

## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

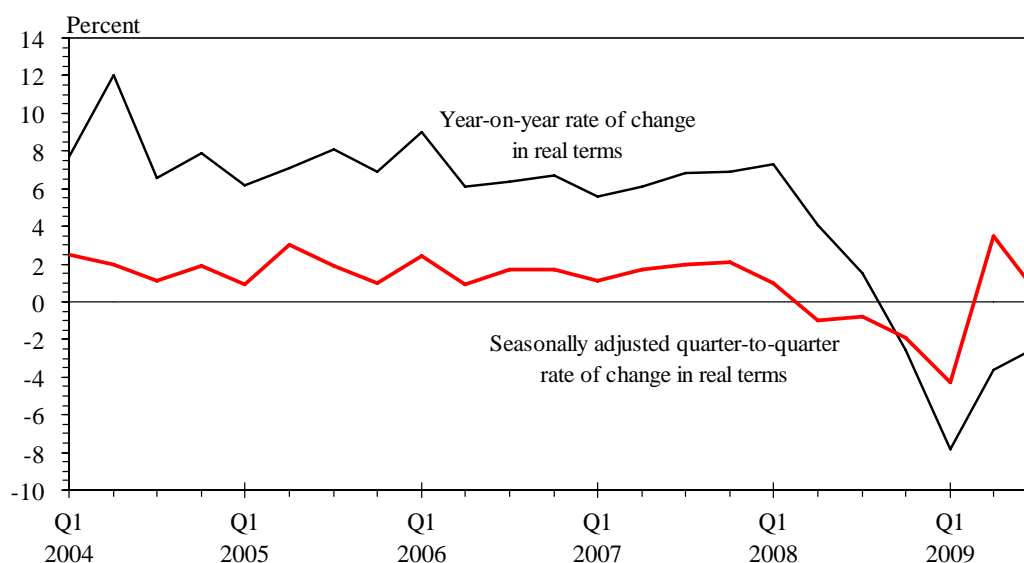
- *The Hong Kong economy improved further after a strong rebound during the second quarter, leading to a further tapering of the year-on-year decline in real GDP to 2.4% in the third quarter. This was led mainly by the further improvement in the domestic sector, offsetting the drag from the weak external demand. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded further by 0.4% in the third quarter.*
- *Although the global economy had entered the initial stage of recovery, import demand in the advanced economies remained sluggish and continued to weigh heavily on exports of Asian economies. Against this backdrop, Hong Kong's merchandise exports still declined notably year-on-year in the third quarter, although the pace of decline slowed towards the end of the quarter.*
- *In contrast, exports of services improved more visibly in the third quarter, supported by further revival of financial market activities and a rebound in inbound tourism. Yet trade-related services were still weak under the drag of sluggish trade flows.*
- *Local consumer sentiments revived further in the third quarter, as economic prospects got better, the labour market stabilized, Government's relief measures yielded positive results, and asset markets saw further gains. Private consumption expenditure, having fallen for four consecutive quarters, bottomed out in the third quarter on a year-on-year basis. Business sentiments turned up distinctly, with fixed investment reverting to an increase after three consecutive quarters of decline.*
- *Labour market showed initial sign of improvement following a period of successive worsening since late 2008. The seasonally adjusted unemployment rate fell slightly to 5.3% in the third quarter, the first decline since the onset of the global financial crisis.*
- *Consumer price inflation turned slightly negative in terms of both the headline and the underlying Composite Consumer Price Index in the third quarter. Local and external price pressures were virtually non-existent, as local costs remained depressed and as the supply capacity of the global economy still out-ran demand by a sizable margin.*

## Overall situation

1.1 The Hong Kong economy entered the nascent stage of recovery, with the overall situation improving further, after a notable rebound in the second quarter. The domestic sector improved visibly further, as consumer confidence was well supported by the stabilized labour market, Government's relief measures, and the stronger asset market situation. Business sentiments also apparently turned more positive. However, external trade continued to pose a drag on the overall economy. Despite the gradual recovery of the global economy, the sluggish import demand in the advanced economies continued to weigh heavily on Asian exports. In fact, the decline in global trade flows in the current crisis was even larger than that during the Great Depression in 1930s (see **Box 1.1** for details). Nevertheless, exports of services fared relatively better, supported by the revival in financial market activities and a notable rebound in inbound tourism. The seasonally adjusted unemployment rate edged lower in the third quarter, the first decline since the onset of the global financial crisis, while consumer price inflation turned slightly negative.

1.2 The year-on-year decline of *Gross Domestic Product (GDP)*<sup>(1)</sup> tapered further to 2.4% in real terms in the third quarter from 3.6% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP rose further by 0.4% in real terms in the third quarter following the strong rebound in the second quarter that ended the contraction in the preceding four quarters.

**Diagram 1.1 : Overall situation of the Hong Kong economy improved further in the third quarter**



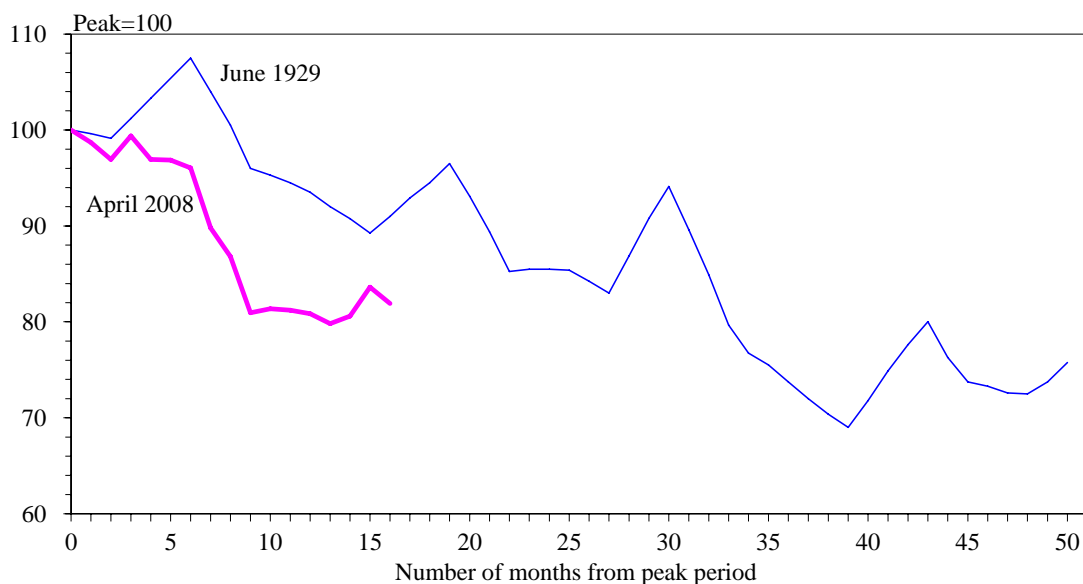
## Box 1.1

### The performance of world trade during the Great Depression and the current crisis

The global economy slid into the deepest recession in more than 60 years after the outbreak of the financial tsunami. The collapse in global demand led to drastic declines in world merchandise trade in the final quarter of 2008 and the beginning months of 2009. While global economic activities in terms of industrial production showed signs of gradual recovery in recent months, along with improving consumer and business sentiments in many major economies, world trade remained notably lower than the pre-crisis levels.

In a study by Eichengreen and O'Rourke (2009)<sup>(1)</sup>, a comparison was made between the performance of world trade during the current crisis and that during the Great Depression in the 1930s. It was noted that during the current crisis the volume of world trade slumped by around 20% in June 2009 from its pre-crisis peak in April 2008. By comparison, during the Great Depression the volume of world trade fell by around 10% over the same 14-month span from its pre-crisis peak in June 1929 (*Chart 1*). Thus the severity of the contracting impact on world trade is even more pronounced in the current crisis than that in the comparable stage of the Great Depression. While the more recent data showed that global trade stabilized somewhat in July and August, the total trade volume remained around 17% below its peak in April 2008.

**Chart 1: Performance of world trade volume during the current crisis and the Great Depression**



Source: Eichengreen and O'Rourke (2009). Data for the current crisis extended to August 2009.

(1) (<http://www.voxeu.org/index.php?q=node/3421>)

### **Box 1.1 (Cont'd)**

The plunge in world trade during the current episode can be attributable to the rapid inventory drawn-down due to the loss of business confidence, extremely tight credit conditions in the advanced economies, as well as the extensive use of global supply chain as a result of trade liberalization and technology advancement over the decades. Compared to the 1930s, the use of global supply chain is much more widespread, giving rise to increased trade involving intermediate goods through exports and imports and to closer trade links among economies. Thus the impact of the collapse in import demand in advanced economies on world trade had been amplified by these trade links during the current crisis.

In the recent months, many major economies saw nascent recovery thanks to the strong policy actions by the respective governments in shoring up aggregate demand and credit supply. Nevertheless, their unemployment situation continued to deteriorate and this trend is widely expected to remain well into next year. These would easily trigger protectionist sentiments, which many major economies had pledged to fight against in many multilateral arenas. According to a report jointly prepared by the World Trade Organization, the Organization for Economic Cooperation and Development, and the United Nations Conference on Trade and Development<sup>(2)</sup> for the G-20 Leaders' Meeting in Pittsburgh in September, there was no indication of a descent into high-intensity protectionism. Yet the report noted "policy slippage" since the beginning of the current round of global recession. It also highlighted the possibility of the governments of major economies to continue to cede ground to protectionist pressures as the main risk to world trade and thus global economic activity.

As *Chart 1* indicates, during the Great Depression the volume of world trade fell for several years, with a peak-to-trough decline of over 30%. An important reason was the enactment of the Smoot-Hawley Tariff Act in 1930 in the United States and the subsequent retaliatory actions taken by its trading partners. The rise in protectionism that exacerbated the global downturn during the Great Depression was a grave mistake that the world today needs to avoid. In this regard, the recent increased incidences of trade disputes among the world's major trading entities are a concern.

For an economy as externally-oriented as Hong Kong, the revival in world merchandise trade is critical to Hong Kong's economic recovery process. This in turn hinges on the sustainability and strength of economic rebound in the major advanced economies after public policy support is withdrawn. On this, it is of utmost importance that governments will continue to guard against the rise in protectionism, to ensure that the conditions for a sustainable recovery remain in place.

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(2) Report on G20 Trade and Investment Measures  
(<http://www.pittsburghsummit.gov/documents/organization/129863.pdf>)

1.3 The global economy is finally expanding again, as the stimulus measures by governments and central banks have helped to shore up demand and stabilize the financial markets. Nevertheless, labour markets in many advanced economies continued to worsen, albeit at a slower pace. These economies were still confronted by impaired financial systems and consumers with much less propensity to consume. On the other hand, the improvement had been more evident in the emerging Asian economies, with the Mainland economy taking the lead in the return to a faster growth path. With global trade flows still distinctly down, most Asian economies continued to report double-digit year-on-year rates of decline in exports in the third quarter.

1.4 Against this background, Hong Kong's merchandise exports continued to register a notable year-on-year decline of 13.2% in real terms in the third quarter. On a seasonally adjusted quarter-to-quarter comparison, there was a moderate relapse in exports in the third quarter, after an exceptionally strong rebound in the second quarter. Nevertheless, the year-on-year decline narrowed notably again in September, and the declines experienced by Hong Kong were less than those by many other Asian economies. The rather unsteady merchandise export performance in recent periods was indicative of the high degree of uncertainty in the external environment.

1.5 Exports of services improved more visibly in the third quarter, with a rapid growth of 4.6% in real terms on a seasonally adjusted quarter-to-quarter basis, resulting in a much smaller year-on-year decline of 0.9%. Exports of financial services continued to benefit from the further revival of financial market activities, while inbound tourism also reverted to increase in the third quarter in tandem with the pick-up in Mainland visitors. However, exports of trade-related services, and the accompanying transportation services, were still weighed by the sluggish 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>2007#</u>	<u>2008#</u>	<u>2008</u>				<u>2009</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	8.5	1.5	8.0 (*)	3.0 (-1.3)	-0.2 (-0.6)	-4.1 (-2.2)	-6.0 (-2.0)	-1.1 (3.9)	0.2 (0.5)
Government consumption expenditure	3.0	1.7	0.6 (-0.3)	3.1 (1.6)	1.6 (-0.5)	1.8 (0.8)	1.4 (-0.3)	1.7 (1.6)	3.3 (1.3)
Gross domestic fixed capital formation	3.4	-0.5	9.9	5.1	2.9	-17.8	-13.7	-13.6	1.4
<i>of which :</i>									
Building and construction	-0.3	1.6	9.1	-0.1	-2.8	0.1	-10.9	-4.7	3.4
Machinery, equipment and computer software	3.0	-0.3	4.3	7.4	10.7	-21.1	-6.6	-18.0	-4.0
Total exports of goods	7.0	1.9	8.3 (0.9)	4.4 (0.1)	1.3 (-1.8)	-4.9 (-4.3)	-22.7 (-16.8)	-12.4 (11.6)	-13.2 (-2.8)
Imports of goods	8.8	1.8	8.4 (-1.7)	4.8 (1.9)	2.0 (-1.2)	-6.4 (-5.6)	-21.4 (-15.9)	-12.7 (10.9)	-8.3 (3.6)
Exports of services	14.1	5.7	10.1 (1.5)	8.4 (0.3)	4.8 (0.1)	0.4 (-1.3)	-6.3 (-5.6)	-5.2 (1.7)	-0.9 (4.6)
Imports of services	12.1	3.3	11.2 (1.3)	3.8 (-2.6)	2.2 (-0.1)	-3.4 (-1.8)	-9.6 (-5.5)	-5.6 (1.8)	-3.8 (1.9)
<b>Gross Domestic Product</b>	<b>6.4</b>	<b>2.4</b>	<b>7.3 (1.0)</b>	<b>4.1 (-1.0)</b>	<b>1.5 (-0.8)</b>	<b>-2.6 (-1.9)</b>	<b>-7.8 (-4.3)</b>	<b>-3.6 (3.5)</b>	<b>-2.4 (0.4)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>2.9</b>	<b>1.4</b>	<b>2.3 (-1.5)</b>	<b>1.9 (0.6)</b>	<b>2.0 (0.9)</b>	<b>-0.2 (-0.2)</b>	<b>0.4 (-0.8)</b>	<b>1.1 (1.3)</b>	<b>0.4 (0.1)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>2.0</b>	<b>4.3</b>	<b>4.6 (0.9)</b>	<b>5.7 (1.5)</b>	<b>4.6 (-0.2)</b>	<b>2.3 (0.1)</b>	<b>1.7 (0.3)</b>	<b>-0.1 (-0.2)</b>	<b>-0.9 (-1.1)</b>
<b>Underlying^</b>	<b>2.8</b>	<b>5.6</b>	<b>4.9 (2.0)</b>	<b>5.7 (1.5)</b>	<b>6.3 (1.3)</b>	<b>5.4 (0.4)</b>	<b>3.1 (-0.2)</b>	<b>1.2 (-0.3)</b>	<b>-0.3 (-0.1)</b>
<b>Change in nominal GDP (%)</b>	<b>9.5</b>	<b>3.8</b>	<b>9.7</b>	<b>6.1</b>	<b>3.5</b>	<b>-2.8</b>	<b>-7.4</b>	<b>-2.5</b>	<b>-2.0</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%.

(^ ) After netting out effects of Government's one-off relief measures.

1.6 Local consumer sentiments revived further in the third quarter, riding on generally improved labour market, and Government's several rounds of relief measures, and further aided by favourable asset market conditions. *Private consumption expenditure (PCE)* expanded further by 0.5% in real terms in the third quarter on a seasonally adjusted quarter-to-quarter basis after a strong rebound in the second quarter, with the year-on-year rate of change reverting to an increase of 0.2%. *Government consumption expenditure* picked up in the third quarter to a 3.3% year-on-year growth, reflecting the Government's measures to shore up demand in the economy.

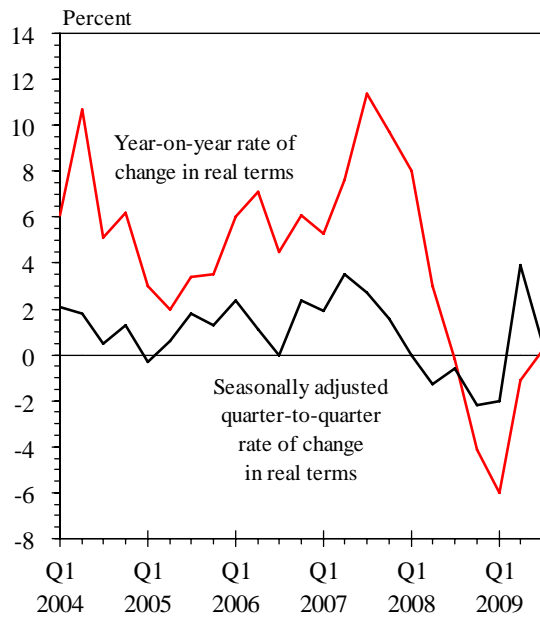
**Table 1.2 : Consumer spending by major components<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>							
		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2008	Annual	2.2	0.8	10.6	4.8	0.4	-1.1	6.1	1.5
	Q1	7.6	3.4	18.8	11.4	5.6	10.7	7.2	8.0
	Q2	4.3	1.6	13.8	8.4	2.2	-6.7	7.6	3.0
	Q3	0.8	0.4	13.5	3.1	-1.8	-1.5	7.3	-0.2
	Q4	-3.1	-1.8	-1.1	-2.1	-3.9	-6.1	3.0	-4.1
2009	Q1	-4.4	-3.7	-5.5	-5.7	-3.9	-4.1	10.0	-6.0
	Q2	-1.9	-2.4	-7.9	-5.9	0.4	7.4	-1.4	-1.1
	Q3	0.5	-1.2	-2.4	-1.5	1.9	0.1	2.8	0.2

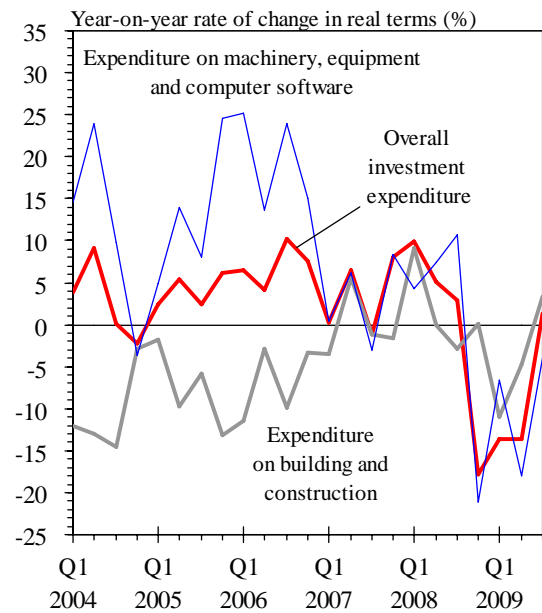
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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.

**Diagram 1.2 : Private consumption resumed growth in the third quarter**



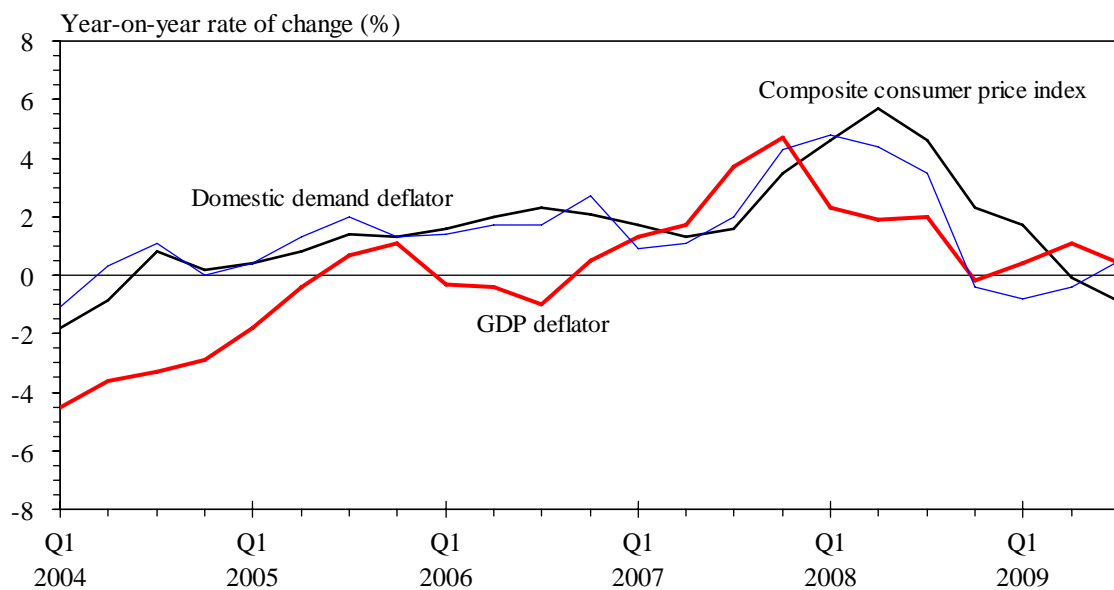
**Diagram 1.3 : Overall investment reverted to an increase as business sentiments turned more upbeat**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* reverted to a small increase of 1.4% in the third quarter over a year earlier. This represented a notable improvement from the 13.6% decline in the second quarter. Expenditure on building and construction rose by 3.4% in the third quarter, arresting the decline of 4.7% in the second quarter. The growth in public sector construction work accelerated significantly further amidst the Government’s efforts to expedite public sector projects, while private sector construction work saw further relative improvement. The year-on-year decline in machinery and equipment investment also eased notably to 4.0% in the third quarter from that of 18.0% in the second quarter. The results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in September and early October indicated that many large business establishments had turned more upbeat about the near-term business prospects.

1.8 Inflationary pressure basically subsided, as local business costs were contained and import prices softened in the aftermath of the global financial tsunami. *Underlying consumer price inflation* turned slightly negative at -0.3% in the third quarter, while *headline consumer price inflation*, being dragged by the one-off measures (mainly the electricity subsidy in July and August), went even lower to -0.9%. As to the *GDP deflator*, a slight increase of 0.4% was recorded in the third quarter, as the deflator for machinery and equipment increased notably and the terms of trade rose marginally.

**Diagram 1.4 : Price pressure remained subdued in the third quarter**



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

	<u>2008</u>				<u>2009</u>		
	<u>2008</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-6.6	-4.4	-4.1	-6.7	-10.4	-12.2	-10.8
Construction	2.7	9.2	-0.3	-1.5	2.8	-7.0	-2.2
Services <sup>(b)</sup>	2.4	7.1	4.0	1.7	-2.3	-7.2	-3.7
Wholesale, retail and import and export trades, restaurants and hotels	4.1	9.0	7.2	4.2	-2.1	-15.7	-11.3
Import and export trade	4.6	9.7	8.0	4.9	-1.9	-18.4	-12.4
Wholesale and retail trades	2.9	9.1	6.0	2.2	-3.6	-10.0	-7.8
Restaurants and hotels	2.1	4.4	3.7	1.8	-1.2	-5.6	-7.9
Transport, storage and communications	2.2	7.6	3.9	2.0	-4.3	-8.8	-8.8
Transport and storage	1.9	8.3	3.8	1.5	-5.4	-10.8	-10.7
Communications	3.5	4.4	4.6	4.3	0.8	0.3	-0.4
Financing, insurance, real estate and business services	1.6	10.0	2.8	-0.5	-4.9	-6.7	-0.2
Financing and insurance services	1.4	11.1	2.2	-0.5	-6.1	-8.4	*
Real estate and business services	2.1	7.9	3.6	-0.1	-2.4	-3.3	-0.5
Community, social and personal services	1.4	1.5	1.7	1.7	0.7	0.6	1.3

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.

(\*) Change of less than 0.05%.

## **GDP by major economic sector**

1.9 Many service sectors showed relative improvements in the second quarter after contracting sharply in the first quarter. Net output of services sector as a whole declined notably less by 3.7% in the second quarter over a year earlier as compared to the 7.2% decline in the first quarter. Analyzed by sector, import and export trade still showed the largest decline in net output, followed by transport and storage, restaurants and hotels, and wholesale and retail trades. On the other hand, net output of financing and insurance, real estate, and business services held largely stable on a year-on-year comparison. Community, social and personal services posted a modest increase, nevertheless. Manufacturing output fell markedly again, while construction output declined only moderately, thanks to a strong rebound in the public sector segment.

## **Some highlights of economic policy**

1.10 The Government has adopted the strategy of “stabilizing the financial system, supporting enterprises and preserving employment” to counter the worst global recession in decades brought about by the financial tsunami. The various support measures have helped stabilize the local economy without impairing the Government’s long-term fiscal position.

1.11 As an open and mature market economy, Hong Kong must keep up its competitiveness and continue to evolve into a high value-added, knowledge-based economy to maintain its leading edge over global competitors and create more quality jobs. The Government’s role is to make flexible adjustments in response to market needs and remove the barriers so as to ensure the smooth running of the markets for the benefit of the public and society. The Government will adhere to the principle of “Big Market, Small Government”.

1.12 Having endorsed the recommendations of the Task Force on Economic Challenge, the Government announced measures in the 2009-10 Policy Address to promote the six industries where Hong Kong enjoys clear advantages. The Government has the responsibility to examine whether the existing use of resources, particularly land resources, can support the new direction of economic development, facilitate the on-going economic restructuring, and unleash the factors of production that have been tied up by outdated policies. Therefore, the Government proposed a string of measures to release the potential of over 1000 old industrial buildings through policies that encourage the redevelopment or conversion of industrial buildings by owners.

## Box 1.2

### Impact of financial tsunami on small and medium-sized enterprises (An update)

To attain a better understanding on the impact of the financial tsunami on the business receipts, employment and credit access situations of the small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their relevant feedback information. This note provides an update of the results reported in Box 1.2 in the Half-yearly Economic Report 2009.

The findings of the consultation exercise available up to October 2009 indicated that business situation in many sectors was still worse than that before the outbreak of the financial tsunami. Nevertheless, the overall situation had stabilized with some sectors showing more discernible improvement in recent months (*Table 1*). Specifically, business situation in travel agents saw some visible improvement in business situation on entering June, along with the rebound in inbound tourism, while SMEs in restaurants and retail trade had largely steady business situation amid improved local consumer sentiment. Business situation in real estate turned markedly better during the third quarter in tandem with the increased activity in the property market, before showing some deterioration on entering October (*Chart 1a*). With the revival of financial market activities, business situation for financing institutions improved notably in recent months compared with the early months of the year. The declines in business receipts for SMEs in trading and logistics, though narrowed, remained significant in recent months, as external demand continued to be weak (*Chart 1b*). It should be noted that given the coverage and nature of the consultation exercise, the consultation findings should be interpreted with considerable caution. They nevertheless can serve as rough indicator to enable high frequency monitoring of SMEs' situation.

Regarding the employment situation, the results of the consultation indicated that SMEs' employment situation remained weak in recent months. Among the various sectors, employment in real estate and construction, logistics, financing institutions and business services remained more severely hit than the others (*Table 2*).

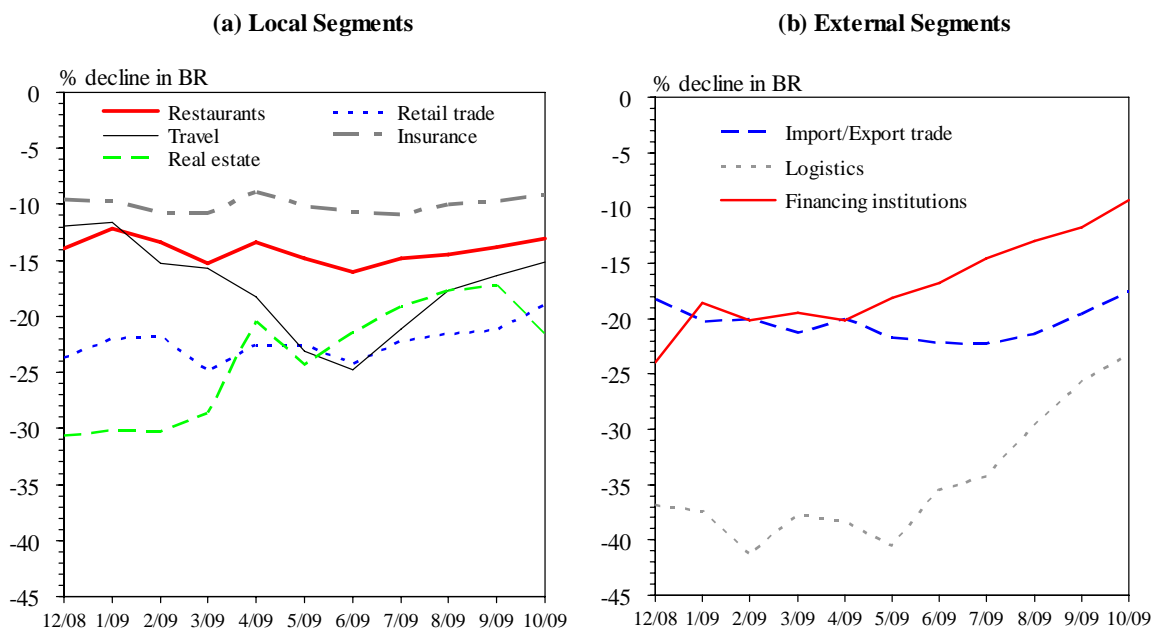
Credit access situation turned stable more recently, having improved notably in the previous months. The proportion of SMEs reporting tighter-than-normal credit access went down distinctly to about 6.6% in October from above 12% in late November last year (*Table 3* and *Chart 2*). The supplementary information provided by SMEs surveyed indicated that credit pricing likewise held broadly stable over the past few months. This encouraging development reflected the improved financial conditions as well as the effectiveness of the Government's efforts to help to ease credit strains facing SMEs, especially those under the enhanced and special loan guarantee schemes. As at end-October, some 14 600 companies benefited under these schemes, involving approved loan amount of about 59.4 billion. This also indirectly helped to secure the jobs for those employed by these companies, totaling over 250 000.

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(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

**Box 1.2 (Cont'd)**

**Chart 1: Impact of Financial Tsunami on SMEs' Business Receipts (BR)**



**Table 1: Impact on business receipts as compared with normal situation**

SMEs by sectors	<u>% decline as compared with normal situation</u>										
	<u>2008</u>	<u>2009</u>									
	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Wholesale trade	-16.3	-8.3	-9.3	-16.2	-18.7	-19.4	-15.2	-15.4	-16.9	-16.3	-13.8
Retail trade	-23.6	-22.0	-21.8	-24.8	-22.5	-22.6	-24.2	-22.2	-21.6	-21.2	-19.0
Import and export trade	-18.2	-20.3	-20.0	-21.2	-20.1	-21.7	-22.2	-22.3	-21.3	-19.6	-17.6
Restaurants	-13.9	-12.1	-13.4	-15.3	-13.4	-14.8	-16.1	-14.8	-14.5	-13.8	-13.1
Logistics	-36.9	-37.4	-41.4	-37.7	-38.5	-40.5	-35.5	-34.2	-29.7	-25.7	-23.2
Travel agents	-11.9	-11.7	-15.3	-15.8	-18.2	-23.1	-24.8	-21.2	-17.7	-16.4	-15.2
Financing institutions	-23.9	-18.6	-20.2	-19.5	-20.1	-18.1	-16.8	-14.6	-13.0	-11.8	-9.3
Insurance agents and brokers	-9.6	-9.7	-10.8	-10.8	-9.0	-10.2	-10.7	-10.9	-10.0	-9.7	-9.2
Real estate and construction	-30.7	-30.2	-30.3	-28.7	-20.5	-24.3	-21.5	-19.1	-17.7	-17.2	-21.7
Business services	-9.0	-10.6	-14.2	-14.8	-15.1	-15.0	-13.7	-11.9	-11.6	-11.2	-9.4
All the above sectors	-18.3	-19.3	-19.4	-20.9	-20.0	-21.5	-21.5	-21.4	-20.5	-19.0	-17.0

**Box 1.2 (Cont'd)****Table 2: Impact on employment as compared with normal situation**

	<u>% change as compared with normal situation</u>										
	<u>2008</u>	<u>2009</u>									
<u>SMEs by sectors</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Wholesale trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-1.8	-2.6	-2.4
Retail trade	-0.5	-0.5	-0.6	-0.4	-0.2	-0.2	-0.4	-0.5	-0.7	-0.8	-0.9
Import and export trade	-1.1	-0.9	-1.0	-0.6	-0.9	-1.2	-1.4	-1.4	-1.4	-1.8	-1.7
Restaurants	-3.1	-3.2	-3.7	-2.6	-1.7	-1.2	-1.8	-2.0	-1.8	-2.0	-1.8
Logistics	-6.5	-3.7	-3.0	-3.2	-3.4	-3.3	-4.8	-5.8	-5.8	-6.0	-6.9
Travel agents	0.2	-0.1	0.1	0.2	0.2	0.2	0.4	0.3	0.7	0.7	0.5
Financing institutions	-0.9	-0.7	-1.4	-1.6	-2.3	-3.9	-3.7	-3.0	-2.9	-2.8	-2.8
Insurance agents and brokers	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.9	1.0	0.8	0.8
Real estate and construction	-7.3	-8.2	-8.0	-8.0	-8.0	-8.4	-9.9	-9.1	-7.7	-8.6	-8.4
Business services	-3.0	-3.0	-3.7	-3.8	-3.8	-4.1	-3.4	-2.6	-2.7	-2.9	-2.3
All the above sectors	-1.8	-1.6	-1.8	-1.5	-1.5	-1.6	-1.8	-1.8	-1.9	-2.2	-2.1

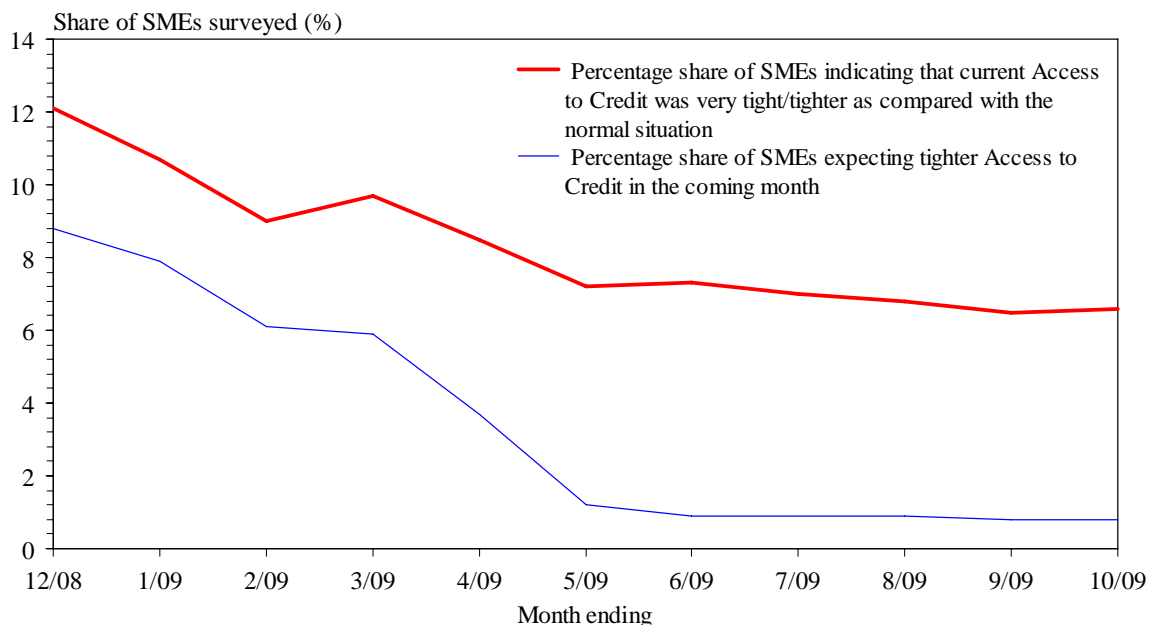
**Box 1.2 (Cont'd)**

**Table 3: Impact on access to credit as compared with normal situation**

<u>SMEs by sectors</u>	<u>% SMEs reporting very tight/tighter credit access</u>										
	<u>2008</u>	<u>2009</u>									
	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Wholesale trade	10.0	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail trade	8.8	6.5	6.6	4.6	3.5	3.5	2.7	1.8	2.5	2.6	2.6
Import and export trade	17.0	15.7	14.0	14.5	13.7	11.3	12.1	12.1	11.3	10.4	10.6
Restaurants	10.7	11.8	11.8	8.6	7.1	5.5	5.2	5.4	5.1	5.2	5.2
Logistics	11.8	17.6	12.5	26.3	16.7	11.1	10.5	10.5	10.5	10.5	10.5
Travel agents	3.8	3.7	3.6	3.7	3.7	3.6	3.3	3.3	3.3	3.3	3.3
Financing institutions	10.8	7.9	7.7	8.3	7.9	7.7	7.7	2.6	2.6	2.6	2.6
Insurance agents and brokers	10.0	5.6	10.0	10.5	10.0	10.0	10.0	5.3	5.3	5.3	5.3
Real estate and construction	5.9	5.7	6.1	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Business services	6.1	0.0	0.0	2.9	3.1	2.9	3.0	3.0	3.0	3.1	3.1
All the above sectors	11.9	10.2	9.0	9.7	8.5	7.2	7.3	7.0	6.8	6.5	6.6

**Chart 2: Access to credit turned stable**

**Impact on Access to Credit**



1.13 The Government also proposed a number of specific measures to promote the six industries. Some of the more notable measures are highlighted below:-

*i. Educational Services*

Reserve two sites for operators providing self-financing degree programmes, which are expected to provide some 4 000 places.

*ii. Medical Services*

Reserve four sites for private hospital developments; and facilitate the development of Chinese medicine by expediting the setting of standards for Chinese herbal medicines commonly used in Hong Kong.

*iii. Testing and Certification Services*

Draw up a three-year development plan for the industry.

*iv. Environmental Industries*

Expand the Government's green procurement list and actively apply green specifications in procurement procedures to promote the green procurement policy.

*v. Innovation and Technology*

Allocate about \$200 million to launch an "R&D Cash Rebate Scheme" to encourage enterprises to invest in research and development.

*vi. Cultural and Creative Industries*

Support local cultural and creative industries to further develop the Mainland market through CEPA.

1.14 The Outline of the Plan for the Reform and Development of the Pearl River Delta has elevated the platform of co-operation between Hong Kong and Guangdong on all fronts to a national strategic level. By providing for the early and pilot implementation of various measures in Guangdong, there will be tremendous opportunities in the PRD market for the six industries. As part of the regional co-operation, Hong Kong will participate in the development of Qianhai in Shenzhen, so as to promote and enhance Hong Kong's own service industries and to contribute to the development of service industries in the Mainland. Also, in response to the latest development in cross-Strait relations, the Government will enhance exchanges between Hong Kong and Taiwan on various fronts.

1.15 At the same time, the Government will strive to consolidate the strengths of the traditional four pillar industries, namely financial services, tourism, trading and logistics, and professional services, through trying every means to enhance the flow of people, goods, capital and information that are related to the four pillar industries. The financial services sector is the most important pillar supporting the economy. Specific plans will be formulated to continue to develop Hong Kong as a global financial centre, asset management centre and offshore Renminbi centre attracting capital and talent from within and outside the country.

**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.