Shopping space	149.3	153.5	172.5	176.6	185.9	196.3	200.9
Flatted factory space	125.0	158.5	199.5	207.8	219.9	235.5	243.9
Property rental indices ^(c) :							
Residential flats	86.5	91.6	101.8	103.7	108.1	115.4	120.0
Office space ^(b)	96.4	117.4	131.9	133.5	138.7	145.6	156.7
Shopping space	100.5	104.3	111.8	113.5	115.9	117.1	118.6
Flatted factory space	82.6	91.0	100.5	101.8	104.2	107.8	110.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	17.9	0.8	11.7	12.2	21.3	29.4	25.1
Office space ^(b)	33.9	4.7	18.8	16.4	32.9	38.9	35.0
Shopping space	25.1	2.8	12.4	14.7	20.6	23.6	19.1
Flatted factory space	41.1	26.8	25.9	26.3	28.8	33.1	26.2
Property rental indices ^(c) :							
Residential flats	11.3	5.9	11.1	12.5	14.8	20.2	20.5
Office space ^(b)	23.4	21.8	12.4	11.0	14.1	15.7	20.9
Shopping space	8.3	3.8	7.2	9.0	8.4	8.3	7.9
Flatted factory space	6.9	10.2	10.4	9.8	10.0	11.5	11.1

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

(+) Provisional figures.

Table 14 : Monetary aggregates

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	178,260	205,339	203,966	229,841	259,411	354,752	412,629
M2 ^(a)	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591
M3 ^(a)	1,840,824	1,935,471	2,002,358	2,016,635	2,004,225	2,122,861	2,219,557
Total money supply (\$Mn)							
M1	197,666	225,156	243,847	258,056	295,650	413,423	484,494
M2	3,111,942	3,386,196	3,649,492	3,550,060	3,518,326	3,813,442	4,166,706
M3	3,168,199	3,434,467	3,692,753	3,594,130	3,561,852	3,858,044	4,189,544
Deposit (\$Mn)							
HK\$	1,699,726	1,773,169	1,851,177	1,854,651	1,824,911	1,930,790	2,017,911
Foreign currency	1,300,302	1,477,448	1,676,670	1,551,852	1,492,631	1,636,227	1,848,145
Total	3,000,027	3,250,617	3,527,847	3,406,502	3,317,542	3,567,018	3,866,056
Loans and advances (\$Mn)							
HK\$	1,695,027	1,607,126	1,652,191	1,647,684	1,615,667	1,573,079	1,666,740
Foreign currency	1,609,400	1,205,784	809,259	537,301	460,659	462,000	488,964
Total	3,304,427	2,812,910	2,461,450	2,184,986	2,076,325	2,035,079	2,155,704
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) ^{(b)(c)}							
Trade-weighted	103.4	100.9	101.7	104.7	104.0	100.7	98.3
Import-weighted	105.5	101.4	101.5	105.1	104.7	101.6	99.2
Export-weighted	101.3	100.4	101.9	104.3	103.3	99.8	97.3
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	-5.2	15.2	-0.7	12.7	12.9	36.8	16.3
M2 ^(a)	9.7	5.2	3.4	0.5	-0.7	6.2	4.8
M3 ^(a)	9.3	5.1	3.5	0.7	-0.6	5.9	4.6
Total money supply :							
M1	-5.0	13.9	8.3	5.8	14.6	39.8	17.2
M2	11.6	8.8	7.8	-2.7	-0.9	8.4	9.3
M3	10.3	8.4	7.5	-2.7	-0.9	8.3	8.6
Deposit							
HK\$	9.5	4.3	4.4	0.2	-1.6	5.8	4.5
Foreign currency	12.2	13.6	13.5	-7.4	-3.8	9.6	13.0
Total	10.7	8.4	8.5	-3.4	-2.6	7.5	8.4
Loans and advances							
HK\$	-2.7	-5.2	2.8	-0.3	-1.9	-2.6	6.0
Foreign currency	-32.4	-25.1	-32.9	-33.6	-14.3	0.3	5.8
Total	-19.8	-14.9	-12.5	-11.2	-5.0	-2.0	5.9
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	5.5	-2.4	0.8	2.9	-0.7	-3.2	-2.4
Import-weighted	7.8	-3.9	0.1	3.5	-0.4	-3.0	-2.4
Export-weighted	3.3	-0.9	1.5	2.4	-1.0	-3.4	-2.5

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.

Total Money Supply:

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

Table 14 : Monetary aggregates (Cont'd)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u> Q3	Q4	<u>2008</u> Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	348,248	387,918	454,363	483,484	454,363	457,628	452,884
M2 ^(a)	2,329,669	2,777,823	3,281,336	3,404,795	3,281,336	3,177,507	3,069,266
M3 ^(a)	2,345,838	2,795,688	3,300,820	3,424,319	3,300,820	3,197,955	3,089,485
Total money supply (\$Mn)							
M1	434,684	491,657	616,729	633,039	616,729	621,047	611,186
M2	4,379,057	5,054,475	6,106,667	5,944,734	6,106,667	5,984,628	5,908,763
M3	4,407,188	5,089,884	6,140,078	5,976,046	6,140,078	6,017,458	5,946,156
Deposit (\$Mn)							
HK\$	2,131,579	2,568,426	3,075,361	3,203,802	3,075,361	2,974,727	2,872,953
Foreign currency	1,936,322	2,188,993	2,793,856	2,490,305	2,793,856	2,787,220	2,832,158
Total	4,067,901	4,757,419	5,869,218	5,694,108	5,869,218	5,761,947	5,705,110
Loans and advances (\$Mn)							
HK\$	1,797,350	1,917,437	2,184,705	2,334,345	2,184,705	2,276,785	2,354,384
Foreign currency	514,637	550,392	776,971	707,994	776,971	893,127	994,228
Total	2,311,987	2,467,828	2,961,676	3,042,339	2,961,676	3,169,912	3,348,612
Nominal Effective Exchange Rate Indices (Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	97.4	96.1	91.9	91.6	89.9	87.2	85.7
Import-weighted	98.1	96.8	92.5	92.2	90.4	87.3	85.7
Export-weighted	96.7	95.5	91.3	90.9	89.4	87.1	85.7
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	-15.6	11.4	17.1	31.7	17.1	9.3	-10.3
M2 ^(a)	5.5	19.2	18.1	28.4	18.1	7.8	-3.9
M3 ^(a)	5.7	19.2	18.1	28.3	18.1	7.8	-3.8
Total money supply :							
M1	-10.3	13.1	25.4	34.6	25.4	16.2	-5.0
M2	5.1	15.4	20.8	22.4	20.8	13.5	5.6
M3	5.2	15.5	20.6	22.3	20.6	13.5	5.7
Deposit							
HK\$	5.6	20.5	19.7	31.2	19.7	8.7	-3.8
Foreign currency	4.8	13.0	27.6	18.1	27.6	24.6	20.9
Total	5.2	17.0	23.4	25.1	23.4	15.9	7.1
Loans and advances							
HK\$	7.8	6.7	13.9	20.8	13.9	10.0	6.5
Foreign currency	5.3	6.9	41.2	25.0	41.2	48.6	53.2
Total	7.2	6.7	20.0	21.8	20.0	18.7	17.1
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	-0.9	-1.3	-4.4	-4.4	-5.3	-6.9	-7.6
Import-weighted	-1.1	-1.3	-4.4	-4.5	-5.4	-7.4	-8.3
Export-weighted	-0.6	-1.2	-4.4	-4.4	-5.1	-6.3	-6.8

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

(b) Period average.

(c) 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.

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

	(%)								
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>			<u>2008</u>
						Q2	Q3	Q4	Q1
Wholesale trade	-5.0	4.7	5.6	7.9	10.4	9.3	9.0	15.5	9.6
Retail trade	-2.3	10.8	6.8	7.3	12.8	9.1	15.1	17.7	17.5
Import/export trade	6.5	12.4	10.6	10.2	8.0	8.9	8.2	7.6	13.2
Restaurants	-9.7	10.1	6.0	9.5	13.4	11.6	15.4	14.8	16.0
Hotels	-19.7	39.4	22.1	13.7	15.2	12.5	15.7	16.5	9.9
Transport ^(a)	0.5	22.8	17.8	10.6	10.8	10.2	11.7	14.8	15.9
Storage	-4.5	17.0	10.4	10.2	16.0	25.0	11.7	10.3	10.7
Communications	-2.4	1.0	5.1	0.8	10.0	8.0	9.7	16.2	11.2
Banking	*	4.4	10.9	19.5	38.3	32.4	47.7	45.0	6.4
Financing (other than banking)	17.3	33.2	14.3	47.9	68.8	54.3	99.6	82.9	32.8
Insurance	19.1	22.3	16.0	21.3	28.8	21.8	42.1	35.4	11.7
Real estate	6.2	13.5	16.0	-0.4	39.8	33.6	27.7	69.5	14.5
Business services	0.5	8.3	4.9	19.6	13.2	12.1	11.8	14.0	11.5
Film entertainment	2.3	3.7	5.0	1.7	6.0	4.6	9.1	5.9	0.7
Tourism, convention and exhibition services	-7.3	26.5	12.9	14.0	18.7	14.2	18.9	25.4	13.9
Computer and information services	5.7	20.5	23.4	9.7	6.7	6.7	1.6	15.5	18.5

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

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

Table 16 : Labour force characteristics[#]

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>		<u>2008</u>	
						Q3	Q4	Q1	Q2
<u>(%)</u>									
Labour force participation rate	61.4	61.3	60.9	61.2	61.2	61.5	61.1	61.1	61.0
Seasonally adjusted unemployment rate [@]	7.9	6.8	5.6	4.8	4.0	4.0	3.4	3.4	3.3
Underemployment rate	3.5	3.3	2.7	2.4	2.2	2.2	2.1	1.9	1.9
<u>('000)</u>									
Population of working age	5 645.0	5 733.6	5 800.7	5 832.2	5 928.4	5 935.5	5 955.2	5 974.7	5 992.1
Labour force	3 465.8	3 512.8	3 534.2	3 571.8	3 629.6	3 648.3	3 638.6	3 653.5	3 654.3
Persons employed	3 190.6	3 273.5	3 336.6	3 400.8	3 483.8	3 491.7	3 520.5	3 534.5	3 532.8
Persons unemployed	275.2	239.2	197.6	171.1	145.7	156.6	118.2	119.0	121.5
Persons underemployed	121.9	114.3	96.3	86.3	79.2	80.4	74.7	70.5	67.8
<u>(% change over a year earlier)</u>									
Population of working age	0.4	1.6	1.2	0.5	1.6	1.3	1.2	1.3	1.2
Labour force	-0.2	1.4	0.6	1.1	1.6	1.0	0.6	1.3	0.8
Persons employed	-0.9	2.6	1.9	1.9	2.4	1.7	1.7	2.3	1.8
Persons unemployed	8.3	-13.1	-17.4	-13.4	-14.8	-11.8	-23.1	-21.8	-22.3
Persons underemployed	16.8	-6.3	-15.7	-10.4	-8.2	-4.2	-14.7	-12.1	-16.2

Notes : (#) Figures in this table have been revised. For previous editions, the annual figures are compiled based on the average data for the four quarters of the year concerned. Starting from this edition, these statistics are compiled based on data collected in the General Household Survey in January to December each year as well as the mid-year population estimates by District Council district compiled jointly by the Census and Statistics Department and an inter-departmental Working Group on Population Distribution Projections.

(@) Starting from May 2008, the seasonally adjusted unemployment rate is compiled by X-12 ARIMA method to replace the previous X-11 ARIMA method. The seasonally adjusted unemployment rates since November 2006 to January 2007 have also been revised using the new method.

Table 17 : Employment in selected major economic sectors

Major economic sector	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>			<u>2008</u>	No.
	(% change)					<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
						(% change over a year earlier)				
Manufacturing	-10.3	-3.0	-2.0	-2.5	-2.2	-2.3	-2.6	-2.0	-3.6	153 054
<i>of which :</i>										
Printing, publishing and allied industries	-5.2	-1.2	-3.1	2.0	0.5	1.6	-1.0	-0.6	-1.8	36 998
Food, manufacturing	-2.6	3.9	5.4	5.2	5.3	8.8	1.2	1.5	-3.0	22 555
Wearing apparel, except footwear	-11.6	-0.8	-4.7	-10.5	-14.1	-17.6	-12.4	-9.1	-16.8	14 369
Textiles	-16.8	-11.1	0.5	-4.4	-4.8	-4.8	-7.0	-9.2	-11.0	17 037
Electronics	-18.9	-2.3	-4.7	-12.9	-6.1	-7.1	-1.6	-0.2	1.5	11 611
Transport equipment, manufacturing	-0.4	-3.3	8.6	3.6	5.7	5.6	3.2	4.0	0.8	10 385
Wholesale, retail, import/export trades, restaurants and hotels	-3.0	2.9	2.6	1.9	1.7	1.6	1.7	1.5	1.2	1 060 789
<i>of which :</i>										
Wholesale, retail and import/export trades	-1.9	2.1	2.3	1.1	1.1	1.2	0.9	1.1	0.9	823 947
Restaurants and hotels	-7.3	6.0	3.6	5.1	3.8	3.0	4.9	3.1	2.2	236 842
Transport, storage and communications	-4.4	3.7	2.6	1.1	2.2	3.1	2.2	2.5	4.2	193 963
<i>of which :</i>										
Land transport	0.5	-2.2	-1.5	0.3	0.4	0.8	0.9	-0.2	-1.1	37 435
Water transport	-3.6	0.1	-0.3	-4.4	-1.0	-0.2	-1.8	1.6	8.2	27 661
Air transport	-0.4	5.2	6.2	5.4	4.5	4.5	4.5	4.9	6.8	31 077
Services incidental to transport	-4.0	11.3	8.0	3.1	4.2	5.7	4.2	4.0	6.1	61 037
Financing, insurance, real estate and business services	-1.9	3.6	4.4	5.0	5.5	5.7	6.0	5.2	6.4	523 709
<i>of which :</i>										
Financial institutions	-6.5	1.1	4.7	5.9	8.6	9.1	9.3	8.0	8.6	151 624
Insurance	1.2	2.4	5.9	-1.2	1.5	1.6	1.8	3.2	11.1	31 644
Real estate	0.7	2.2	6.8	5.3	4.3	4.5	5.2	5.4	5.9	105 168
Business services except machinery and equipment rental and leasing	-0.2	6.0	2.9	5.3	4.7	4.7	4.8	3.7	4.8	234 434
Community, social and personal services	2.9	3.2	4.5	3.6	2.6	3.6	2.2	1.8	2.8	477 198
<i>of which :</i>										
Sanitary and similar services	6.0	1.5	2.4	2.5	1.0	7.0	-2.1	-3.9	-2.5	59 486
Education services	2.9	1.8	1.8	4.9	3.0	4.6	2.5	1.3	4.0	146 539
Medical, dental and other health services	-0.3	2.5	1.6	4.0	5.6	5.5	4.8	6.1	6.6	87 900
Welfare institutions	13.9	2.1	-0.4	1.5	1.3	0.7	2.4	0.9	0.1	54 799
Civil Service^(a)	-2.4	-3.8	-2.7	-1.3	-0.4	-0.5	-0.2	*	-0.2	153 477

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 within $\pm 0.05\%$.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	Jun	<u>2007</u> Sep	Dec	<u>2008</u> Mar
<u>(number)</u>									
Building sites									
Private sector	33 892	33 619	31 556	30 993	29 240	30 100	29 016	29 722	29 919
Public sector ^(a)	16 183	13 325	10 135	7 643	7 767	7 567	7 117	7 990	8 491
Sub-total	50 074	46 944	41 690	38 636	37 007	37 667	36 133	37 712	38 410
Civil engineering sites									
Private sector	2 755	2 564	2 198	1 569	1 674	1 766	1 395	1 860	1 657
Public sector ^(a)	17 466	16 772	15 378	12 661	11 504	11 665	11 645	10 531	10 474
Sub-total	20 221	19 336	17 576	14 230	13 178	13 431	13 040	12 391	12 131
Total	70 295	66 280	59 266	52 865	50 185	51 098	49 173	50 103	50 541
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-15.3	-0.8	-6.1	-1.8	-5.7	-2.9	-7.2	0.6	6.4
Public sector ^(a)	38.0	-17.7	-23.9	-24.6	1.6	-3.3	-6.2	16.6	1.2
Sub-total	-3.2	-6.3	-11.2	-7.3	-4.2	-3.0	-7.0	3.6	5.2
Civil engineering sites									
Private sector	-4.0	-6.9	-14.3	-28.6	6.7	3.5	-9.4	29.7	-1.0
Public sector ^(a)	-6.2	-4.0	-8.3	-17.7	-9.1	-0.7	-9.7	-20.0	-14.0
Sub-total	-5.9	-4.4	-9.1	-19.0	-7.4	-0.2	-9.7	-15.1	-12.4
Total	-4.0	-5.7	-10.6	-10.8	-5.1	-2.2	-7.7	-1.8	0.3

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

Table 19 : Average monthly labour earnings by major economic sector

(\$)

Major economic sector	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>			<u>2008</u>
						Q2	Q3	Q4	Q1
Wholesale, retail and import/export trades	12,300 (-1.5) <1.1>	12,300 (0.4) <0.9>	13,200 (7.3) <6.3>	13,800 (4.1) <2.0>	14,100 (2.4) <0.4>	12,800 (2.5) <1.3>	13,500 (3.5) <1.9>	14,600 (3.5) <0.1>	16,300 (4.7) <0.1>
Restaurants and hotels	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,200 (1.9) <0.9>	8,500 (2.6) <0.6>	8,800 (3.8) <1.8>	8,400 (4.8) <3.5>	8,500 (3.7) <2.2>	8,900 (2.8) <-0.6>	9,300 (-0.4) <-4.8>
Transport, storage and communications	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	19,200 (5.0) <4.1>	19,600 (2.1) <0.1>	20,300 (3.3) <1.3>	19,100 (1.9) <0.7>	19,200 (3.9) <2.3>	22,100 (3.4) <*>	20,800 (1.0) <-3.5>
Financing, insurance, real estate and business services	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	19,100 (2.8) <1.8>	20,100 (5.6) <3.6>	21,200 (5.5) <3.5>	19,800 (4.1) <2.9>	19,100 (5.4) <3.8>	22,600 (6.6) <3.1>	25,600 (8.9) <4.0>
Community, social and personal services	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	18,000 (-2.2) <-3.1>	17,900 (-0.1) <-2.0>	18,400 (2.4) <0.4>	17,800 (-0.1) <-1.3>	19,000 (4.6) <3.0>	18,900 (4.4) <0.9>	18,100 (1.6) <-2.9>
Manufacturing	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	11,600 (1.8) <0.9>	11,700 (1.4) <-0.6>	12,100 (2.9) <-0.1>	11,700 (3.1) <1.9>	11,300 (3.8) <2.2>	12,100 (3.5) <*>	13,400 (3.0) <-1.6>
All sectors surveyed	15,000 (-1.8) <0.8>	14,900 (-0.7) <-0.2>	15,400 (3.5) <2.6>	15,800 (2.4) <0.4>	16,400 (4.0) <1.9>	15,300 (2.9) <1.7>	15,600 (4.6) <3.0>	17,300 (5.9) <2.4>	18,000 (3.1) <-1.5>

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

< > % change over a year earlier in real terms.

The rates of change in real terms are derived from the Real Indices of Payroll per Person Engaged. As from 2006, the Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2004/2005-based Composite CPI. To facilitate comparison, Real Indices of Payroll per Person Engaged prior to 2006 have been re-scaled using the 2004/2005-based Composite CPI.

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

**Table 20 : Rates of change in wage indices by
selected major economic sector**

(%)

Selected major economic sector	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>			<u>2008</u>
						Jun	Sep	Dec	Mar
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	-1.7	-1.6	1.6	1.1	2.3	2.2	2.0	3.2	4.5
Restaurants and hotels	-4.1	-2.2	*	1.0	1.4	2.2	1.0	0.9	3.3
Transport services	-1.9	-1.0	1.0	-0.6	1.6	1.6	2.0	2.6	4.5
Financing, insurance, real estate and business services	-0.1	-0.5	*	3.2	3.2	3.5	3.0	3.2	3.8
Personal services	-3.1	1.3	-1.5	2.5	5.5	6.2	6.5	3.8	1.9
Manufacturing	-2.7	-1.3	1.2	2.9	2.0	2.6	1.6	2.0	0.7
All sectors surveyed	-1.9	-1.1	0.8	1.5	2.4	2.6	2.3	2.7	3.8
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	0.4	-1.7	0.4	-0.6	0.4	1.4	1.0	-0.2	0.6
Restaurants and hotels	-2.1	-2.3	-1.3	-0.8	-0.4	1.4	*	-2.4	-0.5
Transport services	0.1	-1.0	-0.2	-2.3	-0.2	0.8	1.0	-0.8	0.5
Financing, insurance, real estate and business services	2.0	-0.6	-1.2	1.5	1.3	2.7	2.0	-0.2	-0.1
Personal services	-1.1	1.3	-2.7	0.7	3.6	5.4	5.4	0.4	-2.0
Manufacturing	-0.7	-1.4	-0.1	1.1	0.1	1.8	0.6	-1.4	-3.1
All sectors surveyed	0.2	-1.2	-0.4	-0.3	0.5	1.8	1.3	-0.7	-0.1

Notes : The rates of change in real terms are compiled from the Real Wage Indices. As from 2006, the Indices are derived by deflating the Nominal Wage Indices by the 2004/2005-based CPI(A). To facilitate comparison, Real Wage Indices prior to 2006 have been re-scaled using the 2004/2005-based CPI(A).

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

Table 21 : Rates of change in prices

(%)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
GDP deflator	0.8	-4.5	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1
Domestic demand deflator	-1.2	-3.1	-2.6	-2.3	-4.9	-4.2	0.1	1.2
Consumer Price Indices ^(a) :								
Composite CPI	2.8	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4	1.0
CPI(A)	2.6	-3.3	-3.0	-1.7	-3.2	-2.1	*	1.1
CPI(B)	2.8	-4.7	-3.9	-1.6	-3.1	-2.7	-0.5	1.0
CPI(C)	3.2	-3.7	-4.5	-1.5	-2.8	-2.9	-0.9	0.8
Unit Value Indices :								
Domestic exports	-2.8	-2.4	-1.0	-4.7	-3.3	0.2	1.5	2.2
Re-exports	-3.9	-2.8	-0.1	-2.0	-2.7	-1.5	1.1	1.2
Total exports of goods	-3.8	-2.7	-0.2	-2.3	-2.7	-1.4	1.2	1.3
Imports of goods	-4.9	-2.0	0.8	-3.1	-3.9	-0.4	2.9	2.7
Terms of Trade Index	1.2	-0.7	-1.0	0.9	1.2	-1.0	-1.7	-1.4
Producer Price Index for all manufacturing industries	-1.8	-1.6	0.2	-1.6	-2.7	-0.3	2.2	0.8
Tender Price Indices :								
Public sector building projects	9.1	-4.4	-13.1	-8.5	-11.7	-0.3	-1.5	1.4
Public housing projects	9.0	-3.3	-11.9	-15.1	-9.6	-10.0	3.5	7.7

Notes : (a) From October 2005 onwards, the year-on-year rates of change in the Consumer Price Indices are derived from the 2004/05-based CPI series. For the earlier periods, the year-on-year rates of change are derived from the CPIs with old base period.

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

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

N.A. Not yet available.

Table 21 : Rates of change in prices (Cont'd)

	(%)							
	<u>2006</u>	<u>2007</u>	<u>2007</u>		<u>2008</u>		Average annual <u>rate of change:</u>	
			Q3	Q4	Q1	Q2	10 years 1997 to 2007	5 years 2002 to 2007
GDP deflator	-0.3 #	3.0 #	3.2 #	4.9 #	2.3 #	2.0 #	-2.0 #	-1.4 #
Domestic demand deflator	1.9 #	2.1 #	1.6 #	4.5 #	4.5 #	4.2 #	-1.5 #	-0.2 #
Consumer Price Indices ^(a) :								
Composite CPI	2.0	2.0	1.6	3.5	4.6	5.7	-0.8	0.4
CPI(A)	1.7	1.3	0.9	3.1	5.4	5.7	-0.7	0.4
CPI(B)	2.1	2.2	1.7	3.6	4.3	5.9	-0.9	0.4
CPI(C)	2.2	2.7	2.3	3.7	3.9	5.5	-0.8	0.4
Unit Value Indices :								
Domestic exports	-2.1	0.8	0.8	1.0	3.3	5.0	-1.2	0.5
Re-exports	1.1	2.4	2.1	2.8	2.6	3.9	-0.7	0.9
Total exports of goods	1.0	2.3	2.0	2.7	2.6	3.9	-0.8	0.8
Imports of goods	2.1	2.3	1.9	2.8	3.6	4.9	-0.4	1.9
Terms of Trade Index	-1.1	0.1	0.2	-0.1	-0.9	-0.9	-0.4	-1.1
Producer Price Index for all manufacturing industries	2.3	3.0	2.4	4.2	5.7	N.A.	*	1.6
Tender Price Indices :								
Public sector building projects	5.0	20.1	20.6	26.5	N.A.	N.A.	-0.8	4.7
Public housing projects	11.2	19.7	16.6	22.2	N.A.	N.A.	-0.5	6.0

Table 22 : Rates of change in Composite Consumer Price Index

(%)								
	Weight	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
All items	100.0	2.8	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4
Food	26.94	1.9	-1.8	-2.2	-0.8	-2.1	-1.5	1.0
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>2.2</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>	<i>-1.5</i>	<i>-1.5</i>	<i>0.2</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>1.5</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>	<i>-3.1</i>	<i>-1.7</i>	<i>2.5</i>
Housing ^(a)	29.17	4.7	-5.1	-8.2	-3.1	-5.7	-4.8	-5.2
<i>Private housing rent</i>	<i>(23.93)</i>	<i>5.5</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>-3.4</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>
Electricity, gas and water	3.59	1.4	-0.4	3.6	-1.9	-7.0	1.4	11.4
Alcoholic drinks and tobacco	0.87	6.6	1.2	-0.9	3.3	2.4	0.1	*
Clothing and footwear	3.91	-0.8	-20.6	-10.1	-4.6	0.7	-2.7	6.4
Durable goods	5.50	0.2	-6.3	-4.6	-7.1	-6.3	-6.4	-2.2
Miscellaneous goods	4.78	2.6	-0.7	0.9	1.3	1.7	2.3	3.6
Transport	9.09	3.9	0.5	1.0	0.4	-0.6	-0.4	0.4
Miscellaneous services	16.15	2.7	-1.3	-0.2	0.5	-2.3	-3.2	-0.2

Notes : From October 2005 onwards, the year-on-year rates of change in the Composite Consumer Price Index are derived from the 2004/05-based CPI series. For the earlier periods, the year-on-year rates of change are derived from the CPIs with old base period. The weights quoted in this table correspond to that in the new series.

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

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

Table 22 : Rates of change in Composite Consumer Price Index (Cont'd)

	Weight	(%)								
		<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>		<u>2008</u>		Average annual rate of change:	
					Q3	Q4	Q1	Q2	10 years 1997 to 2007	5 years 2002 to 2007
All items	100.0	1.0	2.0	2.0	1.6	3.5	4.6	5.7	-0.8	0.4
Food	26.94	1.8	1.7	4.3	4.8	6.7	10.0	11.2	0.2	1.4
<i>Meals bought away from</i>	<i>(16.86)</i>	<i>0.9</i>	<i>1.3</i>	<i>2.5</i>	<i>2.6</i>	<i>3.7</i>	<i>5.4</i>	<i>6.3</i>	<i>0.2</i>	<i>0.7</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>3.2</i>	<i>2.5</i>	<i>7.1</i>	<i>8.2</i>	<i>11.6</i>	<i>17.4</i>	<i>19.2</i>	<i>0.3</i>	<i>2.7</i>
Housing ^(a)	29.17	0.1	4.7	2.0	0.7	4.2	3.9	5.9	-2.2	-0.7
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-0.1</i>	<i>5.6</i>	<i>4.0</i>	<i>2.3</i>	<i>5.9</i>	<i>3.5</i>	<i>8.0</i>	<i>-2.5</i>	<i>-0.8</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>0.2</i>	<i>0.1</i>	<i>-17.7</i>	<i>-17.8</i>	<i>-10.8</i>	<i>14.4</i>	<i>-13.0</i>	<i>-2.0</i>	<i>-1.6</i>
Electricity, gas and water	3.59	4.1	2.1	-0.7	-2.7	3.4	7.2	7.7	1.3	3.6
Alcoholic drinks and tobacco	0.87	0.4	-3.7	-1.2	-1.1	0.5	0.5	0.6	0.8	-0.9
Clothing and footwear	3.91	2.0	1.0	4.1	3.7	2.0	1.6	1.6	-2.8	2.1
Durable goods	5.50	-3.2	-6.4	-4.7	-4.2	-4.0	-3.5	-2.3	-4.7	-4.6
Miscellaneous goods	4.78	1.5	1.7	2.5	2.1	3.4	4.6	5.3	1.7	2.3
Transport	9.09	1.4	0.7	-0.1	-0.1	0.7	1.3	2.5	0.7	0.4
Miscellaneous services	16.15	1.0	1.9	1.7	1.3	1.0	1.3	1.2	*	0.2

**Table 23 : Rates of change in implicit price deflators of GDP
and its main expenditure components**

(%)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Private consumption expenditure	1.1	-5.0	-3.3	-1.1	-3.6	-2.5	-0.3
Government consumption expenditure	2.9	-0.2	-1.8	1.1	-0.5	-2.6	-2.9
Gross domestic fixed capital formation	-6.9	0.5	-1.0	-6.6	-9.9	-9.4	2.6
Total exports of goods	-3.0	-3.4	-0.3	-2.6	-2.9	-1.8	0.9
Imports of goods	-4.8	-2.4	0.7	-3.5	-4.2	-0.9	2.9
Exports of services	-4.8	-3.2	0.5	-4.3	-2.4	-3.1	0.5
Imports of services	-4.8	-1.3	1.7	-1.1	0.3	2.7	4.1
Gross Domestic Product	0.8	-4.5	-3.6	-1.9	-3.5	-6.2	-3.5
Total final demand	-2.4	-3.3	-1.1	-2.7	-3.6	-2.8	0.6
Domestic demand	-1.2	-3.1	-2.6	-2.3	-4.9	-4.2	0.1

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

**Table 23 : Rates of change in implicit price deflators of GDP
and its main expenditure components (Cont'd)**

	(%)									
	<u>2005</u>	<u>2006[#]</u>	<u>2007[#]</u>	<u>2007</u>		<u>2008</u>		<u>Average annual rate of change:</u>		
				Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 1997 to 2007 [#]	5 years 2002 to 2007 [#]	
Private consumption expenditure	1.8	1.3	3.6	3.7	6.4	4.4	4.9	-0.8	0.8	
Government consumption expenditure	-1.4	1.2	3.3	3.9	4.1	4.1	5.2	-0.1	-0.5	
Gross domestic fixed capital formation	1.0	4.2	-2.1	-5.1	1.4	4.8	0.3	-2.9	-0.9	
Total exports of goods	0.6	0.3	2.2	1.9	2.7	2.3	3.4	-1.0	0.4	
Imports of goods	1.9	2.1	1.7	1.1	2.5	3.4	4.6	-0.7	1.5	
Exports of services	3.3	3.6	2.5	2.3	3.3	3.3	4.3	-0.8	1.3	
Imports of services	1.0	0.8	3.0	3.0	3.6	5.3	5.1	0.6	2.3	
Gross Domestic Product	-0.1	-0.3	3.0	3.2	4.9	2.3	2.0	-2.0	-1.5	
Total final demand	1.2	1.2	2.2	1.9	3.4	3.1	3.8	-1.1	0.5	
Domestic demand	1.2	1.9	2.1	1.6	4.5	4.5	4.2	-1.3	0.2	

