



# Third Quarter Economic Report 2008

Government of the Hong Kong  
Special Administrative Region

# ***THIRD QUARTER ECONOMIC REPORT 2008***

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

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### *Summary*

- *The growth of the Hong Kong economy slowed notably further in the third quarter, as the external sector slackened amid the faltering global demand and as domestic demand towards the end of the quarter was severely hit by the outbreak of the global financial tsunami causing significant jitters in the local asset markets. GDP for the third quarter as a whole grew by 1.7% year-on-year, down further from 4.2% in the second quarter.*
- *On the external front, merchandise exports slackened to only a modest growth in the third quarter, the worst performance since the first quarter of 2002. While the US market continued to pose the main drag, exports to other markets also saw different extents of slowdown as the impact of the global downturn increasingly set in.*
- *Hong Kong's service exports still recorded a solid growth in the third quarter, though likewise moderated from the second quarter. This was partly affected by a temporary fall-off in inbound tourism during the Olympic Games period. But more importantly, the slow-down was due to a further deceleration in exports of financial services amid the financial market distress on a globalwide basis.*
- *Consumption spending still held fairly firm in July and August, but slackened distinctly in September as the US financial turmoil escalated into a full-blown global financial tsunami causing the local stock market to plummet markedly. For the third quarter as a whole, consumer spending rose marginally when compared with an exceptionally high base a year ago when consumption grew by 10.6%. Overall investment spending still recorded a modest growth in the third quarter. Yet in the more recent period, companies have also turned more cautious in making new investments and in hiring new hands in the wake of a highly uncertain global financial and economic environment and as credit availability was tightened amid the global credit crunch.*
- *Along with the economic slowdown, the unemployment rate rose marginally to a still relative low level of 3.4% in the third quarter. Job prospects have inevitably dimmed as the near term outlook was clouded by the unsettled global financial market situation.*

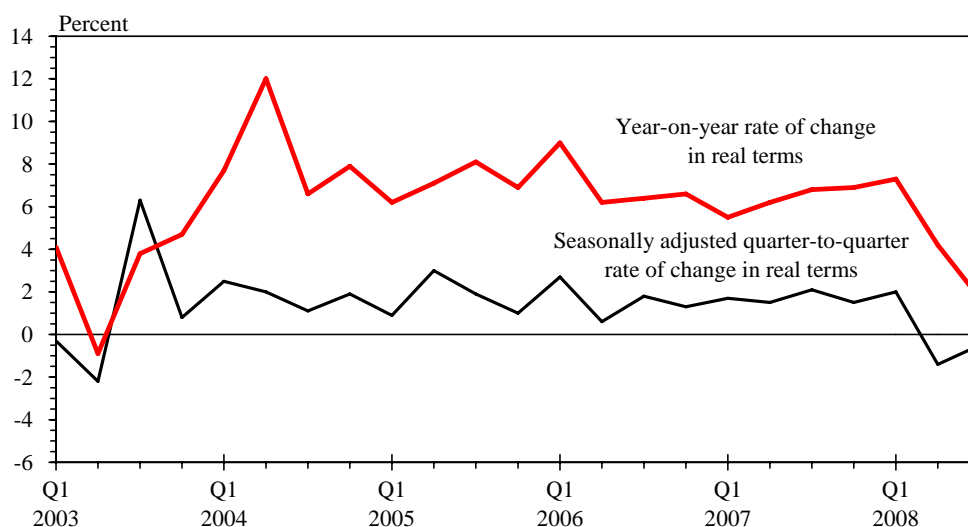
- *Headline consumer price inflation fell notably in the third quarter to 4.6%, mainly reflecting the favourable effects of the Government's one-off relief measures. Underlying inflation has tended to stabilize after July, as the tapering in food inflation offset the enlarged increase in private housing costs. CPI inflation notched down from 6.3% in both July and August to 6.1% in September, averaging at 6.3% in the third quarter.*

## **Overall situation**

1.1 The US financial turmoil that was originated from the subprime mortgage market escalated into a full blown crisis in global financial markets, dealing a severe blow to the already much weakened global economy. As a small open economy and an international financial centre, the Hong Kong economy was also badly affected, particularly towards the end of the quarter. External trade slackened further during the quarter as the impact of the global downturn was increasingly felt on export-dependent Asia and other emerging markets. Service trade also decelerated amid the worsening global economic climate and financial market strains. On the domestic demand front, consumption still fared quite well up till August even with some stay-home effect of Olympic Games event. However, heightened crisis in the global financial arena as several major US financial institutions came close to bankruptcy led to panic sell-offs in stock markets around the globe. The Hang Seng Index plummeted by 15% in September and further by 22% in October. Property prices likewise came under downward pressures, especially after the exceptional gain last year. The contagion of credit crunch in US and Europe also caused some tensions in the local interbank market. All these had weighed heavily on both consumer and investment sentiments, causing domestic demand to slow distinctly in September.

1.2 In the third quarter of 2008, the *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 1.7% in real terms over a year earlier. This was a further moderation from the 4.2% growth in the second quarter. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP fell further by 0.5% in real terms in the third quarter, after a contraction in the second quarter.

**Diagram 1.1 : Economic growth slowed further in the third quarter**



1.3 Merchandise exports showed a modest growth in the third quarter. Exports to the advanced economies, notably the US, were directly hit by the rapidly slowing demand in these economies. Intra-regional trade also slowed as a result, as reflected in different extent of moderation in Hong Kong's exports to many other economies in the Asian region. Taken altogether, *total exports of goods* grew by 1.4% in real terms in the third quarter, further down from the 4.4% growth in the second quarter.

1.4 *Exports of services*, while being affected by the worsening global economic climate, still registered a solid growth in the third quarter, at 5.3% as compared to the 8.1% growth in the second quarter. The main drag was the further deceleration in exports of financial services amid the financial market distress and the notably slower pace of expansion in inbound tourism. The latter also had a spillover effect onto the exports of transportation services. Yet, offshore trade continued to grow notably, supported by the Mainland's trade flows.



**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>            | <u>Q3+</u>            |
| <i>Change in real terms of GDP and its main expenditure components (%)</i> |              |              |                      |                      |                      |                      |                       |                       |                       |
| Private consumption expenditure  | 6.0          | 7.8          | 4.5<br>(1.5)         | 6.6<br>(3.0)         | 10.6<br>(3.2)        | 9.5<br>(1.6)         | 7.9<br>(-0.1)         | 3.2<br>(-1.5)         | 0.2<br>(0.3)          |
| Government consumption expenditure   | 0.1          | 2.3          | 2.3<br>(1.6)         | 3.0<br>(-0.3)        | 1.5<br>(-0.3)        | 2.3<br>(1.2)         | 0.3<br>(-0.4)         | 3.0<br>(2.6)          | 2.3<br>(-0.9)         |
| Gross domestic fixed capital formation                                     | 7.0          | 4.2          | 0.8                  | 8.1                  | -0.5                 | 8.2                  | 9.9                   | 3.5                   | 3.0                   |
| <i>of which :</i>  |              |              |                      |                      |                      |                      |                       |                       |                       |
| Building and construction  | -7.3         | 1.0          | -1.9                 | 7.3                  | -0.2                 | -1.2                 | 8.2                   | -3.7                  | -3.6                  |
| Machinery, equipment and computer software                                 | 19.1         | 3.5          | 0.3                  | 7.8                  | -2.7                 | 8.5                  | 6.1                   | 6.3                   | 9.9                   |
| Total exports of goods   | 9.3          | 7.0          | 6.5<br>(0.3)         | 10.0<br>(3.0)        | 6.2<br>(0.2)         | 5.7<br>(1.8)         | 8.3<br>(1.4)          | 4.4<br>(1.0)          | 1.4<br>(-2.6)         |
| Imports of goods   | 9.2          | 8.8          | 7.1<br>(0.1)         | 11.5<br>(4.1)        | 8.1<br>(0.5)         | 8.5<br>(3.1)         | 8.4<br>(-1.1)         | 4.9<br>(2.4)          | 2.2<br>(-2.1)         |
| Exports of services  | 10.1         | 12.5         | 11.3<br>(3.5)        | 11.6<br>(2.8)        | 13.7<br>(4.2)        | 13.1<br>(2.2)        | 10.2<br>(0.6)         | 8.1<br>(0.7)          | 5.3<br>(1.8)          |
| Imports of services  | 8.1          | 8.5          | 6.6<br>(0.5)         | 8.9<br>(5.8)         | 8.7<br>(0.3)         | 9.7<br>(2.8)         | 10.1<br>(1.2)         | 3.5<br>(-1.3)         | 1.8<br>(-0.7)         |
| <b>Gross Domestic Product</b>  | <b>7.0</b>   | <b>6.4</b>   | <b>5.5<br/>(1.7)</b> | <b>6.2<br/>(1.5)</b> | <b>6.8<br/>(2.1)</b> | <b>6.9<br/>(1.5)</b> | <b>7.3<br/>(2.0)</b>  | <b>4.2<br/>(-1.4)</b> | <b>1.7<br/>(-0.5)</b> |
| <i>Change in the main price indicators (%)</i>                             |              |              |                      |                      |                      |                      |                       |                       |                       |
| <b>GDP deflator</b>  | <b>-0.3</b>  | <b>3.0</b>   | <b>1.4<br/>(0.6)</b> | <b>2.0<br/>(0.9)</b> | <b>3.2<br/>(1.1)</b> | <b>4.9<br/>(2.1)</b> | <b>2.3<br/>(-1.7)</b> | <b>2.1<br/>(0.6)</b>  | <b>2.1<br/>(1.2)</b>  |
| <b>Composite Consumer Price Index</b>                                      | <b>2.0</b>   | <b>2.0</b>   | <b>1.7<br/>(*)</b>   | <b>1.3<br/>(0.3)</b> | <b>1.6<br/>(0.8)</b> | <b>3.5<br/>(2.2)</b> | <b>4.6<br/>(1.1)</b>  | <b>5.7<br/>(1.5)</b>  | <b>4.6<br/>(-0.2)</b> |
| <b><u>Change in nominal GDP (%)</u></b>                                    | <b>6.7</b>   | <b>9.5</b>   | <b>7.0</b>           | <b>8.4</b>           | <b>10.2</b>          | <b>12.1</b>          | <b>9.8</b>            | <b>6.4</b>            | <b>3.8</b>            |

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.

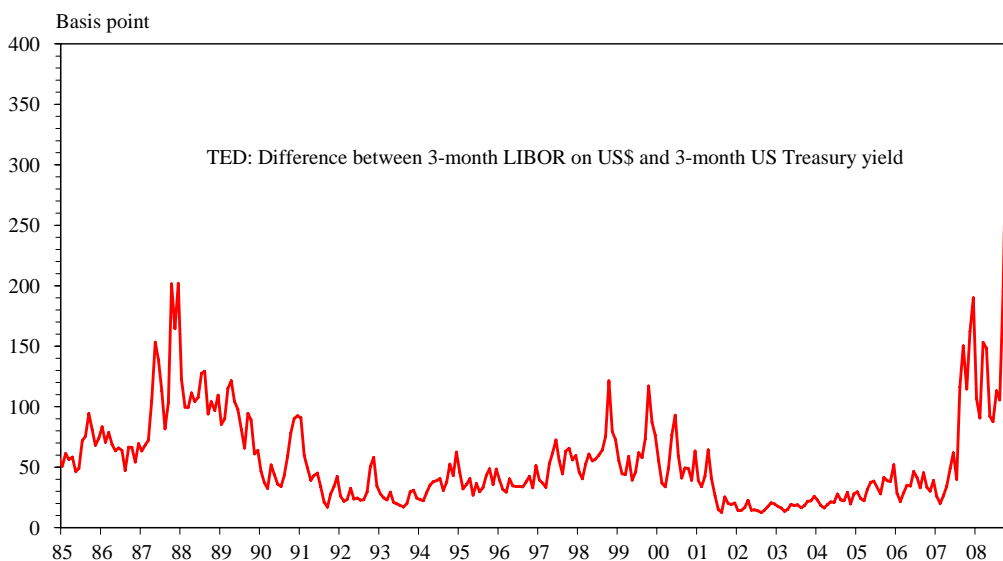
(\*) Change of less than 0.05%.

## Box 1.1

### Will the financial tsunami cause a steeper and longer global recession?

The global financial crisis, that has been lingering on since August last year, deepened abruptly in September, following the collapse of Lehman Brothers, the US's fourth largest investment bank. The serious concerns about insolvency of financial institutions clogged credit markets in the advanced economies, and increased markedly the systemic risks to the global financial systems. As an indication, the rate that banks charge each other, the London Interbank Offered Rate (LIBOR) on the US dollar, has been trading so high above three-month US Treasury-bill rates (on 10 October it was 4.82% vs. 0.25%, giving a TED spread of 457 basis points) that lending among banks have virtually come to a halt. This so-called TED spread signals the health of credit markets and has rarely been over 100 basis points (Chart 1). With governments of the major advanced economies taking various unprecedented measures, including direct equity injection into banks, credit markets have showed some signs of soothing after mid-October.

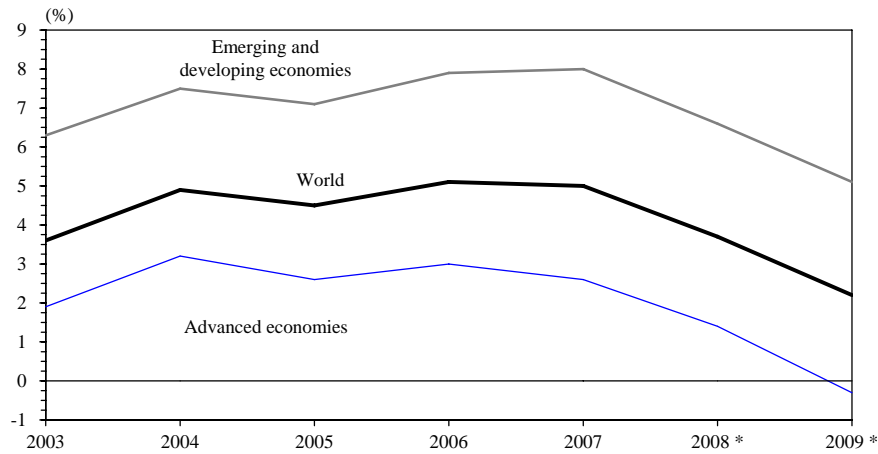
**Chart 1: TED spread surged to the largest in decades in October**  
(monthly average)



Recognising the crisis as the most dangerous financial shock in mature financial markets since the 1930s, the International Monetary Fund (IMF) noted in early November that global activity is slowing quickly, as financial sector deleveraging has continued and producer and consumer confidence have fallen. World economic growth is projected to moderate to 3.7% in 2008 and 2.2% in 2009 from the 5.0% in 2007 (Chart 2). The advanced economies would be in recession well into 2009, and the anticipated recovery will be exceptionally gradual by past standards. In advanced economies, output is forecast to contract on a full-year basis in 2009, the first such fall in the postwar period. Growth of emerging and developing economies, mostly export-dependent, will also slow notably.

### Box 1.1 (Cont'd)

**Chart 2: The global economy entering a major downturn  
(year-on-year GDP growth)**



Source: IMF World Economic Outlook Update November 2008

(\*) Forecast from the IMF

Given the deepening financial crisis, the economic situation is exceptionally uncertain and subject to considerable downside risks. The biggest risk for the advanced economies, in particular the US and some other European economies that are experiencing housing market downturn, is a negative feedback loop between financial market strains and housing market falloff, mutually reinforcing each other to a downward spiral of balance sheet adjustments, tighter credit conditions, lower asset prices and further financial market strains. Meanwhile, risk aversion and financial market contagion have led to severe strains on developing economies with high external debt, large current account deficits or problematic financial systems. All these suggest that the risk of the global economy experiencing a longer and steeper downturn is considerable.

**Box 1.1 (Cont'd)****Financial Tsunami – Selected key events**

|           |  |
|-----------|--|
| Jul 2006  | US housing prices peaked, more than doubled the level in Jan 2000.   |
| Feb 2007  | A major bank announced losses linked to US subprime mortgages, the first of a long series of similar announcements by key financial institutions.  |
| Aug       | French bank BNP Paribas stopped withdrawals in three investment funds.   |
| Sep       | UK bank Northern Rock admitted financial difficulties.   |
| Feb 2008  | UK bank Northern Rock nationalized.  |
| Mar       | An UK hedge fund and an US private equity fund failed. US investment bank Bear Sterns collapsed and taken over by JP Morgan.   |
| Aug       | German bank AG took over investment bank Dresdner Kleinwort.   |
| 7 Sep     | US Treasury took over Fannie Mae and Freddie Mac.  |
| 14 Sep    | Lehman Brothers filed for bankruptcy. Merrill Lynch sold to Bank of America.   |
| 16 Sep    | AIG Corp, the US's biggest insurer, bailed out by the Fed.   |
| 17 Sep    | Halifax Bank of Scotland (HBOS) merged with Lloyds TSB in an emergency rescue plan.  |
| 18 Sep    | Central banks injected billions into global markets.   |
| 25 Sep    | Washington Mutual sold to JP Morgan.   |
| 29 Sep    | US Congress rejected the US\$700 bn rescue plan. UK's Bradford and Bingley nationalized. German bank Hypo Real Estate bailed out by banks and government. Belgian bank Fortis bailed out by governments of Netherlands, Belgium and Luxembourg. Iceland part-nationalized one of its largest banks.  |
| 30 Sep    | Belgium bank Dexia bailed out by governments of France, Belgium and Luxembourg. Irish government announced guarantees for debts and deposits and similar moves made by other governments in the ensuing weeks.   |
| 3 Oct     | US Congress passed the US\$700 bn plan into law.   |
| 7 Oct     | Iceland nationalized another large bank.   |
| 8 Oct     | UK Treasury announced £ 500 bn bank rescue package. Coordinated interest rate cuts by six central banks.   |
| 10 Oct    | G7 issued a 5-point plan, endorsed by IMF and World Bank members. Iceland nationalized another large bank.   |
| 11-12 Oct | EU leaders agreed to guarantee loans between banks until end-2009. Germany, France and Italy announced bank rescue plans.  |
| 13 Oct    | UK injected equity into three banks.   |
| 14 Oct    | US announced US\$250 bn plan of equity injection into banks.   |
| 16 Oct    | Swiss government injected US\$59.2 bn into UBS. Hungarian central bank obtained cash injection from ECB.   |
| 19-21 Oct | Korean government announced plans to inject US\$130 bn into banks and guarantee external debt. Swedish government announced a 1.5 trillion kronor plan to guarantee loans and inject capital into financial companies. French government announced to inject 10.5 bn euros into the nation's six biggest banks, and the Fed to provide up to US\$540 bn in loans to help relieve pressure on money-market mutual funds beset by redemptions. |
| 23-31 Oct | Standard & Poor's cut the outlook on Russia to negative from stable. China, Japan, South Korea and 10 members of ASEAN agreed to set up a US\$80 bn fund to help countries in crisis. IMF agreed to lend US\$2.1, US\$16.5 and US\$15.7 bn respectively to Iceland, Ukraine and Hungary.   |

1.5 Consumer spending in July and August still held up relatively well. Yet the shock waves from the sudden outbreak of the global financial tsunami in early September and the escalation of the crisis in the ensuing weeks sent the local stock market in a nose-dive, and the property market was also down. These financial market jitters coupled with increasing concern over the global outlook weighed heavily on the consumer sentiment towards the end of the quarter. For the third quarter as a whole, *private consumption expenditure (PCE)* rose marginally by 0.2% in real terms over a year earlier, compared with the 3.2% increase in the second quarter. Meanwhile, *government consumption expenditure* went up steadily in the third quarter.

1.6 Overall investment spending in terms of *gross domestic fixed capital formation* saw some further growth of 3.0% in the third quarter, after the 3.5% increase in the second quarter. Machinery and equipment investment rose notably by 9.9% in the third quarter. Building and construction activities in the public sector reverted to an increase in the third quarter. Yet the building and construction activities in the private sector slackened further. Taken altogether, overall expenditure on building and construction posted another moderate decrease of 3.6% in the third quarter over a year earlier. As the property market became quieter, ownership transfer activity also trended downward. The results of the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department suggested the sentiments of large private sector business establishments in many economic sectors were rather negative on their near-term economic prospects as compared to the earlier period.

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

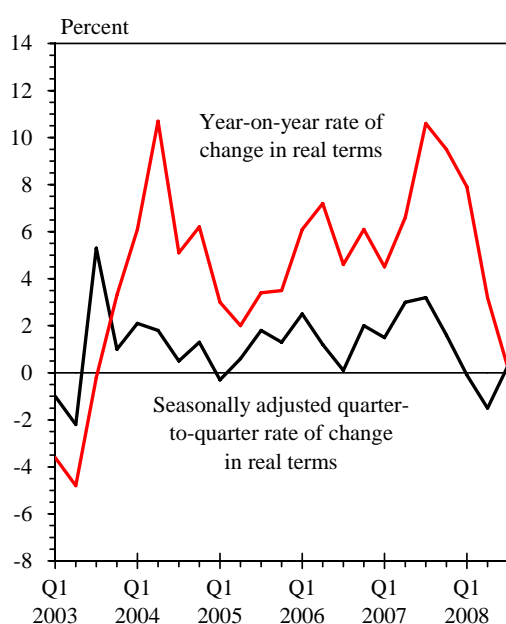
|      |        | <i>Of which :</i>   |      |          |                  |                                     |                     |  |          |
|------|--------|---|------|----------|------------------|-------------------------------------|---------------------|--|----------|
|      |        | Total<br>consumer<br>spending in<br>the domestic<br>market <sup>(a)</sup> |      |          |                  | Residents'<br>expenditure<br>abroad | Visitor<br>spending | Private<br>consumption<br>expenditure <sup>(b)</sup> |          |
|      |        |   | Food | Durables | Non-<br>durables |                                     |                     |  | Services |
| 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     | 4.4   | -0.4 | 13.9     | 8.4              | 2.6                                 | -3.7                | 8.3  | 3.2      |
|      | Q3     | 1.0   | -1.3 | 13.5     | 3.1              | -1.5                                | -3.9                | 3.6  | 0.2      |

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

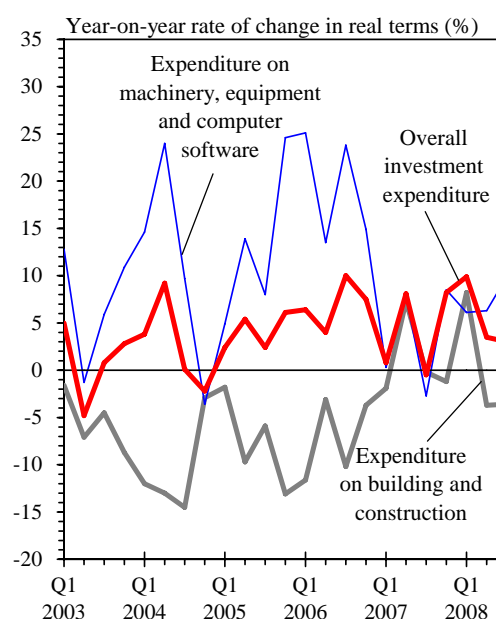
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

(\*) Change of less than 0.05%.

**Diagram 1.2 : Asset market corrections and dimmer economic prospects weighed on consumer sentiment**

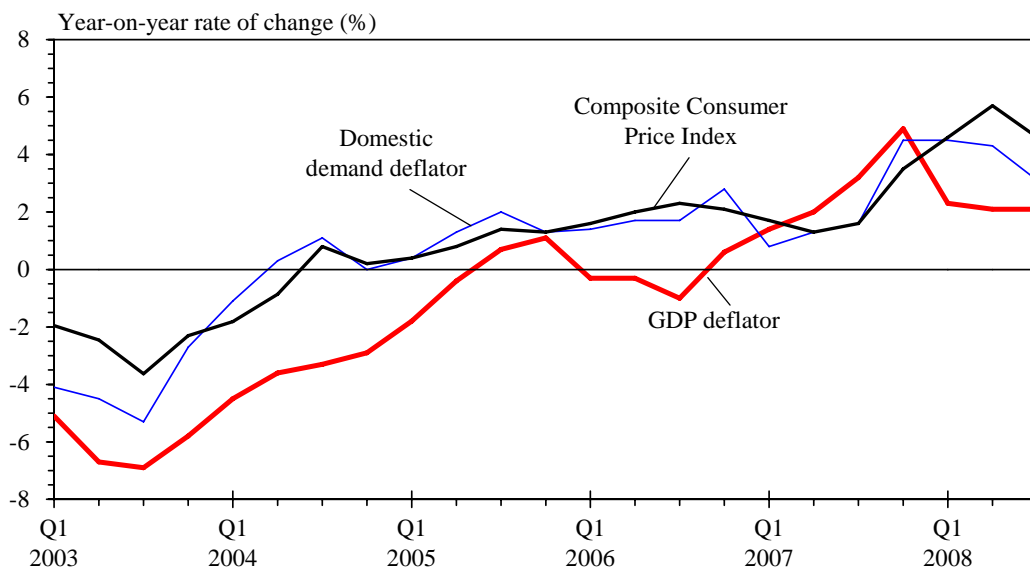


**Diagram 1.3 : Overall investment grew modestly**



1.7 *Headline consumer price inflation*, in terms of the year-on-year increase of the headline Composite CPI, halted its uptrend and fell to 4.6% in the third quarter, from 5.7% in the second quarter. The fall-off was mostly due to the relief measures of the Government paying the public housing rentals on behalf of the lower-income families in August and September and the electricity subsidy that took effect in September. Netting out the effects of the Government measures, *underlying consumer price inflation*, as measured by the year-on-year rate of increase in the underlying Composite CPI, rose further to 6.3% in the third quarter, from 5.7% in the second quarter. Nevertheless, on a monthly basis, underlying inflation stabilised at around 6.3% in July and August, and notched down slightly to 6.1% in September, thanks to the tapering of food inflation which offset the enlarged increase in private housing costs due to the earlier surges in market rentals. In general, the recent retreat of international commodity prices, particularly those of food and energy, the rebound of the US dollar and a weakening global economy have all helped to reduce the upside risks to inflation going forward. As to the *GDP deflator*, a small increase was recorded in the third quarter, similar to that in the second quarter.

**Diagram 1.4 : Headline consumer price inflation went down notably in the third quarter**



## **GDP by major economic sector**

1.8           The services sector remained the key driver of overall economic growth. Latest available figures indicate that the net output in the services sector rose moderately further by 4.2% in real terms in the second quarter of 2008 after a long period of rapid expansion. Wholesale and retail trade held up well alongside the consumer spending in the local market in that quarter. Import and export trade, as well as transport and storage both showed some moderation amid the less vibrant trade flows in the Asian region. The financing, insurance, real estate and business services posted a notable deceleration in the second quarter, reflecting mainly the fall-off in asset market transactions amid an increasingly uncertain economic outlook. The net output of the construction sector reverted to a decline along the drop in construction activities in the second quarter, and the manufacturing sector also continued its secular decline in net output.



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

|   | <u>2007</u> | <u>Q1</u> | <u>2007</u> |           |           | <u>2008</u> |           |
|---|-------------|-----------|-------------|-----------|-----------|-------------|-----------|
|   |             |           | <u>Q2</u>   | <u>Q3</u> | <u>Q4</u> | <u>Q1</u>   | <u>Q2</u> |
| Manufacturing   | -1.5        | -1.5      | -2.3        | -2.1      | -0.3      | -4.4        | -4.1      |
| Construction  | -2.1        | -6.1      | 3.8         | -2.8      | -2.6      | 8.3         | -2.7      |
| Services <sup>(b)</sup>   | 7.5         | 7.1       | 7.5         | 7.3       | 7.8       | 6.8         | 4.2       |
| Wholesale, retail and<br>import and export<br>trades, restaurants<br>and hotels | 7.3         | 6.9       | 7.5         | 7.3       | 7.3       | 8.9         | 7.0       |
| Import and export<br>trade  | 6.7         | 6.6       | 7.3         | 6.8       | 6.3       | 9.5         | 7.7       |
| Wholesale and<br>retail trades  | 9.4         | 6.2       | 7.5         | 10.7      | 12.5      | 8.8         | 6.0       |
| Restaurants and<br>hotels   | 8.7         | 8.4       | 7.0         | 9.8       | 9.7       | 4.6         | 3.8       |
| Transport, storage and<br>communications  | 5.4         | 4.1       | 4.8         | 6.0       | 6.6       | 7.2         | 4.3       |
| Transport and<br>storage  | 5.6         | 3.8       | 4.5         | 6.5       | 7.4       | 7.9         | 4.2       |
| Communications  | 4.7         | 5.5       | 6.3         | 3.9       | 3.2       | 4.3         | 4.5       |
| Financing, insurance,<br>real estate and<br>business services                   | 15.0        | 13.6      | 14.1        | 15.5      | 16.6      | 10.4        | 4.2       |
| Financing and<br>insurance services   | 19.3        | 17.4      | 17.2        | 22.0      | 20.7      | 11.4        | 4.7       |
| Real estate and<br>business services  | 7.5         | 7.2       | 7.7         | 5.6       | 9.5       | 8.7         | 3.2       |
| Community, social and<br>personal services                                      | 1.2         | 1.8       | 0.9         | 0.9       | 1.3       | 0.7         | 1.5       |

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 The Chief Executive announced the 2008-09 Policy Address on 15 October 2008, mapping out policies to turn crises into opportunities. To prepare the Hong Kong economy for the challenges ahead, the Chief Executive has established the Task Force on Economic Challenges to assess the impact of the financial tsunami on the Hong Kong economy, and to propose specific options to address the challenges.

1.10 On the economic front, the Government will, among many other measures, reinforce Hong Kong's position as a global financial centre to help the economy power ahead, by optimizing banking and insurance supervision, regulation of the securities in industry, and control of the Mandatory Provident Fund. It will also strive to attract more new enterprises from the emerging markets to list in Hong Kong.

1.11 The Government will step up efforts to ensure integration within the Pearl River Delta Region. The recently-signed Supplement V to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) will usher in a new phase of co-operation in services industries between Hong Kong and Guangdong, where the early and pilot implementation will take place. A comprehensive planning study on the use of the Lok Ma Chau Loop will also be conducted.

1.12 The Government will ensure the development of scientific research by reinforcing Hong Kong's intermediary role in technological co-operation between the Mainland and the rest of the world. To promote the development of creative industries, a dedicated Creative Industry Office will also be set up to co-ordinate the work of different departments of the Government. Measures will also be introduced to enhance business and commerce development, to promote wine trade, to optimize human resources, and to protect consumer interests.

1.13 In view of the unsatisfactory results of the Wage Protection Movement, the Government will work on a statutory minimum wage. In view of the public opinions, the Government is inclined to go for an across-the-board statutory minimum wage, covering all trades and industries. An advisory Minimum Wage Commission will be set up to study the level of minimum wage as well as the review mechanism.

**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.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *The external sector worsened further in the third quarter, as the US subprime mortgage crisis erupted into a global financial tsunami to add woes to the already weakening global economy. Exports of goods turned in a modest growth in the quarter over a year earlier, while exports of services also slowed further.*
- *With the full-blown financial crisis hitting the global economy on a broad front, the advanced economies were on the verge of recession, causing the export-dependent Asia to slow notably towards the end of the quarter.*
- *In the midst of such a difficult external environment, merchandise exports slackened further to a modest growth in the third quarter over a year earlier. Exports to most major economies showed different extents of moderation. The decline in exports to the US was particularly notable. Exports to Japan continued to fall, while the growth in exports to Europe stayed modest. Intraregional trade in Asia likewise faltered in the wake of weakening global demand.*
- *Exports of services still registered a solid growth in the third quarter, though likewise decelerated as compared to the second quarter. Exports of finance, business and other services moderated markedly, being hard hit by the global financial market distress towards the end of the third quarter. Inbound tourism also showed a notably slower growth in the third quarter, and transportation services only grew modestly. Nevertheless, exports of trade-related services continued to grow notably, supported by the Mainland's trade flows.*

## Visible trade

### *Total exports of goods*

2.1 *Total exports of goods* (comprising re-exports and domestic exports) decelerated notably to a modest growth in real terms <sup>(1)</sup> in the third quarter of 2008. Demand from the advanced economies, which was already slowing since early this year, deteriorated significantly more in September following the rapid escalation of the US financial turmoil into a full-blown global financial crisis<sup>(2)</sup>. The second-round impact on the intra-regional trade in Asia was also increasingly obvious.

2.2 While there have been substantial stabilising efforts by the central banks and governments of various major economies, with many of the measures unprecedented<sup>(3)</sup>, the financial markets remained strained and the global economy under stress. The United States is at the centre of the intensifying global financial turmoil, and a recession is now underway. The EU also saw significant weakening in their economy as they were likewise affected by the credit crunch and extraordinary financial stress. A number of its constituent countries further suffered from falling housing prices. Economies in Asia have all been adversely affected in the wake of the rapidly falling overseas demand and global financial turbulence <sup>(4)</sup>.

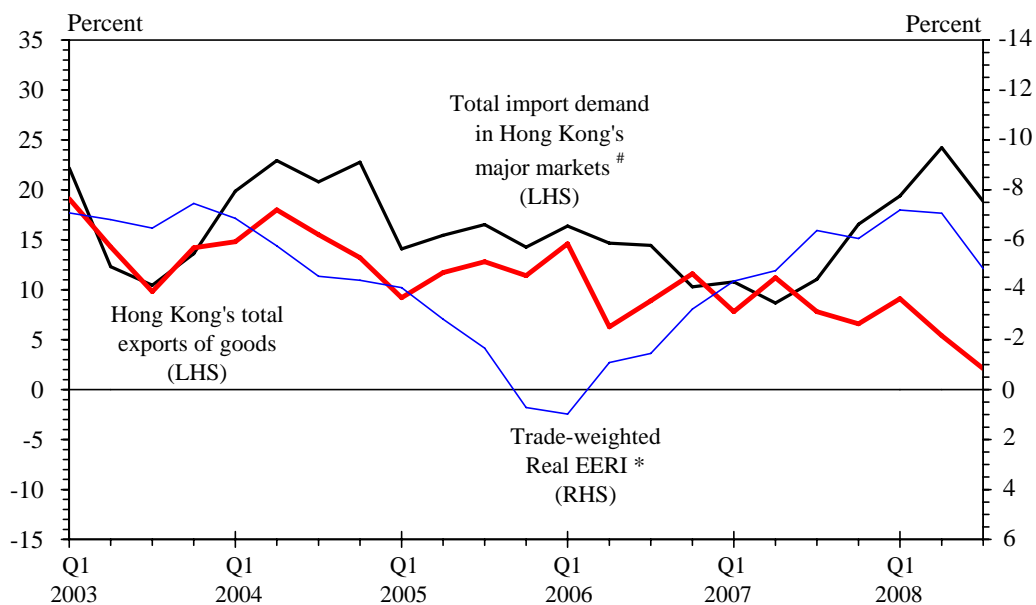
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

|             | <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> |       |         |     |
| 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 |
| Q3          | 5.5                           | 2.1                  | (-2.3)                  | 4.8                   | 6.5                  | 3.3                     | (-1.9)                  | 4.7                  | -17.8                   | -26.1 | (-15.0) | 6.4 |

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

2.3 In the midst of such a difficult external environment, *re-exports*<sup>(5)</sup> recorded only 3.3% growth in real terms in the third quarter of 2008, after a 6.6% increase in the second quarter. On the other hand, *domestic exports* continued to plummet, by 26.1% in the quarter.

**Diagram 2.1 : Total exports of goods decelerated notably in the third quarter of 2008 (year-on-year rate of change)**

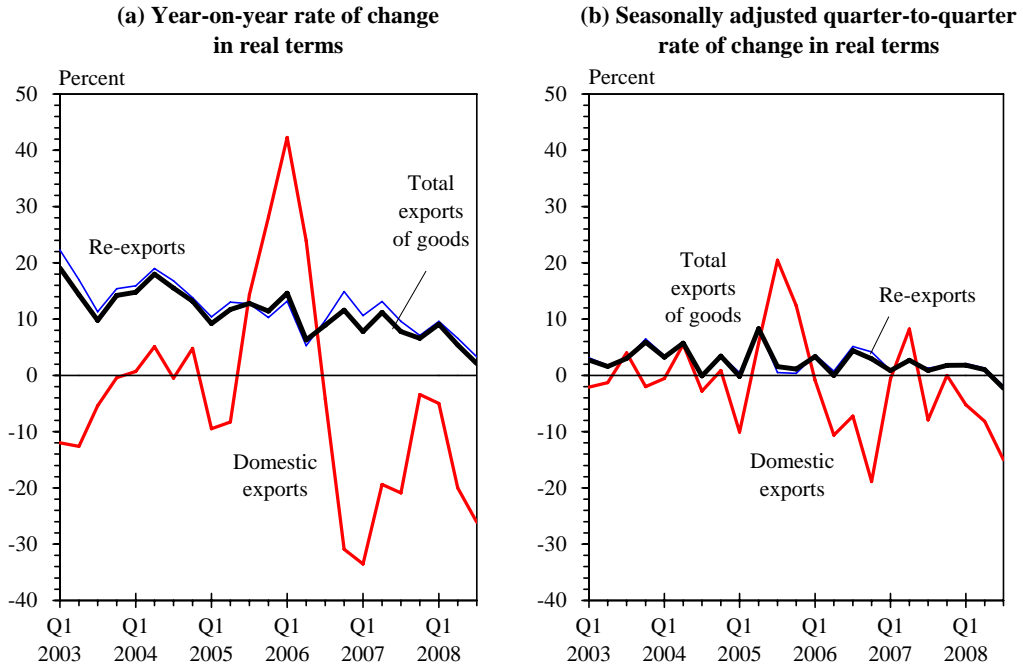


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

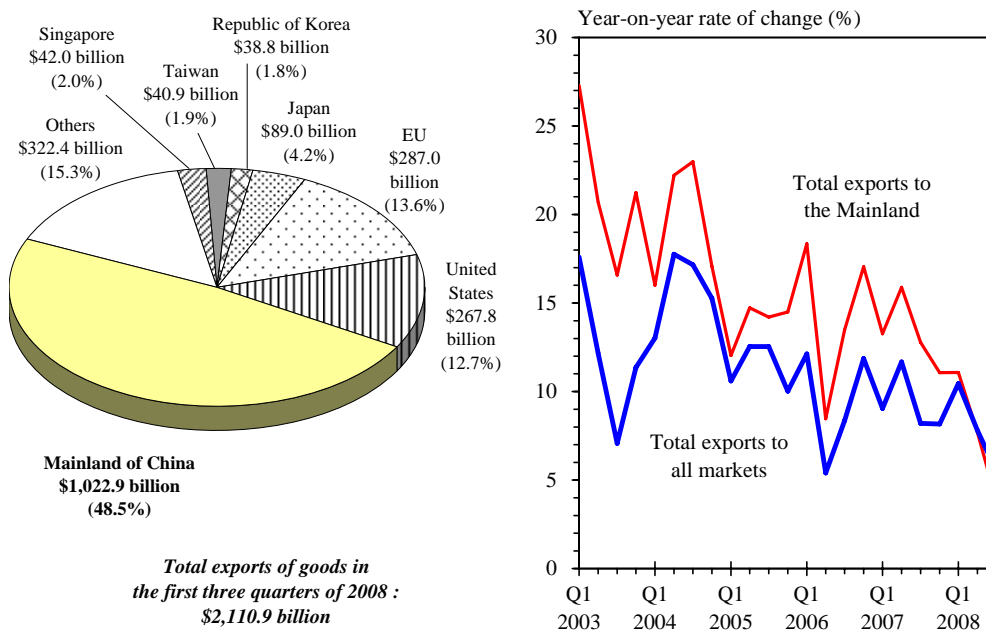
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

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

**Diagram 2.2 : Re-exports accounted for a lion's share of total exports**



**Diagram 2.3 : The Mainland market remained pivotal to Hong Kong's exports**



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

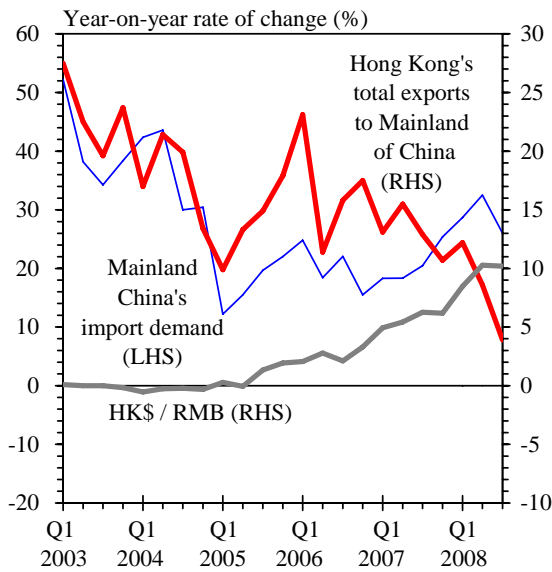
|      |        | <u>Mainland<br/>of China</u> | <u>United<br/>States</u> | <u>European<br/>Union</u> | <u>Japan</u> | <u>Republic<br/>of Korea</u> | <u>Taiwan</u> | <u>Singapore</u> |
|------|--------|------------------------------|--------------------------|---------------------------|--------------|------------------------------|---------------|------------------|
| 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             |
|      | Q3     | 3.9                          | -7.1                     | 2.0                       | -1.2         | -5.7                         | -2.5          | -0.5             |

2.4 Total exports of goods to the advanced economies were weak, in the wake of an increasingly difficult external environment. The decline in exports to the US was particularly notable as the import demand in the US, mostly in the form of consumer goods, fell. Exports to Japan remained subdued, while the growth in exports to the EU showed only modest growth.

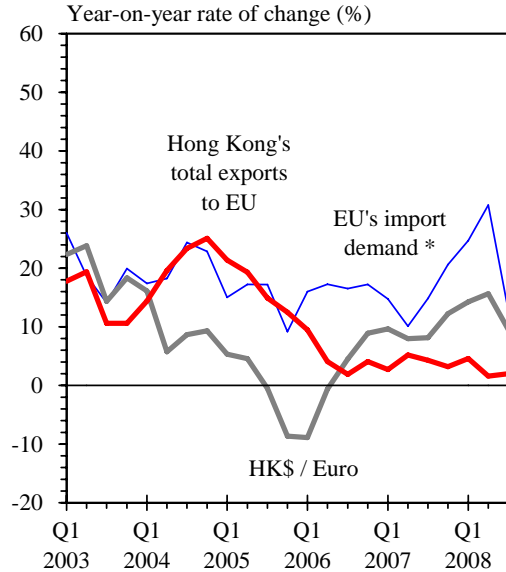
2.5 With slowing demand from the advanced economies, the momentum of the intraregional trade in Asia also waned. Exports to the Mainland registered a much slower growth in the third quarter as compared to the double-digit growth earlier this year. Exports to the other economies like South Korea, Singapore and Taiwan were likewise weak, with intake of raw materials and capital goods showing a worsening performance in general. Exports to many other emerging economies in the region also saw notable moderation, having surged distinctly in the earlier periods.



**Diagram 2.4 : Exports to the Mainland registered a much slower growth in the third quarter**

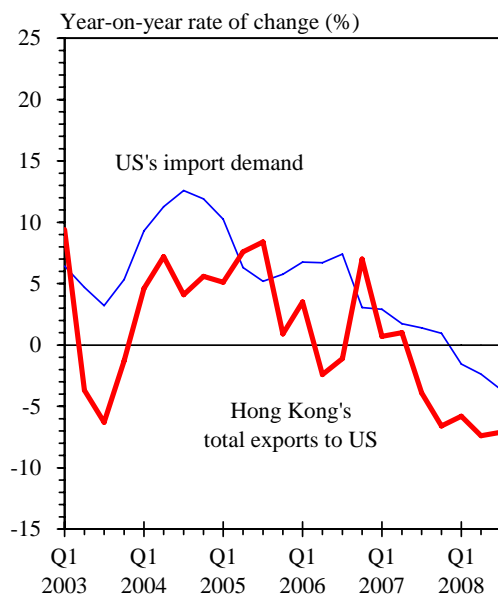


**Diagram 2.5 : Exports to EU grew modestly amid EU's weakening economy**

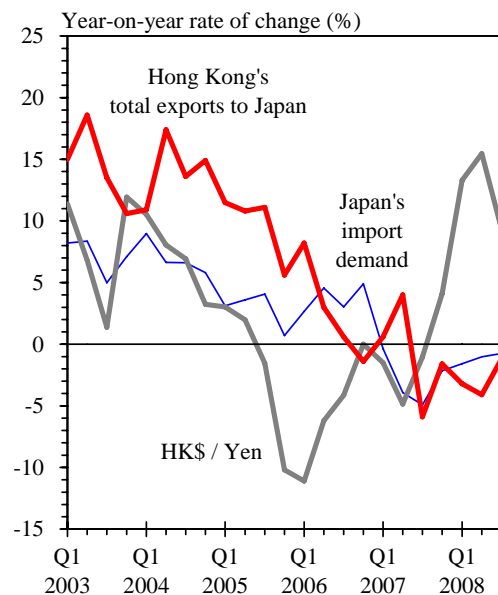


Note: (\*) Import demand figure for the third quarter of 2008 is based on information available up to Aug 2008.

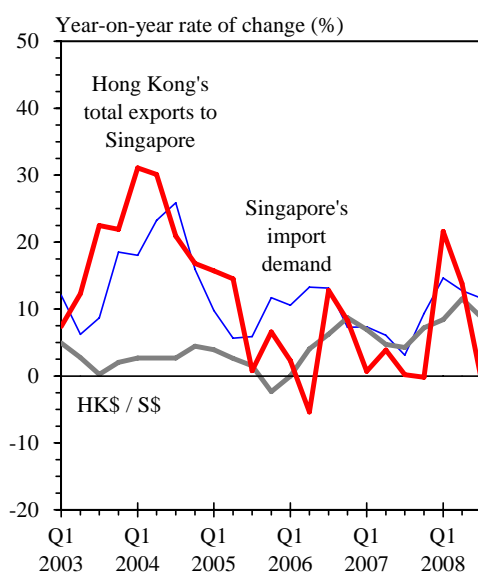
**Diagram 2.6 : Exports to US fell steeply as its import demand being hampered**



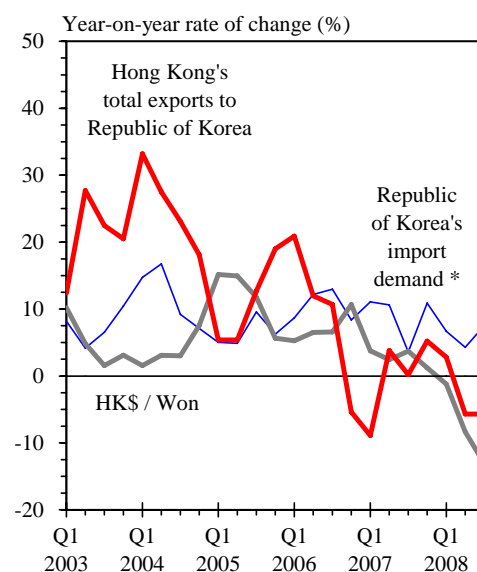
**Diagram 2.7 : Exports to Japan remained subdued with its weak consumer sentiments**



**Diagram 2.8 : Exports to Singapore saw a notable moderation**



**Diagram 2.9 : Exports to Korea continued to fall**



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

### ***Imports of goods***

2.6 *Imports of goods* rose by 2.7% in real terms in the third quarter of 2008, after an increase of 5.6% in the second quarter. Meanwhile, *retained imports*, which accounted for around one quarter of the total imports, increased only marginally in real terms. Analysing retained imports by end-use, retained imports of raw materials and semi-manufactures continued to drop notably. Retained imports of fuels in real terms reverted to a marginal increase in the third quarter, as oil prices came down from the peak in July. Retained imports of foodstuffs, consumer goods and capital goods all grew further in the third quarter as a whole despite the worsening sentiment towards the end of the quarter. The particularly notable growth in the intake of capital goods was mainly due to the low base in the same quarter last year.

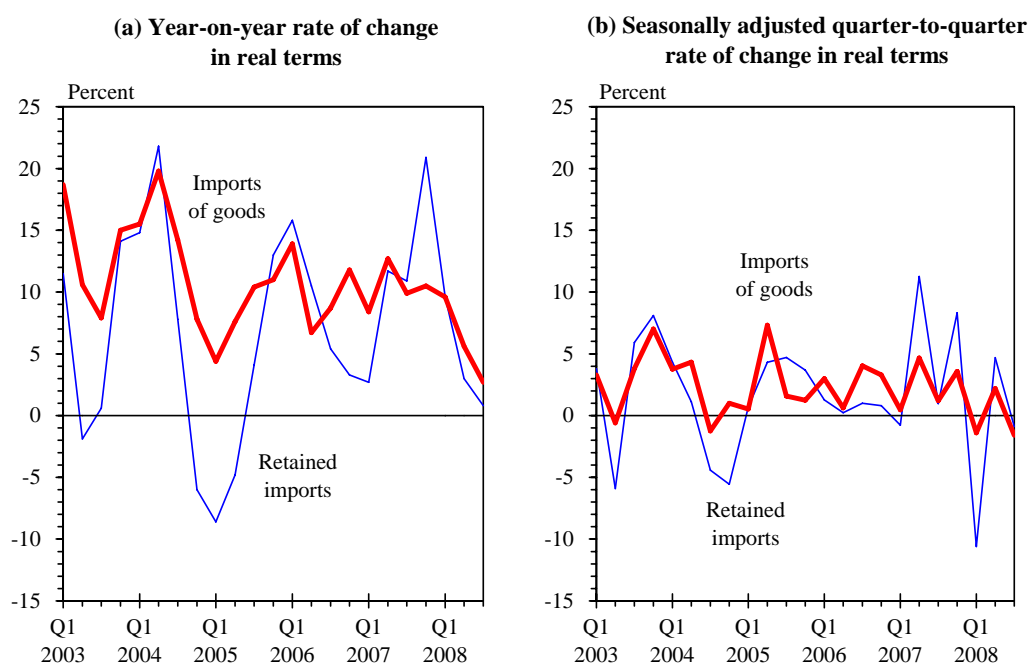
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

|      |        | <u>Imports of goods</u> |                      |                         |                       | <u>Retained imports</u> <sup>(a)</sup> |                         |  |
|------|--------|-------------------------|----------------------|-------------------------|-----------------------|--|-------------------------|--|
|      |        | <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)                   |  |
|      | Q3     | 7.0                     | 2.7                  | (-1.6)                  | 8.5                   | 0.8                                    | (-0.9)                  |  |

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**



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

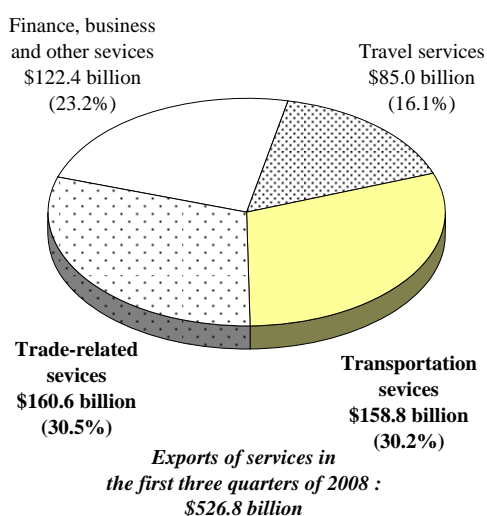
|      |        | <u>Consumer goods</u> | <u>Foodstuffs</u> | <u>Capital goods</u> | <u>Raw materials and semi-manufactures</u> | <u>Fuels</u> |
|------|--------|-----------------------|-------------------|----------------------|--|--------------|
| 2007 | Annual | 6.4                   | 6.6               | 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         |
|      | Q3     | 9.8                   | 9.0               | 20.0                 | -35.4                                      | 0.9          |

## **Invisible trade**

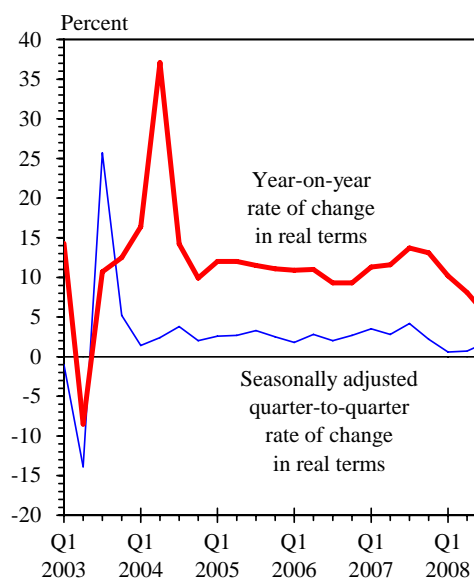
### *Exports of services*

2.7 Exports of services registered a solid growth of 5.3% in the third quarter, though moderated further from the 8.1% in the second quarter of 2008. Exports of finance, business and other services decelerated notably, as the global financial conditions worsened substantially towards the end of the quarter. Exports of travel services also showed a much slower growth alongside the deceleration in visitor arrivals in the third quarter, due partly to a temporary fall-off in incoming visitors during the Beijing Olympics period in August 2008, but possibly also reflecting the slowing in global demand. Exports of transportation services likewise showed a modest growth. Nevertheless, exports of trade-related services continued to grow notably in the third quarter, supported by the Mainland's trade flows.

**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 registered a solid growth in the third quarter**



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

*Of which :*

|      |        | Exports of services |       | Trade-related services <sup>(a)</sup> | Transportation services | Travel services <sup>(b)</sup> | Finance, business and other services |
|------|--------|---------------------|-------|---------------------------------------|-------------------------|--------------------------------|--------------------------------------|
|      |        |                     | ( )   |                                       |                         |                                |                                      |
| 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) | 9.6                                   | 4.2                     | 9.4                            | 24.1                                 |
|      | Q2     | 11.6                | (2.8) | 11.2                                  | 6.3                     | 8.6                            | 22.0                                 |
|      | Q3     | 13.7                | (4.2) | 11.4                                  | 5.7                     | 15.5                           | 27.9                                 |
|      | Q4     | 13.1                | (2.2) | 9.5                                   | 4.9                     | 21.8                           | 24.3                                 |
|      | 2008   | H1                  | 9.2   |                                       | 9.6                     | 4.5                            | 8.6                                  |
| Q1   |        | 10.2                | (0.6) | 9.6                                   | 5.2                     | 8.8                            | 17.7                                 |
| Q2   |        | 8.1                 | (0.7) | 9.5                                   | 3.8                     | 8.3                            | 12.1                                 |
| Q3   |        | 5.3                 | (1.8) | 7.8                                   | 2.8                     | 3.6                            | 5.8                                  |

Notes : (a) Comprising mainly offshore trade.

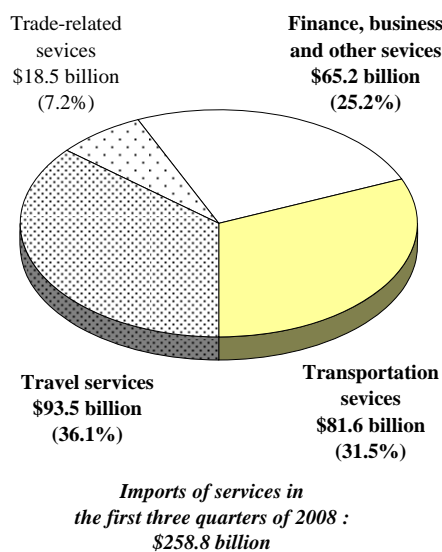
(b) Comprising mainly inbound tourism receipts.

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

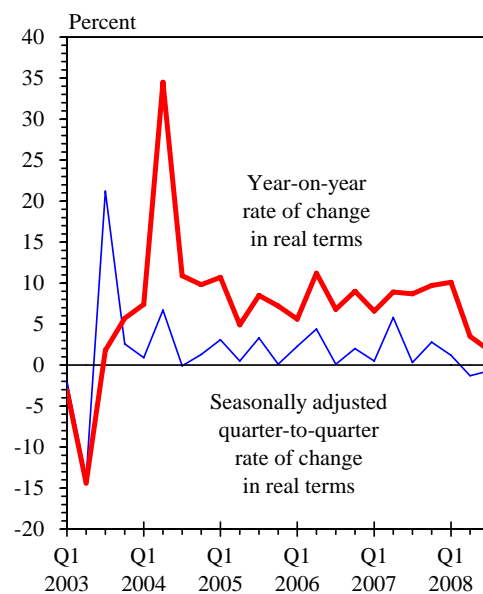
## Imports of services

2.8 *Imports of services* grew by 1.8% in real terms in the third quarter of 2008, as compared to the 3.5% growth in the preceding quarter. Due to the temporary stay-home effects during the Olympic Games period and the weaker consumer sentiments alongside the worsening domestic economic situation, outbound tourism slowed during the quarter, and along with this, imports of travel services dropped. Imports of trade-related services continued to expand notably along with the further expansion of the Mainland's trade flows, while imports of transportation services expanded moderately further. Imports of finance, business and other services showed further deceleration due to the current difficult globalwide financial conditions.

**Diagram 2.13 : Travel service, transportation services, and services involving finance and business were 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<br/>of services</u> |        | <u>Travel<br/>services<sup>(+)</sup></u> | <u>Transportation<br/>services</u> | <u>Trade-related<br/>services</u> | <u>Finance, business<br/>and other<br/>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     | 6.7                            |        | 3.8                                      | 8.2                                | 10.2                              | 8.3   |
|      | Q1     | 10.1                           | (1.2)  | 9.9                                      | 11.0                               | 10.2                              | 9.5   |
|      | Q2     | 3.5                            | (-1.3) | -2.0                                     | 5.7                                | 10.1                              | 7.1   |
|      | Q3     | 1.8                            | (-0.7) | -2.0                                     | 2.5                                | 8.4                               | 4.3   |

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 \$58.6 billion in the third quarter of 2008, equivalent to 6.5% of the total value of imports of goods and services, still notable though not as high as in the third quarter of 2007 (\$59.6 billion in value and equivalent to 7.1% 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              | 335.8           | 1,467.5        | 167.6           | -108.1               | 168.1           | 60.0            |
|      | Q1     | 650.6                | 169.2           | 696.7          | 83.4            | -46.1                | 85.9            | 39.8            |
|      | Q2     | 708.7                | 166.5           | 770.8          | 84.3            | -62.0                | 82.3            | 20.2            |
|      | Q3     | 764.3                | 191.1           | 805.6          | 91.1            | -41.4                | 99.9            | 58.6            |

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

## **Trade policy and other developments**

2.10 The 2008-09 Policy Address announced by the Chief Executive on 15 October 2008 laid out a number of new and ongoing initiatives to promote external trade. The Government will continue to work closely with the Mainland authorities to ensure the smooth and effective implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), to which the Supplement V<sup>(6)</sup> was signed on 29 July 2008.

2.11 In terms of the progress of the cross-boundary infrastructure projects, the construction of the Hong Kong-Zhuhai-Macao Bridge is expected to commence no later than 2010. The design and planning of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link will be completed within 2008 for construction to start next year. Regarding the development of the Lok Ma Chau Loop, the Government also maintains close co-operation with the Shenzhen Municipal Government through the Hong Kong-Shenzhen Joint Task Force on Boundary District Development. On the intended land uses of the Lok Ma Chau Loop, a comprehensive planning study will be conducted in the coming few months.

2.12 As a new initiative, the Government will strengthen Hong Kong-Taiwan exchanges proactively, and grasp the opportunities brought about by the enhanced cross-strait relations while maintaining Hong Kong's role on the cross-strait platform. The Government will also enhance co-operation with



Macao in providing greater immigration convenience to residents traveling between the two places. Meanwhile, continued efforts will be made by the Government to enhance Hong Kong's economic ties with the emerging markets in Russia, India, and the Middle East and help Hong Kong's enterprises to tap the growing business opportunities in these markets.

#### **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) The intensifying solvency concerns triggered a cascading series of bankruptcies, forced mergers, and public interventions in many economies in the world, in particular the US and some western European countries. All these indicated the extraordinarily turbulent conditions and the escalation of the financial crisis. According to the estimate recently made by the International Monetary Fund (IMF) in its Global Financial Stability Report issued in October 2008, the aggregate writedowns based on global holdings of US-originated and securitized mortgage, consumer, and corporate debt could reach \$1.4 trillion, with further upside to this estimate.
- (3) Since the outbreak of the global financial tsunami in mid-September, many bold policy actions were taken by governments of the advanced economies to keep markets functioning. Initially the interventions from the public sector came on case-by-case basis, then more systematic measures were introduced, in the form of capital injections into banks and guarantees on bank deposits. The co-ordinated rate cuts across the major central banks and the Federal Reserve's foreign exchange swap with other central banks in October reflected the co-ordination at the international level to tackle the financial crisis.
- (4) The International Monetary Fund (IMF) downward revised its forecast on world economic growth twice over the past two months. According to its latest World Economic Outlook Update issued in November 2008, global economic growth was projected to moderate to 3.7% in 2008 (revised down from 4.1% in its July update) and 2.2% in 2009 (revised down from 3.9% in its July update) from the 5.0% in 2007. Specifically, the IMF projected the advanced economies to grow by 1.4% in 2008 and then contract by 0.3% in 2009, the first annual contraction during the post-war period. The IMF likewise projected a moderation in growth in the emerging and developing economies, from 6.6% in 2008 to 5.1% in 2009.
- (5) 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.

- (6) The Supplement V comprises of 29 liberalisation measures in 17 service sectors and will come into effect from 1 January 2009. A number of service liberalisation and facilitation measures for early and pilot implementation in Guangdong was also approved by the Central People's Government upon the signing of the Supplement V.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

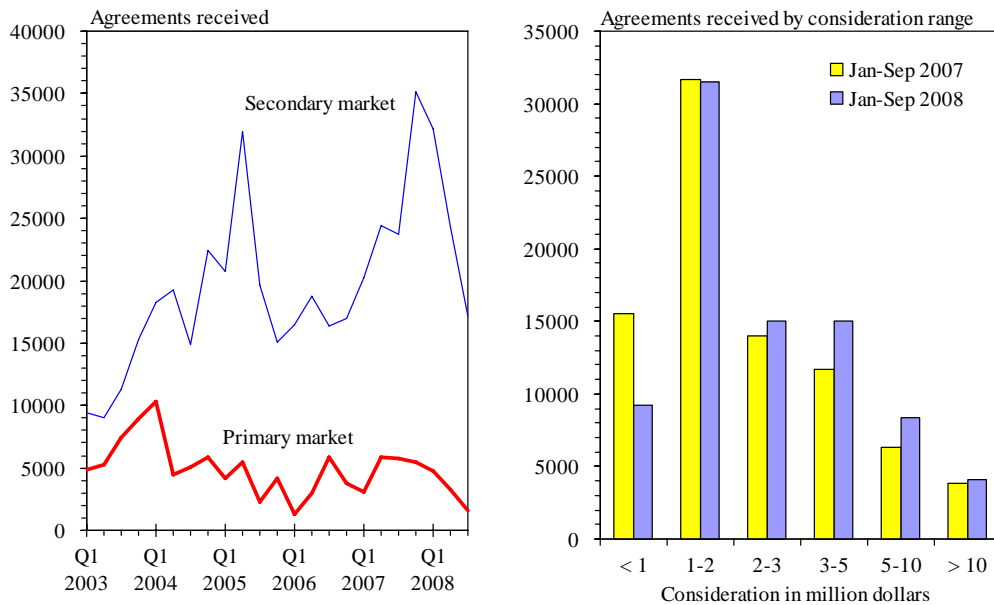
### *Summary*

- *The property market continued to adjust in the third quarter of 2008 amidst the volatile global financial markets and dimmer economic prospects. Transaction volume shrank markedly across all segments, while sale prices retreated from their earlier highs.*
- *Inbound tourism registered only modest growth in the third quarter. The long-haul markets showed more visible slack, hit by the global economic downturn and high air fares as a result of elevated fuel charges. In order to provide the necessary support to the travel industry, the Government will further develop tourism infrastructure and improve cross-boundary transport facilities and arrangements.*
- *The deteriorating external environment has started to hit the logistics sector. Air freight throughput declined in the third quarter. While container volume still posted moderate growth, the pace has tapered noticeably towards the end of the quarter.*

### **Property**

3.1 The global financial crisis and uncertain economic outlook have hard hit buyers' interest in the local *property market*. As a result, the number of sale and purchase agreements for residential property received by the Land Registry fell by 36% year-on-year, or 32% quarter-to-quarter, to 18 792 in the third quarter of 2008. Total consideration of these agreements, at \$59 billion, was also 34% lower than a year earlier and 44% lower than in the previous quarter. The increase in mortgage rate by a number of local banks by 0.5 percentage point in late September has further dampened the transaction volume recently.

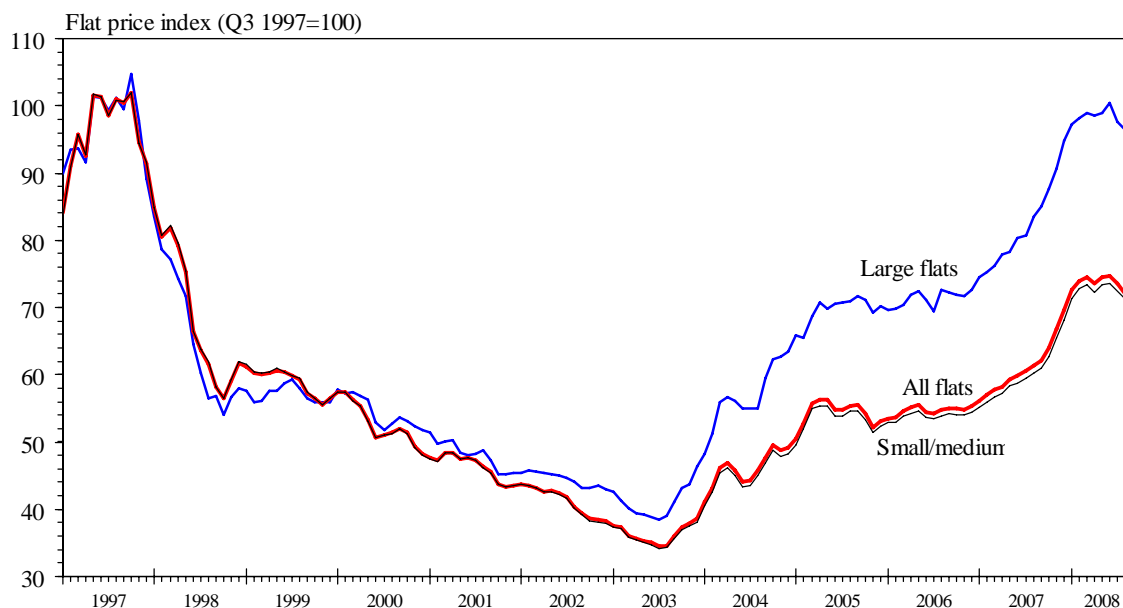
**Diagram 3.1 : Transaction volume for residential units shrank markedly in the third quarter**



3.2 Sentiment was equally cautious at the lower end of the market. There were only 11 000 applications vying for the 3 221 flats offered in the fourth batch of Surplus Home Ownership Scheme (HOS) flats in September 2008, much lower than the 25 000 applications received for the previous batch.

3.3 Along with the plunge in transactions, overall *residential flat* prices fell by 5% between June and September 2008. Prices of large and small/medium flats registered broadly similar falls. With the gain recorded in the early part of the year largely wiped off by the recent fall, residential flat prices in September were only 2% higher than in December 2007. Against the peak in 1997, the prices of large and small/medium flats in September were 9% and 31% lower respectively.

**Diagram 3.2 : Flats prices returned to levels similar to those in early 2008**



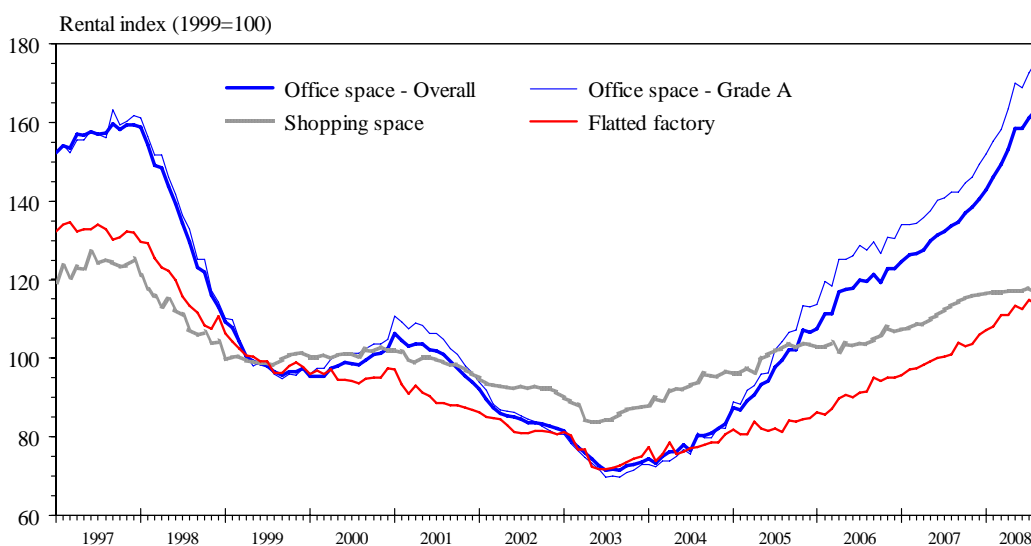
Note : Large flats refer to those with saleable area of 100 m<sup>2</sup> or above while small/medium flats refer to those with saleable area of less than 100 m<sup>2</sup>. The price indices pertain to secondary market transactions only.

3.4 The leasing market also started to feel the pinch, though performance was not as bad as the sales market. Overall rentals declined by 2% between June and September 2008, and brought the cumulative increase over December 2007 down to 8%. While rentals of large flats recorded a small increase, rentals of small/medium flats dropped. Rental yield for residential property stood at 4.3% in September 2008.

3.5 The market for *commercial* and *industrial* properties also turned sluggish in the face of a more difficult business environment. The prices of *office* space in overall terms moved down by 2% during the third quarter, though rentals remained largely stable. Prices of Grade A and Grade C offices fell, while prices of Grade B office edged up slightly. Due to the fall during the third quarter, the cumulative gains in prices of office space in September over December 2007 narrowed to 5%. Rental yields for Grade A, B and C offices were 4.0%, 4.5% and 4.6% respectively in September.

3.6 As regards *shopping space*, prices and rentals fell by 3% and 1% respectively between June and September amidst the less exciting growth in retail sales. Affected by the gloomy export prospects, prices of *flatted factory* declined by 3% from June to September. Rentals have also started to fall since August, though taking the quarter as a whole there was virtually no change. Rental yields for retail property and flatted factory were 4.2% and 5.9% respectively in September.

**Diagram 3.3 : The markets for commercial and industrial properties were generally sluggish due to a softening economy**



## Land

3.7 Owing to the uncertain market outlook, property developers have adopted a wait-and-see attitude towards land acquisition in the past few months. No land site was sold through the *Application List (AL)* system or tendering in the third quarter. In his Policy Address released in October, the Chief Executive reaffirmed that the Government will continue to implement the AL system to allow the market to decide the new land supply. The Government and Government-owned statutory bodies will not indiscriminately supply residential or commercial land, or sell land way below market prices.

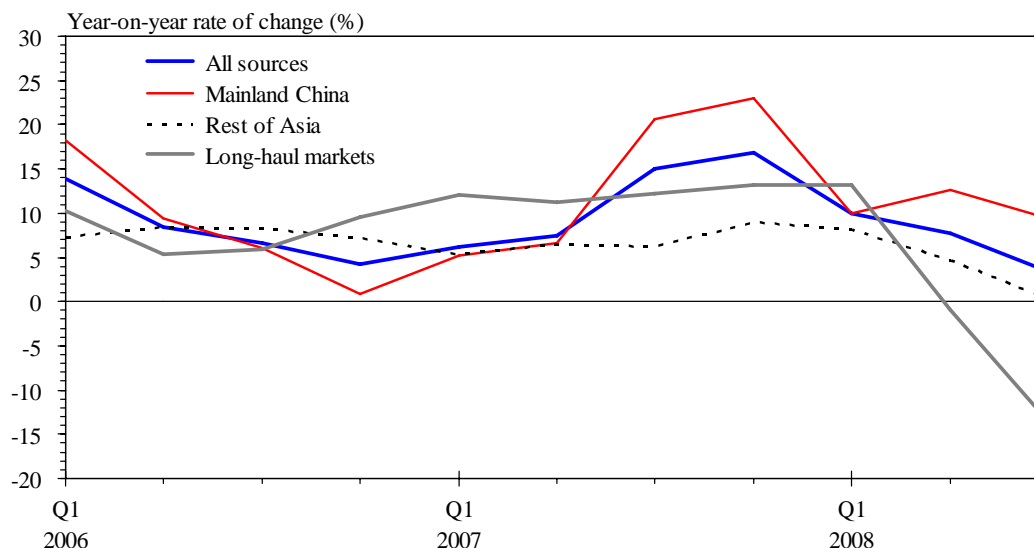
## Tourism

3.8 Inbound tourism has experienced a slowdown recently. While *incoming visitor arrivals* still managed to grow by 3.4% over a year earlier to 7.6 million in the third quarter, the pace was more moderate than the previous quarters.

3.9 Hit by the gloomy global economic outlook and high air fares as a result of elevated fuel prices, visitor arrivals from the long-haul markets such as the United States and some European countries plummeted. Mainland's visa policy before and during the Olympic period also had an impact on overseas business travellers who otherwise might have gone to the Mainland via Hong Kong. On the other hand, Mainland visitor arrivals still grew by 9.4% in the third quarter over a year earlier, though this was slower than the growth

registered in the second quarter. The Individual Visit Scheme continued to be the bright spot, with visitors under this scheme rising further by 14.5% in the third quarter.

**Diagram 3.4 : The growth momentum of inbound tourism decelerated further in the third quarter**



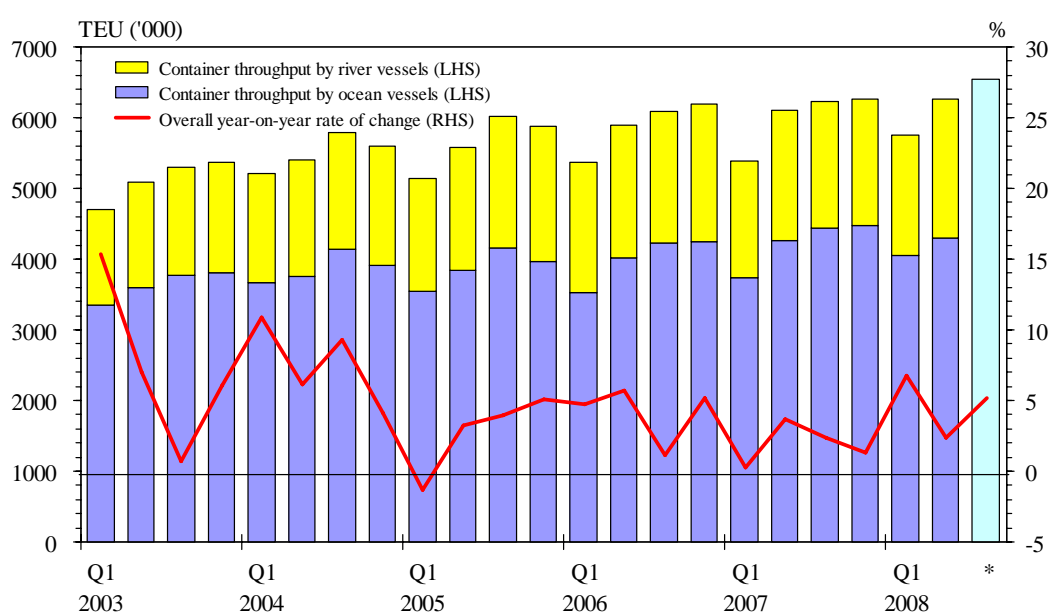
3.10 In the third quarter, overnight visitor arrivals dropped by around 2.2% over a year earlier, while same-day visitor arrivals rose by 12.7%. As a result, the share of overnight visitors in total visitor arrivals declined to 58.9% in the period from 62.3% a year ago, while the share of same-day visitors rose to 41.1% from 37.7%. Hotel room occupancy rate averaged at 84% in the third quarter, lower than the 87% a year earlier. Yet the average achieved hotel room rate climbed further by 2.6% over the period to \$1,143<sup>(1)</sup>.

3.11 In order to develop Hong Kong into a regional cruise hub, the Government has decided to finance the development of a new cruise terminal at Kai Tak, at an estimated cost of about \$7.2 billion. Under this arrangement, the Government will design and build the terminal, and lease the facilities to a cruise terminal operator while retaining ownership. The first berth is expected to come into service by mid 2013 while the full-fledged cruise terminal building will be completed by 2014 or 2015. With the new cruise terminal facilities and appropriate market strategies in place, it is estimated that the cruise and related industries would bring about economic benefits of \$1.5-2.6 billion a year and generate 5 300-8 900 jobs by 2023.

## Logistics

3.12 The deteriorating external environment has started to hit the logistics sector. While total container throughput grew by 5.2% to 6.5 million TEUs in the third quarter, following a 2.4% increase in the second quarter, the pace has tapered noticeably since September along with the slowdown in external trade. The value of trade (excluding transshipment cargoes) handled at Hong Kong Port increased by 7.4% in the third quarter and accounted for 31% of the overall trade value.

**Diagram 3.5 : Port container traffic continued to grow, but the pace has moderated since September**

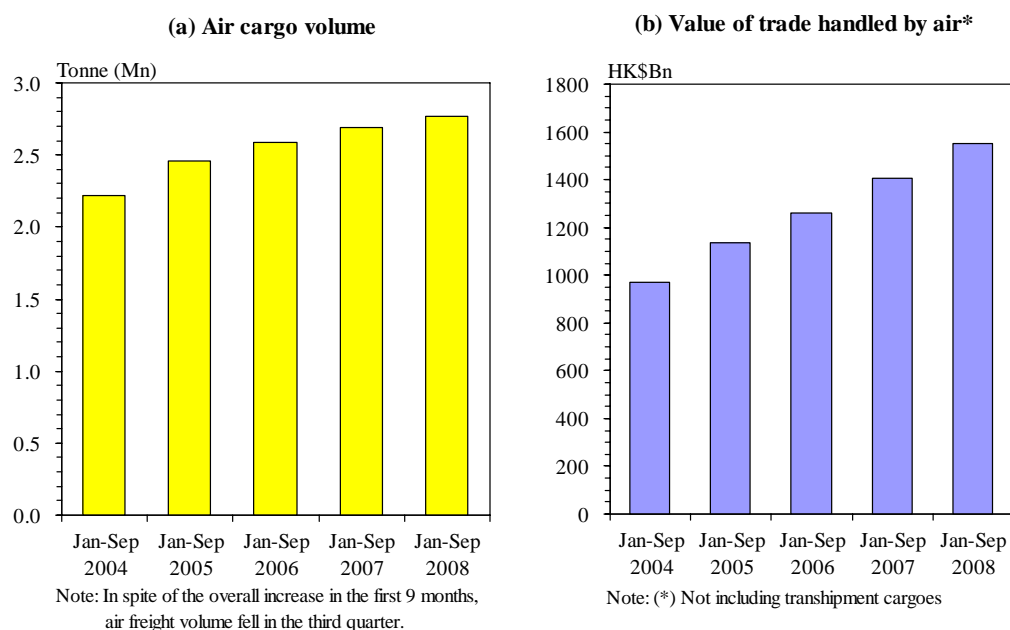


Note: (\*) Figure for the latest quarter is the preliminary estimate by Hong Kong Port Development Council, and breakdown in throughput by ocean and river vessels is not available yet.

3.13 Air freight throughput fell by 3.7% over a year earlier to 945 000 tonnes in the third quarter, having grown by 5.5% in the second quarter. The global economic slowdown and rising fuel prices have contributed to the setback. Nevertheless, the value of air-borne trade continued to grow, and still accounted for 34% of the total trade value in the period.



**Diagram 3.6 : Air freight volume fell in the third quarter amidst elevated fuel prices and global economic slowdown**



## Transport

3.14 Reflecting the ever increasing economic integration between Hong Kong and the Mainland, cross-boundary traffic has recorded a notable growth over the past years. The two-way vehicular flow grew by an average of 4.4% per annum between 2002 and 2007, and further by 2.7% in the first three quarters of 2008. Similarly, land-based passenger movement also grew by an average of 6.5% per annum between 2002 and 2007, and further by 1.4% in the first three quarters of 2008. As the socio-economic conditions of the two places evolve, the characteristics of cross-boundary travellers have undergone changes over time (*Box 3.1*).

### Box 3.1

#### Characteristics of cross-boundary trip makers

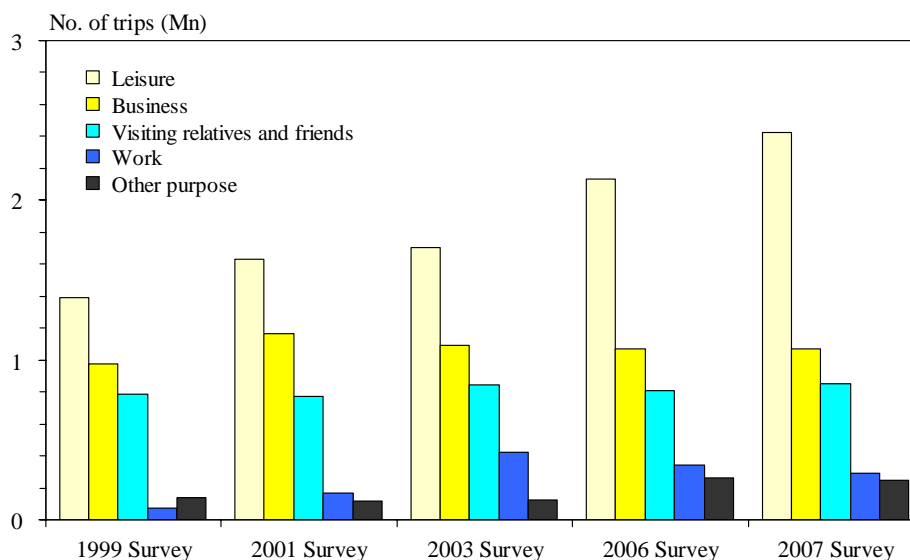
Steadily rising cross-boundary travel is a good indicator of the ever growing economic integration between Hong Kong and the Mainland. The Planning Department (PlanD) has recently released its 2007 Cross-Boundary Travel Survey. The results provide a wealth of knowledge about the characteristics of cross-boundary passengers.

#### Purpose of trips to the Mainland made by people living in Hong Kong <sup>(1)</sup>

PlanD's study conducted in 2007 revealed that people living in Hong Kong continued to make up the majority of cross-boundary trips, albeit with a declining share (to 71% in the latest survey) as other clusters have grown considerably in the past years. It should be noted that in absolute terms the number of trips they made still increased steadily over the past few years.

Cross-boundary trips made by people living in Hong Kong travelling for "leisure" have become even more dominant, stretching its share from 41% in the 1999 survey to almost 50% in 2007. On the other hand, the number of cross-boundary trips "for business" has been flat since 2003 at about 1 million within the 2 weeks when the survey was conducted while the number of trips for "work" purpose has actually fallen by 30% from 421 100 in 2003 to only 293 100 in 2007.

**Number of passenger trips made by people living in Hong Kong to the Mainland by trip purpose**



### Box 3.1 (Cont'd)

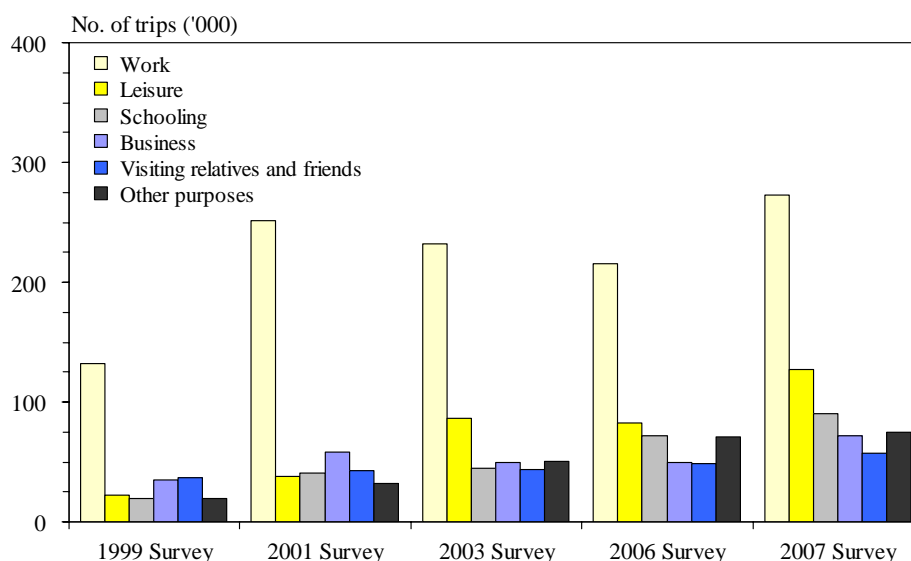
Several developments contributed to the evolution. On the one hand, more of the people who work or run a business in the Mainland nowadays tend to station in the Mainland rather than making frequent trips back and forth. On the other hand, the advancement in communications technology in the past decade has allowed business managers to monitor their operations remotely from their Hong Kong offices, thereby reducing the need for travelling.

#### Hong Kong residents living in the Mainland <sup>(2)</sup>

Another notable trend is that the number of trips to Hong Kong made by people who were Hong Kong residents living in the Mainland has increased from 264 000 in 1999 to 693 600 in 2007, an increase of over 160%. Even though “work” was still the most common purpose for Hong Kong residents living in the Mainland to return to Hong Kong, the number of these trips grew at a slower pace in recent years than the overall figures.

In contrast, the numbers of “leisure” and “schooling” trips have increased substantially since 1999. They together accounted for more than 30% of the passenger flow in the 2007 survey. Enhanced accessibility, improved quality of living in the Mainland (particularly Shenzhen) and changing demographics are among the factors leading to this trend.

**Number of passenger trips made by Hong Kong residents living in the Mainland to Hong Kong by trip purpose**



Notes :

(1) People living in Hong Kong: People who reported “Hong Kong” as their usual place of residence during the enumeration.

(2) Hong Kong residents living in the Mainland: All Hong Kong permanent and non-permanent residents who reported the Mainland as their usual places of residence during the enumeration.

3.15 In September, the Hong Kong and the Shenzhen governments jointly announced that a boundary control point would be built at Liantang/Heung Yuen Wai in the East for operation by 2018, at a construction cost of about \$9.6 billion on Hong Kong side. A joint working group has been formed to take forward the project and follow up with the technical work in the next stage. Forecast to have about 20 600 vehicular trips and 30 700 passenger trips a day in 2030, the new boundary control point will improve quality of service and handling capacity of cross-boundary travel and ease pressure at the Man Kam To and Sha Tau Kok boundary control points. It would also improve Hong Kong's link to eastern Guangdong and the adjoining provinces of Jiangxi and Fujian.

3.16 Construction work of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link is expected to start in the fourth quarter of 2009 and be completed by 2014 or 2015. Upon the completion of this new rail link, the commute time from Hong Kong to Shenzhen and Guangzhou will be significantly reduced to about 14 minutes and 48 minutes respectively. The rail link will give Hong Kong a better link not only to the Pearl River Delta region but also to the inner part of the Mainland through its connection to the national express rail network.

3.17 In August, the governments of Guangdong, Hong Kong and Macao have reached consensus on a new financing arrangement for the Hong Kong-Zhuhai-Macao Bridge (HZMB). Apart from the earlier agreement for each of the three governments to be responsible for the construction of the boundary crossing facilities and link roads within their respective territory, the three sides have further agreed to take up the responsibility for the construction of the Main Bridge as well. To demonstrate her full support for the HZMB, the Central People's Government has decided to make contribution to the construction cost of the Main Bridge. Together with the contribution of Guangdong, the total contribution of the Mainland, Hong Kong and Macao would be RMB15.7 billion, which is about 42% of the total construction cost of the Main Bridge. The remaining funding required will be financed by loans. It is expected that construction of the bridge will commence no later than 2010.

3.18 In September, the Hong Kong International Airport (HKIA) and the Shenzhen International Airport (SZIA) jointly launched the Hong Kong-Shenzhen Airports Link, a service that enables passengers at HKIA or SZIA to check in for connecting flights at the other airport and then take cross-boundary coaches to their connecting flights. Of the first batch of 13

airlines participating in the programme, four are operating at HKIA and nine at SZIA. This strategic collaboration creates synergy between HKIA's comprehensive international network and SZIA's extensive domestic coverage, and achieves a win-win situation for both airports.

### **Creativity and innovation**

3.19 In August, the governments of Hong Kong and Guangdong signed the "Co-operation Agreement on Setting up the Joint Platform for Co-operation in Innovation and Technology" at the 11th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference. Pursuant to the agreement, both sides agreed to consolidate their technological resources through setting up joint innovative platform of industrial technology, foster effective integration of R&D of the two places, as well as encourage collaboration of universities, research institutes and enterprises in the two places for the development of applied research and industrial technology. Such cooperation should help expand the scope of collaboration between Hong Kong and Guangdong in the areas of innovation and technology, and bring about economic benefits to both places in the longer run.

### **Energy**

3.20 In August, Hong Kong signed a Memorandum of Understanding (MOU) on energy co-operation with the National Energy Administration, with the aim of securing continuous supply of nuclear electricity and natural gas to Hong Kong for the next two decades. Specifically, a study on the feasibility of supplying natural gas to Hong Kong via the Second West-East Natural Gas Pipeline will be conducted. Moreover, a liquefied natural gas terminal will be jointly built in the Mainland for supply of natural gas to Hong Kong. The MOU would not only increase the sustained supply of clean energy to Hong Kong, but also relieve the pressure on local electricity tariff increase due to the resulting reduction in capital investment by the local power company concerned.

### **Note :**

- (1) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

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

### *Summary*

- *The global financial crisis exacerbated further in the latter part of the third quarter of 2008, following the fallout of a number of large international financial institutions. Liquidity tightened significantly worldwide, while prices across various asset classes plummeted.*
- *Against such a backdrop, Hong Kong dollar interbank interest rates soared in September due to concerns among licensed banks over the credit worthiness of each other. To address the liquidity situation of the local interbank market, the HKMA, apart from operating within the Convertibility Zone to purchase US dollars with HK dollars, has implemented a range of temporary measures for providing liquidity assistance to licensed banks in Hong Kong.*
- *The Hong Kong dollar strengthened against the US dollar in the latter part of the third quarter, reflecting some unwinding of carry trade positions. Following the greenback's general firming trend vis-à-vis most other currencies, the Hong Kong dollar nominal effective exchange rate index rebounded notably in the third quarter.*
- *The local stock market fell further in the quarter, in parallel with the adverse development in the overseas markets. Trading in stocks continued to shrink, while fund raising activities turned quieter. Nevertheless, trading in a number of derivative products remained buoyant.*
- *In the face of the current exceptionally turbulent time, the Government has put in place necessary measures to help ensure financial market stability. For instance, an enhanced deposit protection scheme and a Contingent Bank Capital Facility have been introduced to instil confidence in the local banking system.*

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

## **Overall situation**

4.1 The global financial markets deteriorated further in the third quarter amidst swelling losses among major financial institutions and investors worldwide. Asset prices demonstrated immense volatility in the past months as the dimmer economic outlook weighed heavily on market sentiment. Liquidity tightened significantly due to the heightened risk aversion of lenders. Against such a backdrop, the Hong Kong market also experienced turbulence, with stock prices falling further and interbank interest rates soaring in September.

4.2 Notwithstanding the global financial crisis, Hong Kong's financial system remained robust. The Government has remained vigilant since the onset of the financial crisis more than a year ago, and the various authorities have exercised their best endeavours to ensure financial stability. Most recently, the Hong Kong Monetary Authority (HKMA) has introduced various measures to ease the interbank credit market conditions and provide assistance to banks. Other regulatory authorities, including the Securities and Futures Commission (SFC) and the Insurance Authority, have also taken further actions to enhance protection for investors and policyholders.

## **Interest rates and exchange rates**

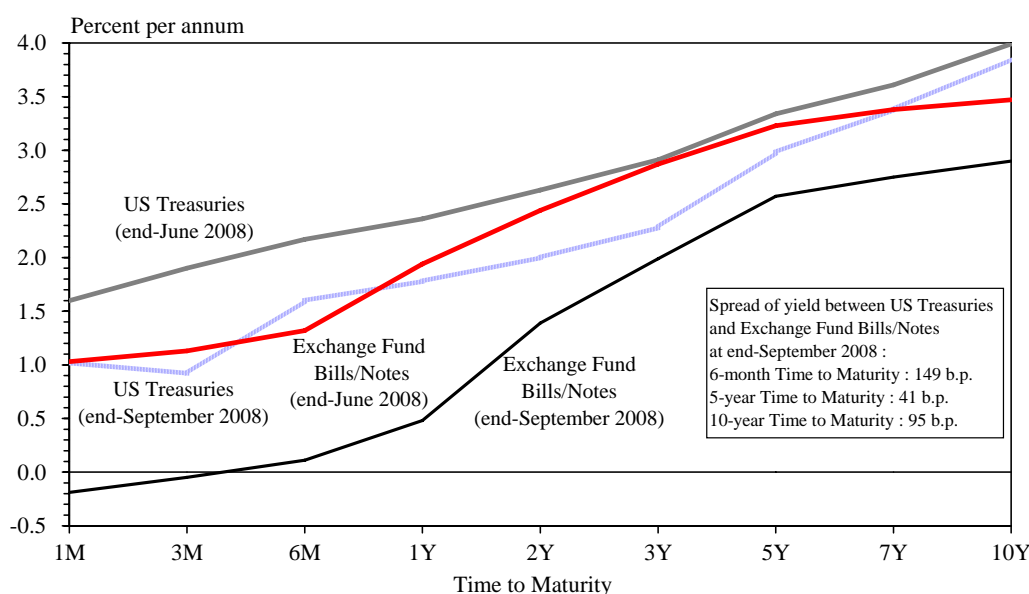
4.3 The *Base Rate* under the Discount Window operated by the HKMA was unchanged at 3.5% in the third quarter of 2008. With effect from 9 October 2008, the formula for determination of the Base Rate was changed by reducing the spread of 150 basis points above the prevailing US Fed Funds Target Rate to 50 basis points. The other leg of the formula relating to the moving averages of the relevant interbank interest rates was removed until the end of March 2009<sup>(1)</sup>. The adjustment in the methodology for the determination of the Base Rate should help stabilise the interbank interest rates and relieve the pressure for banks to lift their best lending rates.

4.4 Broadly tracking their US dollar counterparts, *Hong Kong dollar interbank interest rates* stayed largely stable in July and August but increased markedly towards the end of September. Following the fallout of some major US financial institutions in the first half of September, global credit and liquidity conditions tightened, subsequently causing concerns among licensed banks in Hong Kong over the credit worthiness of each other. These concerns, coupled with the banks' propensity to preserve liquidity to meet their own contingent needs, led to a general shortage of interbank liquidity and difficulties

for individual licensed banks in obtaining funding in the interbank market. The overnight and three-month HIBORs rose to 2.44% and 3.50% respectively at end-September, compared with 0.88% and 2.15% at end-June.

4.5 Meanwhile, the negative interest rate differentials between the Hong Kong dollar and the US dollar were generally stable from July to mid September but fluctuated sharply afterwards. In particular, the discount of the three-month HIBOR over the corresponding Euro-dollar deposit rate widened from 85 basis points at end-June to 125 basis points at end-September. In line with general decreases in US government bond yields, the *Hong Kong dollar yield curve* shifted downward. As heightened credit and liquidity concern led to strong demand for Exchange Fund paper by banks for liquidity management purposes, the yields with maturities of three months and below declined sharply and turned negative near the end of September.

**Diagram 4.1 : Hong Kong dollar yield curve shifted downward in the third quarter alongside its US counterpart**



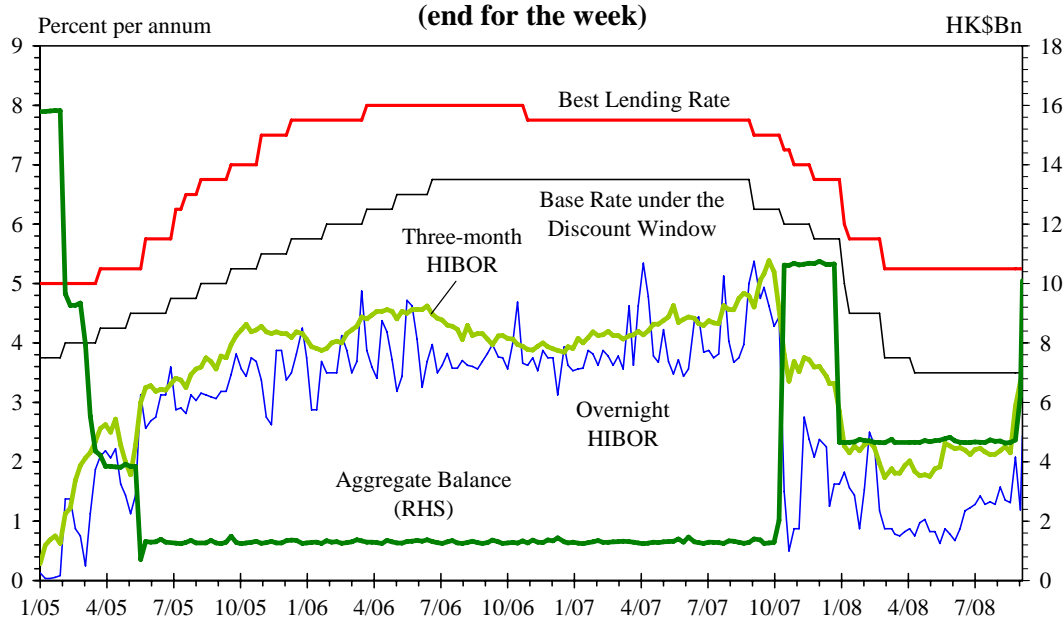
4.6 Amidst heightened concern about credit and liquidity, the HKMA operated within the Convertibility Zone on 18 and 25 September to inject liquidity into the banking system, purchasing US dollars against Hong Kong dollars thereby increasing the Aggregate Balance by \$1.6 billion on 22 September and \$3.9 billion on 29 September. As a result, the Aggregate Balance rose from \$4.7 billion at end-June to \$10.1 billion at end-September. To further address the liquidity situation of the local interbank credit market, the HKMA announced on 30 September five temporary measures for providing liquidity assistance to licensed banks in Hong Kong, with effect from 2 October



for a period of six months (i.e. until the end of March 2009) (**Box 4.1**). These measures, together with other policy actions taken in October, have helped calm the local interbank market and ensured the effective functioning of the banking channel of financial intermediation.

4.7 At the retail level, the two best lending rates were kept on hold at 5.25% and 5.50% respectively during the third quarter. While the average savings deposit interest rate quoted by major banks was unchanged at 0.02%, the average one-month time deposit interest rate rose to 0.63% at end-September, from 0.29% at end-June, as banks searched for more stable and lower-cost funding following the sharp increases in HIBORs. The composite interest rate<sup>(2)</sup>, as an indication of the average cost of funds for banks, increased by 33 basis points to 1.18% between end-June and end-September. In the face of tighter interbank liquidity, some banks also raised their mortgage interest rates for new customers. The proportion of newly approved loans priced at more than 2.5% below the best lending rate went down from 86.3% in June to 83.1% in September.

**Diagram 4.2 : Hong Kong dollar interbank interest rates trended higher in the third quarter due to tightened liquidity**  
(end for the week)



## **Box 4.1**

### **HKMA's measures to provide liquidity assistance to licensed banks in Hong Kong**

The Hong Kong Monetary Authority (HKMA) announced on 30 September five temporary measures for providing liquidity assistance to licensed banks in Hong Kong. With effect from 2 October for a period of six months until the end of March 2009, the HKMA will provide liquidity assistance, on request from licensed banks, through the following five measures:

First, the eligible securities, for access by individual licensed banks to liquidity assistance through the Discount Window, will be expanded to include US dollar assets of credit quality acceptable to the HKMA.

Second, the duration of liquidity assistance provided to individual licensed banks through the Discount Window will be extended, at the request of individual licensed banks and on a case-by-case basis, from overnight money only to maturities of up to three months.

Third, the 50% threshold for the use of Exchange Fund paper as collateral for borrowing through the Discount Window at the HKMA Base Rate will be raised to 100%. In other words, the 5% premium (or penalty) over the Base Rate for the use of Exchange Fund paper beyond the 50% threshold, as collateral for borrowing through the Discount Window, will be waived.

Fourth, the HKMA will, in response to requests from individual licensed banks and when it considers necessary, conduct foreign exchange swaps (between the US dollar and the Hong Kong dollar) of various durations with licensed banks.

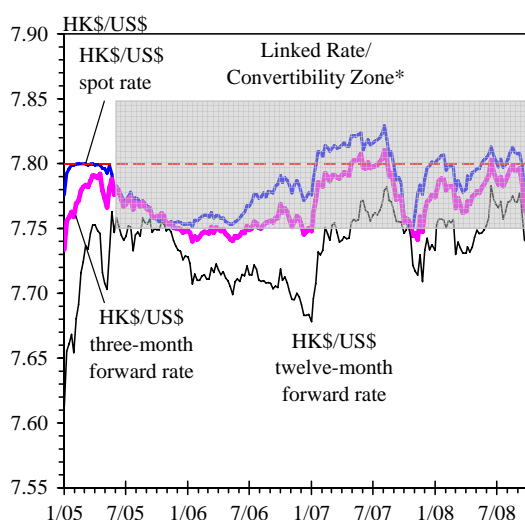
Fifth, the HKMA will, in response to requests from individual licensed banks and when it considers necessary, lend term money of up to one month to individual licensed banks against collateral of credit quality acceptable to the HKMA.

The existing framework for maintaining banking stability – including the prudential supervision of banks and the arrangements for providing liquidity both at the systemic and institutional levels – have ensured that the banking system of Hong Kong is well prepared for turbulent conditions. The five additional measures are intended to reinforce this framework at a time of instability and stress in the world financial system, providing further tools for the HKMA to help ensure the effective functioning of Hong Kong's banking system.

4.8 After moving around the central parity rate of 7.80 between July and mid August, the Hong Kong dollar spot exchange rate against the US dollar strengthened towards the strong side of the Convertibility Zone. This reflected some unwinding of carry trade positions due to tightened HIBORs, and increased funding needs which reportedly caused some banks and financial institutions to use US dollars to obtain Hong Kong dollar funds. The spot exchange rate closed at 7.7655 at end-September, compared with 7.8005 at end-June. Meanwhile, the discounts of 3-month and 12-month Hong Kong dollar forward rate over the spot rate narrowed from 138 and 340 pips (each pip equivalent to HK\$0.0001) at end-June to 100 and 290 pips at end-September respectively.

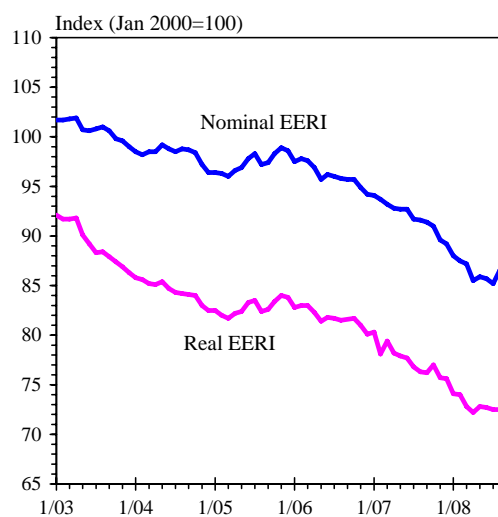
4.9 Under the Linked Exchange Rate system, movements in the exchange rate of the Hong Kong dollar against other currencies closely followed those in the US dollar. During the third quarter, the Hong Kong dollar strengthened against other major currencies alongside a broad-based appreciation of the US dollar. As a result, the trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index rebounded by 2.2%. On the other hand, the corresponding Real Effective Exchange Rate Index was broadly stable in the period<sup>(3)</sup>.

**Diagram 4.3 : Forward spreads narrowed in the third quarter (end for the week)**



Note : (\*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

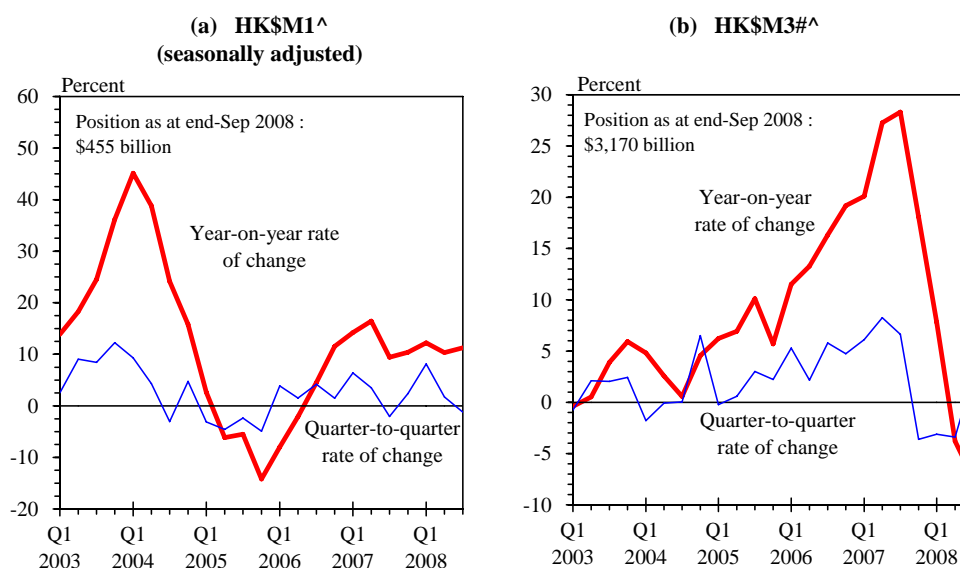
**Diagram 4.4 : Trade-weighted nominal EERI rebounded as the US dollar firmed up (average for the month)**



## Money supply and banking sector

4.10 Growth in Hong Kong dollar narrow money and broad money showed divergent trends during the third quarter of 2008. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1)<sup>(4)</sup> decreased by 1.2% while the corresponding broad money supply (HK\$M3) rose by 2.6%. The decline in HK\$M1 was mainly driven by a contraction in demand deposits, partly reflecting weaker transaction demand alongside an economic slowdown and a reduced turnover in the equity market. Meanwhile, the shift from liquid deposits to time deposits in search of higher returns amidst increased volatility in the asset market has resulted in an increase in HK\$M3. Reversing the declining trends in the previous two quarters, *total deposits* with authorised institutions (AIs)<sup>(5)</sup> rose by 2.5% during the third quarter, with both Hong Kong dollar deposits and foreign currency deposits expanding. Total deposits stood at \$5,847 billion at end-September 2008, comprising Hong Kong dollar deposits of \$2,946 billion and foreign currency deposits of \$2,902 billion. Legal tender notes and coins in circulation also posted a notable increase in September as a result of a mini-run on a local bank caused by unfounded rumours.

**Diagram 4.5 : Broad money supply increased during the third quarter after declining for three consecutive quarters**



4.11 Total loan growth decelerated further recently, as domestic and external economic activities continued to weaken. *Total loans and advances* rose by 2.3% during the third quarter, to \$3,426 billion (comprising Hong Kong dollar loans of \$2,396 billion and foreign currency loans of \$1,029 billion) at end-September, slowing from the growth of 7.0% during the first quarter and

5.6% during the second quarter. Growth in loans for use in Hong Kong also decelerated. An analysis of loans for use in Hong Kong by economic sector indicated that most types of loans continued to grow. Nevertheless, loans to trade finance declined by 2.9% during the quarter on the back of shrinking trade flows. Loans to stockbrokers contracted further amidst a slump in the local stock market. The outstanding stock of residential mortgage loans edged up by a meager 0.7% along with a quiet property market. After rising for eight consecutive months since January, the Hong Kong dollar loan-to-deposit ratio declined from a peak of 83.8% at end-August to 81.4% at end-September.

**Table 4.1 : Loans and advances**

| All loans and advances for use in Hong Kong |    |                      |                            |                            |                       |   |                           |   |                            |   |                 |                          |
|---|----|----------------------|----------------------------|----------------------------|-----------------------|---|---------------------------|---|----------------------------|---|-----------------|--------------------------|
|   |    | Loans to :           |                            |                            |                       |   |                           |   |                            |   |                 |                          |
|   |    | Finance              |                            | Wholesale and retail trade |                       | Building, construction, property and investment |                           | Purchase of residential property <sup>(a)</sup> |                            | All loans and advances for use outside Hong Kong <sup>(c)</sup> |                 | Total loans and advances |
| <u>% change during the quarter</u>          |    | <u>visible trade</u> | <u>Manu-<br/>facturing</u> | <u>retail trade</u>        | <u>and investment</u> | <u>of residential property<sup>(a)</sup></u>    | <u>Financial concerns</u> | <u>Stock-brokers</u>                            | <u>Total<sup>(b)</sup></u> | <u>Hong Kong<sup>(c)</sup></u>                                  | <u>advances</u> |                          |
| 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             |                          |
|   | Q3 | -2.9                 | 4.5                        | *                          | 4.4                   | 0.7   | 9.5                       | -20.6   | 2.7                        | 0.7   | 2.3             |                          |
| Total amount at end-September 2008 (\$Bn)   |    | 222                  | 154                        | 157                        | 671                   | 660   | 299                       | 12  | 2,809                      | 617   | 3,426           |                          |
| % change over a year earlier                |    | 26.2                 | 29.3                       | 38.5                       | 21.0                  | 8.2   | 30.4                      | -91.6   | 9.1                        | 31.7  | 12.6            |                          |

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.

(\*) Change of less than 0.05%

4.12 Despite the recent global financial crisis, Hong Kong's banking system remained robust. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision for banks (commonly referred to as "Basel II", which was implemented on 1 January 2007), the capital adequacy ratio (CAR) for Hong Kong incorporated AIs remained strong, at an average of 14.2% at end-June. 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 mortgage problems, the Basel Committee will offer proposals to further strengthen Basel II. The HKMA is monitoring developments in this regard and will consider their implications for supervisory policies. In late September, circulation of telephone short messages questioning the Bank of East Asia's financial stability resulted in many customers queuing outside the bank's branches to withdraw deposits. The unfounded rumours were quickly cleared and the mini-run on the bank subsided.

4.13 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans of retail banks was at a low level, despite increasing slightly from 0.81% at end-March to 0.88% at end-June. Over the same period, the arrears for over three months in credit card repayment were little changed at 0.32%. The delinquency ratio for residential mortgage loans decreased slightly, from 0.06% at end-June to 0.05% at end-September.

**Table 4.2 : Asset quality of retail banks\***  
(as % of total loans)

| <u>(As at end of period)</u> |    | <u>Pass loans</u> | <u>Special mention loans</u> | <u>Classified loans</u><br>(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                               |
|                              | Q2 | 97.75             | 1.38                         | 0.88                               |

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".

4.14 Since February 2004, banks in Hong Kong have been offering renminbi services to customers including deposit taking, currency exchange and remittance. By end-September, a total of 40 licensed banks had been engaged in this line of business. Outstanding renminbi deposits amounted to RMB70.0 billion at end-September, accounting for around 2.7% of total foreign currency deposits in Hong Kong. Further to the three successful issues of renminbi bonds in 2007, there were four more issues between July and September 2008, bringing the total outstanding amount of renminbi bonds issued to RMB22 billion. Partly reflecting bond issuers repatriating funds to the Mainland, renminbi deposits contracted by 9.9% during the third quarter after increasing by 34.8% during the previous quarter. Demand for such deposits also diminished because of higher transaction costs and increased uncertainty about the short-term direction of the renminbi exchange rate. Indeed, the renminbi softened against the Hong Kong dollar during August and September.

**Table 4.3 : Renminbi deposits in licensed banks**

| <u>(As at end of period)</u> |    | <u>Demand and savings deposits</u><br>(RMB Mn) | <u>Time deposits</u><br>(RMB Mn) | <u>Total deposits</u><br>(RMB Mn) | <u>Interest rates on<sup>(a)</sup></u>      |   | <u>Number of licensed banks engaged in RMB business</u> |
|------------------------------|----|--|----------------------------------|-----------------------------------|---|---|---|
|                              |    |  |                                  |                                   | <u>Saving deposits<sup>(b)</sup></u><br>(%) | <u>Three-month time deposits<sup>(b)</sup></u><br>(%) |   |
| 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  |
|                              | Q3 | 47,508   | 22,443                           | 69,951                            | 0.46  | 0.65  | 40  |
| % change over a year earlier |    | 157.4  | 148.1                            | 154.3                             | N.A.  | N.A.  | N.A.  |

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

(b) Period average figures.

N.A. : Not available.

4.15 On 14 October, the government implemented two new temporary measures to support confidence in the local banking system — expanding deposit protection to 100% coverage and establishing a Contingent Bank Capital Facility (CBCF) to provide additional capital to banks if necessary. The temporary 100% deposit protection arrangement should help stabilise banks' deposit bases as a source of funding over the next two years, and the capital facility should help provide comfort to banks on the availability of additional capital, and thus guard against systemic failures in the financial system.

4.16 To help improve banks' access to the Discount Window and other recently-introduced liquidity facilities, the HKMA announced on 20 October issuance of a total of \$4 billion new Exchange Fund Bills in the tenders on 28 October and 4 November. In order to maintain the liquidity of the banking system, the HKMA operated within the Convertibility Zone on 20 and 27 October by purchasing US dollars with Hong Kong dollars, so that the level of the Aggregate Balance will be little affected by the issuance of new paper.

### **The debt market**

4.17 The Hong Kong dollar debt market contracted further in the third quarter of 2008, as the global financial turmoil continued to unfold and its flow-on effects intensified. Total outstanding amount of debt declined to \$716.6 billion at end-September 2008, a reduction of 5.2% from a year ago<sup>(6)</sup>. The amount was equivalent to 23% of HK\$M3 or 18% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>. As investors turned cautious and demand for debt instruments fell, fund raising via issuing bonds became difficult. Consequently, domestic debt issuance fell by 20.2% in the third quarter as a whole from the second quarter, with all types of issuers delaying or withdrawing their debt issuance programmes.



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

|  |                                    | Exchange<br>Fund paper | Statutory<br>bodies/govern-<br>ment-owned<br>corporations | Govern-<br>ment | Public<br>sector<br>total | AIs <sup>(a)</sup> | Local<br>corporations | Non-MDBs<br>overseas<br>borrowers <sup>(b)</sup> | Private<br>sector<br>total | MDBs <sup>(b)</sup> | Total |
|--|------------------------------------|------------------------|---|-----------------|---------------------------|--------------------|-----------------------|--|----------------------------|---------------------|-------|
| <b>New issuance</b>                      |                                    |                        |   |                 |                           |                    |                       |  |                            |                     |       |
| 2007                                     | Annual                             | 223.5                  | 19.4  | -               | 242.9                     | 49.6               | 18.7                  | 131.9  | 200.2                      | 1.7                 | 444.8 |
|  | Q1                                 | 55.0                   | 4.0   | -               | 59.0                      | 12.9               | 5.4                   | 38.3   | 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                      | 9.8                | 1.1                   | 33.9   | 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 |
|  | Q3                                 | 67.3                   | 3.5   | -               | 70.8                      | 14.7               | 4.1                   | 15.8   | 34.6                       | -                   | 105.3 |
|  | % change<br>over a year<br>earlier | 20.0                   | 131.4   | N.A.            | 22.9                      | 118.1              | -28.8                 | -15.5  | 11.0                       | N.A.                | 18.8  |
| <b>Outstanding (as at end of period)</b> |                                    |                        |   |                 |                           |                    |                       |  |                            |                     |       |
| 2007                                     | Q1                                 | 133.0                  | 54.6  | 7.7             | 195.3                     | 147.4              | 54.3                  | 335.7  | 537.3                      | 16.5                | 749.1 |
|  | Q2                                 | 134.4                  | 58.0  | 7.7             | 200.1                     | 151.2              | 58.9                  | 350.9  | 561.0                      | 14.4                | 775.5 |
|  | Q3                                 | 135.6                  | 57.2  | 7.7             | 200.5                     | 140.3              | 62.9                  | 339.3  | 542.4                      | 13.4                | 756.3 |
|  | Q4                                 | 136.6                  | 58.5  | 7.7             | 202.8                     | 136.4              | 60.6                  | 351.3  | 548.2                      | 13.2                | 764.2 |
| 2008                                     | Q1                                 | 143.3                  | 60.3  | 7.7             | 211.3                     | 121.4              | 60.8                  | 320.7  | 502.9                      | 12.5                | 726.7 |
|  | Q2                                 | 144.3                  | 64.5  | 7.7             | 216.5                     | 106.5              | 68.4                  | 318.6  | 493.5                      | 12.5                | 722.4 |
|  | Q3                                 | 145.0                  | 62.7  | 5.0             | 212.7                     | 103.8              | 67.5                  | 320.2  | 491.6                      | 12.4                | 716.6 |
|  | % change<br>over a year<br>earlier | 6.9                    | 9.6   | -35.1           | 6.1                       | -26.0              | 7.4                   | -5.6   | -9.4                       | -7.5                | -5.2  |

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

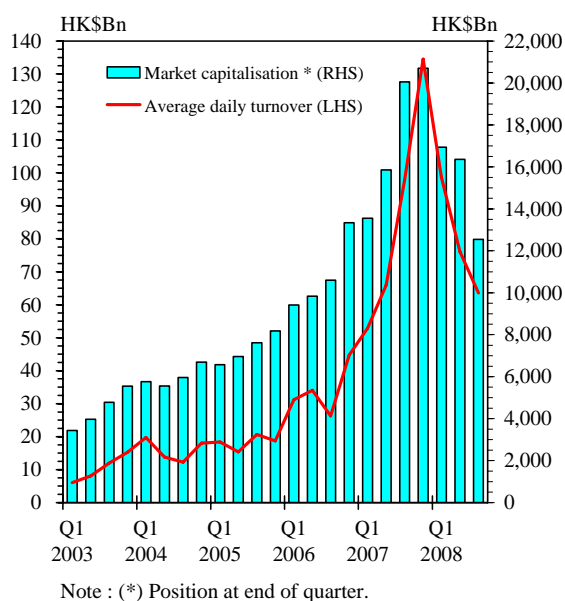
N.A. : Not available.

## The stock and derivatives markets

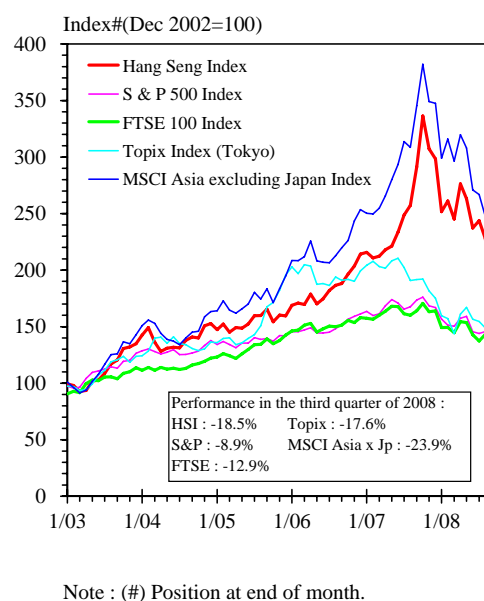
4.18 The *local stock market* fell further in the third quarter of 2008, in parallel with the plunge observed in the major bourses overseas and in the Mainland. The *Hang Seng Index (HSI)* stood at 18 016 at end-September 2008, 18.5% lower than at end-June. Most of the decline took place in September when the global financial crisis turned more severe. *Daily turnover* shrank further from an average of \$76.1 billion in the second quarter to \$63.6 billion in the third quarter.

4.19 Along with plunging share prices, the *market capitalisation* fell from \$16.4 trillion at end-June to \$12.5 trillion at end-September. Nevertheless, the Hong Kong stock market was ranked as the seventh largest in the world and the third largest in Asia at end-September according to the *World Federation of Exchanges*<sup>(8)</sup>. Fund raising activities also turned more quiet in the third quarter, with total equity capital raised through new share flotation and post-listing in the Main Board and the GEM totaling only \$53.1 billion<sup>(9)</sup>.

**Diagram 4.6 : The stock market fell further in the third quarter**



**Diagram 4.7 : Weakness was observed across major stock markets globally**



4.20 Mainland enterprises continued to play an important role in the Hong Kong stock market. There were 453 Mainland enterprises (including 151 H-share companies, 93 “Red Chips” companies and 209 private enterprises) listed on the Hong Kong stock market at end-September, accounting for 36% of the total number of listed companies and 55% of the total market capitalisation. In the third quarter, 71% of equity turnover in the market was attributed to Mainland-related stocks. These companies together raised \$33.6 billion, or 63% of the total equity capital raised in the market, in the third quarter.

4.21 Despite the global financial crisis, trading of *derivatives* stayed relatively solid in the third quarter. Supported by the surge of trading in Hang Seng Index futures, the average daily trading volume for futures and options contracts<sup>(10)</sup> rose by 12.9% in the third quarter over the previous quarter, and was only 0.6% lower than a year earlier. The callable bull/bear contracts market gathered further momentum, with average daily turnover jumping to \$6.39 billion in the third quarter, from \$2.89 billion in the second quarter and

\$0.25 billion a year earlier. By contrast, trading in derivative warrants dropped further in value terms.

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

|                                    |        | Hang Seng<br>Index futures | Hang Seng<br>Index options | H-shares<br>Index futures | Stock<br>options | Total<br>futures and<br>options traded* | Derivative<br>warrants<br>(\$Mn) |
|------------------------------------|--------|----------------------------|----------------------------|---------------------------|------------------|---|----------------------------------|
| 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                           |
|                                    | Q3     | 95 335                     | 18 381                     | 58 217                    | 220 110          | 435 527                                 | 8,964                            |
| % change<br>over a year<br>earlier |        | 25.0                       | -51.6                      | 7.4                       | -8.3             | -0.6                                    | -52.3                            |

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

4.22 The Hong Kong Exchanges and Clearing Limited (HKEx) commenced trading of its first gold Exchange Traded Fund (ETF) on 31 July. Average daily trading volume for the product reached \$33.6 million during 31 July to 30 September, greater than the trading of the same fund in Japan and Singapore combined during the period.

### Fund management and investment funds

4.23 Gross retail sales of *mutual funds*<sup>(11)</sup> dwindled by 52.0% from the second quarter of 2008 to US\$2.9 billion in the third quarter. Retail investors largely stayed on the sideline in face of the tremendous volatility in the global financial markets. The aggregate net asset value of the approved constituent funds under the *MPF schemes* shrank from \$250 billion at end-June 2008 to \$224 billion at end-September<sup>(12)</sup>, due to the losses incurred by most of the funds. Retail hedge funds also experienced a challenging time<sup>(13)</sup>. To enhance the protection for retail investors, on 3 October 2008 the Securities and Futures Commission issued a circular to require all issuers of retail investment products to review whether risk disclosure and product descriptions are adequate.

## Insurance sector

4.24 In the *insurance sector*, gross premium income from new long-term business increased by 17.8% in the second quarter of 2008 over a year earlier<sup>(14)</sup>, though it was 9.6% lower than in the first quarter. Meanwhile, premium for general business rose by 7.5% year-on-year in the second quarter.

4.25 Regarding the recent problems concerning American International Group, Inc. (AIG), the Insurance Authority (IA) has been closely monitoring the development of the matter and has exercised statutory power to require insurance subsidiaries of AIG operating in Hong Kong to seek his prior approval on all transactions involving movement of assets or funds to related entities within the same group. In view of the possible impact of the current financial turmoil on the insurance companies, IA has stepped up monitoring of the financial and solvency position of all authorised insurers in Hong Kong. Where necessary, IA will exercise his statutory power to take appropriate interventionary actions against insurer for the protection of policyholders. IA will also explore with the industry initiatives to enhance protection of policyholders such as strengthening information disclosure and establishing a policyholders' protection fund in the event of insurer insolvency.

**Table 4.6 : Insurance business in Hong Kong\* (\$Mn)**

|      |                              | <u>General business :</u> |                    |                            |   | <u>Premium for long-term business<sup>^</sup> :</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  |
|      | Q2                           | 6,618                     | 4,773              | 188                        | 6,089   | 13,345  | 67                               | 58  | 19,559                        | 26,177  |
|      | % change over a year earlier | 7.5                       | 7.2                | -68.6                      | 84.1  | 1.2   | 8.1                              | 16.0  | 17.8                          | 15.0  |

Notes : (\*) Figures are based on provisional statistics of the Hong Kong insurance industry.  
(^ ) Figures refer to new businesses only. Retirement scheme businesses are excluded.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Fed Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. With effect from 9 October, this formula for determination of the Base Rate has been changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points.
- (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 for 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-September 2008, there were 146 licensed banks, 28 restricted licence banks and 29 deposit-taking companies in Hong Kong. Altogether, 203 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 ranking is made by the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 56 securities exchanges (as of 11 October 2008), covering almost all globally recognised stock exchanges.
- (9) At end-September 2008, there were 1 078 and 181 companies listed on the Main Board and GEM respectively.
- (10) At end-September 2008, there were 50 classes of stock options contracts and 43 classes of stock futures contracts.
- (11) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and covered 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-September 2008, there were 1 348 authorised funds, according to the survey.
- (12) There were 19 approved trustees at end-September 2008. On MPF products, 34 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 340 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 238 000 employers, 2.16 million employees and 267 000 self-employed persons have participated in MPF schemes.
- (13) There were 14 retail hedge funds authorised by the Securities and Futures Commission (SFC). The net asset size of SFC-authorised hedge funds amounted to US\$1.72 billion at end-September 2008, down by 0.1% from end-2007. The net asset size at end-September 2008 was approximately 10 times of that as at end-2002, the year when the hedge funds guidelines were first issued.
- (14) As at end-September 2008, there were 174 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 109 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 started to show signs of relapse in the third quarter of 2008, having held broadly stable in the first half of the year. Yet while unemployment went up in both absolute and proportionate terms, the magnitude of increase was rather mild. In July – September, the seasonally adjusted unemployment rate was 3.4%, modestly above the ten-year low of 3.2% reached in June - August. Since the labour statistics are lagging indicators, they might not have reflected the latest global financial tsunami and its contagion effects.*
- *The data on labour income and vacancies collected from establishment likewise has yet to reflect the present state of play, as the relevant time series is available only up to June this year. Under the still robust economic conditions prevailing then, labour wages and earnings together with job vacancies continued to register broad-based increases across many economic sectors and occupations.*
- *In view of the worsening financial and economic conditions both at home and abroad, the local establishments, especially the small and medium-sized ones, will have to brace themselves for the tough times ahead. They can be expected to become more cautious about staffing in the near term. Labour demand is thus expected to weaken, with consequential downward pressures on earnings and wages.*

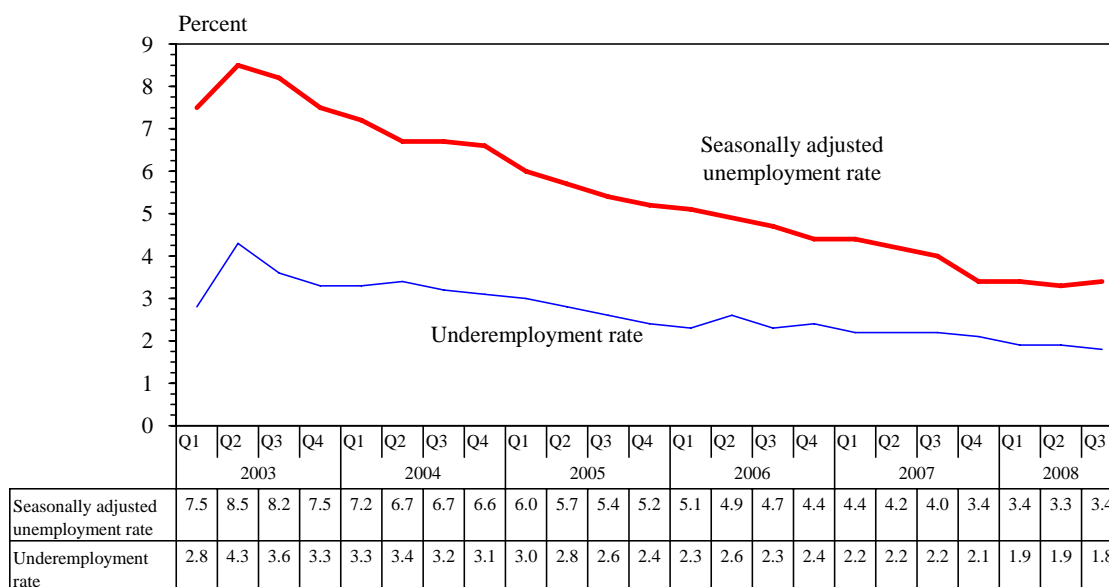
### **Overall labour market situation in the third quarter**

5.1 According to the data available, the labour market showed a moderate easing in the third quarter of 2008. This was in stark contrast to the gloomier picture portrayed by the statistics on the export trade and retail sales, as well as by some recent reports of business closures and layoffs of workers in such sectors as retail, restaurants, real estate, and finance and insurance. It had much to do with the lagging nature of the labour statistics.

5.2 Insofar as the third quarter of 2008 was concerned, the unemployment numbers rose moderately to 134 000 from 121 500 in the second quarter. Whereas total employment still recorded some growth from 3.53 million to

3.54 million between the two quarters, the labour force expanded more from 3.65 million to around 3.68 million, partly attributable to an influx of fresh graduates and school leavers into the labour market especially in August. After discounting the influence of seasonal variations, the seasonally adjusted unemployment rate<sup>(1)</sup> was up slightly from 3.3% to 3.4%, reversing the decline seen earlier in the year. Concurrently, the underemployment rate<sup>(2)</sup> edged down from 1.9% to 1.8%. These figures might have reflected only the initial adverse impacts of the global financial turbulence.

**Diagram 5.1 : The downtrend in unemployment was reversed but underemployment edged further down**



### Total employment and labour supply

5.3 At 3 543 100 in the third quarter of 2008, *total employment*<sup>(3)</sup> was 10 300 more than in the second quarter. This concealed a reduction of 3 200 in employment between June - August and July - September, which was however more than offset by the increases in the preceding two three-monthly periods. Apparently, the dampening effect of the slower economic growth since the second quarter began to be felt, but the adverse impacts of the global financial tsunami were probably not. On a year-on-year comparison, total employment nevertheless still recorded a respectable growth of 1.5%, albeit slower than that of 1.8% in the second quarter.

5.4 Comparing the third quarter of 2008 with the preceding quarter, employment gains were more notable in such sectors as business services, construction (particularly decoration and maintenance) and the import/export trades. These increases more than offset the job losses occurring in the miscellaneous personal services, transport and manufacturing sectors. The



majority of the new jobs created involved part-time work, reflecting partly the cautious attitude adopted by some of the employers towards recruiting permanent staff in view of the uncertain economic and financial climate. Analysed by other socio-economic attributes, the increase in employment was found to be concentrated among managers and administrators, craft and related workers, and professionals, among persons aged 15-24 and 50-59, as well as among those with primary education and degree education. On the other hand, reductions in employment were observed among associate professionals, service workers and shop sales workers, and plant and machine operators and assemblers, among persons aged 35-49 and 60-64, and also among those with no schooling/pre-primary education and non-degree post-secondary education.

5.5 By comparison, the *labour supply*<sup>(4)</sup> expanded more noticeably between the second and third quarters of 2008, by 22 900 from 3 654 300 to an all-time high of 3 677 200, under the combined influence of a rise in the labour force participation rate and sustained increase in the working age population. Growth occurred mainly in the period from May - July to June - August (by 17 500), due to increased entry of fresh graduates and school leavers into the labour market. On a year-on-year comparison, the labour supply exhibited a steady expansion, by 0.8% in both the second and third quarters of 2008. Much of this was attributable to an increased participation of older people in the workforce, more than offsetting the contraction in the younger age group. The latter decrease was believed to be due to the growing tendency for the youngsters to pursue further studies, thereby postponing their participation in the labour market to a later stage.

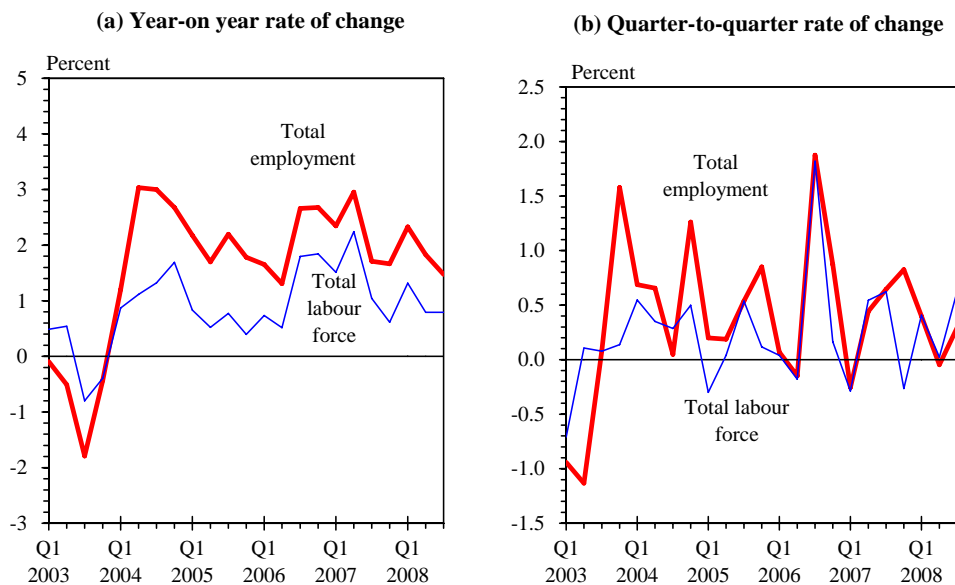
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

|                            |        | <u>Labour force</u> | <u>Persons employed</u> | <u>Persons unemployed</u> <sup>(a)</sup> | <u>Persons underemployed</u> |
|----------------------------|--------|---------------------|-------------------------|--|------------------------------|
| 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                       |
|                            | Q2     | 3 654 300 (0.8)     | 3 532 800 (1.8)         | 121 500                                  | 67 800                       |
| <i>Three months ending</i> |        |                     |                         |  |                              |
|                            | Jul    | 3 657 800 (0.5)     | 3 533 200 (1.6)         | 124 600                                  | 69 900                       |
|                            | Aug    | 3 675 400 (0.5)     | 3 546 300 (1.6)         | 129 100                                  | 69 000                       |
|                            | Sep    | 3 677 200 (0.8)     | 3 543 100 (1.5)         | 134 000                                  | 66 300                       |
|                            |        | < 0.6 >             | < 0.3 >                 |  |                              |

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) Year-on-year % change.  
 < > % change between Q2 and Q3 (i.e. Jul-Sep).

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Employment growth lagged behind labour force growth on a quarter-to-quarter basis, yet both were still high on a year-on-year basis**



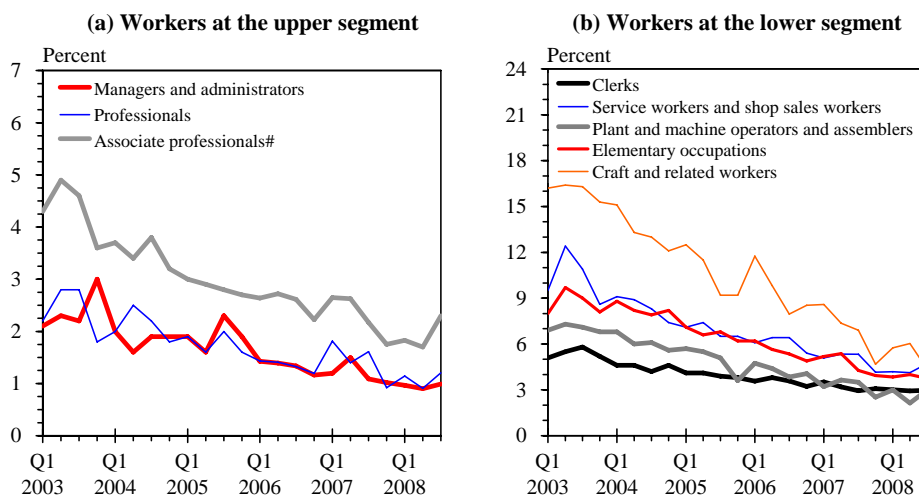
## **Profile of unemployment**

5.6 The increase in unemployment between the second and third quarters of 2008, at 12 600, was largely supply-driven. A major contributory factor was the influx of fresh graduates and school leavers into the labour market during the summer months, as borne out partly by an upsurge in the proportion of first-time job-seekers in the total numbers unemployed from 8.9% to 12.7%, and partly by the increased unemployment among persons with upper secondary education and above.

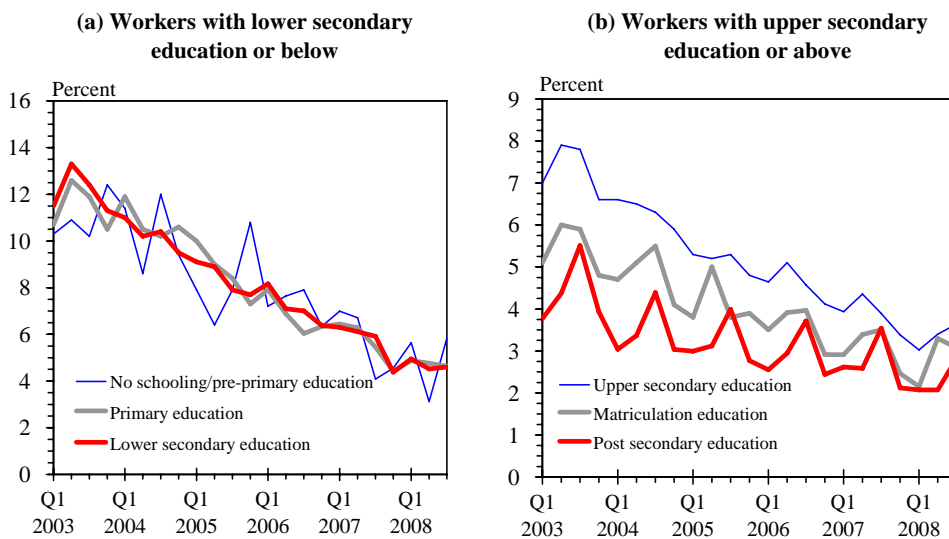
5.7 After discounting the seasonal effects, the seasonally adjusted unemployment rate witnessed only a marginal rise from 3.3% in the second quarter of 2008 to 3.4% in the third quarter. The increase took place entirely in the latest three-monthly period, i.e. between June - August and July - September, when the effects of slower economic growth on labour demand began to be felt. This reversed the downward trend seen earlier in the year. Among the unemployed persons, those unemployed for six months or more rose from 22 300 in the second quarter of 2008 to 27 900 in the third quarter, thereby pushing up the long-term unemployment rate from 0.6% to 0.8%. Despite this, the number of unemployed persons was still down on a year-on-year comparison, by 14.4% in overall terms in the third quarter of 2008, and by 19.2% in respect of those unemployed for longer duration.

5.8 Analysed by economic sector and on a quarter-to-quarter comparison, the wholesale/retail trades, restaurants, and amusement and recreational services were the sectors where the unemployment rate went up more visibly in the third quarter of 2008. In terms of other attributes, the increase in unemployment rate was found to be concentrated among people aged 15-39, among those with no schooling/pre-primary education and non-degree post-secondary education, as well as among those engaged as plant and machine operators and assemblers, and service workers and shop sales workers, and associate professionals.

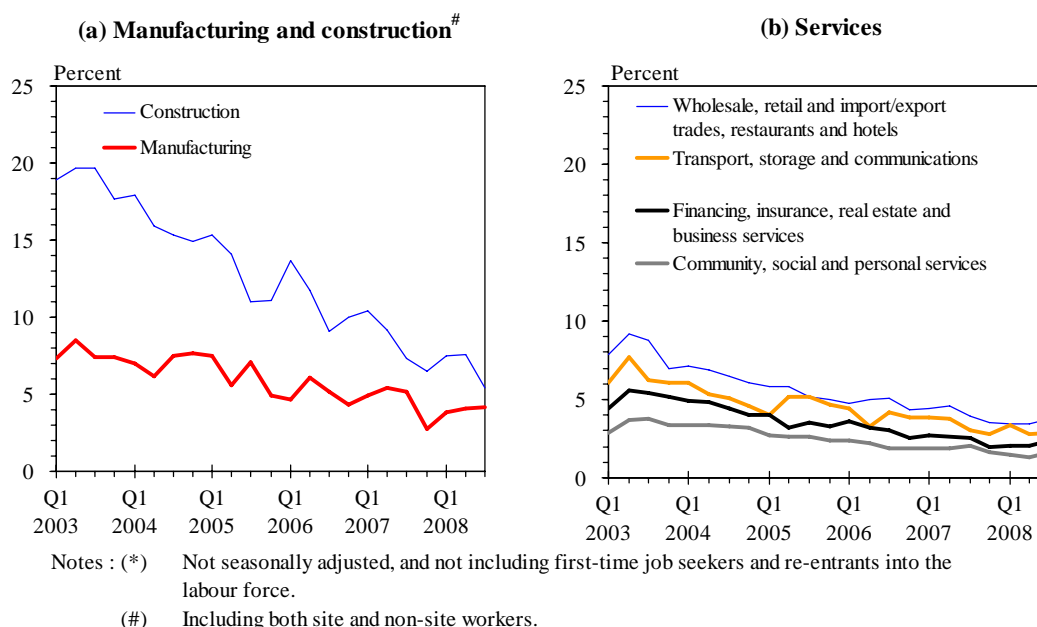
**Diagram 5.3 : All occupations, save for craft and related workers and elementary occupations, faced higher unemployment rates\* lately**



**Diagram 5.4 : Unemployment rates\* for workers at different education levels exhibited mixed movements**



**Diagram 5.5 : Unemployment rate\* edged up across almost all sectors lately**



## Profile of underemployment

5.9 The underemployment situation was relatively more stable. In the third quarter of 2008, the underemployment rate stood at 1.8%, compared with 1.9% in the second quarter. In absolute terms, the total number of underemployed persons had a small decrease from 67 800 to 66 300. Between these two quarters, the underemployment rate fell more notably in the decoration and maintenance, sanitary services and manufacturing sectors, as well as among craft and related workers, persons with lower secondary education, and those aged 25-39 and aged 55 or above.

## Profile of employment in establishments

5.10 Statistics on employment, vacancies, and labour earnings and wages collected from business establishments are available only up to the second quarter of 2008. Thus, the adverse effects of the global financial tsunami occurring since September have not been captured by such figures. Even so, there are anecdotal evidences suggesting deterioration in both job vacancies and labour income more recently. For instance, the Labour Department received 58 700 private sector vacancies in the month of October, 13% fewer than in September, while the number of placements was 13 600, down by 2%. The latest data from the General Household Survey also pointed to some moderation in the growth of employment earnings. Specifically, the average monthly employment earnings (excluding foreign domestic helpers) recorded a year-on-year gain of 4.8% in the third quarter, less than the 5.4% increase in the second quarter<sup>(5)</sup>. The moderated earnings growth occurred mainly among workers engaged in manufacturing, restaurants and business services sectors.

5.11 As for the latest business establishment data available up to June 2008, it is hardly surprising that against the background of the still robust economic environment prevailing then, employment in *private sector establishments* went up further by 2.1% over a year earlier. The services sectors<sup>(6)</sup> continued to be the primary source of job creation with an employment gain of 2.6%, quite similar to the 3.0% rise in March. Financing, insurance, real estate and business services (with a 5.0% increase), transport and storage (3.3%), and the retail trade (3.1%) sectors were the major suppliers of new jobs. On the other hand, job losses were observed in the manufacturing sector (down by 3.2%) and at building and construction sites<sup>(7)</sup> (3.0%). Analysed by size of establishment, larger enterprises were again the more important providers of job opportunities than small and medium-sized enterprises (SMEs)<sup>(8)</sup>, with the former contributing to 72% of the total employment growth over the period.

5.12 On the civil service, the number of employees stayed almost flat at 153 700 in June 2008, as against the 153 500 in March. Following the lifting of open recruitment freeze for the grades covered by the second Voluntary Retirement Scheme in March this year, some government departments have restarted their recruitment programmes. It is expected that civil service employment will increase gradually in the near term.

**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>                 | <u>Jun</u>                 |
| Wholesale, import and export trades                                    | 587 600<br>(0.7)           | 587 500<br>(1.1)           | 588 200<br>(1.1)           | 586 500<br>(0.4)           | 588 200<br>(0.3)           | 587 200<br>(-0.1)          | 587 000<br>(-0.2)          |
| Retail trade   | 232 900<br>(2.0)           | 229 100<br>(1.4)           | 232 600<br>(1.5)           | 233 100<br>(2.0)           | 236 800<br>(3.2)           | 236 800<br>(3.3)           | 239 800<br>(3.1)           |
| Restaurants and hotels   | 235 100<br>(3.8)           | 231 700<br>(4.4)           | 232 500<br>(3.0)           | 237 300<br>(4.9)           | 238 900<br>(3.1)           | 236 800<br>(2.2)           | 239 200<br>(2.9)           |
| Transport and storage  | 159 500<br>(2.4)           | 155 900<br>(1.2)           | 160 100<br>(3.1)           | 160 000<br>(2.5)           | 162 000<br>(2.9)           | 163 500<br>(4.9)           | 165 400<br>(3.3)           |
| Communications   | 29 900<br>(1.3)            | 30 300<br>(0.8)            | 30 100<br>(2.7)            | 29 800<br>(1.1)            | 29 600<br>(0.6)            | 30 500<br>(0.7)            | 30 700<br>(1.9)            |
| Financing, insurance, real estate and business services                | 505 400<br>(5.5)           | 492 000<br>(5.1)           | 503 200<br>(5.7)           | 509 300<br>(6.0)           | 517 300<br>(5.2)           | 523 700<br>(6.4)           | 528 500<br>(5.0)           |
| Community, social and personal services                                | 466 600<br>(2.6)           | 464 200<br>(2.9)           | 467 900<br>(3.6)           | 465 400<br>(2.2)           | 469 100<br>(1.8)           | 477 200<br>(2.8)           | 480 500<br>(2.7)           |
| Manufacturing  | 157 000<br>(-2.2)          | 158 700<br>(-1.7)          | 157 300<br>(-2.3)          | 156 000<br>(-2.6)          | 156 000<br>(-2.0)          | 153 100<br>(-3.6)          | 152 200<br>(-3.2)          |
| Building and construction sites  | 50 200<br>(-5.1)           | 50 400<br>(-8.3)           | 51 100<br>(-2.2)           | 49 200<br>(-7.7)           | 50 100<br>(-1.8)           | 50 500<br>(0.3)            | 49 600<br>(-3.0)           |
| <i>All establishments surveyed in the private sector<sup>(a)</sup></i> | <i>2 432 300<br/>(2.3)</i> | <i>2 407 800<br/>(2.1)</i> | <i>2 430 900<br/>(2.6)</i> | <i>2 434 500<br/>(2.2)</i> | <i>2 455 900<br/>(2.1)</i> | <i>2 467 200<br/>(2.5)</i> | <i>2 480 800<br/>(2.1)</i> |
|  |                            | <i>&lt;0.4&gt;</i>         | <i>&lt;0.7&gt;</i>         | <i>&lt;0.4&gt;</i>         | <i>&lt;0.6&gt;</i>         | <i>&lt;0.7&gt;</i>         | <i>&lt;0.4&gt;</i>         |
| <i>Civil service<sup>(b)</sup></i>                                     | <i>153 800<br/>(-0.4)</i>  | <i>153 800<br/>(-0.8)</i>  | <i>153 700<br/>(-0.5)</i>  | <i>153 800<br/>(-0.2)</i>  | <i>153 900<br/>(*)</i>     | <i>153 500<br/>(-0.2)</i>  | <i>153 700<br/>(*)</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

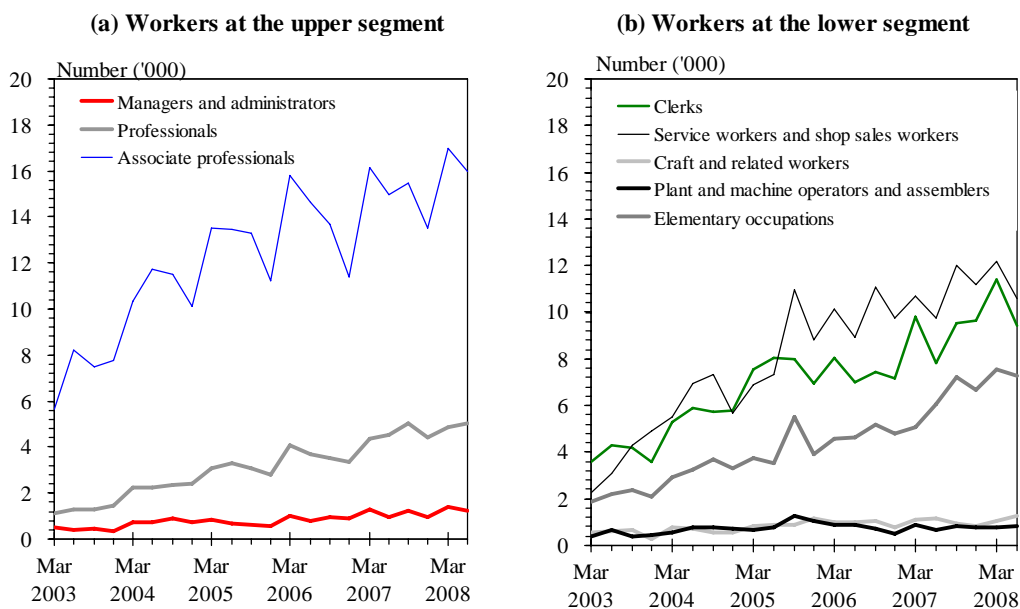
5.13 Comparing June 2008 with a year earlier, job vacancies in *private sector establishments* grew by 12.5% to 51 600, and the vacancy rate rose to 2.0%. These figures were the highest recorded for the month of June since 1997. The economic sectors having relatively high vacancy rates in June this year were communications (2.7%); financing, insurance, real estate and business services (2.6%); and community, social and personal services (2.6%). Yet in terms of absolute number, the community, social and personal services (especially amusement and recreational services); retail trade; restaurants and hotels; and manufacturing sectors were the ones where more significant increases in job openings were witnessed. Also noteworthy was that the growth in vacancies for lower-skilled workers (15.6%) outstripped that for the higher-skilled counterpart (8.6%), suggesting that the benefits of economic growth at that time continued to filter down to workers at the lower segment. Analysed by establishment size, vacancies in large enterprises had a larger increase than those in SMEs, by 15.3% as against 9.7%. As regards the *civil service*, a total of 6 200 vacancies were recorded in June 2008, nearly doubled the level a year ago. Owing to the removal of open recruitment freeze for grades covered by the Second Voluntary Retirement Scheme early this year, more civil service job vacancies would be available in the market.

5.14 In the face of the challenging economic climate ahead, the Government is sparing no efforts to promote employment on various fronts. In addition to regular employment and placement services, the Labour Department has arranged a considerable number of general and thematic job fairs at different locations. In the third quarter of 2008, three large-scale and 46 district-based job fairs were organised to facilitate job matching. The large-scale job fairs were well attended by 45 employers, offering some 4 600 vacancies. The most recent event was held in Olympian City at Tai Kok Tsui on 24 September 2008. To better assist the unemployed, the Employees Retraining Board set up the “Training cum Employment Resources Centre” to help those persons aged 15 or above and with education attainment of sub-degree or below to obtain training and employment opportunities. Also, the Government had proposed to introduce a series of facilitating measures to improve the Small and Medium Enterprises (SMEs) Funding Schemes with a view to strengthening support to SMEs. Its aim was to provide employers with greater flexibility for job restructuring or job sharing among workers instead of cutting down the employment size, while tiding over periods with less favourable conditions. Furthermore, the ten major infrastructure projects announced in the 2007-08 Policy Address, when implemented, should help to

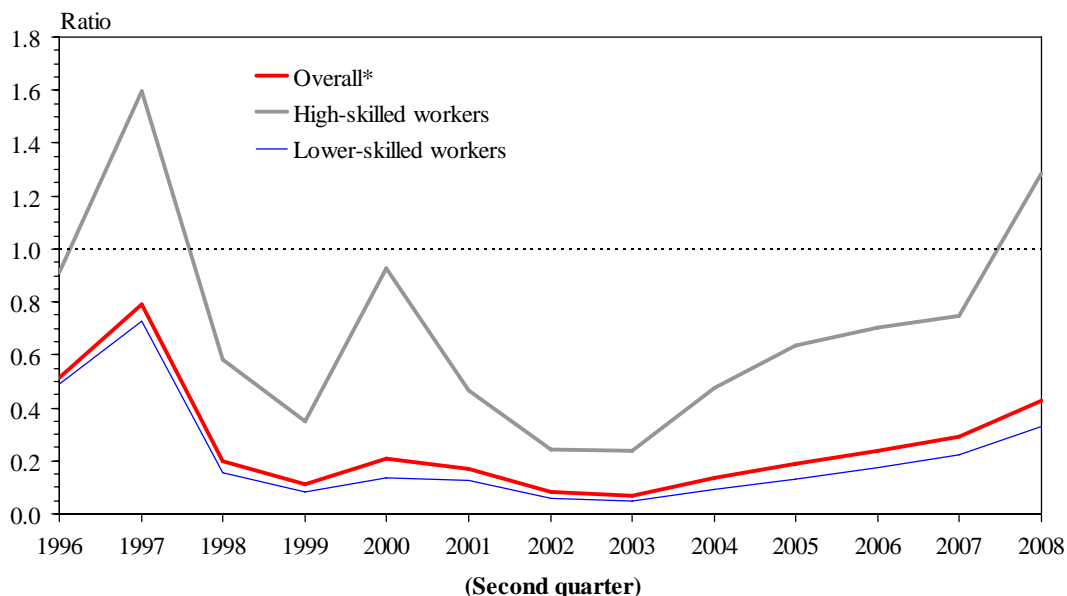


generate additional employment opportunities especially for workers in the building and construction sector.

**Diagram 5.6 : Vacancies continued to show notable growth in June 2008, especially for lower-end jobs**



**Diagram 5.7: Vacancy ratio continued on the increase**



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> |                  |                  |                  |                  |                  |                  |     |                                     |
|--|----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|-----|-------------------------------------|
|  | <u>Annual average</u>      | <u>2007</u>      |                  |                  |                  |                  | <u>2008</u>      |     | <u>Vacancy rate in Jun 2008 (%)</u> |
|  |                            | <u>Mar</u>       | <u>Jun</u>       | <u>Sep</u>       | <u>Dec</u>       | <u>Mar</u>       | <u>Jun</u>       |     |                                     |
| Wholesale, import and export trades                                    | 9 100<br>(9.2)             | 10 400<br>(-1.8) | 9 000<br>(8.6)   | 8 800<br>(13.5)  | 8 300<br>(21.9)  | 9 900<br>(-4.3)  | 9 000<br>(-0.9)  | 1.5 |                                     |
| Retail trade   | 4 700<br>(9.7)             | 5 100<br>(5.5)   | 4 200<br>(10.3)  | 5 100<br>(17.3)  | 4 500<br>(6.0)   | 5 900<br>(15.3)  | 5 400<br>(27.6)  | 2.2 |                                     |
| Restaurants and hotels   | 5 200<br>(24.0)            | 4 300<br>(6.8)   | 4 500<br>(12.7)  | 6 600<br>(31.5)  | 5 300<br>(44.8)  | 5 300<br>(25.2)  | 5 300<br>(19.5)  | 2.2 |                                     |
| Transport and storage  | 2 200<br>(13.9)            | 2 200<br>(7.1)   | 2 200<br>(-0.4)  | 2 300<br>(26.3)  | 2 200<br>(27.0)  | 2 400<br>(12.4)  | 2 000<br>(-7.5)  | 1.2 |                                     |
| Communications   | 800<br>(13.7)              | 800<br>(3.0)     | 800<br>(-3.8)    | 1 000<br>(51.9)  | 800<br>(9.3)     | 900<br>(17.8)    | 900<br>(10.3)    | 2.7 |                                     |
| Financing, insurance, real estate and business services                | 14 100<br>(14.5)           | 14 600<br>(7.7)  | 13 700<br>(11.8) | 14 800<br>(16.2) | 13 000<br>(24.6) | 15 700<br>(7.5)  | 14 100<br>(2.6)  | 2.6 |                                     |
| Community, social and personal services                                | 10 600<br>(23.3)           | 9 600<br>(22.3)  | 9 500<br>(16.6)  | 11 400<br>(23.6) | 12 000<br>(29.9) | 13 700<br>(42.1) | 12 600<br>(33.4) | 2.6 |                                     |
| Manufacturing  | 2 100<br>(11.4)            | 2 400<br>(23.3)  | 2 000<br>(-1.6)  | 2 100<br>(11.7)  | 1 900<br>(12.8)  | 2 300<br>(-2.3)  | 2 300<br>(15.5)  | 1.5 |                                     |
| Building and construction sites  | #<br>(137.5)               | #<br>(660.0)     | #<br>(77.8)      | #<br>(160.0)     | #<br>(-6.3)      | #<br>(*)         | #<br>(87.5)      | 0.1 |                                     |
| <i>All establishments surveyed in the private sector<sup>(a)</sup></i> | 48 900<br>(15.5)           | 49 300<br>(8.3)  | 45 900<br>(10.5) | 52 300<br>(19.9) | 48 100<br>(24.6) | 56 200<br>(14.0) | 51 600<br>(12.5) | 2.0 |                                     |
|  |                            | <5.4>            | <0.2>            | <8.3>            | <8.9>            | <-3.7>           | <-0.5>           |     |                                     |
| <i>Civil service<sup>(b)</sup></i>                                     | 2 500<br>(*)               | 1 200<br>(-55.0) | 3 200<br>(27.0)  | 3 000<br>(6.0)   | 2 700<br>(28.1)  | 5 500<br>(366.2) | 6 200<br>(94.4)  | 3.9 |                                     |

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%.

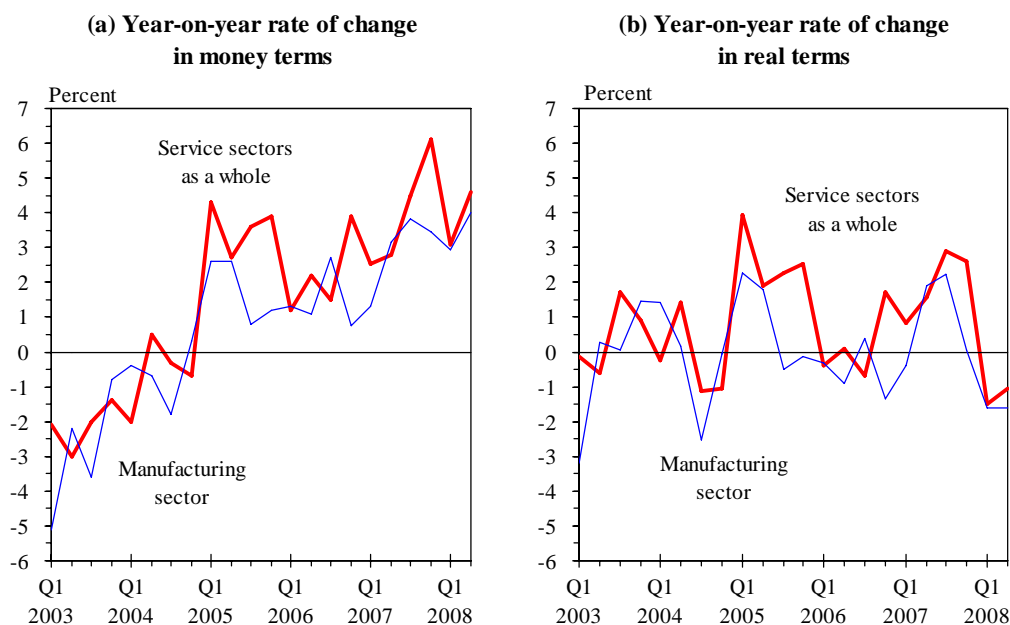
Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.  
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

## Earnings and wages

5.15 Under the still generally buoyant economic situation prevailing then, *labour earnings*<sup>(9)</sup>, as measured by payroll per person engaged in the private sector, registered an increase of 4.6% year-on-year in money terms in the second quarter of 2008. After adjusting for the accelerated inflation, there was however a small decline of 1.1% in real terms<sup>(10)</sup>.

5.16 Whereas a broad-based increase in nominal pay was observed in the second quarter of 2008, the growth varied considerably across different economic sectors, reflecting the differing demand and supply conditions among them. Workers in financial institutions faced the most distinct pay rise, by 9.4% in money terms, well exceeding the overall average of 4.6%. Workers in restaurants, manufacturing, and the wholesale, retail and import/export trades sectors reported increases of 6.8%, 4.0% and 4.0% respectively, followed by those in community, social and personal services and in transport, storage and communications sectors, at 3.4% and 1.0%.

**Diagram 5.8 : Nominal earnings rose moderately across the board in the second quarter of 2008**



5.17 *Labour wages*, as a measure of regular payments to employees at the supervisory level or below, also went up in June 2008, albeit by a smaller magnitude of 3.9% year-on-year in money terms. Yet in real terms, labour wages were down by 2.1%.

5.18 Analysed by economic sector, nominal wages increased across the board in June 2008, same as labour earnings. Among the major economic sectors, banking (6.0%), Chinese restaurants (5.5%) and manufacturing (4.5%) were the ones registering more notable gains. In terms of occupation category, operatives, supervisory and technical, and clerical and secretarial workers had relatively larger wage hikes, by 4.9%, 4.7% and 4.2% respectively. Yet looking ahead, the global financial tsunami is likely to lead to a slowdown in the local economic activities and hence moderation in both employment and wage growth in the coming months.

### 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) 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.
- (6) The service sectors cover the wholesale, retail and import/export trades, restaurants and hotels; transport, storage and communications; financing, insurance, real estate and business services; and community, social and personal services.
- (7) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector declined by 2.2% in the third 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.

- (8) 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.
- (9) 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.

- (10) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.

## CHAPTER 6 : PRICES

### Summary

- *Headline consumer price inflation fell notably to 4.6% in the third quarter of 2008, largely because of the alleviating effects of the Government's relief measures. Netting out all the relevant one-off effects, underlying consumer price inflation notched down from 6.3% in both July and August to 6.1% in September, averaging at 6.3% in the third quarter, still up from 5.7% in the second quarter, mainly due to the enlarged increase in private housing costs.*
- *Pressures of imported inflation eased somewhat in the third quarter as international food and energy prices declined and the US dollar rebounded notably. As a result, the year-on-year rate of increase in local food prices tapered off in the latter part of the third quarter. Nevertheless, the increase in housing costs enlarged, reflecting the earlier surges in market rentals.*
- *The upside risks to inflation have receded somewhat, given recent movements of food and energy prices as well as exchange rates. The current slowdown in global and local economies amidst the financial turmoil is expected to hold back price pressures from the demand side. These should provide the conditions for CPI inflation to ease more visibly once the faster increase in housing costs wanes. In addition, the mitigating effects of Government's relief measures on the headline consumer price inflation will also be increasingly visible in the rest of the year.*

### Consumer prices

6.1 Headline consumer inflation, as measured by the *Composite Consumer Price Index*<sup>(1)</sup> (CCPI), came down from 5.7% in the second quarter of 2008 to 4.6% in the third quarter. The lower headline inflation in the third quarter was mainly attributable to the relief measures of Government's payment of public housing rentals on behalf of lower income families for three months starting from August and the electricity subsidy for residential accounts as from September 2008<sup>(2)</sup>. Netting out the effects of the one-off measures, underlying consumer price inflation tended to stabilise after July, as the tapering in food inflation offset the enlarged increase in private housing costs. Underlying inflation eased from 6.3% in both July and August to 6.1% in September, averaging at 6.3% in the third quarter.

6.2 Food price inflation tapered off in the third quarter, in line with the recent trend of worldwide food prices. According to the Food and Agriculture Organisation (FAO) of United Nations, worldwide food prices, though still notably higher in the third quarter than a year earlier by 24%, had come down from the peak in June. In particular, international prices of cereals retreated considerably in recent months on favourable global crop prospects. International oil prices also dropped markedly from its peak in July. In addition, Hong Kong dollar strengthened somewhat along with the rebound of the US dollar against other currencies during the third quarter. These favourable developments should have helped to ease the pressures of imported inflation. Against this background, the year-on-year rate of local food inflation came down in recent months.

6.3 On the other hand, the earlier surge in private housing rents, as a result of the prolonged period of economic expansion in the past few years, has increasingly shown up in the consumer price inflation. Nevertheless, the continued improvement in labour productivity, coupled with the moderate increase in wages, helped to contain the increase in unit labour cost and provided some cushioning effect to business cost increases.

6.4 Inflationary pressures in the region receded somewhat amidst the slowdown in the global and regional economies under a turbulent financial environment. It is worth noting that Hong Kong's inflation in September was lower than those in many other Asian economies<sup>(3)</sup>. Nevertheless, inflation is still a major concern in Hong Kong, particularly in view of its impact on the lower-income group and the underprivileged in the community.

6.5 Looking forward, the upside risks to inflation have receded somewhat, given the recent movements of international food and energy prices as well as exchange rates. The slowdown in the global and local economies is expected to hold back the price pressures from the demand side. These factors should help to offset the faster increase in housing cost due to the earlier surges in market rentals. In addition, the Government's relief measures will continue to push down the headline consumer price inflation in the coming months.



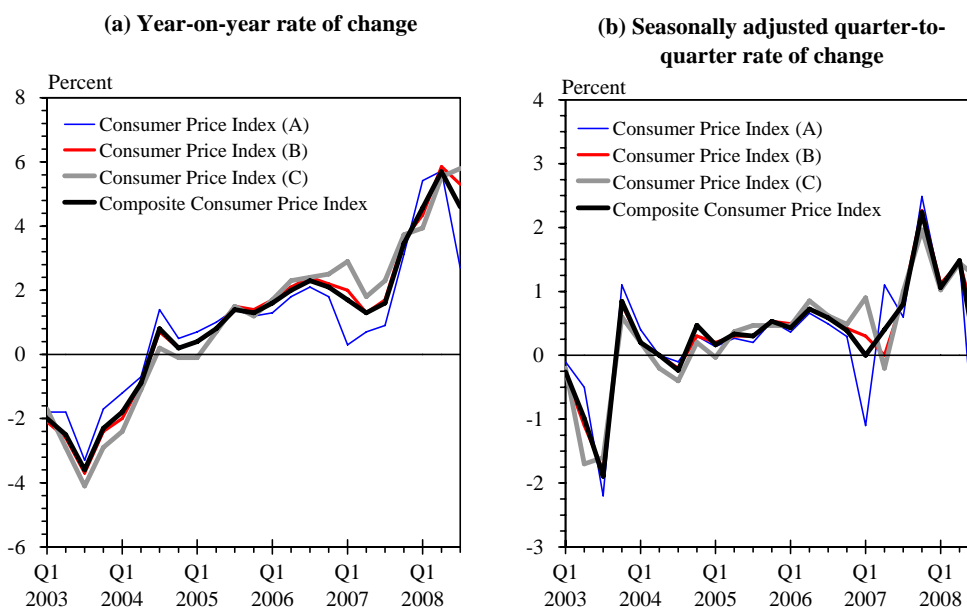
**Table 6.1 : Consumer Price Indices**  
(year-on-year rate of change (%))

|      |        | <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)     |
|      | Q3     | 6.3                  | 4.6 (-0.2)      | 2.7 (-2.2)    | 5.3 (0.4)     | 5.8 (1.2)     |

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

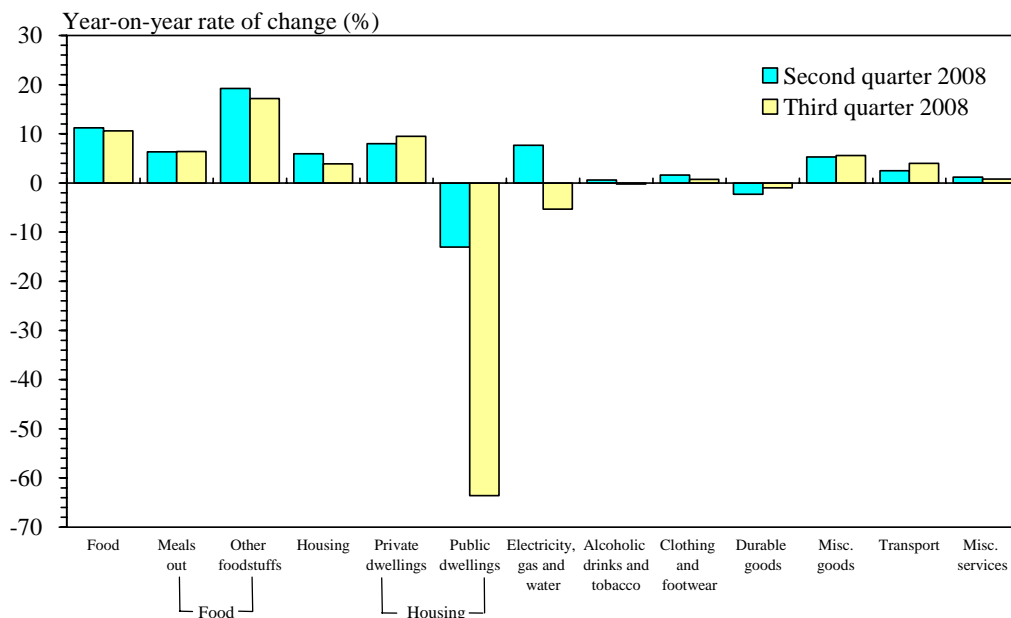
(\*) Change of less than 0.05%

**Diagram 6.1 : Consumer price inflation came down notably in the third quarter, largely due to the alleviating effects of Government's relief measures**



6.6 Among the major components of CCPI, the increase in food prices was the largest contributor to the CCPI inflation in the third quarter, even though on a monthly basis, food inflation had come down quite notably during the quarter. On the other hand, the year-on-year increase in private housing costs enlarged notably during the quarter, reflecting the feed-through of the earlier surges in private housing rents. Nevertheless, public housing rents dropped markedly, thanks to the relief measure of Government's payment of public housing rents on behalf of lower income families for three months as from August 2008. The prices of electricity, gas and water fell, again due to the relief measure of electricity subsidy for residential accounts from September 2008 onwards. Miscellaneous goods were still under some upward price pressures on account of the increase in import prices of consumer goods and locally generated pressures from the demand side. Prices of transport went up, mainly reflecting the higher fuel costs, as well as the increases in inbound and outbound transport fares 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 : Private housing rentals rose faster while food inflation came down**



**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>    | <u>Q3</u>    |
| Food   | 26.94                | 2.9          | 2.8          | 4.8          | 6.7          | 10.0         | 11.2         | 10.6         |
| <i>Meals bought<br/>        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>6.4</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>  | <i>17.2</i>  |
| Housing <sup>(a)</sup>                         | 29.17                | 2.2          | 1.0          | 0.7          | 4.2          | 3.9          | 5.9          | 3.9          |
| <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>9.5</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> | <i>-63.6</i> |
| Electricity, gas and water                     | 3.59                 | -1.3         | -2.2         | -2.7         | 3.4          | 7.2          | 7.7          | -5.3         |
| Alcoholic drinks and tobacco                   | 0.87                 | -3.9         | -0.1         | -1.1         | 0.5          | 0.5          | 0.6          | -0.2         |
| Clothing and footwear                          | 3.91                 | 7.2          | 3.9          | 3.7          | 2.0          | 1.6          | 1.6          | 0.7          |
| Durable goods                                  | 5.50                 | -5.8         | -4.6         | -4.2         | -4.0         | -3.5         | -2.3         | -1.0         |
| Miscellaneous goods                            | 4.78                 | 2.8          | 1.8          | 2.1          | 3.4          | 4.6          | 5.3          | 5.6          |
| Transport                                      | 9.09                 | -0.6         | -0.5         | -0.1         | 0.7          | 1.3          | 2.5          | 4.0          |
| Miscellaneous services                         | 16.15                | 2.2          | 2.2          | 1.3          | 1.0          | 1.3          | 1.2          | 0.8          |
| All items                                      | 100.00               | 1.7<br>(2.5) | 1.3<br>(2.4) | 1.6<br>(2.7) | 3.5<br>(3.5) | 4.6<br>(4.9) | 5.7<br>(5.7) | 4.6<br>(6.3) |

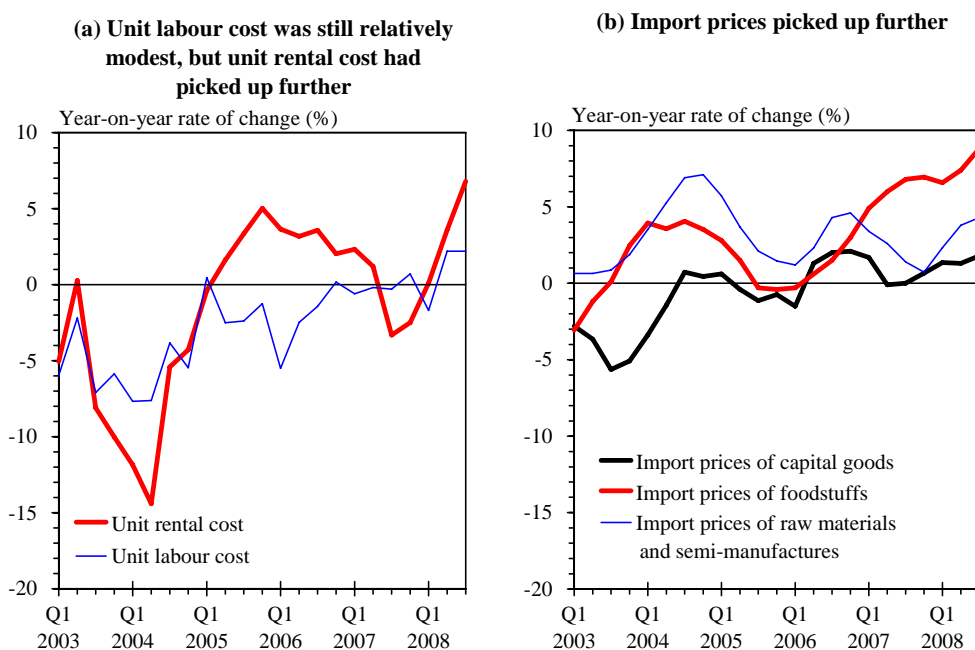
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings 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 housing rental waiver in February 2007, the rates concession in the second and third quarters of 2007 and in 2008, the Government's payment of public housing rents for three months and two years' suspension of Employees Retraining Levy as from August 2008, and the electricity subsidies for residential accounts as from September 2008.

## Costs of factor inputs and import prices

6.7 Wages rose moderately in the second quarter but rentals were notably higher in the third quarter as compared with a year earlier. Thus, unit rental cost rose further in the third quarter, while the increase in *unit labour cost*<sup>(4)</sup> was still relatively moderate when seen in conjunction with the continued growth of labour productivity.

**Diagram 6.3 : Costs of factor inputs and import prices**



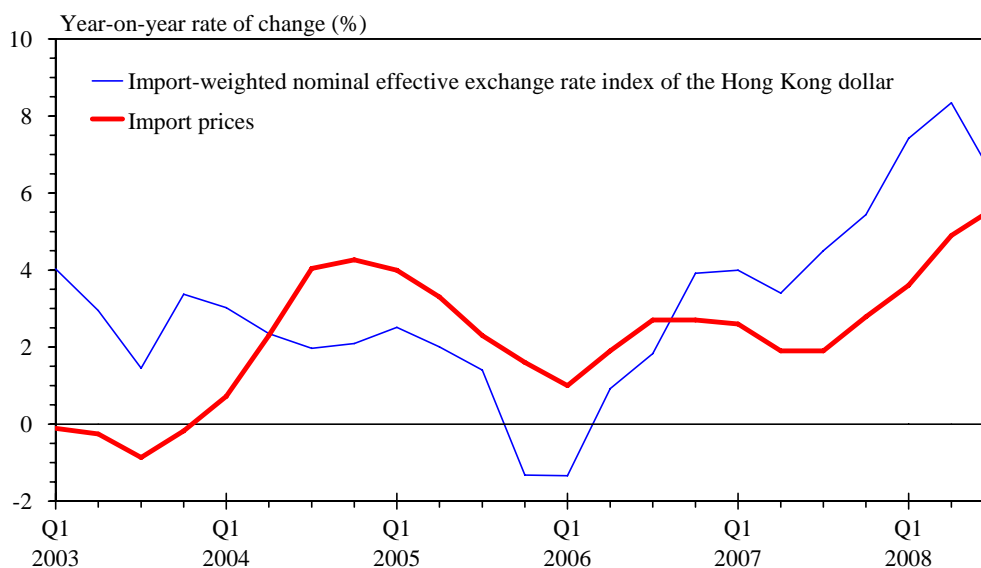
6.8 On the external front, import prices rose faster in the third quarter over a year earlier, reflecting the rise in global inflationary pressure and the earlier weakness of the US dollar. As for individual end-use category, import prices of foodstuffs and consumer goods picked up further in the third quarter. Import prices of raw materials and capital goods also accelerated slightly in the period. On the other hand, the increase in import prices of fuels showed some deceleration, though still notably higher than a year earlier.

**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        |
|      | Q3     | 8.8               | 6.1                   | 4.3                  | 49.0         | 1.8                  | 5.6        |

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

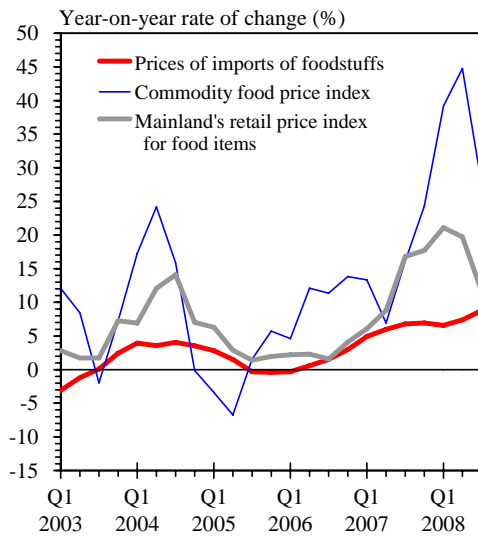
**Diagram 6.4 : Import prices rose further but Hong Kong dollar rebounded along with the US dollar**



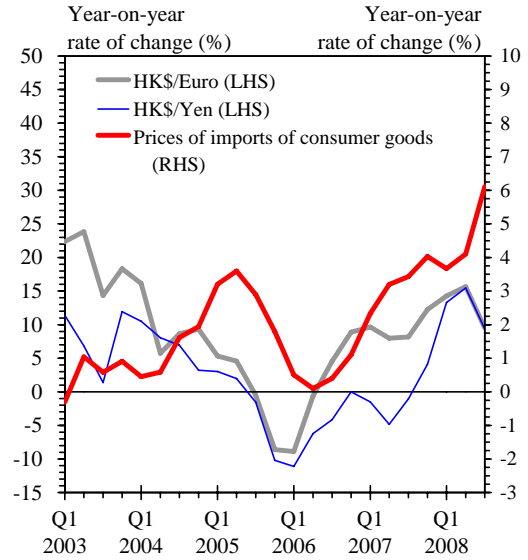
Note: The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

## Diagram 6.5 : Prices of imports by end-use category

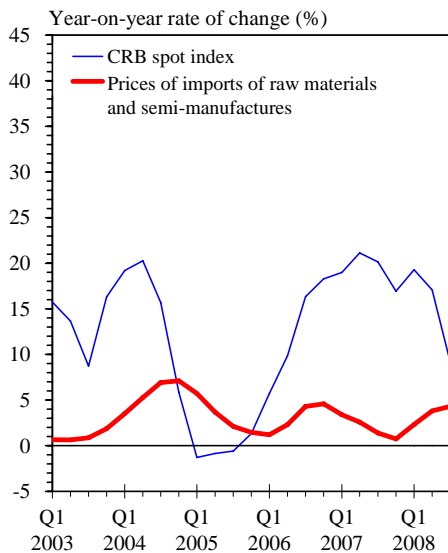
**(a) Increase in import prices of foodstuffs still notable**



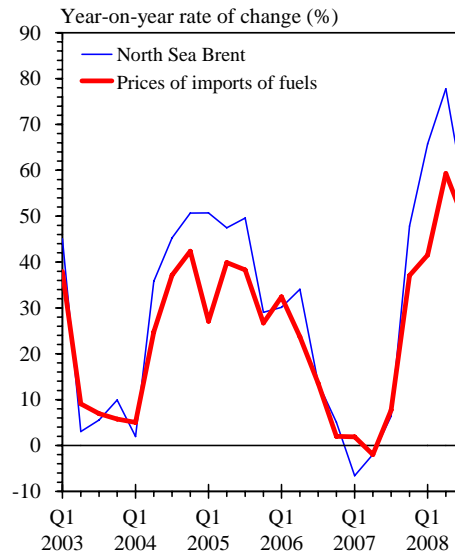
**(b) Import prices of consumer goods rose faster**



**(c) Import prices of raw materials rose moderately**



**(d) Increase in fuel prices moderated as international oil prices retreated recently**



## Output prices

6.9 Output prices, as measured by the *Producer Price Indices*<sup>(5)</sup>, continued to rise in the second 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, increase in prices for hotels and boarding houses moderated somewhat amidst the slower expansion of inbound tourism. Output prices of air transport continued to rise as fuel costs surged sharply in the second quarter. In contrast, prices in telecommunications decreased persistently under an environment of keen competition and rapid technological advancement.

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

| <u>Industry group</u>                  | <u>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> <sup>@</sup> |
| Manufacturing                          | 3.0           | 2.5       | 2.6       | 2.5       | 4.2       | 5.7         | 6.7                    |
| Selected service sector <sup>(#)</sup> |               |           |           |           |           |             |                        |
| Hotels and boarding houses             | 8.8           | 8.4       | 9.2       | 10.0      | 7.7       | 11.1        | 10.6                   |
| Land transport                         | *             | -0.8      | -0.4      | 0.2       | 0.9       | 0.5         | 0.8                    |
| Maritime transport                     | 0.9           | 1.8       | -0.8      | 0.1       | 2.3       | 5.2         | 3.9                    |
| Air transport                          | 1.1           | 0.8       | 1.4       | -0.5      | 2.7       | 3.3         | 8.8                    |
| Telecommunications                     | -2.7          | -3.4      | -3.8      | -2.6      | -1.1      | -1.8        | -2.0                   |
| Miscellaneous communications services  | 1.0           | -0.3      | -0.7      | -0.4      | 5.6       | 3.9         | 4.4                    |

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.

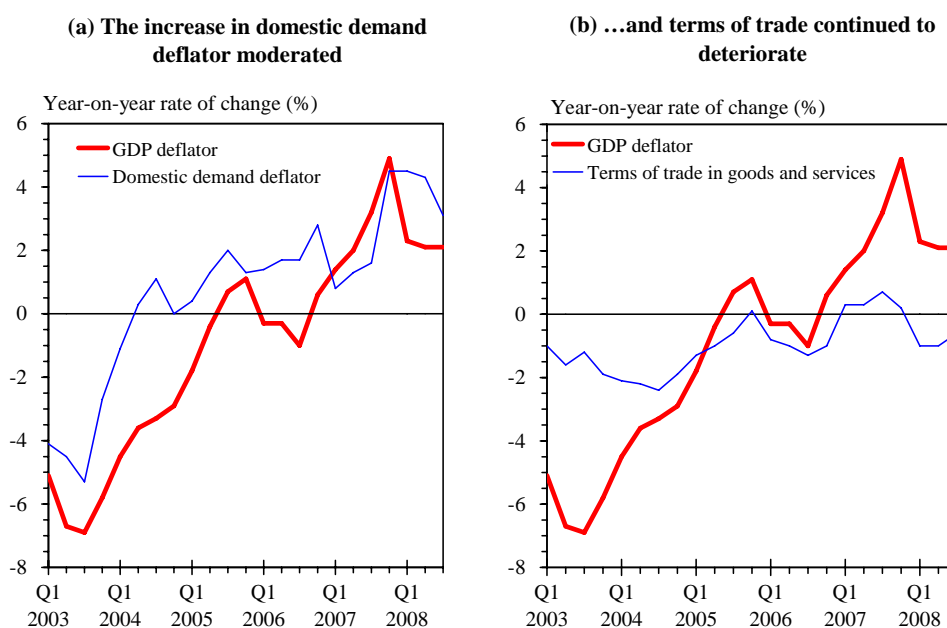
(\*) Change of less than 0.05%.

(@) Provisional figures except Manufacturing.

## GDP deflator

6.10 The increase in *GDP deflator*<sup>(6)</sup>, a broad measure of the overall change in prices of the economy, stayed at 2.1% in the third quarter of 2008. The increase in the *domestic demand deflator* eased in the third quarter of 2008, reflecting the slower increase in the price deflator for private consumption expenditure. Meanwhile, the terms of trade<sup>(7)</sup>, a dominant item in the GDP deflator, deteriorated at a slower pace, due largely to the moderation in the price deflator for imports of services.

Diagram 6.6 : GDP deflator





**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<sup>#</sup></u> | <u>Q2<sup>#</sup></u> | <u>Q3<sup>#</sup></u> | <u>Q4<sup>#</sup></u> | <u>Q1<sup>#</sup></u> | <u>Q2<sup>#</sup></u> | <u>Q3<sup>+</sup></u> |
| Private consumption expenditure        | 3.6           | 1.9                   | 2.2                   | 3.7                   | 6.4                   | 4.4                   | 5.0                   | 2.8                   |
| Government consumption expenditure     | 3.3           | 1.3                   | 3.9                   | 3.9                   | 4.1                   | 4.1                   | 5.6                   | 6.0                   |
| Gross domestic fixed capital formation | -2.1          | -2.2                  | -3.0                  | -5.1                  | 1.4                   | 4.8                   | 0.7                   | 1.4                   |
| Total exports of goods                 | 2.2           | 2.4                   | 1.7                   | 1.9                   | 2.7                   | 2.3                   | 3.4                   | 4.4                   |
| Imports of goods                       | 1.7           | 2.1                   | 1.3                   | 1.1                   | 2.5                   | 3.4                   | 4.6                   | 5.2                   |
| Exports of services                    | 2.5           | 2.5                   | 1.9                   | 2.3                   | 3.3                   | 3.3                   | 4.1                   | 4.8                   |
| Imports of services                    | 3.0           | 2.4                   | 2.6                   | 3.0                   | 3.6                   | 5.3                   | 5.2                   | 3.9                   |
| <b>Gross Domestic Product</b>          | 3.0           | 1.4<br><0.6>          | 2.0<br><0.9>          | 3.2<br><1.1>          | 4.9<br><2.1>          | 2.3<br><-1.7>         | 2.1<br><0.6>          | 2.1<br><1.2>          |
| Total final demand                     | 2.2           | 1.9                   | 1.6                   | 1.9                   | 3.4                   | 3.1                   | 3.8                   | 4.1                   |
| Domestic demand                        | 2.1           | 0.8                   | 1.3                   | 1.6                   | 4.5                   | 4.5                   | 4.3                   | 3.1                   |

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<br/>households covered</u><br>(%) | <u>Average monthly expenditure<br/>range<br/>during Oct 2004 to Sep 2005</u><br>(\$) |
|--------|--|--|
| 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<br/>Component</u>                                   | <u>Composite CPI</u><br>(%) | <u>CPI(A)</u><br>(%) | <u>CPI(B)</u><br>(%) | <u>CPI(C)</u><br>(%) |
|--|-----------------------------|----------------------|----------------------|----------------------|
| Food   | 26.94                       | 32.10                | 27.32                | 20.41                |
| <i>Meals bought<br/>    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<br/>    and other<br/>    housing charges</i> | 2.75                        | 2.29                 | 2.56                 | 3.55                 |
| Electricity, gas and<br>water                                      | 3.59                        | 4.84                 | 3.37                 | 2.45                 |
| Alcoholic drinks and<br>tobacco                                    | 0.87                        | 1.35                 | 0.79                 | 0.42                 |
| Clothing and<br>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<br>services  | 16.15                       | 11.60                | 17.06                | 20.14                |
| All items  | 100.00                      | 100.00               | 100.00               | 100.00               |

- (2) The effect of suspending the Employees Retraining Levy from August 2008 for two years on the headline Composite CPI is very small relative to the effects of the other one-off measures.

- (3) The year-on-year rates of consumer price inflation in selected Asian economies in September 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>Q3</u> | <u>Jul</u> | <u>Aug</u> | <u>Sep</u> |
| Hong Kong      | 2.0           | 4.6         | 5.7       | 4.6       | 6.3        | 4.6        | 3.0        |
| Mainland China | 4.8           | 8.0         | 7.8       | 5.3       | 6.3        | 4.9        | 4.6        |
| India          | 6.4           | 6.3         | 7.8       | 9.0       | 8.3        | 9.0        | 9.8        |
| Singapore      | 2.1           | 6.6         | 7.5       | 6.6       | 6.5        | 6.4        | 6.7        |
| Korea          | 2.5           | 3.8         | 4.8       | 5.5       | 5.9        | 5.6        | 5.1        |
| Taiwan         | 1.8           | 3.6         | 4.2       | 4.5       | 5.8        | 4.7        | 3.1        |
| Indonesia      | 6.4           | 7.6         | 10.1      | 12.0      | 11.9       | 11.8       | 12.1       |
| Malaysia       | 2.0           | 2.6         | 4.9       | 8.4       | 8.5        | 8.5        | 8.2        |
| Thailand       | 2.2           | 5.0         | 7.5       | 7.2       | 9.2        | 6.4        | 6.0        |
| Macao          | 5.6           | 9.1         | 8.9       | 9.0       | 9.2        | 8.7        | 9.1        |
| Philippines    | 2.8           | 5.5         | 9.7       | 12.2      | 12.3       | 12.5       | 11.9       |
| Vietnam        | 8.3           | 16.4        | 24.5      | 27.8      | 27.0       | 28.3       | 27.9       |

- (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.

## Statistical Appendix

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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          |
| <b>GDP</b>   | <b>1,292,764</b> | <b>1,266,668</b> | <b>1,317,650</b> | <b>1,299,218</b> | <b>1,277,314</b> | <b>1,234,761</b> |
| <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>   |
| <b>GNP</b>   | <b>1,317,362</b> | <b>1,291,436</b> | <b>1,326,404</b> | <b>1,327,761</b> | <b>1,282,966</b> | <b>1,263,252</b> |
| <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 <sup>(a)</sup> | 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<sup>#</sup></u> | <u>2007<sup>#</sup></u> | <u>2007</u><br>Q4 <sup>#</sup> | Q1 <sup>#</sup> | <u>2008</u><br>Q2 <sup>#</sup> | Q3 <sup>#</sup> |
| Private consumption expenditure                        | 767,923          | 804,936          | 864,416                 | 966,074                 | 266,045                        | 248,164         | 257,928                        | 249,075         |
| Government consumption expenditure                     | 127,327          | 121,435          | 123,066                 | 130,004                 | 33,197                         | 35,773          | 33,155                         | 34,756          |
| Gross domestic fixed capital formation                 | 275,034          | 289,170          | 322,386                 | 328,637                 | 91,651                         | 85,529          | 86,613                         | 83,114          |
| <i>of which:</i>                                       |                  |                  |                         |                         |                                |                 |                                |                 |
| Building and construction                              | 107,692          | 105,993          | 105,960                 | 113,542                 | 28,726                         | 34,180          | 31,899                         | 29,368          |
| Machinery, equipment and computer software             | 150,545          | 163,287          | 199,634                 | 190,618                 | 54,875                         | 42,112          | 47,291                         | 48,598          |
| Changes in inventories                                 | 7,076            | -4,761           | -2,129                  | 15,013                  | 7,752                          | 898             | 6,410                          | 4,201           |
| Total exports of goods                                 | 2,027,031        | 2,251,744        | 2,467,357               | 2,698,850               | 732,951                        | 650,631         | 708,742                        | 764,283         |
| Imports of goods                                       | 2,099,545        | 2,311,091        | 2,576,340               | 2,852,522               | 778,838                        | 696,708         | 770,762                        | 805,638         |
| Exports of services                                    | 429,584          | 495,394          | 565,054                 | 651,815                 | 182,097                        | 169,233         | 166,522                        | 191,054         |
| Imports of services                                    | 242,507          | 264,237          | 287,900                 | 321,656                 | 86,155                         | 83,365          | 84,266                         | 91,149          |
| <b>GDP</b>   | <b>1,291,923</b> | <b>1,382,590</b> | <b>1,475,910</b>        | <b>1,616,215</b>        | <b>448,700</b>                 | <b>410,155</b>  | <b>404,342</b>                 | <b>429,696</b>  |
| <i>Per capita GDP (\$)</i>                             | <i>190,451</i>   | <i>202,928</i>   | <i>215,238</i>          | <i>233,358</i>          | --                             | --              | --                             | --              |
| <b>GNP</b>   | <b>1,315,333</b> | <b>1,384,238</b> | <b>1,503,258</b>        | <b>1,678,482</b>        | <b>466,830</b>                 | <b>428,117</b>  | <b>426,377</b>                 | <b>N.A</b>      |
| <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               | 1,313,693                      | 1,190,228       | 1,259,370                      | 1,326,483       |
| Total final demand excluding re-exports <sup>(a)</sup> | 2,062,142        | 2,212,697        | 2,407,414               | 2,650,203               | 733,174                        | 671,693         | 692,979                        | 715,101         |
| Domestic demand  | 1,177,360        | 1,210,780        | 1,307,739               | 1,439,728               | 398,645                        | 370,364         | 384,106                        | 371,146         |
| Private  | 1,001,588        | 1,048,026        | 1,149,899               | 1,277,979               | 357,150                        | 323,689         | 343,681                        | 328,502         |
| Public   | 175,772          | 162,754          | 157,840                 | 161,749                 | 41,495                         | 46,675          | 40,425                         | 42,644          |
| External demand  | 2,456,615        | 2,747,138        | 3,032,411               | 3,350,665               | 915,048                        | 819,864         | 875,264                        | 955,337         |

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        |
| <b>GDP</b>   | <b>-6.0</b> | <b>2.6</b>  | <b>8.0</b>  | <b>0.5</b>  | <b>1.8</b>  | <b>3.0</b>  |
| <i>Per capita GDP</i>                                  | <b>-6.8</b> | <b>1.6</b>  | <b>7.0</b>  | <b>-0.2</b> | <b>1.4</b>  | <b>3.2</b>  |
| <b>GNP</b>   | <b>-4.1</b> | <b>2.6</b>  | <b>6.6</b>  | <b>2.0</b>  | <b>0.1</b>  | <b>4.9</b>  |
| <i>Per capita GNP</i>                                  | <b>-4.9</b> | <b>1.6</b>  | <b>5.6</b>  | <b>1.3</b>  | <b>-0.3</b> | <b>5.1</b>  |
| Total final demand                                     | -5.9        | 0.9         | 12.6        | -0.7        | 5.0         | 7.9         |
| Total final demand excluding re-exports <sup>(a)</sup> | -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<sup>#</sup></u> | <u>2007<sup>#</sup></u> | <u>2007</u> | <u>2008</u>     |                 |                 | Average annual rate of change: |  |
|--|-------------|-------------|-------------------------|-------------------------|-------------|-----------------|-----------------|-----------------|--------------------------------|--|
|  |             |             |                         |                         |             | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <sup>#</sup> | Q3 <sup>#</sup>                | 10 years<br>1997 to<br>2007 <sup>#</sup> |
| Private consumption expenditure                        | 7.0         | 3.0         | 6.0                     | 7.8                     | 9.5         | 7.9             | 3.2             | 0.2             | 2.3                            | 4.4                                      |
| Government consumption expenditure                     | 0.7         | -3.2        | 0.1                     | 2.3                     | 2.3         | 0.3             | 3.0             | 2.3             | 1.6                            | 0.3                                      |
| Gross domestic fixed capital formation                 | 2.5         | 4.1         | 7.0                     | 4.2                     | 8.2         | 9.9             | 3.5             | 3.0             | -0.3                           | 3.7                                      |
| <i>of which:</i>                                       |             |             |                         |                         |             |                 |                 |                 |                                |  |
| Building and construction                              | -10.7       | -7.6        | -7.3                    | 1.0                     | -1.2        | 8.2             | -3.7            | -3.6            | -6.0                           | -6.1                                     |
| Machinery, equipment and computer software             | 10.3        | 12.8        | 19.1                    | 3.5                     | 8.5         | 6.1             | 6.3             | 9.9             | 4.6                            | 10.4                                     |
| Total exports of goods                                 | 14.9        | 10.4        | 9.3                     | 7.0                     | 5.7         | 8.3             | 4.4             | 1.4             | 7.4                            | 11.1                                     |
| Imports of goods                                       | 13.7        | 8.0         | 9.2                     | 8.8                     | 8.5         | 8.4             | 4.9             | 2.2             | 6.8                            | 10.5                                     |
| Exports of services                                    | 18.0        | 11.6        | 10.1                    | 12.5                    | 13.1        | 10.2            | 8.1             | 5.3             | 9.4                            | 11.9                                     |
| Imports of services                                    | 14.6        | 7.8         | 8.1                     | 8.5                     | 9.7         | 10.1            | 3.5             | 1.8             | 4.3                            | 7.2                                      |
| <b>GDP</b>   | <b>8.5</b>  | <b>7.1</b>  | <b>7.0</b>              | <b>6.4</b>              | <b>6.9</b>  | <b>7.3</b>      | <b>4.2</b>      | <b>1.7</b>      | <b>3.8</b>                     | <b>6.4</b>                               |
| <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>                               |
| <b>GNP</b>   | <b>7.9</b>  | <b>5.3</b>  | <b>8.8</b>              | <b>8.5</b>              | <b>9.7</b>  | <b>4.3</b>      | <b>8.1</b>      | <b>N.A.</b>     | <b>4.2</b>                     | <b>7.1</b>                               |
| <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                     | 8.0         | 8.2             | 4.6             | 2.0             | 5.4                            | 8.7                                      |
| Total final demand excluding re-exports <sup>(a)</sup> | 8.9         | 5.4         | 7.3                     | 7.5                     | 9.8         | 7.8             | 3.7             | 1.6             | 3.5                            | 6.4                                      |
| Domestic demand  | 5.0         | 1.6         | 5.9                     | 7.8                     | 10.3        | 7.1             | 3.5             | 1.7             | 1.5                            | 4.0                                      |
| Private  | 6.2         | 3.0         | 7.5                     | 8.9                     | 11.8        | 7.7             | 3.6             | 1.5             | 1.9                            | 5.0                                      |
| Public   | -1.2        | -6.2        | -4.0                    | -0.3                    | -0.4        | 3.1             | 2.6             | 2.9             | -1.0                           | -2.1                                     |
| External demand  | 15.4        | 10.6        | 9.4                     | 8.0                     | 7.1         | 8.7             | 5.1             | 2.2             | 7.8                            | 11.2                                     |



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

|   | <u>2003</u>      |              | <u>2004</u>      |              | <u>2005</u>      |              | <u>2006<sup>#</sup></u> |              | <u>2007<sup>#</sup></u> |              |
|---|------------------|--------------|------------------|--------------|------------------|--------------|-------------------------|--------------|-------------------------|--------------|
|   | \$Mn             | % share      | \$Mn             | % share      | \$Mn             | % share      | \$Mn                    | % share      | \$Mn                    | % share      |
| Agriculture and fishing   | 824              | 0.1          | 886              | 0.1          | 847              | 0.1          | 849                     | 0.1          | 895                     | 0.1          |
| Mining and quarrying  | 116              | *            | 72               | *            | 100              | *            | 93                      | *            | 114                     | *            |
| Manufacturing   | 44,403           | 3.7          | 44,455           | 3.6          | 45,547           | 3.4          | 45,761                  | 3.2          | 39,272                  | 2.5          |
| Electricity, gas and water  | 38,839           | 3.3          | 39,726           | 3.2          | 39,924           | 3.0          | 40,364                  | 2.8          | 39,426                  | 2.5          |
| Construction  | 44,910           | 3.8          | 40,376           | 3.2          | 38,538           | 2.9          | 38,688                  | 2.7          | 40,154                  | 2.6          |
| Services  | 1,062,714        | 89.2         | 1,119,304        | 89.9         | 1,207,873        | 90.6         | 1,297,545               | 91.2         | 1,429,293               | 92.3         |
| <i>Wholesale, retail and import and export trades, restaurants and hotels</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>419,024</i>          | <i>27.0</i>  |
| <i>Transport, storage and communications</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>137,554</i>          | <i>8.9</i>   |
| <i>Financing, insurance, real estate and business services</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>453,721</i>          | <i>29.3</i>  |
| <i>Community, social and personal services</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>262,631</i>          | <i>17.0</i>  |
| <i>Ownership of premises</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>  | <i>156,363</i>          | <i>10.1</i>  |
| <b>GDP at current factor cost</b>   | <b>1,191,807</b> | <b>100.0</b> | <b>1,244,819</b> | <b>100.0</b> | <b>1,332,830</b> | <b>100.0</b> | <b>1,423,299</b>        | <b>100.0</b> | <b>1,549,153</b>        | <b>100.0</b> |
| Taxes on production and imports   | 48,057           | --           | 58,729           | --           | 62,891           | --           | 71,071                  | --           | 94,255                  | --           |
| Statistical discrepancy (%)   | -0.4             | --           | -0.9             | --           | -0.9             | --           | -1.3                    | --           | -1.7                    | --           |
| <b>GDP at current market prices</b>   | <b>1,234,761</b> | <b>--</b>    | <b>1,291,923</b> | <b>--</b>    | <b>1,382,590</b> | <b>--</b>    | <b>1,475,910</b>        | <b>--</b>    | <b>1,616,215</b>        | <b>--</b>    |

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<sup>#</sup></u> | <u>2007<sup>#</sup></u> | <u>2007</u>     |                 | <u>2008</u>     |                 |
|   |             |             |             |             |                         |                         | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <sup>#</sup> |
| Agriculture and fishing   | -1.1        | -6.3        | 2.7         | -1.0        | -5.0                    | -9.2                    | -9.7            | -10.7           | -20.7           | -18.4           |
| Mining and quarrying  | -11.3       | 2.3         | -16.7       | 10.1        | 10.2                    | 13.7                    | 9.8             | 12.5            | 1.1             | -3.2            |
| Manufacturing   | -10.0       | -10.3       | 1.7         | 2.1         | 2.2                     | -1.5                    | -2.1            | -0.3            | -4.4            | -4.1            |
| Electricity, gas and water  | 3.8         | 1.8         | 2.3         | 2.5         | 0.8                     | 1.1                     | 0.4             | *               | 4.7             | -3.5            |
| Construction  | -1.9        | -4.6        | -9.3        | -8.1        | -9.8                    | -2.1                    | -2.8            | -2.6            | 8.3             | -2.7            |
| Services  | 2.7         | 4.3         | 9.9         | 7.5         | 7.1                     | 7.5                     | 7.3             | 7.8             | 6.8             | 4.2             |
| <i>Wholesale, retail and<br/>import and export trades,<br/>restaurants and hotels</i> | 4.4         | 8.9         | 15.1        | 14.1        | 8.8                     | 7.3                     | 7.3             | 7.3             | 8.9             | 7.0             |
| <i>Transport, storage and<br/>communications</i>                                      | 6.4         | 0.6         | 13.9        | 7.4         | 6.8                     | 5.4                     | 6.0             | 6.6             | 7.2             | 4.3             |
| <i>Financing, insurance,<br/>real estate and business<br/>services</i>                | 2.7         | 5.5         | 13.4        | 8.6         | 12.2                    | 15.0                    | 15.5            | 16.6            | 10.4            | 4.2             |
| <i>Community, social and<br/>personal services</i>                                    | -0.4        | 0.4         | 2.6         | -0.1        | 1.3                     | 1.2                     | 0.9             | 1.3             | 0.7             | 1.5             |
| <i>Ownership of premises</i>  | 1.8         | 2.8         | 1.5         | 2.9         | 2.4                     | 2.7                     | 2.9             | 2.4             | 2.0             | 1.6             |
| Taxes on production and<br>imports  | -0.2        | 2.6         | 12.3        | 0.8         | 6.8                     | 15.1                    | 25.0            | 18.0            | 18.8            | 6.3             |
| <b>GDP in chained (2006) dollars</b>  | <b>1.8</b>  | <b>3.0</b>  | <b>8.5</b>  | <b>7.1</b>  | <b>7.0</b>              | <b>6.4</b>              | <b>6.8</b>      | <b>6.9</b>      | <b>7.3</b>      | <b>4.2</b>      |

Notes : (#) 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<sup>#</sup></u> | <u>2007</u>     |                 | <u>2008</u>     |                 |
|---|--------------|---------------|---------------|---------------|-------------------------|-----------------|-----------------|-----------------|-----------------|
|   |              |               |               |               |                         | Q3 <sup>#</sup> | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <sup>#</sup> |
| Current account                                       | 128,240      | 122,512       | 156,933       | 178,166       | 218,732                 | 65,190          | 63,361          | 51,748          | 34,789          |
| Goods   | -44,970      | -72,514       | -59,347       | -108,983      | -153,672                | -27,357         | -45,887         | -46,077         | -62,020         |
| Services  | 159,020      | 187,077       | 231,157       | 277,154       | 330,159                 | 86,981          | 95,942          | 85,868          | 82,256          |
| Income  | 28,491       | 23,410        | 1,648         | 27,348        | 62,267                  | 10,660          | 18,130          | 17,962          | 22,035          |
| Current transfers                                     | -14,301      | -15,461       | -16,524       | -17,353       | -20,022                 | -5,094          | -4,824          | -6,005          | -7,483          |
| Capital and financial account                         | -179,086     | -184,640      | -182,431      | -209,935      | -250,457                | -80,154         | -76,075         | -33,762         | -20,619         |
| Capital and financial non-reserve assets (net change) | -171,497     | -159,155      | -171,752      | -163,199      | -135,959                | -66,271         | 2,188           | 21,267          | -10,356         |
| Capital transfers                                     | -8,292       | -2,561        | -4,939        | -2,900        | 10,651                  | 7,048           | 1,070           | 2,650           | 1,835           |
| Financial non-reserve assets (net change)             | -163,205     | -156,594      | -166,812      | -160,300      | -146,611                | -73,319         | 1,119           | 18,617          | -12,191         |
| <i>Direct investment</i>                              | 63,372       | -91,038       | 49,996        | 635           | 52,404                  | 22,187          | 5,141           | 56,177          | -80,172         |
| <i>Portfolio investment</i>                           | -264,619     | -306,368      | -245,017      | -207,879      | 36,673                  | 12,019          | 38,801          | -186,885        | 23,685          |
| <i>Financial derivatives</i>                          | 78,288       | 44,319        | 30,502        | 25,925        | 58,545                  | 12,335          | 3,760           | 10,705          | 11,663          |
| <i>Other investment</i>                               | -40,247      | 196,492       | -2,294        | 21,019        | -294,232                | -119,859        | -46,583         | 138,621         | 32,633          |
| Reserve assets (net change) <sup>(a)</sup>            | -7,589       | -25,486       | -10,679       | -46,735       | -114,498                | -13,882         | -78,263         | -55,029         | -10,263         |
| Net errors and omissions                              | 50,846       | 62,128        | 25,498        | 31,769        | 31,726                  | 14,964          | 12,714          | -17,986         | -14,170         |
| <b>Overall balance of payments</b>                    | <b>7,589</b> | <b>25,486</b> | <b>10,679</b> | <b>46,735</b> | <b>114,498</b>          | <b>13,882</b>   | <b>78,263</b>   | <b>55,029</b>   | <b>10,263</b>   |

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

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

(#) 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<sup>#</sup></u> | <u>2007<sup>#</sup></u> | <u>2007</u>        |                    | <u>2008</u>        |                    |
|  |                    |                    |                    |                         |                         | Q4 <sup>#</sup>    | Q1 <sup>#</sup>    | Q2 <sup>#</sup>    | Q3 <sup>#</sup>    |
| Total exports of goods                     | 1,749,089          | 2,027,031          | 2,251,744          | 2,467,357               | 2,698,850               | 732,951            | 650,631            | 708,742            | 764,283            |
| Imports of goods                           | 1,794,059          | 2,099,545          | 2,311,091          | 2,576,340               | 2,852,522               | 778,838            | 696,708            | 770,762            | 805,638            |
| <b>Visible trade balance</b>               | <b>-44,970</b>     | <b>-72,514</b>     | <b>-59,347</b>     | <b>-108,983</b>         | <b>-153,672</b>         | <b>-45,887</b>     | <b>-46,077</b>     | <b>-62,020</b>     | <b>-41,355</b>     |
|  | <b>(-2.5)</b>      | <b>(-3.5)</b>      | <b>(-2.6)</b>      | <b>(-4.2)</b>           | <b>(-5.4)</b>           | <b>(-5.9)</b>      | <b>(-6.6)</b>      | <b>(-8.0)</b>      | <b>(-5.1)</b>      |
| Exports of services                        | 362,420            | 429,584            | 495,394            | 565,054                 | 651,815                 | 182,097            | 169,233            | 166,522            | 191,054            |
| Imports of services                        | 203,400            | 242,507            | 264,237            | 287,900                 | 321,656                 | 86,155             | 83,365             | 84,266             | 91,149             |
| <b>Invisible trade balance</b>             | <b>159,020</b>     | <b>187,077</b>     | <b>231,157</b>     | <b>277,154</b>          | <b>330,159</b>          | <b>95,942</b>      | <b>85,868</b>      | <b>82,256</b>      | <b>99,905</b>      |
|  | <b>(78.2)</b>      | <b>(77.1)</b>      | <b>(87.5)</b>      | <b>(96.3)</b>           | <b>(102.6)</b>          | <b>(111.4)</b>     | <b>(103.0)</b>     | <b>(97.6)</b>      | <b>(109.6)</b>     |
| Exports of goods and services              | 2,111,509          | 2,456,615          | 2,747,138          | 3,032,411               | 3,350,665               | 915,048            | 819,864            | 875,264            | 955,337            |
| Imports of goods and services              | 1,997,459          | 2,342,052          | 2,575,328          | 2,864,240               | 3,174,178               | 864,993            | 780,073            | 855,028            | 896,787            |
| <b>Visible and invisible trade balance</b> | <b>114,050</b>     | <b>114,563</b>     | <b>171,810</b>     | <b>168,171</b>          | <b>176,487</b>          | <b>50,055</b>      | <b>39,791</b>      | <b>20,236</b>      | <b>58,550</b>      |
|  | <b>&lt;5.7&gt;</b> | <b>&lt;4.9&gt;</b> | <b>&lt;6.7&gt;</b> | <b>&lt;5.9&gt;</b>      | <b>&lt;5.6&gt;</b>      | <b>&lt;5.8&gt;</b> | <b>&lt;5.1&gt;</b> | <b>&lt;2.4&gt;</b> | <b>&lt;6.5&gt;</b> |

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)           | Q4                             | Q1          | Q2         | Q3         |
|                    |             |             |             |             |             |                  | (% change over a year earlier) |             |            |            |
| <b>All markets</b> | <b>11.7</b> | <b>15.9</b> | <b>11.4</b> | <b>9.4</b>  | <b>9.2</b>  | <b>2,687,513</b> | <b>8.2</b>                     | <b>10.5</b> | <b>7.8</b> | <b>5.5</b> |
| Mainland of China  | 21.1        | 19.7        | 14.0        | 14.2        | 13.2        | 1,308,332        | 11.1                           | 11.1        | 7.7        | 3.8        |
| United States      | -2.6        | 5.4         | 5.6         | 2.9         | -0.8        | 368,202          | -3.0                           | -1.0        | -1.5       | 0.5        |
| Japan              | 12.3        | 14.4        | 10.3        | 1.6         | -0.7        | 119,568          | -0.8                           | -1.9        | -0.6       | 3.5        |
| Germany            | 15.1        | 11.9        | 15.6        | 4.0         | 7.2         | 81,119           | 6.6                            | 17.5        | 14.6       | 22.7       |
| United Kingdom     | 5.8         | 14.8        | 5.2         | 6.3         | 1.7         | 74,862           | 1.6                            | 1.2         | 2.8        | 5.8        |
| Taiwan             | 22.2        | 16.2        | 2.7         | 3.3         | 1.6         | 52,934           | -2.1                           | 3.2         | 6.9        | 4.6        |
| Republic of Korea  | 16.9        | 24.0        | 9.5         | 7.5         | 2.0         | 52,930           | 7.2                            | 4.8         | -2.5       | -4.3       |
| Singapore          | 13.0        | 22.0        | 6.8         | 4.4         | 3.8         | 50,450           | 4.3                            | 20.7        | 19.9       | 4.4        |
| Rest of the world  | 7.1         | 17.3        | 13.3        | 8.5         | 13.2        | 579,118          | 14.4                           | 19.7        | 15.6       | 11.5       |

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)      | Q4                             | Q1          | Q2          | Q3         |            |
|                    |             |             |             |             |             | (% change over a year earlier) |             |             |            |            |
| <b>All sources</b> | <b>11.5</b> | <b>16.9</b> | <b>10.3</b> | <b>11.6</b> | <b>10.3</b> | <b>2,868,011</b>               | <b>10.5</b> | <b>11.6</b> | <b>9.1</b> | <b>7.0</b> |
| Mainland of China  | 9.6         | 16.9        | 14.3        | 13.7        | 11.5        | 1,329,652                      | 10.7        | 10.2        | 5.3        | 10.1       |
| Japan              | 17.2        | 19.7        | 0.1         | 4.5         | 7.2         | 287,329                        | 5.9         | 8.9         | 9.3        | 4.6        |
| Taiwan             | 8.0         | 22.8        | 9.4         | 15.9        | 5.2         | 205,102                        | 7.8         | 9.8         | 0.4        | -9.3       |
| Singapore          | 19.6        | 22.5        | 21.8        | 21.9        | 18.2        | 194,775                        | 15.6        | 10.0        | 5.1        | -3.3       |
| United States      | 7.9         | 13.4        | 6.5         | 3.6         | 12.3        | 138,768                        | 12.6        | 7.7         | 18.4       | 16.0       |
| Republic of Korea  | 15.0        | 15.0        | 2.6         | 16.1        | -0.2        | 119,393                        | -5.5        | 1.9         | 16.8       | 5.8        |
| Rest of the world  | 12.1        | 13.6        | 8.4         | 7.6         | 10.7        | 592,991                        | 15.1        | 19.9        | 18.7       | 8.5        |

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)      | Q4                             | Q1          | Q2          | Q3          |            |
|  |             |             |             |             |             | (% change over a year earlier) |             |             |             |            |
| <b>Overall</b>                         | <b>2.6</b>  | <b>14.8</b> | <b>7.3</b>  | <b>14.3</b> | <b>9.4</b>  | <b>731,633</b>                 | <b>16.9</b> | <b>13.7</b> | <b>10.1</b> | <b>8.5</b> |
| Foodstuffs                             | 1.5         | 8.6         | 3.1         | 4.3         | 12.9        | 59,778                         | 16.1        | 19.9        | 29.8        | 15.7       |
| Consumer goods                         | -1.8        | 7.4         | 5.5         | 3.1         | 11.4        | 146,857                        | 29.2        | 32.4        | 10.2        | 0.1        |
| Raw materials and<br>semi-manufactures | 10.7        | 17.6        | 4.2         | 8.8         | 17.7        | 276,516                        | 15.1        | 3.4         | -0.6        | -4.9       |
| Fuels                                  | 12.9        | 37.5        | 23.5        | 22.8        | 20.1        | 84,031                         | 46.3        | 25.5        | 49.2        | 53.1       |
| Capital goods                          | -6.6        | 13.3        | 10.8        | 33.2        | -8.3        | 164,426                        | 0.8         | 6.3         | 4.6         | 19.0       |

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<sup>#</sup></u> | <u>2007<sup>#</sup></u> |                | <u>2007</u>                    | <u>2008</u>     |                 |                 |
|--------------------------------|-------------|-------------|-------------|-------------------------|-------------------------|----------------|--------------------------------|-----------------|-----------------|-----------------|
|                                | (% change)  |             |             |                         | (% change)              | (\$Mn)         | Q4 <sup>#</sup>                | Q1 <sup>#</sup> | Q2 <sup>#</sup> | Q3 <sup>#</sup> |
|                                |             |             |             |                         |                         |                | (% change over a year earlier) |                 |                 |                 |
| <b>Exports of services</b>     | <b>4.2</b>  | <b>18.5</b> | <b>15.3</b> | <b>14.1</b>             | <b>15.4</b>             | <b>651,815</b> | <b>16.9</b>                    | <b>13.9</b>     | <b>12.6</b>     | <b>10.3</b>     |
| Transportation                 | 3.8         | 25.5        | 16.9        | 10.2                    | 6.9                     | 186,208        | 11.1                           | 16.1            | 15.5            | 17.3            |
| Travel                         | -4.4        | 26.1        | 14.2        | 12.9                    | 18.8                    | 107,391        | 25.8                           | 14.6            | 14.1            | 9.5             |
| Trade-related                  | 12.2        | 12.6        | 10.7        | 9.9                     | 13.0                    | 201,423        | 12.5                           | 12.5            | 13.8            | 13.0            |
| Other services                 | -1.4        | 12.8        | 22.3        | 28.4                    | 28.3                    | 156,793        | 25.0                           | 12.3            | 6.7             | -1.2            |
| <b>Imports of services</b>     | <b>0.4</b>  | <b>19.2</b> | <b>9.0</b>  | <b>9.0</b>              | <b>11.7</b>             | <b>321,656</b> | <b>13.7</b>                    | <b>15.9</b>     | <b>8.9</b>      | <b>5.7</b>      |
| Transportation                 | 7.8         | 29.4        | 20.3        | 10.9                    | 10.4                    | 99,615         | 15.1                           | 17.1            | 11.8            | 7.5             |
| Travel                         | -8.0        | 15.9        | 0.1         | 5.4                     | 7.9                     | 117,692        | 10.1                           | 16.9            | 4.1             | 2.1             |
| Trade-related                  | 9.2         | 3.2         | 12.8        | 12.6                    | 12.2                    | 23,533         | 11.5                           | 12.2            | 12.7            | 11.5            |
| Other services                 | 8.2         | 19.7        | 10.5        | 11.2                    | 19.5                    | 80,816         | 17.9                           | 14.2            | 11.5            | 7.1             |
| <b>Net exports of services</b> | <b>9.4</b>  | <b>17.6</b> | <b>23.6</b> | <b>19.9</b>             | <b>19.1</b>             | <b>330,159</b> | <b>20.0</b>                    | <b>11.9</b>     | <b>16.7</b>     | <b>14.9</b>     |

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><br>Q4 | Q1             | <u>2008</u><br>Q2 | Q3             |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-------------------|----------------|-------------------|----------------|
| <u>('000)</u>                         |                 |                 |                 |                 |                 |                   |                |                   |                |
| <b>All sources</b>                    | <b>15 536.8</b> | <b>21 810.6</b> | <b>23 359.4</b> | <b>25 251.1</b> | <b>28 169.3</b> | <b>7 805.5</b>    | <b>7 275.5</b> | <b>6 910.0</b>    | <b>7 583.3</b> |
| Mainland of China                     | 8 467.2         | 12 245.9        | 12 541.4        | 13 591.3        | 15 485.8        | 4 173.6           | 4 153.6        | 3 741.4           | 4 609.1        |
| South and Southeast Asia              | 1 359.6         | 2 077.7         | 2 413.0         | 2 659.7         | 2 888.1         | 923.3             | 639.3          | 783.0             | 623.4          |
| Taiwan                                | 1 852.4         | 2 074.8         | 2 130.6         | 2 177.2         | 2 238.7         | 564.5             | 534.3          | 550.6             | 612.4          |
| Europe                                | 780.8           | 1 142.7         | 1 398.0         | 1 548.2         | 1 772.2         | 525.5             | 472.7          | 412.8             | 352.2          |
| Japan                                 | 867.2           | 1 126.3         | 1 210.8         | 1 311.1         | 1 324.3         | 348.3             | 325.4          | 307.4             | 335.8          |
| United States                         | 683.8           | 1 051.7         | 1 143.1         | 1 159.0         | 1 230.9         | 356.5             | 298.3          | 303.8             | 247.0          |
| Others                                | 1 525.8         | 2 091.7         | 2 522.6         | 2 804.5         | 3 229.2         | 913.9             | 851.9          | 811.0             | 803.4          |
| <u>(% change over a year earlier)</u> |                 |                 |                 |                 |                 |                   |                |                   |                |
| <b>All sources</b>                    | <b>-6.2</b>     | <b>40.4</b>     | <b>7.1</b>      | <b>8.1</b>      | <b>11.6</b>     | <b>16.9</b>       | <b>10.0</b>    | <b>7.7</b>        | <b>3.4</b>     |
| Mainland of China                     | 24.1            | 44.6            | 2.4             | 8.4             | 13.9            | 23.0              | 9.9            | 12.6              | 9.4            |
| South and Southeast Asia              | -28.6           | 52.8            | 16.1            | 10.2            | 8.6             | 12.8              | 12.9           | 4.5               | -4.0           |
| Taiwan                                | -23.7           | 12.0            | 2.7             | 2.2             | 2.8             | 4.8               | 1.6            | 1.9               | 0.7            |
| Europe                                | -28.0           | 46.3            | 22.3            | 10.7            | 14.5            | 11.3              | 14.2           | -1.6              | -14.8          |
| Japan                                 | -37.8           | 29.9            | 7.5             | 8.3             | 1.0             | *                 | -3.5           | 0.7               | 0.7            |
| United States                         | -31.7           | 53.8            | 8.7             | 1.4             | 6.2             | 12.0              | 7.5            | -2.5              | -13.4          |
| Others                                | -20.8           | 37.1            | 20.6            | 11.2            | 15.1            | 15.6              | 18.8           | 5.9               | -3.5           |

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> |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>Completion of new property by the private sector</b>                   |             |             |             |             |             |             |             |
| <i>('000 m<sup>2</sup> of internal floor area)</i>                        |             |             |             |             |             |             |             |
| Residential property <sup>(a)</sup> (in units)                            | 22 278      | 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 <sup>(b)</sup>                                  | 208         | 206         | 64          | 132         | 138         | 118         | 91          |
| Industrial property <sup>(c)</sup>  | 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 <sup>(d)</sup>   | 124         | 147         | 6           | 0           | 27          | 0           | 0           |
| <b>Production of public housing</b>                                       |             |             |             |             |             |             |             |
| <i>(in units)</i>   |             |             |             |             |             |             |             |
| Rental housing flats <sup>(e)</sup>                                       | 14 267      | 26 733      | 40 944      | 47 590      | 20 154      | 13 705      | 20 614      |
| Subsidized sales flats <sup>(e)</sup>                                     | 21 993      | 26 532      | 22 768      | 25 702      | 1 072       | 320         | 0           |
| <b>Building plans with consent to commence work in the private sector</b> |             |             |             |             |             |             |             |
| <i>('000 m<sup>2</sup> of usable floor area)</i>                          |             |             |             |             |             |             |             |
| Residential property  | 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 <sup>(f)</sup>  | 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     |
| <b>Agreements for sale and purchase of property</b>                       |             |             |             |             |             |             |             |
| <i>(Number)</i>   |             |             |             |             |             |             |             |
| Residential property <sup>(g)</sup>                                       | 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 <sup>(h)</sup>               |             |             |             |             |             |             |             |
| 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><br>Q4 | Q1     | <u>2008</u><br>Q2 | Q3     |
|---|-------------|-------------|-------------|-------------------|--------|-------------------|--------|
| <b>Completion of new property by the private sector</b>                   |             |             |             |                   |        |                   |        |
| <i>('000 m<sup>2</sup> of internal floor area)</i>                        |             |             |             |                   |        |                   |        |
| Residential property <sup>(a)</sup> (in units)                            | 17 321      | 16 579      | 10 471      | 6 107             | 958    | 678               | 1 404  |
| Commercial property   | 145         | 291         | 503         | 156               | 117    | 59                | 194    |
| <i>of which :</i>   |             |             |             |                   |        |                   |        |
| Office space  | 34          | 108         | 320         | 145               | 112    | 53                | 176    |
| Other commercial premises <sup>(b)</sup>                                  | 111         | 183         | 183         | 11                | 5      | 6                 | 19     |
| Industrial property <sup>(c)</sup>  | 17          | 27          | 16          | 14                | 0      | 11                | 36     |
| <i>of which :</i>   |             |             |             |                   |        |                   |        |
| Industrial-cum-office premises  | 4           | 0           | 0           | 0                 | 0      | 0                 | 4      |
| Conventional flatted factory space  | 0           | 0           | 16          | 14                | 0      | 11                | 28     |
| Storage premises <sup>(d)</sup>   | 13          | 27          | 0           | 0                 | 0      | 0                 | 4      |
| <b>Production of public housing</b>                                       |             |             |             |                   |        |                   |        |
| <i>(in units)</i>   |             |             |             |                   |        |                   |        |
| Rental housing flats <sup>(e)</sup>                                       | 24 691      | 4 430       | 4 795       | 0                 | 13 726 | 5 866             | 0      |
| Subsidized sales flats <sup>(e)</sup>                                     | 0           | 0           | 2 010       | 0                 | 576    | 0                 | 984    |
| <b>Building plans with consent to commence work in the private sector</b> |             |             |             |                   |        |                   |        |
| <i>('000 m<sup>2</sup> of usable floor area)</i>                          |             |             |             |                   |        |                   |        |
| Residential property  | 550.7       | 706.7       | 956.1       | 135.5             | 168.6  | 189.0             | 128.4  |
| Commercial property   | 481.9       | 468.4       | 327.5       | 108.4             | 106.9  | 39.5              | 0.9    |
| Industrial property <sup>(f)</sup>  | 35.1        | 23.9        | 103.5       | 4.4               | 49.6   | 54.0              | 0.0    |
| Other properties  | 408.0       | 199.2       | 207.7       | 50.5              | 74.1   | 52.9              | 16.7   |
| Total   | 1 475.8     | 1 398.2     | 1 594.8     | 298.8             | 399.2  | 335.5             | 146.0  |
| <b>Agreements for sale and purchase of property</b>                       |             |             |             |                   |        |                   |        |
| <i>(Number)</i>   |             |             |             |                   |        |                   |        |
| Residential property <sup>(g)</sup>                                       | 103 362     | 82 472      | 123 575     | 40 533            | 36 917 | 27 533            | 18 792 |
| Primary market  | 15 994      | 13 986      | 20 123      | 5 430             | 4 791  | 3 236             | 1 590  |
| Secondary market  | 87 368      | 68 486      | 103 452     | 35 103            | 32 126 | 24 297            | 17 202 |
| Selected types of non-residential properties <sup>(h)</sup>               |             |             |             |                   |        |                   |        |
| Office space  | 3 431       | 2 874       | 4 129       | 1 491             | 1 183  | 864               | 538    |
| Other commercial premises   | 7 143       | 4 402       | 5 490       | 1 606             | 1 390  | 1 307             | 936    |
| Flatted factory space   | 6 560       | 7 409       | 9 072       | 2 422             | 2 096  | 1 791             | 1 296  |

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 <sup>(a)</sup>         | 117.1       | 100.0       | 89.6        | 78.7        | 69.9        | 61.6        | 78.0        |
| Office space <sup>(b)</sup>              | 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 <sup>(c)</sup> : |             |             |             |             |             |             |             |
| Residential flats                        | 112.6       | 100.0       | 98.1        | 95.4        | 83.4        | 73.6        | 77.7        |
| Office space <sup>(b)</sup>              | 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 <sup>(a)</sup>         | -28.2       | -14.6       | -10.4       | -12.2       | -11.2       | -11.9       | 26.6        |
| Office space <sup>(b)</sup>              | -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 <sup>(c)</sup> : |             |             |             |             |             |             |             |
| Residential flats                        | -16.3       | -11.2       | -1.9        | -2.8        | -12.6       | -11.8       | 5.6         |
| Office space <sup>(b)</sup>              | -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 may be revised.

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

|  | <u>2005</u> | <u>2006</u> | <u>2007</u> | <u>2007</u><br>Q4 | Q1    | <u>2008</u><br>Q2 <sup>#</sup> | Q3 <sup>+</sup> |
|--|-------------|-------------|-------------|-------------------|-------|--------------------------------|-----------------|
| <u>(Index (1999=100))</u>                |             |             |             |                   |       |                                |                 |
| Property price indices :                 |             |             |             |                   |       |                                |                 |
| Residential flats <sup>(a)</sup>         | 92.0        | 92.7        | 103.5       | 113.2             | 125.0 | 125.9                          | 122.4           |
| Office space <sup>(b)</sup>              | 133.0       | 139.3       | 165.5       | 189.6             | 206.4 | 211.7                          | 208.6           |
| Shopping space                           | 149.3       | 153.5       | 172.5       | 185.9             | 197.2 | 202.8                          | 201.0           |
| Flatted factory space                    | 125.0       | 158.5       | 199.5       | 219.9             | 236.5 | 244.3                          | 245.5           |
| Property rental indices <sup>(c)</sup> : |             |             |             |                   |       |                                |                 |
| Residential flats                        | 86.5        | 91.6        | 101.8       | 108.1             | 115.4 | 120.2                          | 120.5           |
| Office space <sup>(b)</sup>              | 96.4        | 117.4       | 131.9       | 138.7             | 146.1 | 156.7                          | 161.2           |
| Shopping space                           | 100.5       | 104.3       | 111.8       | 115.9             | 116.8 | 117.3                          | 117.0           |
| Flatted factory space                    | 82.6        | 91.0        | 100.5       | 104.2             | 108.7 | 112.4                          | 113.8           |
| <u>(% change over a year earlier)</u>    |             |             |             |                   |       |                                |                 |
| Property price indices :                 |             |             |             |                   |       |                                |                 |
| Residential flats <sup>(a)</sup>         | 17.9        | 0.8         | 11.7        | 21.3              | 29.4  | 25.5                           | 17.7            |
| Office space <sup>(b)</sup>              | 33.9        | 4.7         | 18.8        | 32.9              | 39.0  | 35.5                           | 24.5            |
| Shopping space                           | 25.1        | 2.8         | 12.4        | 20.6              | 24.2  | 20.2                           | 13.8            |
| Flatted factory space                    | 41.1        | 26.8        | 25.9        | 28.8              | 33.7  | 26.4                           | 18.1            |
| Property rental indices <sup>(c)</sup> : |             |             |             |                   |       |                                |                 |
| Residential flats                        | 11.3        | 5.9         | 11.1        | 14.8              | 20.2  | 20.7                           | 16.2            |
| Office space <sup>(b)</sup>              | 23.4        | 21.8        | 12.4        | 14.1              | 16.1  | 20.9                           | 20.7            |
| Shopping space                           | 8.3         | 3.8         | 7.2         | 8.4               | 8.0   | 6.7                            | 3.1             |
| Flatted factory space                    | 6.9         | 10.2        | 10.4        | 10.0              | 12.4  | 13.3                           | 11.8            |

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 <sup>(a)</sup>   | 1,828,691   | 1,923,481   | 1,987,963   | 1,998,774   | 1,984,049   | 2,107,269   | 2,208,591   |
| M3 <sup>(a)</sup>   | 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) <sup>(b)(c)</sup>                        |             |             |             |             |             |             |             |
| 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 <sup>(a)</sup>   | 9.7         | 5.2         | 3.4         | 0.5         | -0.7        | 6.2         | 4.8         |
| M3 <sup>(a)</sup>   | 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 <sup>(b)(c)</sup> |             |             |             |             |             |             |             |
| 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><br>Q4 | Q1        | <u>2008</u><br>Q2 | Q3        |
|---|-------------|-------------|-------------|-------------------|-----------|-------------------|-----------|
| <u>(as at end of period)</u>  |             |             |             |                   |           |                   |           |
| Hong Kong dollar money supply (\$Mn) :  |             |             |             |                   |           |                   |           |
| M1  | 348,248     | 387,918     | 454,363     | 454,363           | 457,628   | 452,884           | 447,669   |
| M2 <sup>(a)</sup>   | 2,329,669   | 2,777,823   | 3,281,336   | 3,281,336         | 3,177,507 | 3,069,080         | 3,146,913 |
| M3 <sup>(a)</sup>   | 2,345,838   | 2,795,688   | 3,300,820   | 3,300,820         | 3,197,955 | 3,089,298         | 3,170,312 |
| Total money supply (\$Mn)   |             |             |             |                   |           |                   |           |
| M1  | 434,684     | 491,657     | 616,729     | 616,729           | 621,047   | 611,186           | 597,957   |
| M2  | 4,379,057   | 5,054,475   | 6,106,667   | 6,106,667         | 5,984,628 | 5,907,432         | 6,052,765 |
| M3  | 4,407,188   | 5,089,884   | 6,140,078   | 6,140,078         | 6,017,458 | 5,944,825         | 6,091,778 |
| Deposit (\$Mn)  |             |             |             |                   |           |                   |           |
| HK\$  | 2,131,579   | 2,568,426   | 3,075,361   | 3,075,361         | 2,974,727 | 2,872,953         | 2,945,500 |
| Foreign currency  | 1,936,322   | 2,188,993   | 2,793,856   | 2,793,856         | 2,787,220 | 2,832,158         | 2,901,760 |
| Total   | 4,067,901   | 4,757,419   | 5,869,218   | 5,869,218         | 5,761,947 | 5,705,110         | 5,847,260 |
| Loans and advances (\$Mn)   |             |             |             |                   |           |                   |           |
| HK\$  | 1,797,350   | 1,917,437   | 2,184,705   | 2,184,705         | 2,276,785 | 2,354,337         | 2,396,395 |
| Foreign currency  | 514,637     | 550,392     | 776,971     | 776,971           | 893,127   | 994,228           | 1,029,176 |
| Total   | 2,311,987   | 2,467,828   | 2,961,676   | 2,961,676         | 3,169,912 | 3,348,565         | 3,425,571 |
| Nominal Effective Exchange Rate Indices<br>(Jan 2000 = 100) <sup>(b)(c)</sup> |             |             |             |                   |           |                   |           |
| Trade-weighted  | 97.4        | 96.1        | 91.9        | 89.9              | 87.2      | 85.7              | 86.4      |
| Import-weighted   | 98.1        | 96.8        | 92.5        | 90.4              | 87.3      | 85.7              | 86.3      |
| Export-weighted   | 96.7        | 95.5        | 91.3        | 89.4              | 87.1      | 85.7              | 86.5      |
| <u>(% change over a year earlier)</u>   |             |             |             |                   |           |                   |           |
| Hong Kong dollar money supply :   |             |             |             |                   |           |                   |           |
| M1  | -15.6       | 11.4        | 17.1        | 17.1              | 9.3       | -10.3             | -7.4      |
| M2 <sup>(a)</sup>   | 5.5         | 19.2        | 18.1        | 18.1              | 7.8       | -3.9              | -7.6      |
| M3 <sup>(a)</sup>   | 5.7         | 19.2        | 18.1        | 18.1              | 7.8       | -3.8              | -7.4      |
| Total money supply :  |             |             |             |                   |           |                   |           |
| M1  | -10.3       | 13.1        | 25.4        | 25.4              | 16.2      | -5.0              | -5.5      |
| M2  | 5.1         | 15.4        | 20.8        | 20.8              | 13.5      | 5.6               | 1.8       |
| M3  | 5.2         | 15.5        | 20.6        | 20.6              | 13.5      | 5.7               | 1.9       |
| Deposit   |             |             |             |                   |           |                   |           |
| HK\$  | 5.6         | 20.5        | 19.7        | 19.7              | 8.7       | -3.8              | -8.1      |
| Foreign currency  | 4.8         | 13.0        | 27.6        | 27.6              | 24.6      | 20.9              | 16.5      |
| Total   | 5.2         | 17.0        | 23.4        | 23.4              | 15.9      | 7.1               | 2.7       |
| Loans and advances  |             |             |             |                   |           |                   |           |
| HK\$  | 7.8         | 6.7         | 13.9        | 13.9              | 10.0      | 6.5               | 2.7       |
| Foreign currency  | 5.3         | 6.9         | 41.2        | 41.2              | 48.6      | 53.2              | 45.4      |
| Total   | 7.2         | 6.7         | 20.0        | 20.0              | 18.7      | 17.1              | 12.6      |
| Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>                     |             |             |             |                   |           |                   |           |
| Trade-weighted  | -0.9        | -1.3        | -4.4        | -5.3              | -6.9      | -7.6              | -5.7      |
| Import-weighted   | -1.1        | -1.3        | -4.4        | -5.4              | -7.4      | -8.3              | -6.4      |
| Export-weighted   | -0.6        | -1.2        | -4.4        | -5.1              | -6.3      | -6.8              | -4.8      |

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> |      |
|   |             |             |             |             |             | Q3          | Q4   | Q1          | Q2   |
| Wholesale trade                             | -5.0        | 4.7         | 5.6         | 7.9         | 10.4        | 9.0         | 15.5 | 9.6         | 14.1 |
| Retail trade                                | -2.3        | 10.8        | 6.8         | 7.3         | 12.8        | 15.1        | 17.7 | 17.5        | 14.4 |
| Import/export trade                         | 6.5         | 12.4        | 10.6        | 10.2        | 8.0         | 8.2         | 7.6  | 13.2        | 14.6 |
| Restaurants                                 | -9.7        | 10.1        | 6.0         | 9.5         | 13.4        | 15.4        | 14.8 | 16.0        | 15.3 |
| Hotels                                      | -19.7       | 39.4        | 22.1        | 13.7        | 15.2        | 15.7        | 16.5 | 9.9         | 9.6  |
| Transport <sup>(a)</sup>                    | 0.5         | 22.8        | 17.8        | 10.6        | 10.8        | 11.7        | 14.8 | 15.9        | 11.0 |
| Storage                                     | -4.5        | 17.0        | 10.4        | 10.2        | 16.0        | 11.7        | 10.3 | 10.7        | 3.5  |
| Communications                              | -2.4        | 1.0         | 5.1         | 0.8         | 10.0        | 9.7         | 16.2 | 11.2        | 13.5 |
| Banking                                     | *           | 4.4         | 10.9        | 19.5        | 38.3        | 47.7        | 45.0 | 6.4         | -6.8 |
| Financing (other than banking)              | 17.3        | 33.2        | 14.3        | 47.9        | 68.8        | 99.6        | 82.9 | 32.8        | 4.7  |
| Insurance                                   | 19.1        | 22.3        | 16.0        | 21.3        | 28.8        | 42.1        | 35.4 | 11.7        | 8.3  |
| Real estate                                 | 6.2         | 13.5        | 16.0        | -0.4        | 39.8        | 27.7        | 69.5 | 14.5        | 10.0 |
| Business services                           | 0.5         | 8.3         | 4.9         | 19.6        | 13.2        | 11.8        | 14.0 | 11.5        | 10.3 |
| Film entertainment                          | 2.3         | 3.7         | 5.0         | 1.7         | 6.0         | 9.1         | 5.9  | 0.7         | 5.6  |
| Tourism, convention and exhibition services | -7.3        | 26.5        | 12.9        | 14.0        | 18.7        | 18.9        | 25.4 | 14.2        | 14.0 |
| Computer and information services           | 5.7         | 20.5        | 23.4        | 9.7         | 6.7         | 1.6         | 15.5 | 18.5        | 16.5 |

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><br>Q4 | Q1      | <u>2008</u><br>Q2 | Q3 <sup>+</sup> |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------------|---------|-------------------|-----------------|
| <u>(%)</u>                            |             |             |             |             |             |                   |         |                   |                 |
| Labour force participation rate       | 61.4        | 61.3        | 60.9        | 61.2        | 61.2        | 61.1              | 61.1    | 61.0              | 61.1            |
| Seasonally adjusted unemployment rate | 7.9         | 6.8         | 5.6         | 4.8         | 4.0         | 3.4               | 3.4     | 3.3               | 3.4             |
| Underemployment rate                  | 3.5         | 3.3         | 2.7         | 2.4         | 2.2         | 2.1               | 1.9     | 1.9               | 1.8             |
| <u>('000)</u>                         |             |             |             |             |             |                   |         |                   |                 |
| Population of working age             | 5 645.0     | 5 733.6     | 5 800.7     | 5 832.2     | 5 928.4     | 5 955.2           | 5 974.7 | 5 992.1           | 6 014.5         |
| Labour force                          | 3 465.8     | 3 512.8     | 3 534.2     | 3 571.8     | 3 629.6     | 3 638.6           | 3 653.5 | 3 654.3           | 3 677.2         |
| Persons employed                      | 3 190.6     | 3 273.5     | 3 336.6     | 3 400.8     | 3 483.8     | 3 520.5           | 3 534.5 | 3 532.8           | 3 543.1         |
| Persons unemployed                    | 275.2       | 239.2       | 197.6       | 171.1       | 145.7       | 118.2             | 119.0   | 121.5             | 134.0           |
| Persons underemployed                 | 121.9       | 114.3       | 96.3        | 86.3        | 79.2        | 74.7              | 70.5    | 67.8              | 66.3            |
| <u>(% change over a year earlier)</u> |             |             |             |             |             |                   |         |                   |                 |
| Population of working age             | 0.4         | 1.6         | 1.2         | 0.5         | 1.6         | 1.2               | 1.3     | 1.2               | 1.3             |
| Labour force                          | -0.2        | 1.4         | 0.6         | 1.1         | 1.6         | 0.6               | 1.3     | 0.8               | 0.8             |
| Persons employed                      | -0.9        | 2.6         | 1.9         | 1.9         | 2.4         | 1.7               | 2.3     | 1.8               | 1.5             |
| Persons unemployed                    | 8.3         | -13.1       | -17.4       | -13.4       | -14.8       | -23.1             | -21.8   | -22.3             | -14.4           |
| Persons underemployed                 | 16.8        | -6.3        | -15.7       | -10.4       | -8.2        | -14.7             | -12.1   | -16.2             | -17.5           |

Note : (+) Provisional figures.



**Table 17 : Employment in selected major economic sectors**

| Major economic sector  | 2003         | 2004        | 2005        | 2006        | 2007        | 2007        |             |             | 2008        |                  | No. |
|--|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|------------------|-----|
|  | (% change)   |             |             |             |             | Sep         | Dec         | Mar         | Jun         |                  |     |
| <b>Manufacturing</b>   | <b>-10.3</b> | <b>-3.0</b> | <b>-2.0</b> | <b>-2.5</b> | <b>-2.2</b> | <b>-2.6</b> | <b>-2.0</b> | <b>-3.6</b> | <b>-3.2</b> | <b>152 227</b>   |     |
| <i>of which :</i>  |              |             |             |             |             |             |             |             |             |                  |     |
| Printing, publishing and allied industries                             | -5.2         | -1.2        | -3.1        | 2.0         | 0.5         | -1.0        | -0.6        | -1.8        | -2.0        | 36 717           |     |
| Food, manufacturing  | -2.6         | 3.9         | 5.4         | 5.2         | 5.3         | 1.2         | 1.5         | -3.0        | 0.9         | 22 441           |     |
| Wearing apparel, except footwear                                       | -11.6        | -0.8        | -4.7        | -10.5       | -14.1       | -12.4       | -9.1        | -16.8       | -13.7       | 14 648           |     |
| Textiles   | -16.8        | -11.1       | 0.5         | -4.4        | -4.8        | -7.0        | -9.2        | -11.0       | -8.9        | 16 773           |     |
| Electronics  | -18.9        | -2.3        | -4.7        | -12.9       | -6.1        | -1.6        | -0.2        | 1.5         | -3.9        | 11 493           |     |
| Transport equipment, manufacturing                                     | -0.4         | -3.3        | 8.6         | 3.6         | 5.7         | 3.2         | 4.0         | 0.8         | -0.3        | 10 155           |     |
| <b>Wholesale, retail, import/export trades, restaurants and hotels</b> | <b>-3.0</b>  | <b>2.9</b>  | <b>2.6</b>  | <b>1.9</b>  | <b>1.7</b>  | <b>1.7</b>  | <b>1.5</b>  | <b>1.2</b>  | <b>1.2</b>  | <b>1 065 981</b> |     |
| <i>of which :</i>  |              |             |             |             |             |             |             |             |             |                  |     |
| Wholesale, retail and import/export trades                             | -1.9         | 2.1         | 2.3         | 1.1         | 1.1         | 0.9         | 1.1         | 0.9         | 0.7         | 826 809          |     |
| Restaurants and hotels   | -7.3         | 6.0         | 3.6         | 5.1         | 3.8         | 4.9         | 3.1         | 2.2         | 2.9         | 239 172          |     |
| <b>Transport, storage and communications</b>                           | <b>-4.4</b>  | <b>3.7</b>  | <b>2.6</b>  | <b>1.1</b>  | <b>2.2</b>  | <b>2.2</b>  | <b>2.5</b>  | <b>4.2</b>  | <b>3.1</b>  | <b>196 119</b>   |     |
| <i>of which :</i>  |              |             |             |             |             |             |             |             |             |                  |     |
| Land transport   | 0.5          | -2.2        | -1.5        | 0.3         | 0.4         | 0.9         | -0.2        | -1.1        | -2.0        | 37 431           |     |
| Water transport  | -3.6         | 0.1         | -0.3        | -4.4        | -1.0        | -1.8        | 1.6         | 8.2         | 6.5         | 27 948           |     |
| Air transport  | -0.4         | 5.2         | 6.2         | 5.4         | 4.5         | 4.5         | 4.9         | 6.8         | 3.9         | 30 815           |     |
| Services incidental to transport                                       | -4.0         | 11.3        | 8.0         | 3.1         | 4.2         | 4.2         | 4.0         | 6.1         | 4.4         | 62 712           |     |
| <b>Financing, insurance, real estate and business services</b>         | <b>-1.9</b>  | <b>3.6</b>  | <b>4.4</b>  | <b>5.0</b>  | <b>5.5</b>  | <b>6.0</b>  | <b>5.2</b>  | <b>6.4</b>  | <b>5.0</b>  | <b>528 478</b>   |     |
| <i>of which :</i>  |              |             |             |             |             |             |             |             |             |                  |     |
| Financial institutions   | -6.5         | 1.1         | 4.7         | 5.9         | 8.6         | 9.3         | 8.0         | 8.6         | 7.5         | 154 222          |     |
| Insurance  | 1.2          | 2.4         | 5.9         | -1.2        | 1.5         | 1.8         | 3.2         | 11.1        | 5.5         | 31 319           |     |
| Real estate  | 0.7          | 2.2         | 6.8         | 5.3         | 4.3         | 5.2         | 5.4         | 5.9         | 2.6         | 105 290          |     |
| Business services except machinery and equipment rental and leasing    | -0.2         | 6.0         | 2.9         | 5.3         | 4.7         | 4.8         | 3.7         | 4.8         | 4.5         | 236 743          |     |
| <b>Community, social and personal services</b>                         | <b>2.9</b>   | <b>3.2</b>  | <b>4.5</b>  | <b>3.6</b>  | <b>2.6</b>  | <b>2.2</b>  | <b>1.8</b>  | <b>2.8</b>  | <b>2.7</b>  | <b>480 510</b>   |     |
| <i>of which :</i>  |              |             |             |             |             |             |             |             |             |                  |     |
| Sanitary and similar services  | 6.0          | 1.5         | 2.4         | 2.5         | 1.0         | -2.1        | -3.9        | -2.5        | -2.4        | 60 263           |     |
| Education services   | 2.9          | 1.8         | 1.8         | 4.9         | 3.0         | 2.5         | 1.3         | 4.0         | 3.4         | 147 557          |     |
| Medical, dental and other health services                              | -0.3         | 2.5         | 1.6         | 4.0         | 5.6         | 4.8         | 6.1         | 6.6         | 4.6         | 87 533           |     |
| Welfare institutions   | 13.9         | 2.1         | -0.4        | 1.5         | 1.3         | 2.4         | 0.9         | 0.1         | 2.4         | 55 077           |     |
| <b>Civil Service<sup>(a)</sup></b>                                     | <b>-2.4</b>  | <b>-3.8</b> | <b>-2.7</b> | <b>-1.3</b> | <b>-0.4</b> | <b>-0.2</b> | <b>*</b>    | <b>-0.2</b> | <b>*</b>    | <b>153 730</b>   |     |

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

(\*) Change 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>   | <u>2007</u><br>Sep | Dec           | <u>2008</u><br>Mar | Jun           |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|--------------------|---------------|--------------------|---------------|
| <u>(number)</u>                       |               |               |               |               |               |                    |               |                    |               |
| Building sites                        |               |               |               |               |               |                    |               |                    |               |
| Private sector                        | 33 892        | 33 619        | 31 556        | 30 993        | 29 240        | 29 016             | 29 722        | 29 919             | 29 192        |
| Public sector <sup>(a)</sup>          | 16 183        | 13 325        | 10 135        | 7 643         | 7 767         | 7 117              | 7 990         | 8 491              | 7 102         |
| Sub-total                             | 50 074        | 46 944        | 41 690        | 38 636        | 37 007        | 36 133             | 37 712        | 38 410             | 36 294        |
| Civil engineering sites               |               |               |               |               |               |                    |               |                    |               |
| Private sector                        | 2 755         | 2 564         | 2 198         | 1 569         | 1 674         | 1 395              | 1 860         | 1 657              | 1 977         |
| Public sector <sup>(a)</sup>          | 17 466        | 16 772        | 15 378        | 12 661        | 11 504        | 11 645             | 10 531        | 10 474             | 11 285        |
| Sub-total                             | 20 221        | 19 336        | 17 576        | 14 230        | 13 178        | 13 040             | 12 391        | 12 131             | 13 262        |
| <b>Total</b>                          | <b>70 295</b> | <b>66 280</b> | <b>59 266</b> | <b>52 865</b> | <b>50 185</b> | <b>49 173</b>      | <b>50 103</b> | <b>50 541</b>      | <b>49 556</b> |
| <u>(% change over a year earlier)</u> |               |               |               |               |               |                    |               |                    |               |
| Building sites                        |               |               |               |               |               |                    |               |                    |               |
| Private sector                        | -15.3         | -0.8          | -6.1          | -1.8          | -5.7          | -7.2               | 0.6           | 6.4                | -3.0          |
| Public sector <sup>(a)</sup>          | 38.0          | -17.7         | -23.9         | -24.6         | 1.6           | -6.2               | 16.6          | 1.2                | -6.1          |
| Sub-total                             | -3.2          | -6.3          | -11.2         | -7.3          | -4.2          | -7.0               | 3.6           | 5.2                | -3.6          |
| Civil engineering sites               |               |               |               |               |               |                    |               |                    |               |
| Private sector                        | -4.0          | -6.9          | -14.3         | -28.6         | 6.7           | -9.4               | 29.7          | -1.0               | 11.9          |
| Public sector <sup>(a)</sup>          | -6.2          | -4.0          | -8.3          | -17.7         | -9.1          | -9.7               | -20.0         | -14.0              | -3.3          |
| Sub-total                             | -5.9          | -4.4          | -9.1          | -19.0         | -7.4          | -9.7               | -15.1         | -12.4              | -1.3          |
| <b>Total</b>                          | <b>-4.0</b>   | <b>-5.7</b>   | <b>-10.6</b>  | <b>-10.8</b>  | <b>-5.1</b>   | <b>-7.7</b>        | <b>-1.8</b>   | <b>0.3</b>         | <b>-3.0</b>   |

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>   |  |  |
|---|--|---|---|---|---|---|---|--|--|
|   |  |   |   |   |   | Q3  | Q4  | Q1   | Q2   |
| Wholesale, retail and import/export trades              | 12,300<br>(-1.5)<br><1.1>                            | 12,300<br>(0.4)<br><0.9>                              | 13,200<br>(7.3)<br><6.3>                            | 13,800<br>(4.1)<br><2.0>                            | 14,100<br>(2.4)<br><0.4>                            | 13,500<br>(3.5)<br><1.9>                            | 14,600<br>(3.5)<br><0.1>                            | 16,300<br>(4.7)<br><0.1>                             | 13,300<br>(4.0)<br><-1.6>                            |
| Restaurants and hotels                                  | 8,100<br>(-6.2)<br><-3.7>                            | 8,100<br>(-0.1)<br><0.4>                              | 8,200<br>(1.9)<br><0.9>                             | 8,500<br>(2.6)<br><0.6>                             | 8,800<br>(3.8)<br><1.8>                             | 8,500<br>(3.7)<br><2.2>                             | 8,900<br>(2.8)<br><-0.6>                            | 9,300<br>(-0.4)<br><-4.8>                            | 8,700<br>(4.2)<br><-1.5>                             |
| Transport, storage and communications                   | 18,500<br>(-1.7)<br><0.9>                            | 18,300<br>(-1.3)<br><-0.9>                            | 19,200<br>(5.0)<br><4.1>                            | 19,600<br>(2.1)<br><0.1>                            | 20,300<br>(3.3)<br><1.3>                            | 19,200<br>(3.9)<br><2.3>                            | 22,100<br>(3.4)<br><*>                              | 20,800<br>(1.0)<br><-3.5>                            | 19,300<br>(1.0)<br><-4.5>                            |
| Financing, insurance, real estate and business services | 18,600<br>(-1.4)<br><1.2>                            | 18,500<br>(-0.1)<br><0.4>                             | 19,100<br>(2.8)<br><1.8>                            | 20,100<br>(5.6)<br><3.6>                            | 21,200<br>(5.5)<br><3.5>                            | 19,100<br>(5.4)<br><3.8>                            | 22,600<br>(6.6)<br><3.1>                            | 25,600<br>(8.9)<br><4.0>                             | 20,800<br>(5.1)<br><-0.6>                            |
| Community, social and personal services                 | 18,900<br>(-4.7)<br><-2.2>                           | 18,400<br>(-2.6)<br><-2.2>                            | 18,000<br>(-2.2)<br><-3.1>                          | 17,900<br>(-0.1)<br><-2.0>                          | 18,400<br>(2.4)<br><0.4>                            | 19,000<br>(4.6)<br><3.0>                            | 18,900<br>(4.4)<br><0.9>                            | 18,100<br>(1.6)<br><-2.9>                            | 18,400<br>(3.4)<br><-2.2>                            |
| Manufacturing   | 11,400<br>(-3.0)<br><-0.4>                           | 11,300<br>(-0.6)<br><-0.2>                            | 11,600<br>(1.8)<br><0.9>                            | 11,700<br>(1.4)<br><-0.6>                           | 12,100<br>(2.9)<br><-0.1>                           | 11,300<br>(3.8)<br><2.2>                            | 12,100<br>(3.5)<br><*>                              | 13,400<br>(3.0)<br><-1.6>                            | 12,200<br>(4.0)<br><-1.6>                            |
| <b>All sectors surveyed</b>                             | <b>15,000</b><br><b>(-1.8)</b><br><b>&lt;0.8&gt;</b> | <b>14,900</b><br><b>(-0.7)</b><br><b>&lt;-0.2&gt;</b> | <b>15,400</b><br><b>(3.5)</b><br><b>&lt;2.6&gt;</b> | <b>15,800</b><br><b>(2.4)</b><br><b>&lt;0.4&gt;</b> | <b>16,400</b><br><b>(4.0)</b><br><b>&lt;1.9&gt;</b> | <b>15,600</b><br><b>(4.6)</b><br><b>&lt;3.0&gt;</b> | <b>17,300</b><br><b>(5.9)</b><br><b>&lt;2.4&gt;</b> | <b>18,000</b><br><b>(3.1)</b><br><b>&lt;-1.5&gt;</b> | <b>16,000</b><br><b>(4.6)</b><br><b>&lt;-1.1&gt;</b> |

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

&lt; &gt; % 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> |             |             |
|---|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
|   |             |             |             |             |             | Sep         | Dec         | Mar         | Jun         |
| <u>(in money terms)</u>                                 |             |             |             |             |             |             |             |             |             |
| Wholesale, retail and import/export trades              | -1.7        | -1.6        | 1.6         | 1.1         | 2.3         | 2.0         | 3.2         | 4.5         | 4.6         |
| Restaurants and hotels                                  | -4.1        | -2.2        | *           | 1.0         | 1.4         | 1.0         | 0.9         | 3.3         | 3.0         |
| Transport services                                      | -1.9        | -1.0        | 1.0         | -0.6        | 1.6         | 2.0         | 2.6         | 4.5         | 2.3         |
| Financing, insurance, real estate and business services | -0.1        | -0.5        | *           | 3.2         | 3.2         | 3.0         | 3.2         | 3.8         | 4.7         |
| Personal services                                       | -3.1        | 1.3         | -1.5        | 2.5         | 5.5         | 6.5         | 3.8         | 1.9         | 0.7         |
| Manufacturing   | -2.7        | -1.3        | 1.2         | 2.9         | 2.0         | 1.6         | 2.0         | 0.7         | 4.5         |
| <b>All sectors surveyed</b>                             | <b>-1.9</b> | <b>-1.1</b> | <b>0.8</b>  | <b>1.5</b>  | <b>2.4</b>  | <b>2.3</b>  | <b>2.7</b>  | <b>3.8</b>  | <b>3.9</b>  |
| <u>(in real terms)</u>                                  |             |             |             |             |             |             |             |             |             |
| Wholesale, retail and import/export trades              | 0.4         | -1.7        | 0.4         | -0.6        | 0.4         | 1.0         | -0.2        | 0.6         | -1.4        |
| Restaurants and hotels                                  | -2.1        | -2.3        | -1.3        | -0.8        | -0.4        | *           | -2.4        | -0.5        | -2.9        |
| Transport services                                      | 0.1         | -1.0        | -0.2        | -2.3        | -0.2        | 1.0         | -0.8        | 0.5         | -3.5        |
| Financing, insurance, real estate and business services | 2.0         | -0.6        | -1.2        | 1.5         | 1.3         | 2.0         | -0.2        | -0.1        | -1.3        |
| Personal services                                       | -1.1        | 1.3         | -2.7        | 0.7         | 3.6         | 5.4         | 0.4         | -2.0        | -5.0        |
| Manufacturing   | -0.7        | -1.4        | -0.1        | 1.1         | 0.1         | 0.6         | -1.4        | -3.1        | -1.5        |
| <b>All sectors surveyed</b>                             | <b>0.2</b>  | <b>-1.2</b> | <b>-0.4</b> | <b>-0.3</b> | <b>0.5</b>  | <b>1.3</b>  | <b>-0.7</b> | <b>-0.1</b> | <b>-2.1</b> |

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 <sup>(a)</sup> :                  |             |             |             |             |             |             |             |             |
| 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<br>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<br>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<br><u>rate of change:</u> |                         |
|  |             |             | Q4          | Q1          | Q2    | Q3    | 10 years<br>1997 to 2007                 | 5 years<br>2002 to 2007 |
| GDP deflator   | -0.3 #      | 3.0 #       | 4.9 #       | 2.3 #       | 2.1 # | 2.1 # | -2.0 #                                   | -1.4 #                  |
| Domestic demand deflator                                 | 1.9 #       | 2.1 #       | 4.5 #       | 4.5 #       | 4.3 # | 3.1 # | -1.5 #                                   | -0.2 #                  |
| Consumer Price Indices <sup>(a)</sup> :                  |             |             |             |             |       |       |  |                         |
| Composite CPI  | 2.0         | 2.0         | 3.5         | 4.6         | 5.7   | 4.6   | -0.8                                     | 0.4                     |
| CPI(A)   | 1.7         | 1.3         | 3.1         | 5.4         | 5.7   | 2.7   | -0.7                                     | 0.4                     |
| CPI(B)   | 2.1         | 2.2         | 3.6         | 4.3         | 5.9   | 5.3   | -0.9                                     | 0.4                     |
| CPI(C)   | 2.2         | 2.7         | 3.7         | 3.9         | 5.5   | 5.8   | -0.8                                     | 0.4                     |
| Unit Value Indices :                                     |             |             |             |             |       |       |  |                         |
| Domestic exports   | -2.1        | 0.8         | 1.0         | 3.3         | 5.0   | 6.4   | -1.2                                     | 0.5                     |
| Re-exports   | 1.1         | 2.4         | 2.8         | 2.6         | 3.9   | 4.7   | -0.7                                     | 0.9                     |
| Total exports of goods                                   | 1.0         | 2.3         | 2.7         | 2.6         | 3.9   | 4.8   | -0.8                                     | 0.8                     |
| Imports of goods   | 2.1         | 2.3         | 2.8         | 3.6         | 4.9   | 5.6   | -0.4                                     | 1.9                     |
| Terms of Trade Index                                     | -1.1        | 0.1         | -0.1        | -0.9        | -0.9  | -0.8  | -0.4                                     | -1.1                    |
| Producer Price Index<br>for all manufacturing industries | 2.3         | 3.0         | 4.2         | 5.7         | 6.7   | N.A.  | *  | 1.6                     |
| Tender Price Indices :                                   |             |             |             |             |       |       |  |                         |
| Public sector<br>building projects                       | 5.0         | 20.1        | 26.5        | 36.2        | N.A.  | N.A.  | -0.8                                     | 4.7                     |
| Public housing projects                                  | 11.2        | 19.7        | 22.2        | 30.4        | 42.2  | 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> |
|--|----------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| <b>All items</b>                                   | <b>100.0</b>   | <b>2.8</b>  | <b>-4.0</b> | <b>-3.8</b> | <b>-1.6</b> | <b>-3.0</b> | <b>-2.6</b> | <b>-0.4</b> |
| 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 <sup>(a)</sup>                             | 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<br><u>rate of change:</u> |                            |  |
|  |                |             |             |              | Q4           | Q1          | Q2           | Q3           | 10 years<br>1997 to<br>2007              | 5 years<br>2002 to<br>2007 |  |
| <b>All items</b>   | <b>100.0</b>   | <b>1.0</b>  | <b>2.0</b>  | <b>2.0</b>   | <b>3.5</b>   | <b>4.6</b>  | <b>5.7</b>   | <b>4.6</b>   | <b>-0.8</b>                              | <b>0.4</b>                 |  |
| Food   | 26.94          | 1.8         | 1.7         | 4.3          | 6.7          | 10.0        | 11.2         | 10.6         | 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>3.7</i>   | <i>5.4</i>  | <i>6.3</i>   | <i>6.4</i>   | <i>0.2</i>                               | <i>0.7</i>                 |  |
| <i>Food, excluding meals bought</i><br><i>away from home</i> | <i>(10.08)</i> | <i>3.2</i>  | <i>2.5</i>  | <i>7.1</i>   | <i>11.6</i>  | <i>17.4</i> | <i>19.2</i>  | <i>17.2</i>  | <i>0.3</i>                               | <i>2.7</i>                 |  |
| Housing <sup>(a)</sup>                                       | 29.17          | 0.1         | 4.7         | 2.0          | 4.2          | 3.9         | 5.9          | 3.9          | -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>5.9</i>   | <i>3.5</i>  | <i>8.0</i>   | <i>9.5</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>-10.8</i> | <i>14.4</i> | <i>-13.0</i> | <i>-63.6</i> | <i>-2.0</i>                              | <i>-1.6</i>                |  |
| Electricity, gas and water                                   | 3.59           | 4.1         | 2.1         | -0.7         | 3.4          | 7.2         | 7.7          | -5.3         | 1.3                                      | 3.6                        |  |
| Alcoholic drinks and tobacco                                 | 0.87           | 0.4         | -3.7        | -1.2         | 0.5          | 0.5         | 0.6          | -0.2         | 0.8                                      | -0.9                       |  |
| Clothing and footwear  | 3.91           | 2.0         | 1.0         | 4.1          | 2.0          | 1.6         | 1.6          | 0.7          | -2.8                                     | 2.1                        |  |
| Durable goods  | 5.50           | -3.2        | -6.4        | -4.7         | -4.0         | -3.5        | -2.3         | -1.0         | -4.7                                     | -4.6                       |  |
| Miscellaneous goods  | 4.78           | 1.5         | 1.7         | 2.5          | 3.4          | 4.6         | 5.3          | 5.6          | 1.7                                      | 2.3                        |  |
| Transport  | 9.09           | 1.4         | 0.7         | -0.1         | 0.7          | 1.3         | 2.5          | 4.0          | 0.7                                      | 0.4                        |  |
| Miscellaneous services                                       | 16.15          | 1.0         | 1.9         | 1.7          | 1.0          | 1.3         | 1.2          | 0.8          | *  | 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         |
| <b>Gross Domestic Product</b>          | <b>0.8</b>  | <b>-4.5</b> | <b>-3.6</b> | <b>-1.9</b> | <b>-3.5</b> | <b>-6.2</b> | <b>-3.5</b> |
| 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<sup>#</sup></u> | <u>2007<sup>#</sup></u> | <u>2007</u>     | <u>2008</u>     |                 |                 | Average annual<br><u>rate of change:</u> |   |
|  |             |                         |                         | Q4 <sup>#</sup> | Q1 <sup>#</sup> | Q2 <sup>#</sup> | Q3 <sup>#</sup> | 10 years<br>1997 to<br>2007 <sup>#</sup> | 5 years<br>2002 to<br>2007 <sup>#</sup> |
| Private consumption expenditure        | 1.8         | 1.3                     | 3.6                     | 6.4             | 4.4             | 5.0             | 2.8             | -0.8                                     | 0.8                                     |
| Government consumption expenditure     | -1.4        | 1.2                     | 3.3                     | 4.1             | 4.1             | 5.6             | 6.0             | -0.1                                     | -0.5                                    |
| Gross domestic fixed capital formation | 1.0         | 4.2                     | -2.1                    | 1.4             | 4.8             | 0.7             | 1.4             | -2.9                                     | -0.9                                    |
| Total exports of goods                 | 0.6         | 0.3                     | 2.2                     | 2.7             | 2.3             | 3.4             | 4.4             | -1.0                                     | 0.4                                     |
| Imports of goods                       | 1.9         | 2.1                     | 1.7                     | 2.5             | 3.4             | 4.6             | 5.2             | -0.7                                     | 1.5                                     |
| Exports of services                    | 3.3         | 3.6                     | 2.5                     | 3.3             | 3.3             | 4.1             | 4.8             | -0.8                                     | 1.3                                     |
| Imports of services                    | 1.0         | 0.8                     | 3.0                     | 3.6             | 5.3             | 5.2             | 3.9             | 0.6                                      | 2.3                                     |
| <b>Gross Domestic Product</b>          | <b>-0.1</b> | <b>-0.3</b>             | <b>3.0</b>              | <b>4.9</b>      | <b>2.3</b>      | <b>2.1</b>      | <b>2.1</b>      | <b>-2.0</b>                              | <b>-1.5</b>                             |
| Total final demand                     | 1.2         | 1.2                     | 2.2                     | 3.4             | 3.1             | 3.8             | 4.1             | -1.1                                     | 0.5                                     |
| Domestic demand                        | 1.2         | 1.9                     | 2.1                     | 4.5             | 4.5             | 4.3             | 3.1             | -1.3                                     | 0.2                                     |

