



# 2010 Economic Background and 2011 Prospects

Government of the Hong Kong  
Special Administrative Region

***2010 ECONOMIC BACKGROUND  
AND  
2011 PROSPECTS***

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HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2010

### *Summary*

- *The Hong Kong economy staged a broad-based expansion in 2010, having successfully overcome the severe challenges from the global recession of 2009. Both the external and domestic sectors fared strongly in the year. For 2010 as a whole, the economy grew robustly by 6.8%, more than offsetting the 2.7% contraction in 2009.*
- *Merchandise exports sprang back sharply following the steep contraction in 2009, sustaining rapid double-digit year-on-year growth during most of 2010 and surpassing the 2008 peak by some margin. The Asian markets continued to outperform the US and EU markets, mirroring the two-speed recovery in the global economy. Although the US and EU markets also staged a rebound, exports to these markets had yet to make up for the declines in 2009. Export growth momentum tapered somewhat towards the year-end, as the growth pace of some overseas markets moderated.*
- *Exports of services maintained strong momentum across the board throughout 2010. Inbound tourism surged on strong influx of visitors from all major markets. Exports of trade-related and transportation services also grew strongly as trade flows revived markedly. Exports of financial and business services expanded sizably, supported by thriving fundraising activities and robust business conditions.*
- *The domestic sector also held up well in 2010. Private consumption expenditure was strong throughout the year, supported by improving labour market and income conditions. Investment staged a notable rebound amid sanguine business sentiments. The surge in public sector building and construction activities also supported domestic demand.*
- *The labour market saw widespread and notable improvements during 2010. Total employment rose to an all-time high in late 2010, surpassing the previous peak in early 2008. Job vacancies likewise surged. With improving labour demand, the seasonally adjusted unemployment rate came down progressively to 4.0% in the fourth quarter of 2010. Wages and earnings rose back in tandem.*
- *Local stock prices ended 2010 moderately higher than a year ago, intertwined with episodes of fluctuations caused by shifting sentiments in global financial markets. Local property market was hectic in 2010, with residential property prices rising by 20% during the year. The Government has stayed alert to the risks of housing market bubble, and has rolled out five rounds of measures*

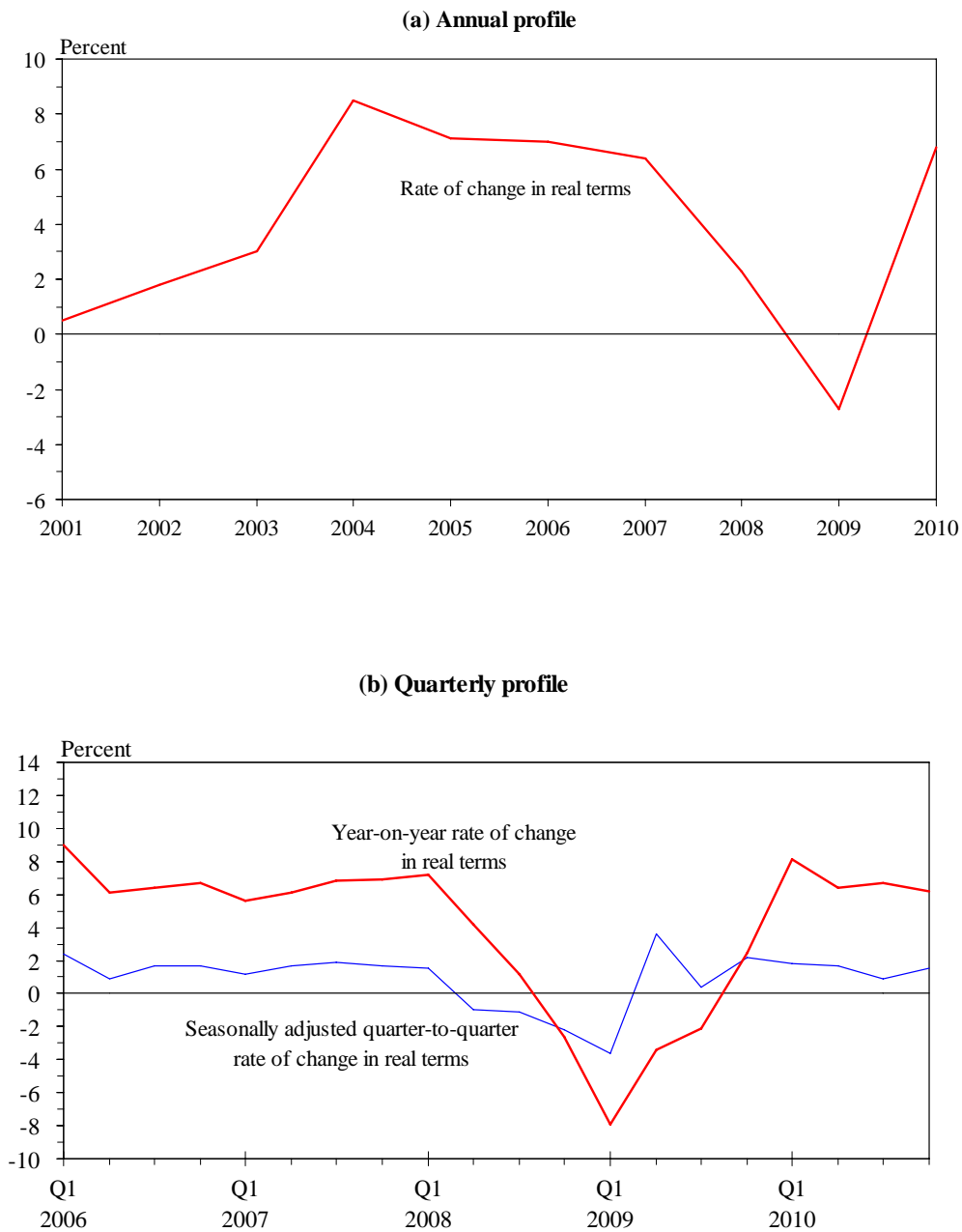
*over the course of the year to ensure healthy and stable development of the market.*

- *Inflation rose back progressively in 2010, driven mainly by higher import prices from rising global food and other commodity prices, rising inflation in import sources and a slightly weaker US dollar. Domestic cost pressures, especially from the rental front, also turned more visible alongside the robust economic conditions. In 2010, underlying inflation averaged at 1.7%, up from 1.0% in 2009. Yet the phenomenon of rising inflation also featured in many other Asian economies where economic growth was vibrant.*

## **Overall situation**

1.1 The Hong Kong economy achieved a full-fledged upturn in 2010, having swiftly emerged from last year's global recession triggered by the financial crisis. Economic activities sustained strong momentum throughout the year. Merchandise exports surged sharply in 2010, surpassing the peak in 2008 by some margin, with the performance of the overseas markets continuing to mirror the two-speed recovery in the global economy. Exports of services maintained strong growth in all four quarters. Domestic demand was also robust, thanks to the upbeat consumer sentiments amid improving job and income prospects, and to the sanguine business confidence on the back of vibrant regional economic prospects. The surge in public sector building and construction activities also contributed. However, inflation also went up gradually over the course of the year, broadly in line with the experience in many other Asian economies. In 2010, the Government introduced several rounds of measures to forestall the risk of housing market bubble arising from the exceptionally low interest rates and ample liquidity in the global financial system.

**Diagram 1.1 : The economy staged a strong upturn in 2010**



1.2 For 2010 as a whole, the *Gross Domestic Product (GDP)*<sup>(1)</sup> expanded by 6.8% in real terms, more than making up for the 2.7% contraction in 2009. On a year-on-year comparison, real GDP leaped by 8.1%, 6.4% and 6.7% respectively in the first three quarters, and by a still notable 6.2% in the fourth quarter even against a higher base of comparison. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP expanded solidly throughout the four quarters, by 1.8%, 1.7%, 0.9% and 1.5% respectively.

## **The external sector**

1.3 *Total exports of goods* sprang back sharply in 2010, up 17.3% in real terms, from the 12.7% plunge in 2009, which was triggered by the collapse in global trade flows in early 2009. As a result of the hefty surge in total exports in 2010, total merchandise exports already surpassed the peak in 2008 by some margin. The vibrant growth in the Asian markets, featured by robust industrial production and investment activities, provided the main impetus. Reviving import demand in the advanced economies also contributed, though merchandise exports to these markets had yet to return to their pre-crisis peaks in 2008. Partly magnified by a low base of comparison, the year-on-year growth of merchandise exports in the first three quarters of 2010 was particularly sizable, at 21.6%, 20.1% and 20.8% respectively in real terms. It then tapered to 8.4% in the fourth quarter, amid the effect of a higher base of comparison and slower pace of expansion in some export markets. On a seasonally adjusted quarter-to-quarter basis, merchandise exports grew strongly in the first quarter, expanded further in the second and third quarters, before showing a modest decline in the fourth quarter.

1.4 *Exports of services* leaped by 15.0% in real terms in 2010, picking up strongly from the 0.3% growth in 2009. Strong growth was maintained throughout 2010. Among the major components, inbound tourism fared strongly, driven by vibrant influx of visitors from all major markets. Exports of trade-related and transportation services, which together account for more than half of Hong Kong's exports of services, grew robustly on flourishing offshore trade as well as freight and passenger flows. Exports of financial and business services also thrived on the intensive fundraising activities and buoyant business conditions. As compared to the merchandise trade flows, the moderation in external demand towards the end of the year was less evident in service trade flows, thanks to thriving inbound tourism.



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

	<u>2009<sup>#</sup></u>	<u>2010<sup>+</sup></u>	<u>2009</u>				<u>2010</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>	<u>Q4<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure	0.6	5.8	-5.7 (-0.9)	0.6 (4.9)	1.3 (0.4)	6.2 (1.6)	7.2 (0.5)	3.9 (1.3)	4.9 (1.6)	7.1 (3.2)
Government consumption expenditure	2.3	2.7	1.6 (-0.4)	2.6 (1.6)	3.3 (0.4)	2.0 (0.4)	3.3 (0.9)	2.7 (0.7)	3.1 (0.9)	1.8 (-0.7)
Gross domestic fixed capital formation	-3.9	8.1	-12.5	-13.4	1.4	11.1	8.4	16.0	0.2	8.8
<i>of which :</i>										
Building and construction	-5.5	6.7	-9.9	-6.9	0.9	-5.2	-7.0	13.5	9.6	11.5
Machinery, equipment and computer software	-3.0	6.3	-4.9	-16.6	-2.5	15.8	11.8	16.2	-6.6	6.5
Total exports of goods	-12.7	17.3	-22.7 (-14.2)	-12.8 (5.7)	-13.2 (0.2)	-2.9 (7.9)	21.6 (6.2)	20.1 (3.8)	20.8 (1.8)	8.4 (-3.4)
Imports of goods	-9.5	18.1	-20.8 (-12.5)	-12.6 (7.2)	-8.3 (4.7)	3.3 (5.6)	28.0 (7.3)	23.6 (3.7)	16.5 (-1.0)	7.4 (-2.2)
Exports of services	0.3	15.0	-5.9 (-3.5)	-4.1 (2.8)	0.9 (4.1)	9.5 (6.1)	18.3 (4.1)	17.8 (2.4)	15.7 (2.1)	9.4 (0.4)
Imports of services	-4.9	10.9	-11.1 (-4.8)	-7.1 (1.3)	-4.7 (2.3)	3.7 (5.0)	11.6 (2.5)	13.1 (2.9)	11.6 (0.7)	7.8 (1.3)
<b>Gross Domestic Product</b>	<b>-2.7</b>	<b>6.8</b>	<b>-7.9</b> <b>(-3.6)</b>	<b>-3.4</b> <b>(3.6)</b>	<b>-2.1</b> <b>(0.4)</b>	<b>2.5</b> <b>(2.2)</b>	<b>8.1</b> <b>(1.8)</b>	<b>6.4</b> <b>(1.7)</b>	<b>6.7</b> <b>(0.9)</b>	<b>6.2</b> <b>(1.5)</b>
<i>Change in the main price indicators (%)</i>										
<b>GDP deflator</b>	<b>-0.6</b>	<b>0.9</b>	<b>0.6</b> <b>(-0.4)</b>	<b>-0.4</b> <b>(*)</b>	<b>-1.9</b> <b>(-0.8)</b>	<b>-0.7</b> <b>(0.6)</b>	<b>0.6</b> <b>(0.7)</b>	<b>-0.9</b> <b>(-1.1)</b>	<b>1.8</b> <b>(1.6)</b>	<b>1.8</b> <b>(0.6)</b>
<b>Composite CPI</b>										
<b>Headline</b>	<b>0.5</b>	<b>2.4</b>	<b>1.7</b> <b>(0.3)</b>	<b>-0.1</b> <b>(-0.2)</b>	<b>-0.9</b> <b>(-1.0)</b>	<b>1.3</b> <b>(2.2)</b>	<b>1.9</b> <b>(0.9)</b>	<b>2.6</b> <b>(0.5)</b>	<b>2.3</b> <b>(-1.3)</b>	<b>2.8</b> <b>(2.8)</b>
<b>Underlying<sup>^</sup></b>	<b>1.0</b>	<b>1.7</b>	<b>3.1</b> <b>(-0.2)</b>	<b>1.2</b> <b>(-0.3)</b>	<b>-0.3</b> <b>(-0.1)</b>	<b>-0.1</b> <b>(0.5)</b>	<b>0.8</b> <b>(0.6)</b>	<b>1.5</b> <b>(0.4)</b>	<b>2.0</b> <b>(0.4)</b>	<b>2.6</b> <b>(1.1)</b>
<b>Change in nominal GDP (%)</b>	<b>-3.3</b>	<b>7.8</b>	<b>-7.4</b>	<b>-3.8</b>	<b>-4.0</b>	<b>1.8</b>	<b>8.8</b>	<b>5.5</b>	<b>8.6</b>	<b>8.1</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.

## The domestic sector

1.5 The domestic sector expanded solidly in 2010. Local consumer sentiments stayed upbeat throughout the year, supported by improving job and income prospects, as well as the better performance of the asset markets. *Private consumption expenditure* (PCE) grew notably in real terms in all four quarters of 2010. For the year as a whole, PCE grew by 5.8%, up strongly from the 0.6% growth in 2009. On a seasonally adjusted quarter-to-quarter comparison, PCE also expanded throughout 2010. Meanwhile, *government consumption expenditure* expanded steadily further in 2010, by 2.7% in real terms, following the 2.3% growth in 2009.

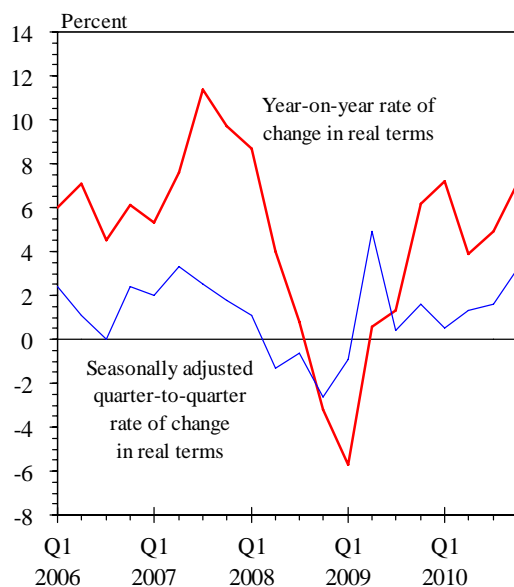
**Table 1.2 : Consumer spending by major components<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

		<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>
2009	Annual	1.3	6.0	-2.7	-0.5	1.5	2.2	7.8	0.6
	H1	-1.8	4.9	-10.2	-5.8	-0.7	0.3	7.2	-2.5
	H2	4.3	7.0	4.2	4.7	3.7	4.1	8.4	3.8
	Q1	-3.3	4.2	-9.8	-5.5	-2.9	-5.9	15.3	-5.7
	Q2	-0.3	5.5	-10.6	-6.0	1.4	7.3	-1.7	0.6
	Q3	1.6	6.7	-6.0	-1.5	2.9	-1.4	1.4	1.3
	Q4	7.0	7.3	14.8	10.2	4.5	10.1	14.8	6.2
2010	Annual	8.7	3.8	28.2	14.5	4.9	4.8	29.1	5.8
	H1	8.2	3.3	28.3	13.6	4.7	4.8	28.0	5.5
	H2	9.2	4.3	28.1	15.3	5.0	4.9	30.0	6.1
	Q1	9.1	3.9	29.9	14.6	5.3	4.9	19.5	7.2
	Q2	7.3	2.9	26.5	12.6	4.2	4.8	39.0	3.9
	Q3	8.9	4.1	27.8	14.9	5.1	10.2	42.9	4.9
	Q4	9.5	4.4	28.3	15.6	4.9	-0.3	19.6	7.1

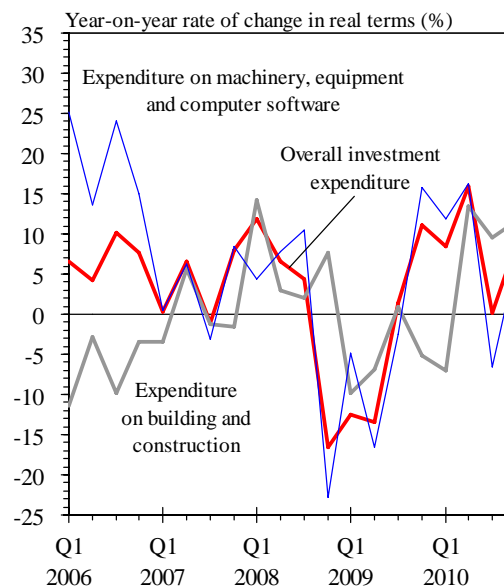
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

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

**Diagram 1.2 : Private consumption expenditure was strong throughout the year**



**Diagram 1.3 : Fixed investment bounced back amid return of sanguine business sentiment in 2010**



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* showed a notable 8.1% growth in real terms in 2010, the fastest annual expansion after 1997. Private sector investment in machinery and equipment increased notably for 2010 as a whole, supported by growing business volumes and strong regional economic prospects. After a temporary slowdown in the third quarter, such investment picked up again in the fourth quarter. Indeed, business sentiments among large enterprises as shown by the Quarterly Business Tendency Survey conducted by the Census and Statistics Department generally stayed optimistic in 2010. On the other hand, small and medium-sized enterprises (SMEs) turned somewhat cautious in recent months in view of the still elevated level of uncertainty in the external environment (See **Box 1.1** for details of the consultation on SMEs). The surge in public sector building and construction activities, driven by the expedition of public sector works and successive implementation of large-scale infrastructure projects, was also a major supporting factor behind the rapid increase in overall investment spending. However, private sector building and construction activity was still weak in 2010.

## Box 1.1

### Diffusion indices on small and medium-sized enterprises (an update)

To gain a better understanding of the business receipts, employment and credit access situations of small and medium-sized enterprises (SMEs)<sup>(1)</sup> during the financial tsunami and the subsequent economic recovery, 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 feedback. This note provides a further update of the results reported in **Box 1.1** in the *Third Quarter Economic Report 2010*.

From June 2010 onwards, the SMEs surveyed were asked to compare their business and employment situation with that *in the previous month*. A set of diffusion indices is accordingly compiled to indicate the general directions of change in the respondents' views on business receipts and employment compared with the prior month. It should be noted that the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise. Nevertheless, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs surveyed, as depicted by the set of diffusion indices, showed that the overall situation held largely steady during the latter half of 2010 and improved modestly on entering 2011, with some variations for individual sectors (**Table 1**). The index on real estate saw a steep decline in November 2010, alongside the announcement of further measures against property speculation by the Government, but rebounded sharply in January 2011. The insurance sector saw notable improvement in early 2011, while import/export trades recorded some mild decline. The indices on financing institutions and business services moved into the contraction territory in December 2010, but recovered in early 2011. The others either held relatively steady or saw some improvement. In January 2011, a larger proportion of SMEs in eight out of the ten sectors surveyed reported stable or some improvement in business receipts. Separately, the results of the consultation indicated that SMEs' employment situation held largely stable in recent months (**Table 2**).

Specifically for import and export firms, from the June round onwards, their views on new export orders were sought, at weekly intervals, to have more up-to-date information on the export performance. The diffusion index on new export orders held steady at the boom-bust dividing point of 50 in November and December 2010, but retreated somewhat to 49.2 in January 2011, probably reflecting the still elevated level of uncertainty in the external environment.

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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 1.1 (Cont'd)**

Credit access situation improved further in recent months. The proportion of SMEs reporting very tight/tighter-than-normal credit access came down successively to 2.8% in January 2011 from above 12% in late November 2008, the lowest since the consultation exercise started (*Chart 1*). Moreover, the proportion of SMEs expecting tighter credit access in the coming month had remained at zero since June 2010, while credit pricing improved further over the past few months to virtually on par with the pre-crisis situation, thanks to the accommodative monetary conditions and the Government's efforts to relieve credit strains through the enhanced and special loan guarantee schemes. With the economy on firmer footing, the special loan guarantee scheme was closed for new application at end-2010. As at the end of January 2011, some 21 100 companies benefited under these schemes, involving approved loan amount of over \$106 billion. This also indirectly helped to secure the jobs of those employed by these companies, totaling over 340 000.

**Table 1 : Diffusion indices<sup>^</sup> on business receipts**

	<u>2010</u>							<u>2011</u>
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>								
Restaurants	47.5	49.1	50.8	49.2	51.8	48.2	50.0	50.0
Travel	46.6	53.4	53.4	48.3	48.3	48.3	48.3	48.3
Real estate	47.0	56.1	48.5	45.6	57.4	33.8	47.1	60.6
Retail trade	43.9	50.0	50.0	51.3	50.0	50.9	49.1	50.0
Wholesale trade	47.5	47.4	47.4	47.4	52.6	55.3	50.0	50.0
Insurance	45.3	45.0	47.5	47.5	52.5	50.0	52.5	60.5
Business services	43.8	50.0	45.5	45.5	51.5	51.5	45.5	51.6
<i>External segments</i>								
Import/export trades	50.0	50.0	50.9	47.3	48.3	50.0	49.6	49.2
Logistics	52.6	44.7	42.5	44.7	44.7	47.4	50.0	50.0
Financing institutions	47.2	44.7	44.9	50.0	56.6	48.7	43.8	50.0
<b>All the above sectors*</b>	<b>47.5</b>	<b>49.7</b>	<b>49.3</b>	<b>48.1</b>	<b>49.8</b>	<b>49.7</b>	<b>49.1</b>	<b>50.4</b>

Notes: (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same." A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(\*) Weighted average using total number of SMEs in individual sectors as weights.

**Box 1.1 (Cont'd)**

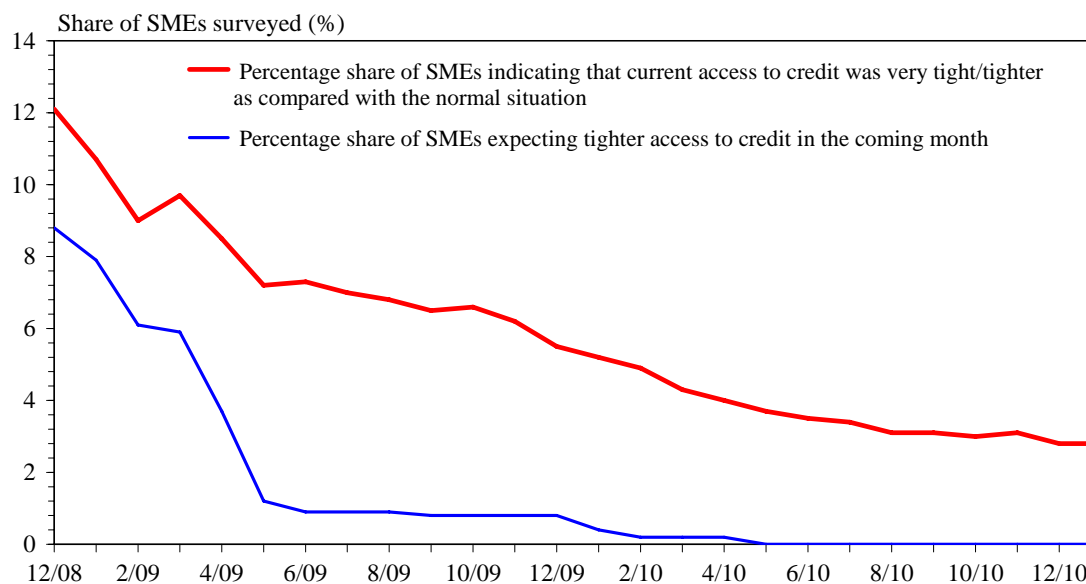
**Table 2 : Diffusion indices<sup>^</sup> on employment situation**

	<u>2010</u>							<u>2011</u>
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>
<i>Local segments</i>								
Restaurants	49.2	49.1	49.2	49.2	50.0	50.0	50.0	50.0
Travel	48.3	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Real estate	50.0	48.5	48.5	51.5	50.0	51.5	50.0	50.0
Retail trade	50.0	49.6	50.0	50.0	50.0	50.0	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Insurance	54.8	50.0	50.0	50.0	50.0	50.0	52.5	55.3
Business services	48.4	53.0	48.5	48.5	50.0	50.0	50.0	50.0
<i>External segments</i>								
Import/export trades	50.5	50.0	50.0	50.0	50.0	50.4	50.0	50.0
Logistics	47.4	47.4	47.5	47.4	50.0	50.0	50.0	50.0
Financing institutions	50.0	51.3	51.3	51.3	55.3	53.9	51.3	52.6
<b>All the above sectors*</b>	<b>49.9</b>	<b>49.9</b>	<b>49.6</b>	<b>49.8</b>	<b>50.0</b>	<b>50.3</b>	<b>50.0</b>	<b>50.1</b>

Notes: (^) The diffusion index is computed by adding the percentage of SMEs reporting “up” to one half of the percentage of SMEs reporting “same.” A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(\*) Weighted average using total number of SMEs in individual sectors as weights.

**Chart 1 : Access to credit improved further**



## **The labour sector**

1.7 The labour market saw a widespread improvement during 2010. Total employment resumed its uptrend, surpassing the pre-crisis peak in 2008 by the latter part of 2010. The *seasonally adjusted unemployment rate* fell successively, down to 4.0% in the fourth quarter of the year, the lowest since end-2008. The *underemployment rate* also declined steadily, to 1.8% in the fourth quarter of 2010. With employers being more keen to recruit workers, vacancies surged across many sectors. As much of the slack in the labour market was worked off in 2010, labour wages and earnings across many sectors resumed increases during the year.

## **The asset markets**

1.8 The *local stock market* ended 2010 higher than a year ago. Yet the performance during the year was intertwined with episodes of fluctuations alongside other markets worldwide. Sentiments in the stock markets waned in early 2010 on indications of exit strategies in the major economies. Then sentiments were hit by intensified concern over the sovereign debt issue in Europe in April and May. The Hang Seng Index (HSI) reached 18 986 on 25 May 2010, the lowest in 2010. Sentiments turned more bullish again in the fall of the year on another round of quantitative easing in the US (i.e. QE2). The HSI peaked in early November at near 25 000, then saw some retreat on renewed concerns over the fragile debt situation in Europe, notably Ireland. The HSI closed the year at 23 035, 5.3% higher than at end-2009. Fundraising activities were intense in 2010, amid the robust economic conditions and ample liquidity conditions. Total IPO funds raised in 2010 amounted to \$445.0 billion, 79.3% higher than in 2009, making Hong Kong again the top IPO centre in the world in 2010.

1.9 *Residential property market* was hectic in 2010, with flat prices soaring by 20%. Tight supply, combined with stronger demand alongside the robust economic recovery, and fuelled further by the environment of low interest rates amid ample liquidity, have boosted prices successively during the year. In December 2010, residential property prices surpassed the peak in 2008 by 28%, but were still 6% below the 1997 peak. With the rally in residential property prices spreading from the luxury end to mass market, affordability ratio climbed to 44.5% in the fourth quarter, approaching the long-term average of 51.3% over 1990-2009. The Government was mindful of the risks associated with a rapidly rising property market, and rolled out five rounds of measures over the course of 2010 to ensure healthy and stable development of the market. In particular, the latest round was announced on

19 November, with the focus on curbing speculative activities (See paragraph 4.4 for details). Meanwhile, rentals for flats, offices and shops all saw notable increases of 16%, 14% and 10% respectively between December 2009 and December 2010.

## **Inflation**

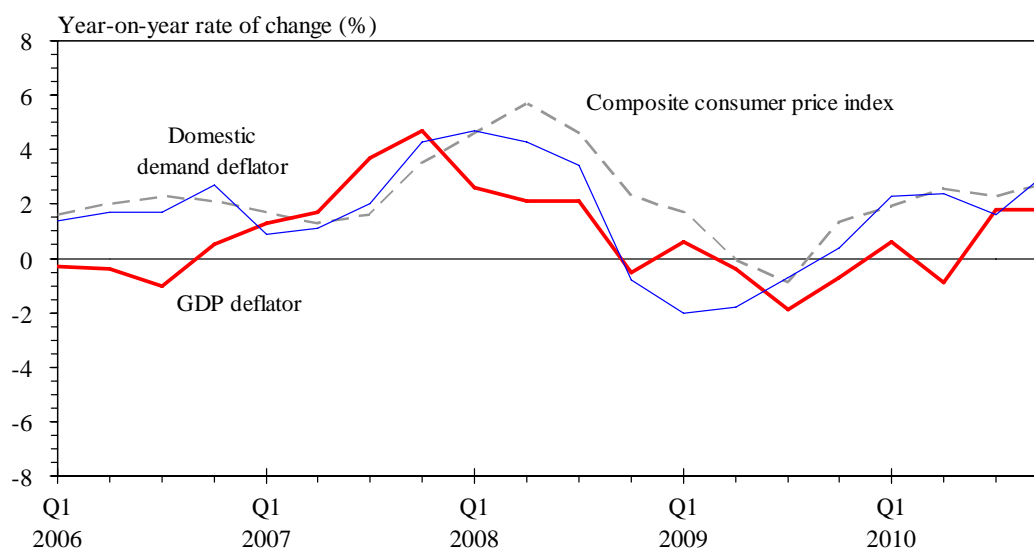
1.10 Inflation was on a gradual uptrend over the course of 2010, due mainly to higher imported inflation, resulting from the surge in global food and other commodity prices, rising inflation in supply sources, and to a lesser extent the slightly weaker Hong Kong dollar alongside the US dollar. Domestic price pressures, particularly from the rental front, also re-emerged in 2010, along with the robust expansion of the local economy.

1.11 The *Composite Consumer Price Index* (Composite CPI) rose by an average of 2.4% in 2010, faster than the 0.5% increase in 2009. Netting out the effects of the Government's one-off relief measures to give a more accurate indicator of the inflation trend, underlying Composite CPI inflation averaged at 1.7% for 2010 as a whole, up from 1.0% in 2009. While the annual increases were still relatively moderate, particularly when viewed against the vibrant economic upturn, underlying inflation turned more visible towards the year-end, mainly on higher food prices and private housing rentals. On a year-on-year comparison, underlying consumer price inflation went up progressively, from 0.8% in the first quarter of 2010, to 1.5% and 2.0% respectively in the second and third quarters, and further to 2.6% in the fourth quarter.

1.12 The *GDP deflator* rose by 0.9% in 2010, reversing the decline of 0.6% in 2009. The rebound mainly reflected the moderate reflationary phenomenon in overall price levels alongside the full-fledged economic recovery. Meanwhile, the terms of trade deteriorated slightly in 2010, amid rising import prices caused by the upsurge in world commodity prices and a weak dollar.



**Diagram 1.4 : Inflation went up progressively in tandem with the strong economic upturn**



## GDP by major economic sector

1.13 The services sector grew notably in the first three quarters of 2010, reflecting the robust broad-based upturn of the economy. Net output in real terms expanded by 8.4%, 5.8% and 6.8% respectively in the first three quarters of 2010 over a year earlier. Among the major sectors, import and export, wholesale and retail trades saw the fastest expansion, supported by the resurgence in global trade, vibrant commercial activity and strong consumption demand. Concurrently, the transportation and storage sector was well supported by buoyant cargo and passenger flows. The accommodation and food services sector also benefited much from the recovery in local spending and strong inbound tourism. Financing and insurance as well as professional and business services grew solidly further, thanks to the mushrooming fundraising and other financial and commercial activities. Yet real estate activity, mainly reflecting the net output of private sector developers, declined. Meanwhile, output in the manufacturing sector bounced back moderately, benefitting from the reviving overseas demand. The construction sector, after some moderate growth in the first quarter of 2010, accelerated to double-digit growth in the second and third quarters, driven by the rapid expansion of public sector building and construction works.

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

	<u>2009</u>					<u>2010</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>
Manufacturing	-8.3	-10.1	-9.5	-8.6	-4.9	0.4	2.2	5.4
Construction	-7.6	-12.3	-10.5	-2.6	-4.3	3.3	21.9	21.3
Services <sup>(b)</sup>	-1.6	-6.5	-2.9	-1.1	3.6	8.4	5.8	6.8
Import/export, wholesale and retail trades	-9.4	-17.7	-12.3	-10.3	0.8	22.0	17.5	15.9
Import and export trade	-11.3	-19.9	-14.2	-12.3	-1.1	22.9	17.9	15.6
Wholesale and retail trades	1.1	-7.0	-3.0	2.0	10.6	18.2	15.8	16.9
Accommodation and food services	-11.3	-10.6	-15.1	-11.6	-8.1	8.3	9.8	7.4
Transportation, storage, postal and courier services	-5.5	-9.5	-7.8	-6.0	1.5	6.2	10.3	6.8
Transportation and storage	-5.1	-9.0	-7.3	-5.6	1.6	4.9	9.1	5.6
Postal and courier services	-12.3	-17.4	-17.8	-13.3	-2.2	34.9	35.0	31.3
Information and communications	0.9	1.1	-0.6	1.9	1.2	1.8	0.9	1.4
Financing and insurance	4.3	-7.2	2.8	8.4	14.0	9.4	0.6	7.2
Real estate, professional and business services	1.7	-2.4	0.9	4.7	3.6	2.5	1.6	0.7
Real estate	1.2	-5.0	1.9	5.4	3.6	-2.9	-3.4	-4.3
Professional and business services	2.2	*	-0.1	4.2	4.2	8.6	7.0	5.9
Public administration, social and personal services	2.8	2.5	3.1	2.6	3.0	3.9	2.8	3.3

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.

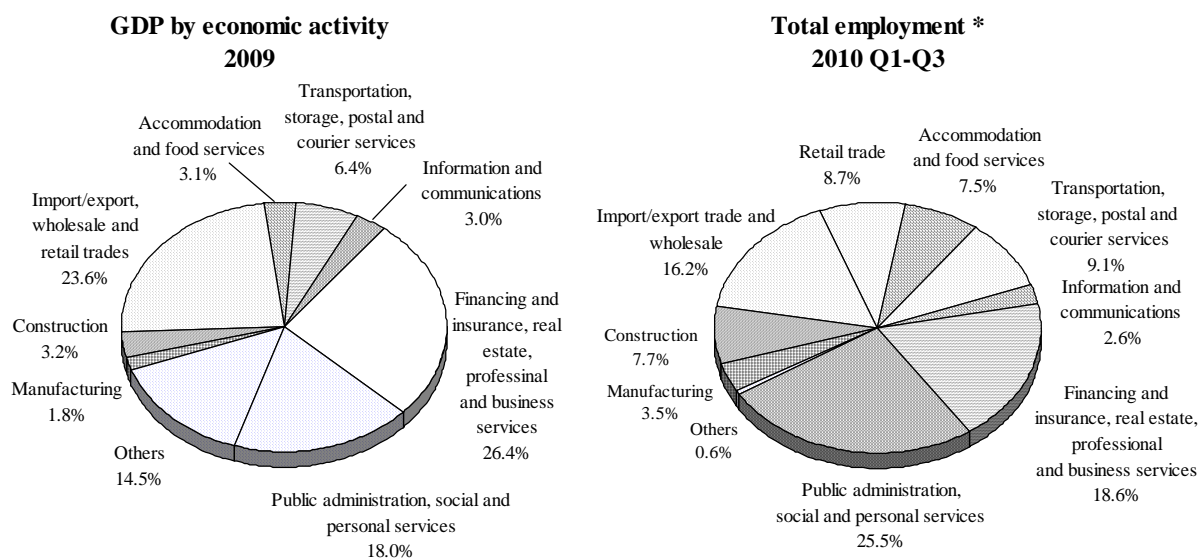
(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.

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

Starting from the reference year of 2009, statistics on GDP by economic activity are compiled based on the Hong Kong Standard Industrial Classification Version 2.0. Besides, the valuation of value added has been changed from factor cost to basic prices to follow international standard. As a result of these statistical developments, the series of the GDP by economic activity has been revised and backcasted to 2000.

1.14 The services sector is the mainstay of Hong Kong's economy, accounting for 92.6% of GDP in 2009 and 88.3% of total employment in the first three quarters of 2010. Being the key driver of overall economic growth, the services sector is where Hong Kong's competitive advantage lies, and also plays an ever-increasing role in deepening the integration with the Mainland. Hong Kong will continue to enhance its status as a global financial centre and a regional hub for business, by strengthening further the competitiveness of its four pillar industries, by promoting the growth of the six industries where it enjoys clear advantages (See **Box 1.2** on the latest statistics for the six industries in 2009) <sup>(3)</sup>, and by upgrading the quality of its infrastructure and human capital. On the latter, it is worth noting that the proportion of the local workforce with tertiary education attainment has risen steadily from 28.9% in 2005 to 31.6% in 2010.

**Diagram 1.5 : Services sector remains the mainstay of the economy**



Note : (\*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2010 are averages for the first three quarters of the year. Starting from the reference year of 2009, statistics on GDP by economic activity and employment are compiled based on the Hong Kong Standard Industrial Classification Version 2.0.

## **Some highlights of economic policy**

1.15 The Government's strategy of "stabilising the financial system, supporting enterprises and preserving employment" successfully helped to stabilise the economy in 2009 and consolidate the recovery in 2010. With the economy getting firmly back on the growth track, various relief measures introduced in emergency to counter the 2008-09 global financial crisis were allowed to expire in late 2010. As credit conditions much improved, the Special Loan Guarantee Scheme, which was introduced in December 2008 and extended three times to help enterprises secure loans and tide over liquidity problems, was closed for new application at end-2010. Likewise, the contingent Full Deposit Guarantee and the Contingent Bank Capital Facility, introduced to shore up public confidence in Hong Kong's banking system during the global financial crisis, expired as planned at end-2010. Instead, the enhanced Deposit Protection Scheme came into effect on 1 January 2011 to provide a higher protection limit of \$500,000 bank deposits.

1.16 With increasing signs that the economic recovery has taken hold, over the course of 2010, the focus of macroeconomic stance has shifted from ensuring steady recovery to containing asset market bubble risks caused by abundant liquidity in the global financial system and the super-loose monetary stances in the advanced economies. Indeed, this was a common concern for many Asian economies. The Government watched closely the risks and challenges posed by such an abnormal monetary environment, and introduced successive packages of measures in February, April, August, October and November 2010 to ensure a healthy and stable development of housing market along the four directions of increasing supply, preventing excessive leverage in mortgage lending, enhancing market transparency, and curbing speculation. By containing housing bubble risks, these stabilization measures should also help ensure sound economic fundamentals and banking sector stability, in turn conducive to macroeconomic stability.

1.17 In addition to meeting the short-term challenges, the Government has not lost sight of the need for long-term sustainable development and has strived to develop Hong Kong as a high value-added, knowledge-based economy by investing heavily in infrastructure through embarking on the construction of large-scale projects and in its people through education and training. In the longer term, these investments will boost productivity, which in turn would reduce the pressure on capacity constraint and hence help contain the risk of inflation spiral. Facilitation measures were also in good progress to promote the four traditional pillar industries and the six industries with clear comparative advantage. Moreover, the Government has sought to expand the

opportunities and create the favourable conditions for industries through strategic positioning within a regional context and leveraging on the growing economic clout of the Mainland:

- The year 2010 saw further deepening in Hong Kong's ties with the Mainland and other markets. Supplement VII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in May 2010. Service liberalisation measures in Supplement VII, which were implemented on 1 January 2011, have further broadened the access of local professional services to the Mainland market.
- On regional integration, the Framework Agreement on Hong Kong/Guangdong Co-operation signed in April 2010 set specific targets and development positioning for Hong Kong/Guangdong co-operation<sup>(4)</sup>. Physical linkages would be much enhanced upon the completion of the Hong Kong-Zhuhai-Macao Main Bridge and the Guangzhou-Shenzhen-Hong Kong Express Rail Link projects. All these will help expand the production capacity of the Hong Kong economy. Progress has also been made on co-operation and exchanges with Taiwan and other emerging markets. The listing of Russia's Rusal and Brazil's Vale illustrated the increasingly international focus of the financial industry.
- Hong Kong also saw major progress in developing into Mainland's offshore renminbi (RMB) business centre. The cross-border RMB trade settlement scheme was expanded in 2010 to cover wider geographical locations and more enterprises. This will reinforce Hong Kong's position as an international financial centre in the region. Indeed, significant growth was achieved in various areas, including cross-border trade settlement, deposits, bond issuance and the introduction of financial products.
- On the National 12<sup>th</sup> Five-Year Plan, the Government has been working with Guangdong Province to incorporate the most important functions and roles of Hong Kong-Guangdong co-operation into the Five-Year Plan. Given the service-oriented emphasis of the Plan, Hong Kong can make use of its competitive edge in helping to support the development of services sector in the Mainland while expanding its services industry scope and capturing opportunities in the vast Mainland market, and thus achieving mutually beneficial developments.

1.18 Hong Kong has fully emerged from the 2008-09 global financial crisis. This underlines the resilience and sound fundamentals of the economy. The Government's counter-cyclical measures have played an important role in helping to stabilise the economy and expedite the recovery. The Government will continue to uphold the principle of "Big Market, Small Government", recognising the effectiveness of market mechanism as the most efficient means to allocate resources under normal circumstances, and will ensure that the right conditions are in place for the proper functioning of the markets. Yet, as the experience in the 2008-09 global financial crisis indicated, the Government would also take decisive actions to safeguard macroeconomic and social stability to counter adverse external shocks where necessary. After all, economic vitality is the key to maintaining Hong Kong's competitiveness and prosperity. The Government will continue to be vigilant in navigating the economy through the challenges ahead.

## Box 1.2

### Economic contribution of the six industries (an update)

In 2009, the Government accepted the recommendations of the Task Force on Economic Challenges for the development of six industries where Hong Kong enjoys clear advantage. They are cultural and creative industries, medical services, education services, innovation and technology, testing and certification services, and environmental industries. To track the performance of the six industries, statistics on their value added and employment size will be useful. However, the six industries straddle different industries as defined by the current industrial classification<sup>(1)</sup>. Therefore, statistics for the six industries could not be readily compiled. In *Box 1.2* of the *2009 Economic Background and 2010 Prospects*, a set of crude estimates have been worked out by the Economic Analysis and Business Facilitation Unit in collaboration with the Census and Statistics Department (C&SD). By now, the C&SD has developed a new statistical framework for measuring the economic contribution and employment of the six industries, by taking into account relevant policy objectives, international guidelines and feedback from stakeholders. In addition, the C&SD has also made suitable enhancements to economic surveys to collect the necessary data. This article summarises the latest statistics released by the C&SD on the direct economic contribution (in terms of value added) and employment in respect of the six industries for 2008 and 2009<sup>(2)</sup>.

The value-added of the Six Industries continued to increase in 2009, by 3.0% over 2008 to \$123.9 billion, despite the global recession in that year (*Table 1*). This is in stark contrast to the decline of 2.6% in the nominal Gross Domestic Product (GDP) in 2009<sup>(3)</sup>. As a result, they outperformed the overall economy by a clear margin with their combined direct contribution to GDP rising to 8.0% in 2009 from 7.6% in 2008, indicating their strong relative competitiveness.

As for employment, the six industries together employed 394 970 persons in 2009, representing an increase of 1.7% from 388 320 persons in 2008 (*Table 2*). The six industries also fared better than the overall economy in terms of employment. In 2009, total employment in Hong Kong recorded a decline of 1.0%. As a result, the contribution of the six industries to total employment increased from 11.0% in 2008 to 11.3% in 2009.

Among the six industries, growth in the value added in 2009 was the biggest in testing and certification, thanks to the tightening of regulatory requirements in overseas markets, and the growing demand for medical testing. Growth in the value added of environmental industries was also sizable, attributable to increased businesses in waste management and environmental engineering. The value added of medical services also rose notably, amidst growing demand for medical services, including private hospitals and nursing and residential care. Innovation and technology, and education services also saw solid growth in terms of value added in 2009. Although cultural and creative industries showed a marginal decline in value added, their share in GDP actually edged up in 2009, as they still fared relatively better than the overall economy.

(1) The Hong Kong Standard Industrial Classification (HSIC) Version 2.0.

(2) For more details, see the C&SD's feature article "The Situation of the Six Industries in Hong Kong in 2008 and 2009", published in the February 2011 issue of the *Hong Kong Monthly Digest of Statistics*.

(3) To facilitate comparison of contribution of the Six Industries in the private sector as percentage of nominal GDP, GDP in terms of total gross value added is used. This is slightly different from the GDP figure commonly used, which is compiled at market price basis.

## Box 1.2 (Cont'd)

In terms of employment, education services expanded the most in 2009, followed by innovation and technology, environmental industries, medical services, and testing and certification services. Cultural and creative industries saw a small decline, but their share in total employment remained stable.

**Table 1: Value Added of the Six Industries** <sup>(a) (b)</sup>

<u>Value added at current prices</u>	<u>2008</u> <u>HK\$Mn</u>	<u>2009</u> <u>HK\$Mn</u>	<u>Annual growth rate</u>
1. Cultural and creative industries	63,080 (4.0%)	62,935 (4.1%)	-0.2%
2. Medical services	22,444 (1.4%)	24,077 (1.6%)	+7.3%
3. Education services	15,809 (1.0%)	16,386 (1.1%)	+3.6%
4. Innovation and technology	10,283 (0.6%)	10,733 (0.7%)	+4.4%
5. Testing and certification services	4,499 (0.3%)	5,090 (0.3%)	+13.1%
6. Environmental industries	4,178 (0.3%)	4,697 (0.3%)	+12.4%
<b>Six Industries<sup>(c)</sup></b>	<b>120,293</b> <b>(7.6%)</b>	<b>123,918</b> <b>(8.0%)</b>	<b>+3.0%</b>
<b>GDP<sup>(d)</sup></b>	<b>1,592,897</b>	<b>1,550,851</b>	<b>-2.6%</b>

Notes : Figures in brackets refer to percentages to GDP (see note (d)).

- (a) This set of estimates reflects the direct economic contribution of the Six Industries in private sector.
- (b) Strictly speaking, some of the Six Industries are service domains straddling different industries rather than individual industries. For example, innovation and technology can exist in any organisations and in any industries. But the term “industry” is still used to denote the aggregate of the economic activities concerned for the sake of simplicity and easy general understanding.
- (c) The above total for the Six Industries in the private sector is only a simple summation of the figures for individual industries. Users should note that there is some overlapping among the Six Industries.
- (d) To facilitate comparison of contribution of the Six Industries in the private sector as percentage of nominal GDP, GDP in terms of total gross value added is used. This is slightly different from the GDP figure commonly used, which is compiled at market price basis.

Main data sources: GDP by economic activity at detailed level, Annual Survey of Economic Activities, Survey of Innovation Activities, 2009 Survey of Testing and Certification Activities, Hong Kong's Domestic Health Accounts compiled by the Food and Health Bureau.



**Box 1.2 (Cont'd)****Table 2: Employment in the Six Industries<sup>(a)(b)</sup>**

<u>Employment</u>	<u>2008 Number</u>	<u>2009 Number</u>	<u>Annual growth rate</u>
1. Cultural and creative industries	191 260 (5.4%)	188 250 (5.4%)	-1.6%
2. Medical services	70 440 (2.0%)	71 990 (2.1%)	+2.2%
3. Education services	56 840 (1.6%)	62 240 (1.8%)	+9.5%
4. Innovation and technology <sup>(c)</sup>	26 090 (0.7%)	27 470 (0.8%)	+5.3%
5. Testing and certification services <sup>(d)</sup>	12 420 (0.4%)	12 610 (0.4%)	+1.5%
6. Environmental industries	31 270 (0.9%)	32 410 (0.9%)	+3.6%
<b>Six Industries<sup>(e)</sup></b>	<b>388 320 (11.0%)</b>	<b>394 970 (11.3%)</b>	<b>+1.7%</b>
<b>Total employment<sup>(f)</sup></b>	<b>3 521 400</b>	<b>3 486 900</b>	<b>-1.0%</b>

Notes : Figures in brackets refer to percentage shares to total employment (see note (f)).

(a) This set of estimates reflects the direct contribution of the Six Industries in private sector to employment.

(b) Strictly speaking, some of the Six Industries are service domains straddling different industries rather than individual industries. For example, innovation and technology can exist in any organisations and in any industries. But the term “industry” is still used to denote the aggregate of the economic activities concerned for the sake of simplicity and easy general understanding.

(c) Since innovation and technology involves significant non-routine activities, persons engaged in these activities are measured by the volume of labour input to innovation and technology in full-time equivalent terms (in terms of man-years).

(d) Figures refer to the quarterly averages of employment in the years concerned, which differ from the figures at a particular time point in the *Report on the 2009 Survey of Testing and Certification Activities* published in February 2010.

(e) The above total for the Six Industries in the private sector is only a simple summation of the figures for individual industries. Users should note that there is some overlapping among the Six Industries.

(f) Figures for total employment refer to Composite Employment Estimates.

Main data sources: Quarterly Survey of Employment and Vacancies, Survey of Innovation Activities, 2009 Survey of Testing and Certification Activities, Annual Survey of Economic Activities.

It should be noted that, as figures on the six industries are available for only two years at present, a longer time series on the performance of the industries would be needed to have a clearer picture on their long term growth trend. The Government will closely monitor the six industries. Indeed, various measures to promote the development of these industries are being implemented by the Government, as part of the efforts to move Hong Kong towards a more diversified knowledge-based economy.

## Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The four traditional pillar industries refer to financial services, tourism, trading and logistics, and producer and professional services. The six industries where Hong Kong enjoys clear advantages refer to medical services, education services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries.
- (4) The framework agreement on Hong Kong/Guangdong co-operation was signed on 7 April 2010. Specific policies and measures included: (1) to promote joint socio-economic development in Hong Kong and Guangdong to create a new world-class economic zone; (2) to enhance Hong Kong's position as an international financial centre and expedite the development of financial services in Guangdong to build an international financial centre with Hong Kong; (3) to capitalise on the competitiveness of Hong Kong's service industries and Guangdong's manufacturing industries to build an advanced global manufacturing and modern services base; (4) to facilitate the flow of key factors such as people, goods, information and capital across the boundary, with a view to building an international aviation, shipping and logistics hub and a world-class modern economic circulation sphere; (5) to implement a regional ecology and environment protection regime operating at a leading level by the national standards to create a high quality living area; and (6) to promote collaborative development among Hong Kong and the Pearl River Delta cities to form a world-class metropolis cluster.

## CHAPTER 2 : ECONOMIC OUTLOOK FOR 2011 AND THE MEDIUM TERM

### *Summary*

- *In 2011, the global economy is expected to expand further in a two-speed manner. The major advanced economies are still grinding through a jobless recovery, and yet, the emerging market economies are likely to show further robust growth. The export prospects for Hong Kong this year are generally positive, though the growth pace would not be as significant as in 2010.*
- *Locally, improving job markets and rising incomes should augur well for consumption spending. Likewise, investment is poised for a further notable growth in tandem with the upbeat business sentiment. Public sector construction works should continue apace, thereby adding a further boost to domestic demand.*
- *After the big gyrations in 2009 and 2010, and with the economy fully recovered by now, the outlook for 2011 is for the Hong Kong economy to return to a more normal growth path, with a solid growth of 4% to 5% this year. Domestic demand, together with inbound tourism and financial services, are likely to take up a more prominent role in driving overall economic growth, thereby compensating for the somewhat slower growth now expected for merchandise exports.*
- *However, there are still considerable uncertainties in the external environment that need to be watched over. These include the sovereign debt problem in the eurozone; the fragile fundamentals in many advanced economies; the ultra-loose global monetary environment; and the increasing risk of rising inflation and asset market bubbles in the region.*
- *Consequential to the robust economic upturn last year and with more visible imported inflation from soaring global food and commodity prices, inflation is likely to go higher in 2011. The underlying consumer price inflation is forecast at 4.5% in 2011. In this regard, the various relief measures announced in the 2011-12 Budget should help to alleviate the impact of inflation on the lower-income group.*
- *On top of these short-term relief measures, the Government will adopt a multi-pronged approach to contain inflation risks, through a counter-cyclical fiscal strategy to contain government expenditure; targeted measures to forestall asset market bubbles; macro-prudential regulation to*

*strengthen risk management in the banking system; and issuing inflation-linked bonds to provide people with an additional investment choice.*

- *The medium term prospects for the Hong Kong economy are bright. Hong Kong will continue its transformation towards a high value-added, knowledge-based economy, riding on the further integration with the Mainland economy. The economy will strive to capture the new opportunities arising from the implementation of the National 12<sup>th</sup> Five-Year Plan. The launch of large-scale infrastructure projects, whilst rendering additional impetus to the domestic sector in the coming years, are crucial for capacity expansion and hence sustainable development of the economy in the long run. The trend GDP growth rate in real terms is forecast at 4% per annum from 2012 to 2015, and the trend rate of underlying consumer price inflation at 3.5% per annum.*

## **Major external factors**

2.1 The global economic expansion is expected to continue in 2011, with divergent performance across different regions. The growth momentum of Asia, particularly the Mainland and other emerging economies in the region, should remain robust, supported by their strong domestic demand and sound fundamentals. The major advanced economies, having performed better than expected last year, are likely to recover further in 2011, although their growth pace should be rather moderate, being constrained by the weak fundamentals and the need to pursue fiscal consolidation. On the whole, the Hong Kong economy should continue to benefit from this development in 2011.

2.2 However, the external environment will, as in the previous year, be subject to considerable uncertainties, mainly relating to the vulnerabilities in the major advanced economies. The European sovereign debt problem is still lingering on. Moreover, many advanced economies are facing with challenges from their fragile fiscal positions, high unemployment, household deleveraging, still-tight credit conditions, and depressed housing markets. In short, the conditions for self-sustaining recovery in the advanced economies have yet to be fully in place. Given these threats, the ultra-loose monetary policies in the advanced economies will be extended well into 2011, heightening the risks of volatility in financial and currency markets, and protectionist sentiments in these countries may also rise.

2.3 With abundant global liquidity, the upward pressures on world commodity prices will continue, and emerging market economies will probably experience further capital inflows. As far as Asian economies are concerned, the risks of rising inflation and asset market bubbles will remain significant. Inflation in Asia, including Hong Kong, will go up further in 2011. Moreover, in response to these challenges, many Asian economies are likely to pursue further tightening measures. This could swing financial market sentiments at times and taper somewhat their robust economic growth. Hong Kong will also need to stay alert to these challenges in 2011.

### *Global economic outlook*

2.4 The US economic recovery has been proceeding at a faster-than-expected pace. The weak dollar has helped to foster export growth, while business sentiments experienced some revival of late, with rising spending on equipment and software. Consumption spending also held firm, despite the persistently high unemployment, depressed housing market and the need to reduce household debts. The stimulus measures introduced in December 2010, including tax concessions and extension of unemployment benefits, should provide some support to the economy in 2011, although this may not help to contain the rise of the already high public debt level. As economic growth is still not fast enough to bring down the high unemployment rate, the Federal Reserve is expected to continue with its second round of quantitative easing (i.e. QE2) as announced in November last year (**Box 2.1**).

2.5 In Europe, Germany has been recovering at a robust pace and becoming the major engine of growth in the region, but many peripheral economies remain sluggish. This divergence of growth pattern within Europe due to differences in economic fundamentals among European countries is expected to continue in 2011. The eurozone sovereign debt problem has yet to be fully resolved and will continue to pose a major downside risk to the recovery in Europe and also to the global economy (**Box 2.2**). The large-scale fiscal consolidation under way in the European economies will also put a notable drag on economic growth this year, which will be moderate at best for the region as a whole, and the prevailing high unemployment may also persist.

2.6 Japan saw a notable economic rebound in 2010, benefited from the fiscal stimulus measures and the vibrant trade with the Mainland and other Asian economies. However, private domestic demand has only showed some modest improvement, and the economy is still mired in deflation, posing challenges to the economic prospects in 2011. Despite the introduction of new stimulus measures towards the end of last year, the huge amount of debt (the highest among the major economies in the world) means that the room for further stimulus will be small. Indeed, a credit rating agency downgraded Japan's rating in January 2011. Although the Japanese economy should see some further growth this year alongside the general trend of global recovery, the relatively weak sentiments among consumers and businesses would remain a concern.

2.7 In sum, the major advanced economies are expected to continue their moderate recovery in 2011 with slow employment creation, and it would take time for their fundamentals to show a clear improvement. In January 2011, the International Monetary Fund (IMF) forecast the real GDP growth in the advanced economies in 2011 at 2.5%, compared to a rebound of 3.0% in 2010. In fact, given the sheer scale of the global financial crisis of 2008-2009, the subsequent recovery of the economies at the epicentre of the crisis could be a rather long drawn-out process.

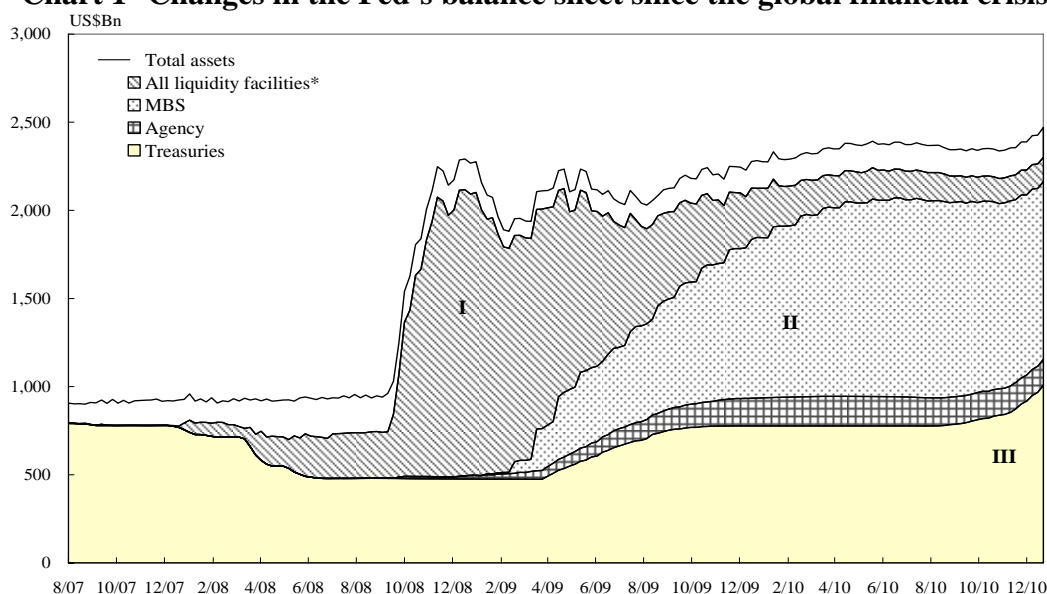
## Box 2.1

### The Federal Reserve's another round of quantitative easing (QE2)

The US Federal Reserve (the Fed) announced on 3 November 2010<sup>(1)</sup> that it would purchase a further US\$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, at a pace of about US\$75 billion per month. The fresh round of quantitative easing (commonly termed as “QE2”) aroused much discussion, and this article explores some key issues regarding QE2 and its implications for the Hong Kong economy.

The abrupt escalation of the financial crisis in the latter part of 2008 prompted the Fed to step up its pursuit of unconventional monetary policy. From *Chart 1*, roughly three stages of development in the Fed's balance sheet can be discerned. The first stage of asset purchases aimed at providing liquidity facilities to combat the liquidity and credit crunch faced by financial institutions after the subprime problems and fall of Lehman Brothers. The Fed's balance sheet ballooned to around US\$2 trillion by end-2008, from below US\$1 trillion prior to the crisis. This QE1 helped to forestall a meltdown of the financial systems. Then from early 2009, the Fed adjusted its balance sheet to target the troubled securitised markets through purchasing mortgage-backed securities (MBS). As market conditions improved and economic recovery gained some traction in the latter part of 2009 and early 2010, there had been talks of an exit strategy. The Fed allowed various liquidity facilities to run their course<sup>(2)</sup>, and in February 2010 outlined several tools for exiting policy accommodation (See *Box 2.1* of the *2009 Economic Background and 2010 Prospects* for a more detailed discussion). As seen from *Chart 1*, the liquidity facilities portion of the Fed's balance sheet assets had shrunk markedly since the second half of 2009, but was largely offset by the expansion of the MBS portion.

**Chart 1 Changes in the Fed's balance sheet since the global financial crisis**



Note: (\*) All Liquidity Facilities include: Term Auction credit; other loans; Commercial Paper Funding Facility; outstanding principal amount of loans to American International Group, Maiden Lane LLC, Maiden Lane II LLC, Maiden Lane III LLC, and TALF LLC; and central bank liquidity swaps.

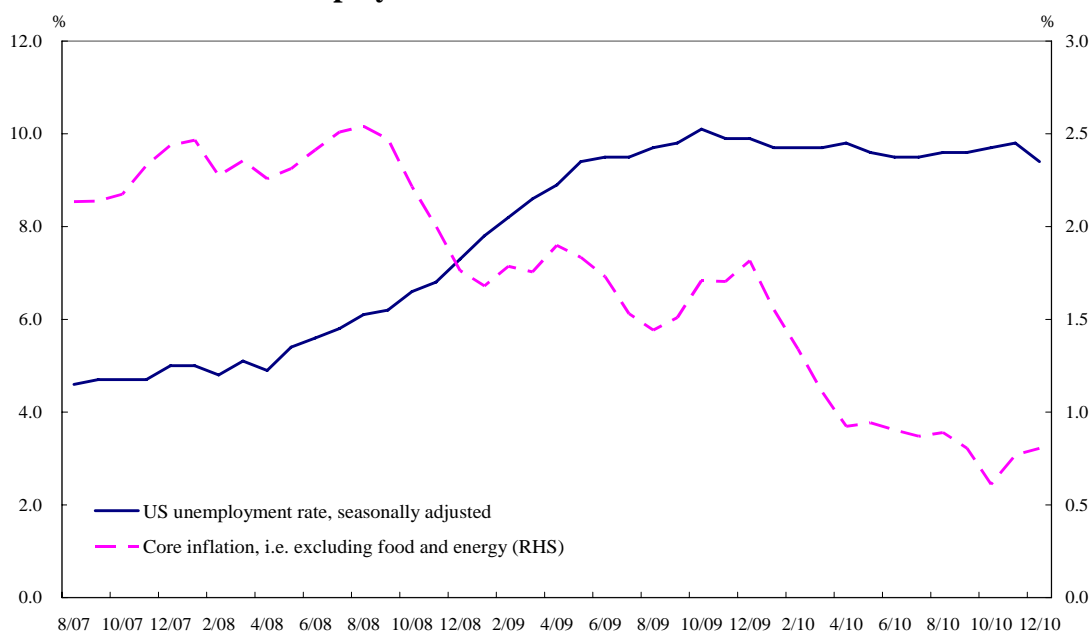
(1) FOMC statement: <http://www.federalreserve.gov/newsevents/press/monetary/20101103a.htm>.

(2) For example, the Money Market Investor Funding Facility (MMIFF) expired on 30 October 2009. The Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility (AMLF), Commercial Paper Funding Facility (CPFF), Primary Dealer Credit Facility (PDCF), and Term Securities Lending Facility (TSLF) were closed on 1 February 2010. The Term Asset-Backed Securities Loan Facility (TALF) was extended until 30 June 2010 for loans collateralized by newly issued CMBS and through 31 March 2010 for loans collateralized by all other TALF-eligible securities.

## Box 2.1 (Cont'd)

But in spring 2010 the sovereign debt problems in Europe intensified, while economic activity in the US showed signs of losing steam around the mid-year. All these prompted the Fed to reinvest maturing agency debt and mortgage-backed securities into longer-term Treasury securities since August 2010, serving to maintain the size of the Fed's balance sheet without adding to its holdings of securitised securities. Finally in November 2010, the Fed rolled out QE2 to support the economy, in view of the elevated unemployment rate and the downtrend of core inflation (*Chart 2*). This move was consistent with the Fed's dual mandate of supporting maximum employment and maintaining price stability.

**Chart 2 : US unemployment still elevated and inflation remained low**



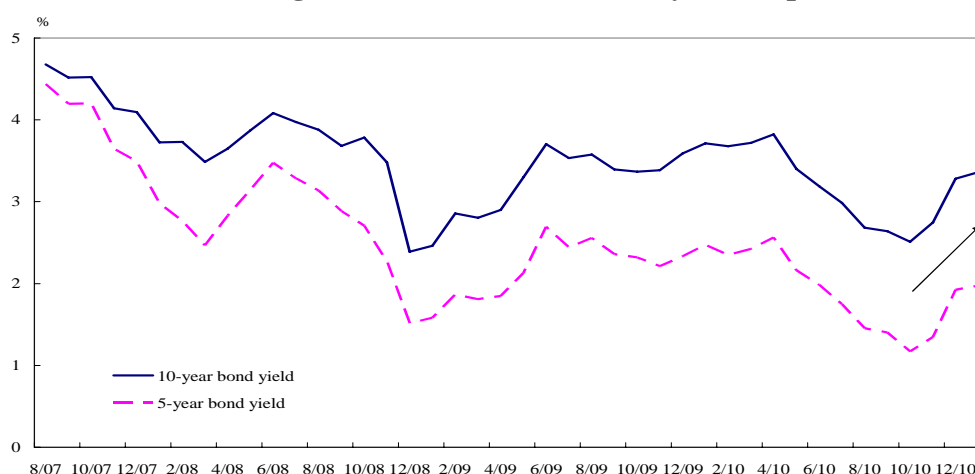
Debates and discussions ensued surrounding the effectiveness of QE2 to bolster the real economy. According to the Fed, QE2 would work by lowering the longer-term interest rates, in addition to the already close-to-zero-bound Fed funds rate<sup>(3)</sup>, thereby spurring household and business spending and boosting the pace of recovery. However, some critics noted that in the current environment of deleveraging, the additional liquidity may just be clogged up as banks' excess reserves, or channeled to other overseas economies, rather than trickle down to the US economy. In other words, QE2 does not necessarily induce banks to lend or employers to hire, and hence may fail to spur the economy. Indeed, QE2 had been so anticipated and factored into long-term interest rates that the US long-term interest rates actually went up after the official announcement of QE2 (*Chart 3*). Some critics suggest that the higher rates reflect rising concerns over the US public finance, as the US government has to lay out a more concrete plan to reduce public debt over the medium to longer term. Yet the higher long-term rates may also be an indication that QE2 is working by raising growth and inflation expectations. In fact, recent US economic data have largely been better than expected.

(3) Bernanke's speech on 19 November 2010:  
<http://www.federalreserve.gov/newsevents/speech/bernanke20101119a.htm>.



## Box 2.1 (Cont'd)

### Chart 3 : US long-term interest rates actually went up after QE2



Whether the QE2 will lead to a sustained solid recovery of the US economy is still subject to uncertainty, but it has aroused some backlash from other economies, especially the emerging market economies. Some critics suspect that QE2's real purpose is to weaken the US dollar and hence boost US exports at the expense of others. This may increase the risks of competitive devaluation and even trade and currency wars. The rise of protectionist sentiment and heightened exchange rate volatility, if happened, are certainly unfavourable to trade and would pose a challenge to the exports of Asia, Hong Kong included.

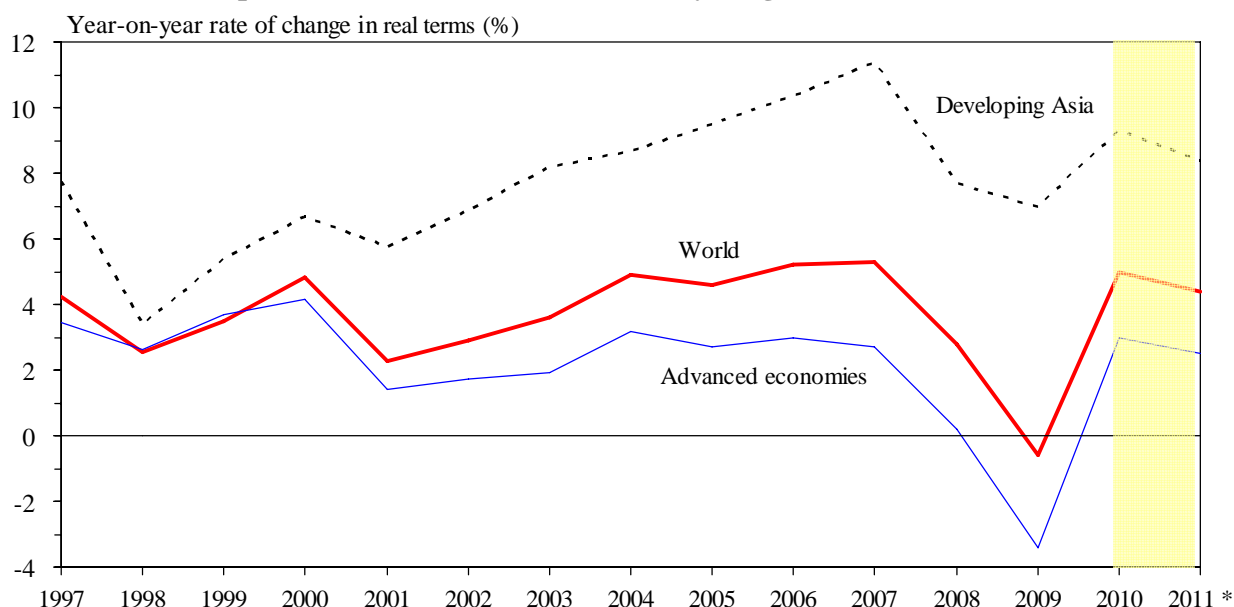
The Fed had also suggested that QE2 might work through the wealth channel<sup>(4)</sup>. That is, QE2 would push the return on safe assets to such a low level that investors would increase their demand for the riskier assets. The rise in the asset prices could, in principle, render a positive wealth effect on final consumption. Yet it is uncertain to what extent the US economy would benefit from this channel with the housing market still depressed. Again, this line of reasoning has brought severe criticism from emerging market economies, as the resultant ample liquidity in the global banking systems would fuel asset market bubble risks and inflationary pressures in economies in Asia and the rest of the world.

In sum, whether the QE2 will attain the Fed's intended goals remains to be seen but it is already posing some notable side-effects on the rest of the world, especially the emerging market economies. The latest FOMC statement released on 26 January 2011 suggests that the Fed is likely to proceed with the purchase programme under QE2 as planned. Given President Obama's latest US\$858 billion tax concession and unemployment benefit package, which is expected to render some further support to the US economy this year, as well as the recent better-than-expected performance of the US economy, the need for a further round of quantitative easing, QE3, appears to be diminishing. Nevertheless, the loose monetary environment on a global scale is still expected to persist for an extended period of time. From Hong Kong's point of view, the advent of QE2 had heightened the risk of asset market bubbles and inflation. To forestall the formation of a housing bubble in Hong Kong, the Government had introduced several rounds of measures over the past year or so to ensure the healthy and stable development of the housing market. The Government will continue to monitor the property market situation as well as the inflation trend closely, in order to safeguard macroeconomic stability and, when necessary, to alleviate the impact of inflation on the lower-income families.

(4) Bernanke's testimony on 7 January 2011: <http://www.federalreserve.gov/newsevents/testimony/bernanke20110107a.htm>.

2.8 In stark contrast, economies in Asia, particularly the Mainland, India and other emerging economies, successfully withstood the global financial crisis and maintained robust growth in 2010. The revival in the region's exports had been particularly strong, despite some signs of moderation towards the end of the year. This reflected in part the impetus from the global economic recovery and in part the strengthening domestic demand in Asia. Going into 2011, the Asian economies are widely expected to continue to outperform the major advanced economies, thanks to their better fundamentals and the rebalancing towards domestic-demand-driven growth. However, the extended period of low interest rate environment and the abundant liquidity conditions have increased inflationary pressures and asset market bubble risks in the region, likely prompting further tightening measures down the road. As such, the regional growth momentum, though still notable, is likely to show some deceleration in 2011. According to the IMF, developing economies in Asia are forecast to expand strongly further by 8.4% in 2011, albeit less rapid than the 9.3% growth in 2010. China and India will remain the two major growth engines with economic growth in 2011 being forecast at 9.6% and 8.4% respectively.

**Diagram 2.1 : The Asian region will continue to outperform the advanced economies by a significant extent in 2011**



Source: IMF World Economic Outlook Update January 2011.

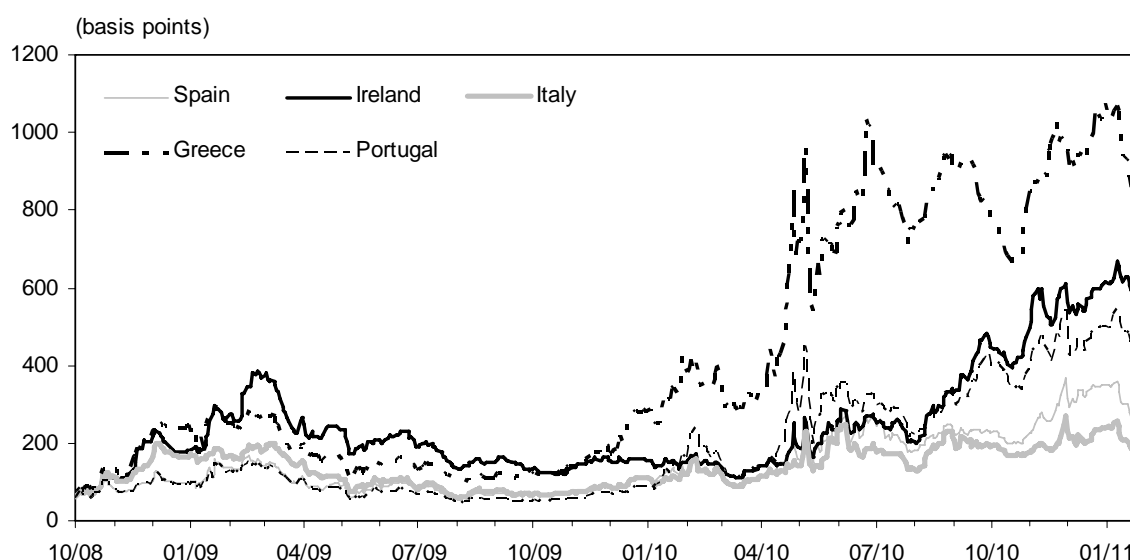
(\*) Forecast from the IMF.

## Box 2.2

### An update on the European sovereign debt situation

The European sovereign debt problem subsided for a brief period following the €110 billion package of emergency loans jointly provided by the European Union (EU) and International Monetary Fund (IMF) to Greece and the set-up of a €750 billion European Financial Stability Facility (EFSF) backed by the IMF, the EU and the European Central Bank (ECB) in May 2010 (See *Box 1.1* of the *Half-yearly Economic Report 2010* for earlier developments). However, the problem came into the limelight again in late September 2010, when Ireland's government finance was saddled by its banking sector, and market concerns soon spread to other highly-indebted eurozone economies. In late November, Ireland officially requested international financial aid and subsequently secured a €85 billion rescue package. Yet bond yields widened across Ireland, Italy, Portugal and Spain (collectively known as "PIIGS" together with Greece) (*Chart 1*). This was followed by a fresh spate of credit rating actions in December, when the sovereign ratings of Ireland, Portugal and Hungary were downgraded and Belgium placed on negative watch (*Table 1*).

**Chart 1: CDS spreads on PIIGS soared again in late 2010, exceeding the highs in April-June 2010**



In response, the ECB decided to extend its remaining nonstandard liquidity measures until at least mid-April 2011, and continued its bond buying to relieve the pressure on indebted countries' funding costs. Between May 2010 and December 2010, the ECB had bought €73.5 billion of European debt. In mid-December, the ECB said it would nearly double its capital base to €10.76 billion, indicating that the ECB was prepared to cushion against potential losses from its bond purchase. In addition, EU leaders agreed to create a permanent European Stability Mechanism (ESM) after the expiry of the current emergency rescue fund in 2013.

**Box 2.2 (Cont'd)****Table 1 : Summary of more recent credit rating actions**

	<u>Date</u>	<u>Actions by rating agency</u>
Portugal	21 Dec 2010	Moody's changed outlook to negative; rating kept at A1
	30 Nov 2010	Downgraded by S&P to A- from A+, outlook negative
	23 Dec 2010	Downgraded by Fitch to A+ from AA-, outlook negative
Ireland	17 Dec 2010	Downgraded by Moody's to Baa1 from Aa2, outlook negative
	23 Nov 2010	Downgraded by S&P to A from AA-, outlook negative
	2 Feb 2011	Downgraded by S&P to A- from A, outlook negative
	9 Dec 2010	Downgraded by Fitch to BBB+ from A+
Greece	16 Dec 2010	Moody's changed outlook to negative; rating kept at Ba1
	2 Dec 2010	S&P changed outlook to negative; rating kept at BB+
	14 Jan 2011	Downgraded by Fitch to BB+ from BBB-, outlook negative
Spain	15 Dec 2010	Moody's changed outlook to negative; rating kept at Aa1
	1 Feb 2011	S&P reaffirmed AA rating and maintained outlook negative
Hungary	6 Dec 2010	Downgraded by Moody's to Baa3 from Baa1, outlook negative
	23 Dec 2010	Downgraded by Fitch to BBB from BBB+, outlook negative
Belgium	14 Dec 2010	S&P changed outlook to negative; rating kept at AA+

While the rescue measures provide liquidity in times of need, the markets are concerned if they can fundamentally address the issue of solvency. Ultimately, whether a country can remain solvent hinges on its ability to repay or roll over its debt, and this would in turn depend on its growth prospects, debt profile, and cost of funding. Many economies across Europe have put in austerity measures to slash their deficits and reduce debt. Yet their growth outlooks remain uncertain. Although the eurozone saw strong growth in the second quarter of 2010, at a seasonally adjusted quarter-to-quarter rate of 1.0%, growth moderated to 0.3% each in the third and fourth quarters, and much of it was driven by the core members, i.e. Germany and France, while some highly indebted peripherals, including PIIGS, saw meagre growth and even continued contraction. Thus it calls into question whether the peripheral economies can generate sufficient income to cover their debt over the longer term (*Table 2*). Their governments are trying to implement structural reforms to improve competitiveness, but this would take time to bear fruits and is also likely to meet with resistance from the affected social groups and stakeholders. Meanwhile, the costs of borrowing for these countries to service their debts remain high as evidenced by the elevated CDS spreads.

**Box 2.2 (Cont'd)****Table 2 : Growth and fiscal liability indicators for the PIIGS economies**

	Growth projection for <u>2011</u> <sup>#</sup>	Government debt maturing by <u>2011</u> <sup>@</sup> (€bn)	Fiscal balance as % of GDP in <u>2009</u> <sup>*</sup>	Government gross debt as % of GDP	
				<u>2009</u> <sup>*</sup>	<u>2015(F)</u> <sup>^</sup>
			(%)	(%)	(%)
Eurozone 16	1.5	n.a.	-6.3	79.2	n.a.
Portugal	0.0	33.1	-9.3	76.1	97.8
Italy	1.0	359.6	-5.3	116.0	118.8
Ireland	2.3	15.0	-14.4	65.5	113.9
Greece	-2.6	51.6	-15.4	126.8	133.9
Spain	0.6	159.5	-11.1	53.2	82.0
Hungary	2.0	29.6	-4.4	78.4	82.5
Belgium	1.7	83.1	-6.0	96.2	108.2

Notes: (#) Data for eurozone, Italy and Spain sourced from IMF's *World Economic Outlook Update*, January 2011; others from *World Economic Outlook*, October 2010.  
 (@) Sourced from Bloomberg.  
 (\*) Sourced from Eurostat.  
 (^) Sourced from IMF's *Fiscal Monitor*, November 2010.  
 n.a. Not available.

The markets are also closely watching if the eurozone member economies will agree on the details of ESM, establishing viable mechanisms to impose fiscal discipline on member economies and also to deal with fiscal and financial crises within the eurozone in future. Reportedly, there is notable division among the eurozone members. Specifically, the financially stronger core members like Germany are seemingly unwilling to share too much of the financing burden and favour more stringent requirements for the ESM.

The European sovereign debt problem would remain a source of risk to the external environment until it is fully resolved. Apart from its potential destabilising effect on the financial markets, there is also considerable concern about the drag on the economic growth of the eurozone posed by the large-scale budget cuts in the European economies. After all, the advanced economies, including Europe, remain the principal driving forces behind the final demand in global trade. This could have notable implications for exports of Asia, including those of Hong Kong, in the event of a prolonged weakness of the eurozone economy. This is an area that requires close attention.

2.9 Specifically on the Mainland economy, GDP growth should remain robust in 2011. While external trade is likely to expand less rapidly, the strong domestic demand, including both consumption and investment demand, will continue to provide a major impetus to overall growth. Although there has been some deceleration in activity growth towards a more sustainable pace in the second half of last year, this mainly reflects the effect of the macroeconomic adjustment measures that have been introduced to ensure macroeconomic stability. Indeed, the Hong Kong economy should benefit from the sustained relatively fast growth of the Mainland economy, although the news about the tightening measures could shift financial market sentiments at times. Meanwhile, the implementation of the National 12<sup>th</sup> Five-Year Plan, with 2011 being the first year in the five-year period, will encourage a faster economic integration between Hong Kong and the Mainland, providing additional opportunities for Hong Kong businesses to develop and prosper.

2.10 Taking the advanced and emerging market economies together, the global economy should grow solidly in 2011, supporting further expansion of world trade and hence Hong Kong's external sector. According to the IMF, world GDP would increase by 4.4% in 2011, after a 5.0% growth in 2010.

**Table 2.1 : Growth forecasts for major economies in 2011**

	<b>2010*</b> (%)	<b>2011</b>	
		<b>IMF*</b> (%)	<b>Private sector forecast<sup>^</sup></b> (%)
World	5.0	4.4	-
Advanced economies	3.0	2.5	-
US	2.9 <sup>#</sup>	3.0	3.2
Euro area	1.8	1.5	1.5
Japan	3.9 <sup>#</sup>	1.6	1.2
Newly Industrialised Asian Economies <sup>@</sup>	8.2	4.7	-
Emerging market and developing economies	7.1	6.5	-
Developing Asia	9.3	8.4	-
Mainland China	10.3 <sup>#</sup>	9.6	9.2
India	9.7	8.4	8.3
Middle East and North Africa	3.9	4.6	-

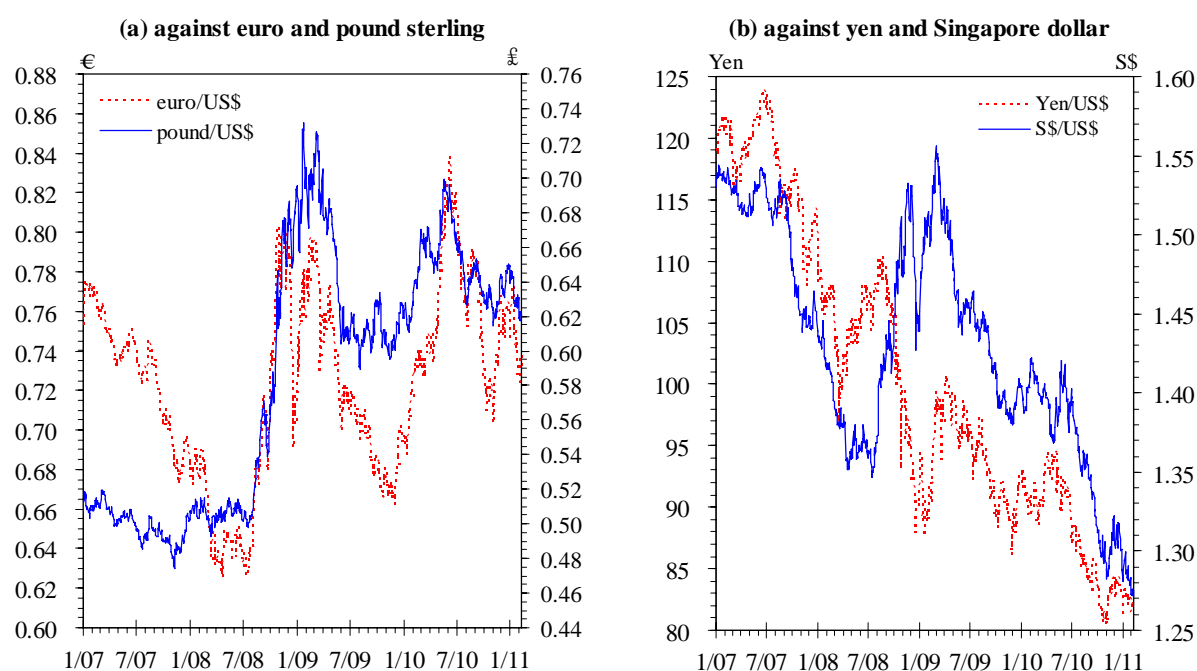
Notes : (\*) World Economic Outlook Update, IMF, January 2011.  
 (^) Average forecast as in January 2011.  
 (-) Not available.  
 (#) Actual figures.  
 (@) Includes Hong Kong, Korea, Singapore, and Taiwan.

## *Exchange rates and price competitiveness*

2.11 Despite the fluctuations over the course of 2010, the Hong Kong dollar weakened only slightly, along with the US dollar under the linked exchange rate system, against other major currencies for the year as a whole. The nominal trade-weighted effective exchange rate index of the Hong Kong dollar fell by 2.2% in December 2010 from a year earlier. The outlook for exchange rate movements in 2011, as usual, is subject to much uncertainty.

2.12 While some analysts have been envisaging a huge depreciation in the US dollar given the massive scale of quantitative easing in the US, there are also a host of factors working against such a possible development, including the evolving sovereign debt issue in the eurozone, the progress in redressing global trade imbalances, the downgrade of Japan's credit rating, and more recently the political unrests in North Africa and the Middle East. Adding to the uncertainty is the possible divergent pace of implementing exit strategies among the major advanced economies. As far as Hong Kong is concerned, a significant weakening of the US dollar, and hence the Hong Kong dollar, will intensify imported inflation, but may help to increase Hong Kong's export competitiveness.

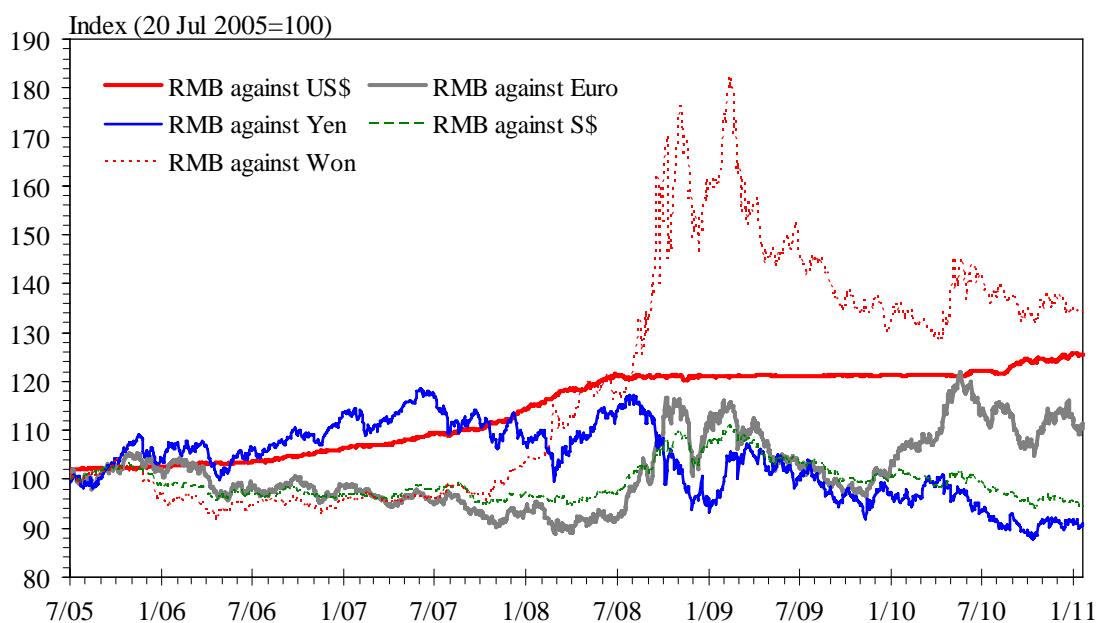
**Diagram 2.2 : The foreign exchange rate market is likely to remain highly volatile in 2011**



2.13 Given Hong Kong's close economic relationships with the Mainland, the value of the renminbi is also a key factor affecting the performance of Hong Kong's external sector, including both trade in goods and services. A stronger renminbi could weaken the price competitiveness of Hong Kong's exports of goods in the overseas markets, but could increase the Mainland's demand for

Hong Kong's exports of services. The renminbi had resumed a gradual trend of appreciation against the US dollar since mid-June 2010, by a cumulative 3.5% as at end-January 2011. Going forward, the Mainland authorities are widely expected to proceed with the exchange rate regime reform in a controlled and gradual manner, avoiding significant fluctuations in the exchange value of the renminbi. A relatively stable renminbi can help to reduce the exchange rate uncertainty facing Hong Kong's companies given the integrated supply chains involving the Mainland.

**Diagram 2.3 : A relatively stable renminbi will help to reduce the uncertainty facing Hong Kong's traders**



Note : An increase in the index represents an appreciation of renminbi against the currency concerned.

### ***World inflation and global commodity prices***

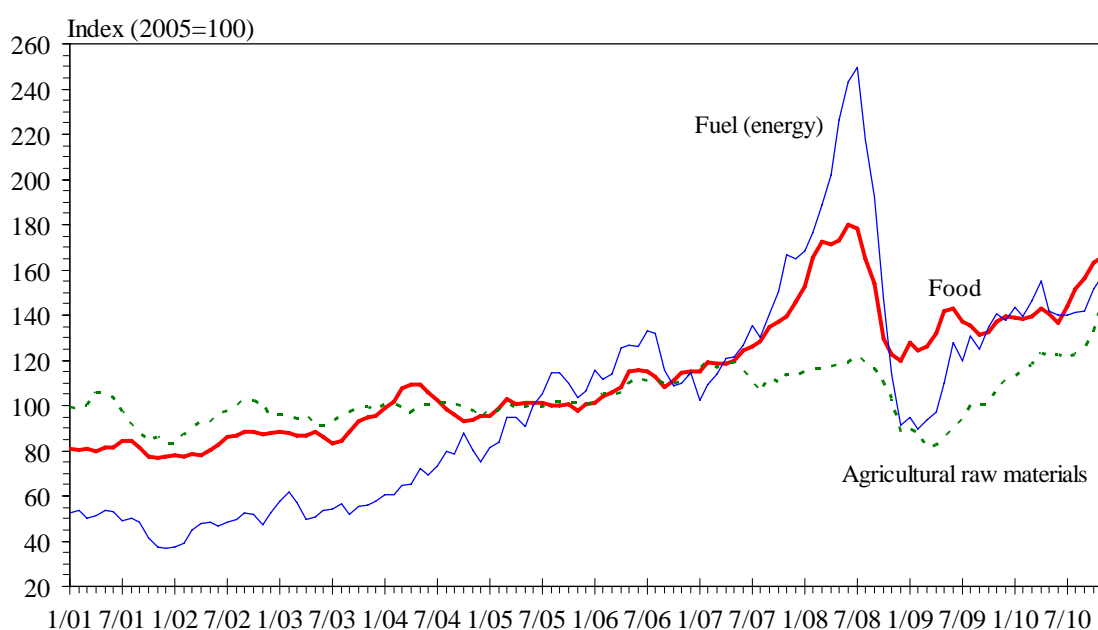
2.14 Mirroring the divergent pace of economic growth across regions, the inflation trends also tend to differ in different regions of the world. Inflationary pressures have been rather modest in the major advanced economies, particularly so in the US and even deflation in Japan. In contrast, the emerging market economies have generally been experiencing a more notable rise in inflation. Given their robust economic performance, they are more susceptible to the influences of abundant global liquidity, continued capital inflows, and rising commodity prices. In fact, fighting inflation has become a top policy priority in some of the Asian economies.

2.15 Of particular note have been the continued increases in global commodity prices, against the backdrop of ample liquidity and strong demand from emerging market economies. Many global commodity prices, including those of food, energy, agricultural raw materials, industrial materials and metals,



saw marked increases in 2010, especially during the second half of the year. In some cases, their prices in the international markets were close to or have even surpassed the previous peaks in 2008. The rise in global food prices has a more direct impact on consumer price inflation in Asian economies, given the relatively large weighting of food in the household consumption baskets. According to the IMF, global food prices surged by 26.8% in December 2010 over a year earlier. The sustained global recovery will continue to exert pressures on commodity prices in 2011, which in turn will pose upside risks to inflation in Asia. Recently, the political unrests around the Middle East could also add further upward pressures on energy prices. In consequence, Hong Kong is likely to face higher imported inflation in 2011.

**Diagram 2.4 : Surge in commodity prices poses upside risks to inflation in 2011**



Note : Indices as depicted refer to IMF's commodity price indices.

### ***Major sources of uncertainty***

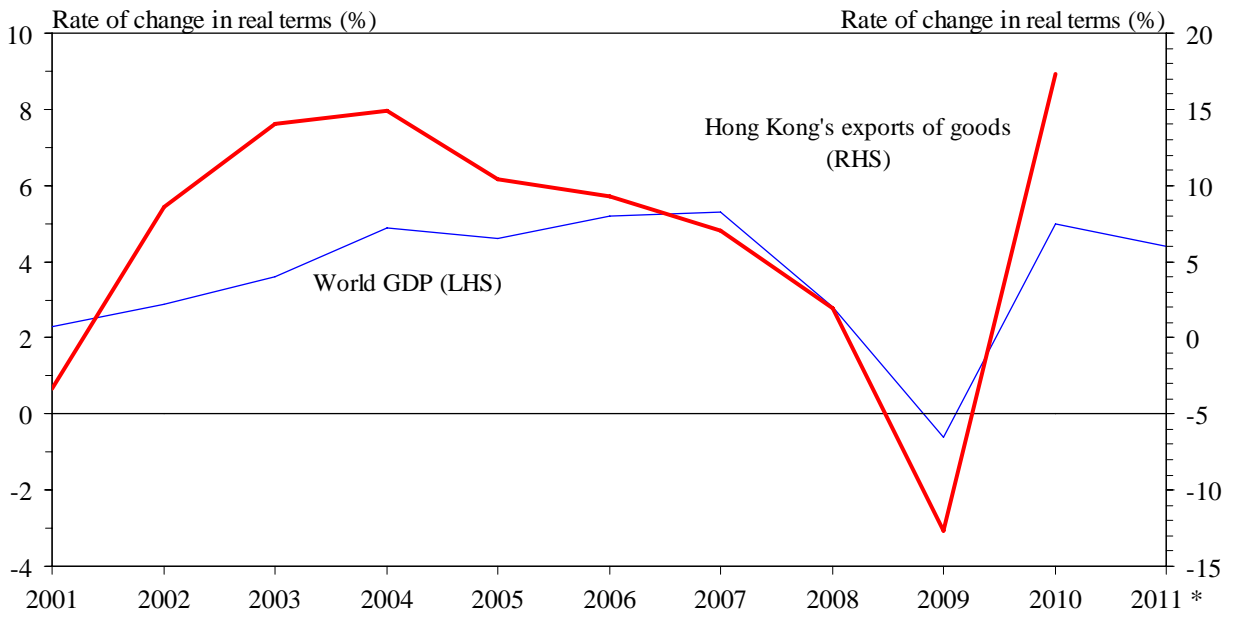
2.16 While the global economy should head for further growth in 2011, due recognition should be given to the prevailing high level of uncertainty in the external environment, given the various vulnerabilities in the major advanced economies. *Firstly*, the fiscal positions are fragile in the advanced economies. It will take time for their fiscal consolidation to bear fruits, thereby clearing the markets' doubts about their longer-term fiscal sustainability. In this regard, the sovereign debt issue in Europe will remain a key downside risk to the global economy in 2011. Indeed, the markets are also increasingly concerned about the longer-term fiscal health of the US and Japan. Financial market volatility may thus remain significant in the period ahead. *Secondly*, given the expected

moderate recoveries in the major advanced economies, their ultra-loose monetary policies are likely to continue well into 2011. This would increase not only the risk of currency war among countries, but also the inflation and asset bubble risks in the rest of the world, including Asia and Hong Kong, given the abundant global liquidity and low interest rate environment. *Thirdly*, a potential surge in commodity prices can add to inflationary pressure, thereby posing challenge to policy makers around the world in maintaining macroeconomic stability. The abrupt surge in energy prices due to geopolitical tensions, if happened, could also put a drag on global economic growth. *Fourthly*, given their weak fundamentals, the conditions for a full-fledged sustainable recovery in the advanced economies have yet to be put in place, although recent data suggest that the probability of these economies relapsing into recession in 2011 is diminishing. *Fifthly*, as job creation in the US and Europe is expected to remain slow, sustaining unemployment at unacceptably high levels, this can breed protectionist sentiments, casting shadows over the global trading environment.

### **Outlook for the Hong Kong economy in 2011**

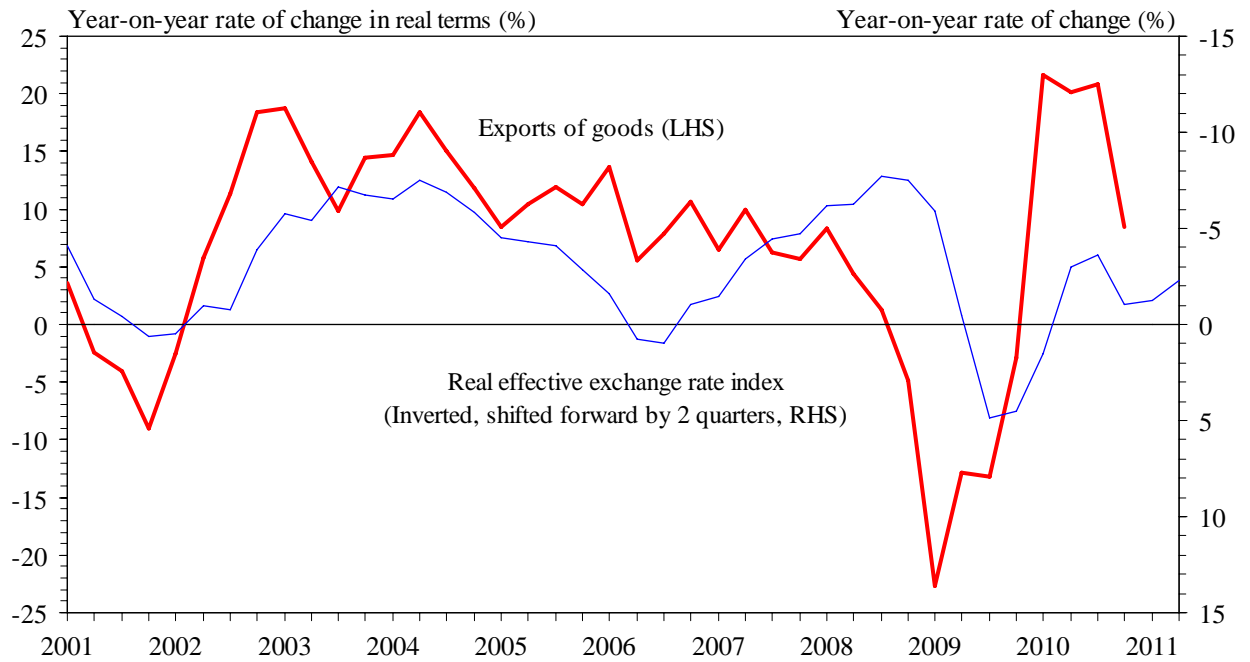
2.17 The continuous expansion of the global economy, though still subject to various uncertainties, should remain generally positive to Hong Kong's export sector in 2011. As far as Hong Kong's *exports of goods* are concerned, the Asian markets should continue to outpace the advanced economies, reflecting the two-speed nature of the global economic expansion. However, the growth of merchandise exports should be notably less rapid in 2011 than in 2010, given the much higher base of comparison and the slower growth in some markets overseas.

**Diagram 2.5 : Hong Kong's exports of goods should expand further in 2011**

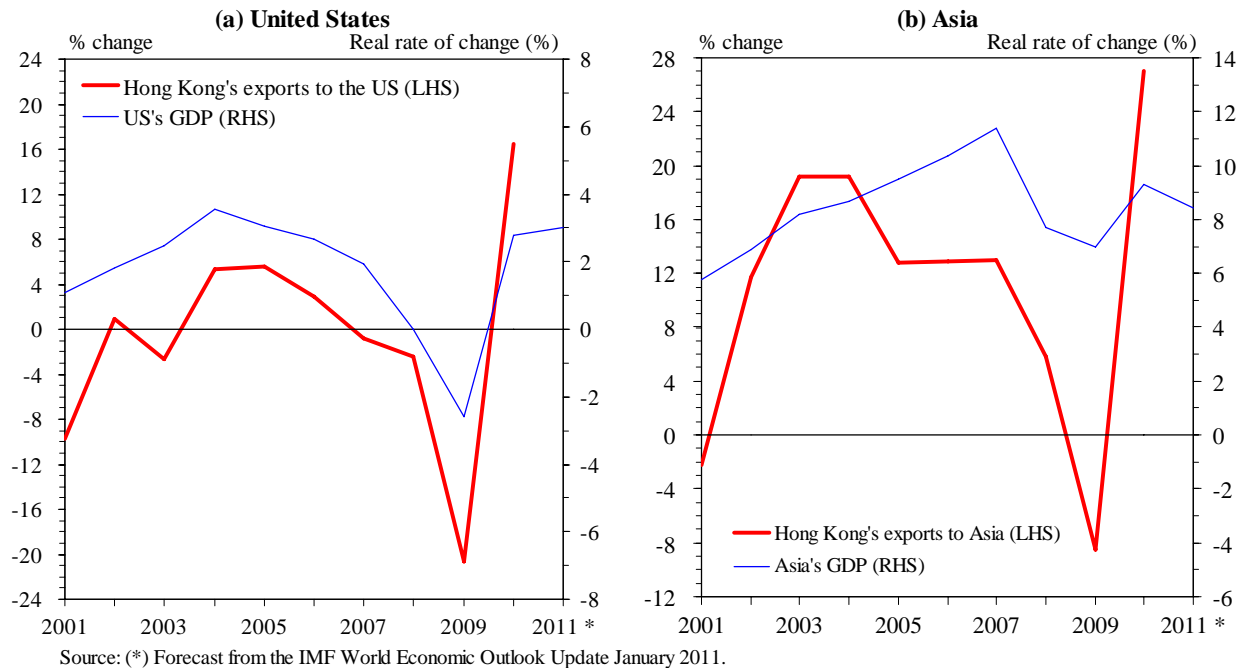


Source: (\*) Forecast from the IMF World Economic Outlook Update January 2011.

**Diagram 2.6 : Hong Kong's exports can be influenced by exchange rate movements**



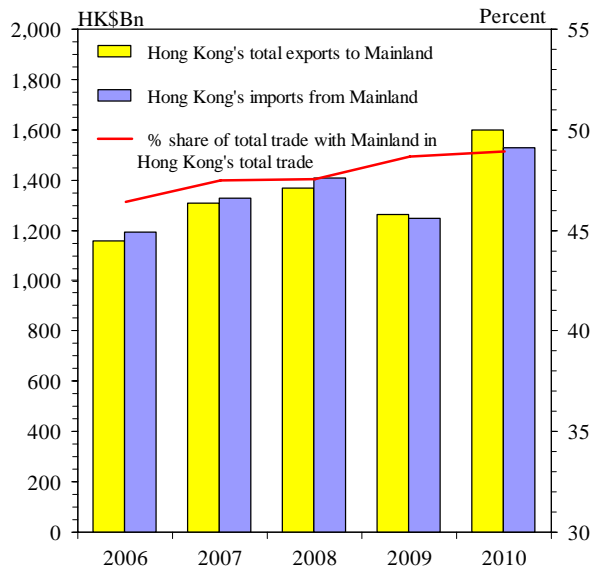
**Diagram 2.7 : Exports to Asian markets should fare better, reflecting the two-speed expansion of the global economy**



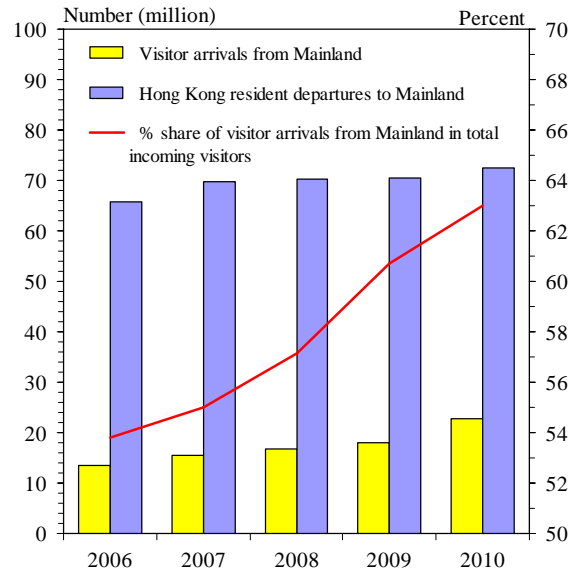
2.18 The performance of *exports of services* has been more resilient than exports of goods over the past decade, underscoring the strong competitiveness of Hong Kong in the provision of tradable services and the considerable benefits from the continued integration with the Mainland economy. Exports of services should continue to fare well in 2011. Exports of financial services, in particular, will ride further on the vibrant IPO activities and the development of Hong Kong into the offshore centre for renminbi business. Inbound tourism, having surged throughout 2010, is expected to stay vibrant in 2011. Offshore trade and other business services should also benefit from further growth in trade flows and expansion of commercial activities.

**Diagram 2.8 : The Mainland factor will continue to be the major force driving the Hong Kong economy**

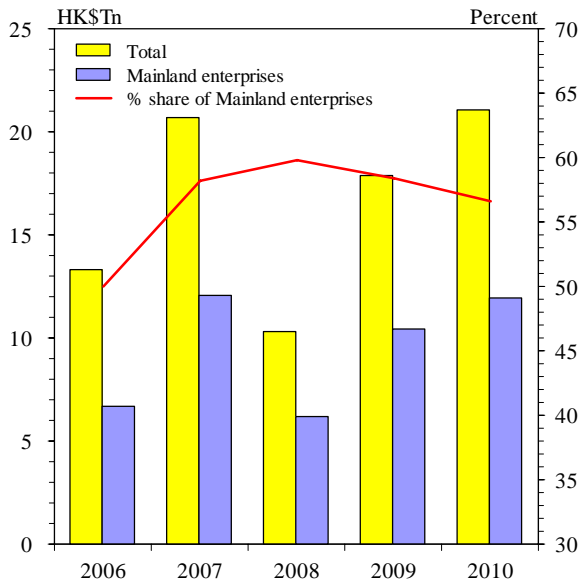
**(a) Merchandise trade**



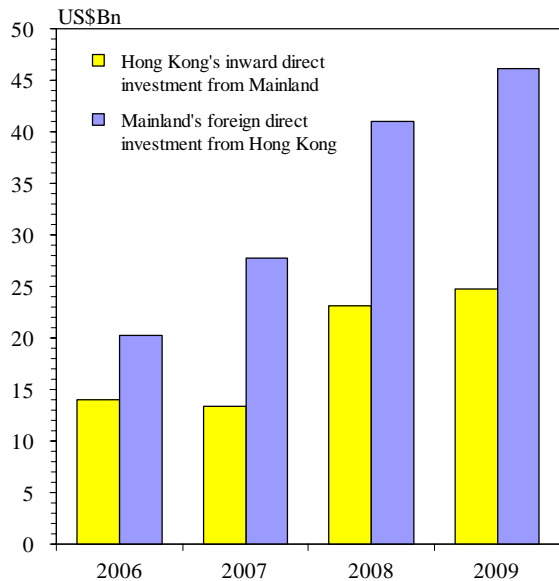
**(b) Visitor arrivals from Mainland and Hong Kong resident departures to Mainland**



**(c) Market capitalisation of Mainland enterprises in the Hong Kong stock market (end-year figures)**



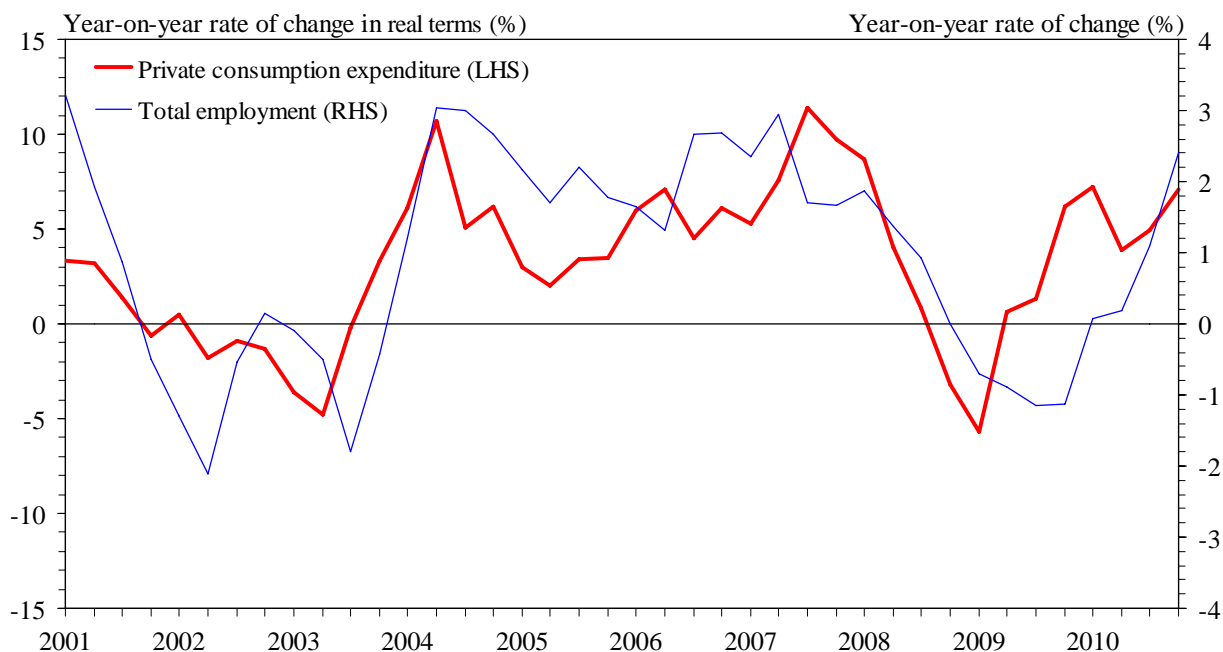
**(d) Mainland's foreign direct investment from Hong Kong and Hong Kong's inward direct investment from Mainland**



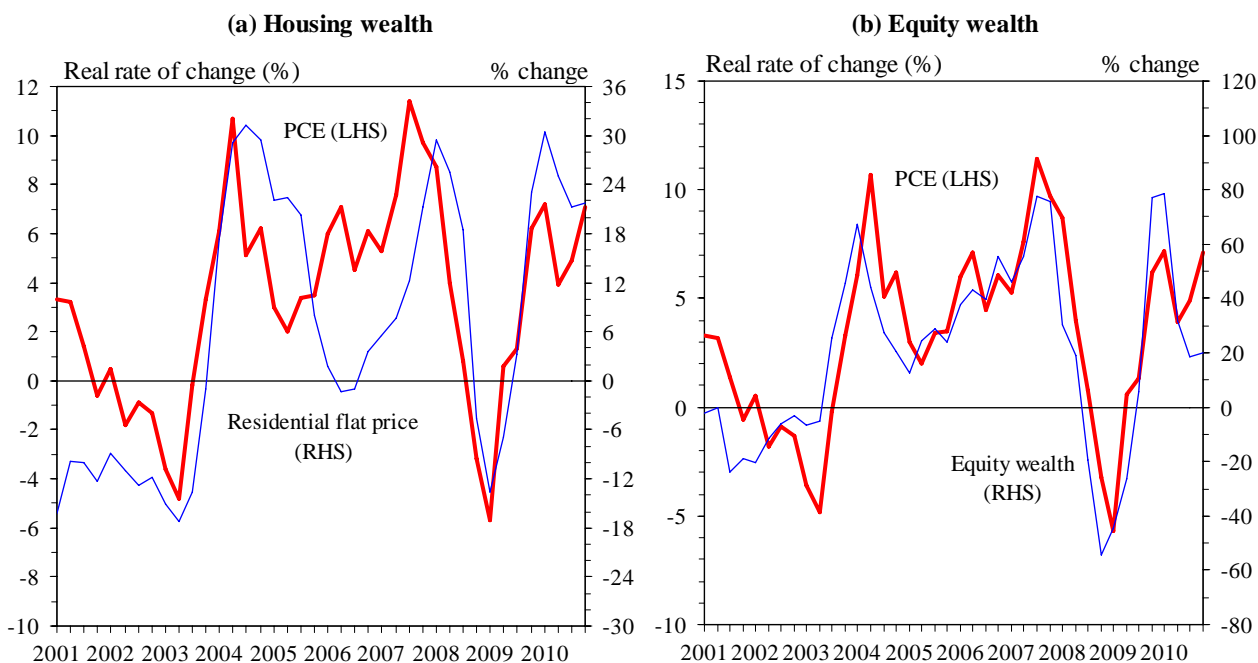
2.19 Domestically, improving job markets and rising incomes should augur well for consumption spending. Yet the extent of growth in private consumption in 2011 will also hinge on the performance of the asset markets, including the housing market. Investment is also poised for a further notable growth in tandem with the upbeat business sentiment. Indeed, the results of the latest Business Tendency Survey conducted by the Census and Statistics Department on large business establishments indicated that business sentiments remained optimistic across the board, although the extent of optimism diminished somewhat compared with results of the previous rounds of the

survey. These companies are also inclined to expand their workforce further. Meanwhile, the continued surge in public sector construction works, reflecting the intensive progress of several large-scale infrastructure projects, should also render a staunch support to the domestic economy.

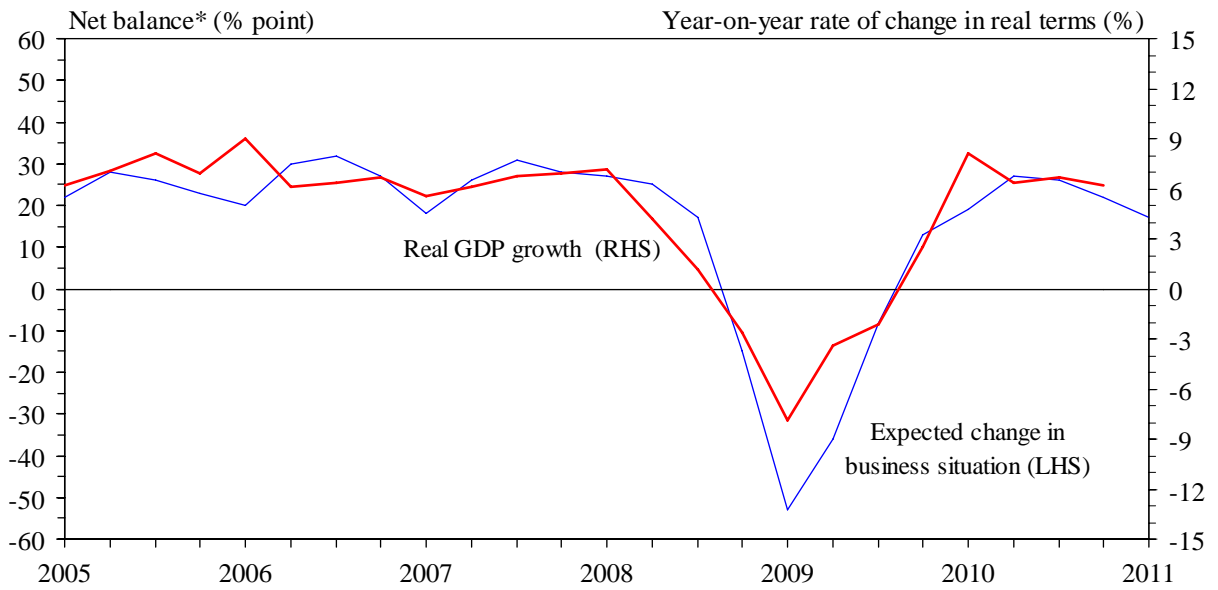
**Diagram 2.9 : Local consumer sentiment should remain well supported by the improving employment situation**



**Diagram 2.10 : The extent of growth in private consumption will also hinge on the performance of the asset markets**

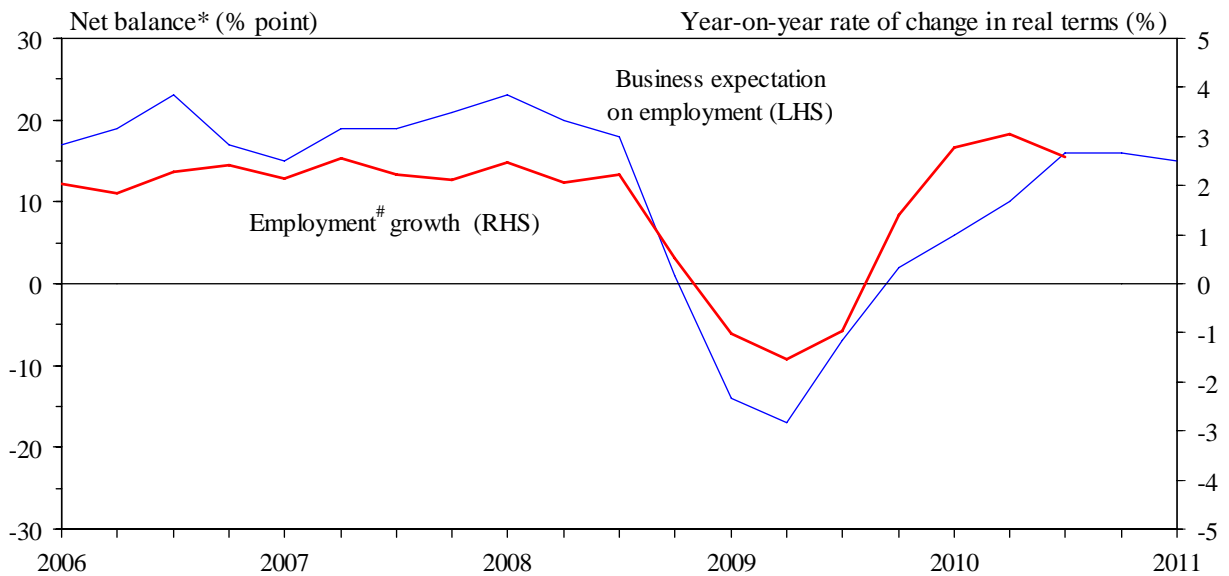


**Diagram 2.11 : Business sentiment remains generally optimistic**



Note : (\*) Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

**Diagram 2.12 : Businesses are also increasingly positive towards hiring**

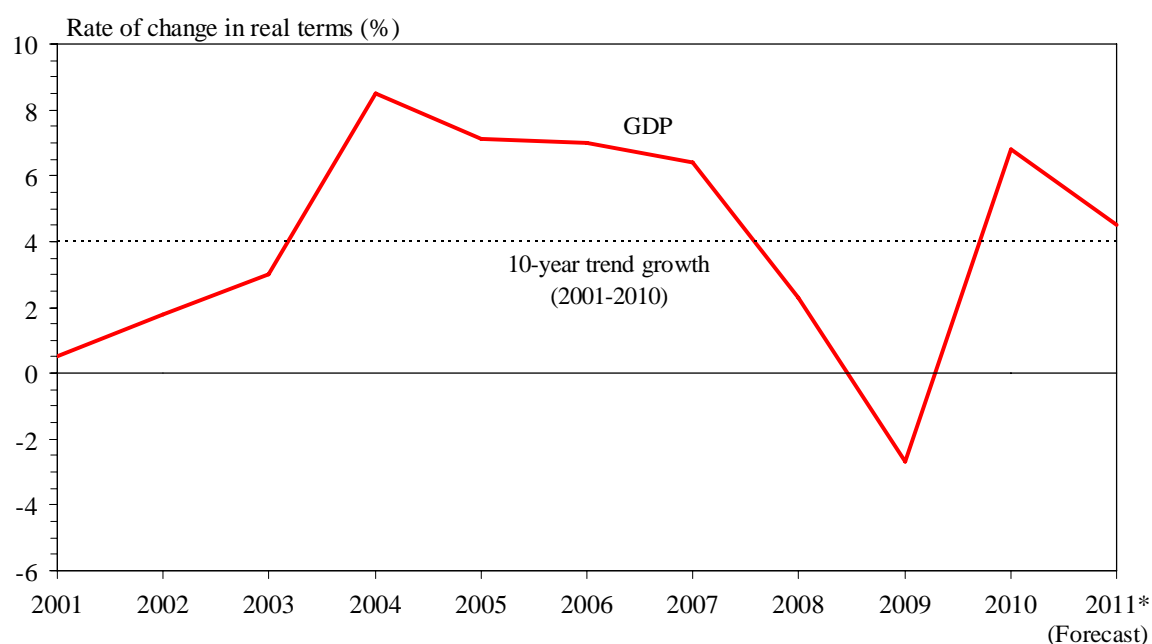


Notes : (\*) Net balance indicates the direction of expected change in number of persons engaged versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

(#) Employment in private sector.

2.20 Following the above discussions, the Hong Kong economy is poised for a further solid growth of 4% to 5% in 2011. The sustained expansion of domestic demand, coupled with the vibrant growth of inbound tourism and financial services, is likely to become a more prominent driver of overall economic growth, compensating for the possible slower growth in merchandise exports. This will be largely in line with the 10-year average annual growth rate of 4.7% just before the global financial crisis, and is also broadly in line with the prevailing forecasts by private sector analysts, which mostly fall within the range of 4% to 5.5%. This also signifies that the economy is returning to the normal growth path, having successfully weathered the impact of the global financial crisis of 2008-2009. Yet, the economic outlook for this year is still subject to various uncertainties, mainly emanating from the weak fundamentals of the advanced economies, as summarised in paragraph 2.16. The Government will stay alert to these risks and challenges, in particular the increasing risks of inflation and asset market bubble in Hong Kong. In this regard, the various relief measures announced in the 2011-12 Budget should help to alleviate the impact of inflation on the lower-income group. On top of these short-term relief measures, the Government will adopt a multi-pronged approach to contain inflation risks, through a counter-cyclical fiscal strategy to contain government expenditure; targeted measures to forestall asset market bubbles; macro-prudential regulation to strengthen risk management in the banking system; and issuing inflation-linked bonds to provide people with an additional investment choice.

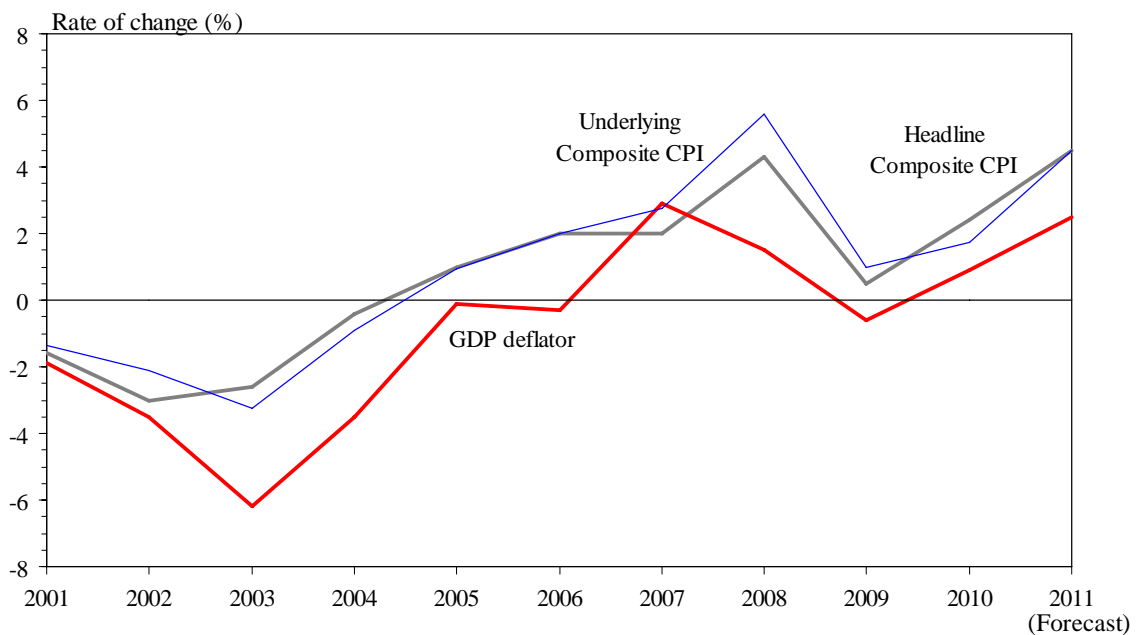
**Diagram 2.13 : Economy poised for solid expansion in 2011, broadly in line with the trend performance in the latest decade before the Global Financial Crisis**





2.21 Inflationary pressures in Hong Kong will turn more evident in 2011, having gradually increased alongside the economic upswing. The recent rapid increases in global food and commodity prices, coupled with higher inflation in the supply sources and the weak US dollar, have added to imported inflation. Locally, higher rentals over the course of the past year, particularly private housing rentals, will also progressively pass through to the consumer price indices. The effect on consumer prices from the implementation of the Statutory Minimum Wage in May will also need to be watched over. Against this backdrop, the *underlying Composite CPI* is forecast to increase by 4.5% in 2011 as a whole. Taking into account the Government's one-off measures, the *headline Composite CPI* is also forecast to increase by 4.5%. The *GDP deflator* is forecast to show a 2.5% increase in 2011, reflecting higher inflationary pressures in the economy as well as the expected change in the terms of trade.

**Diagram 2.14 : Inflation is expected to go higher in 2011 under the combined influence of both external and domestic factors**



## Forecast rate of change in 2011 (%)

### Gross Domestic Product (GDP)

<i>Real GDP</i>	<b>4 to 5</b>
<i>Nominal GDP</i>	6.5 to 7.5
<i>Per capita GDP, in real terms</i>	3.2 to 4.2
<i>Per capita GDP at current market prices</i>	HK\$261,300-263,800 (US\$33,500-33,800)

### Composite Consumer Price Index

<i>Headline</i>	<b>4.5</b>
<i>Underlying</i>	<b>4.5</b>

<b>GDP Deflator</b>	<b>2.5</b>
---------------------	------------

### Forecast on Hong Kong's GDP growth in 2011 recently made by other selected parties

	(%)
International Monetary Fund	5 to 5.5
The University of Hong Kong	4 to 5
Average forecast by private sector analysts <sup>#</sup>	4.8

Note: (#) Forecast GDP growth by private sector analysts mostly falls between 4% and 5.5%.

### Medium-term outlook for the Hong Kong economy

2.22 The medium-term prospects for the Hong Kong economy are bright. For the global economy as a whole, growth impetus will mainly come from sustained strong growth in emerging Asia, in particular the Mainland, as the economic centre of gravity will continue to shift to the East. Indeed the Mainland has been the largest contributor to global economic growth in the recent past and will likely remain so over the medium term. The major advanced economies should also gradually emerge out of the shadows casted by the global financial crisis.

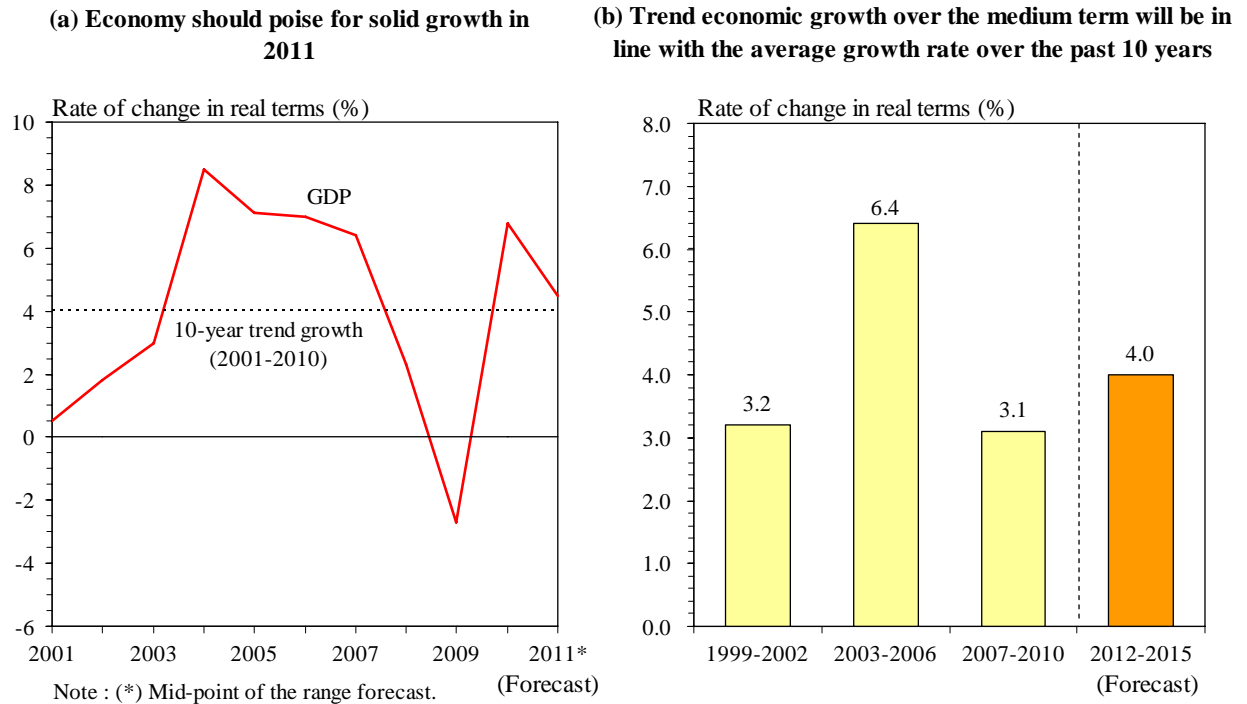
2.23 Hong Kong is in the best position to reap the benefits from the vibrant growth of Asia. The Government will continue to pursue a growth strategy focusing on the Mainland, promoting regional co-operations and the development of new markets and growth areas.

2.24 Hong Kong will enhance further its integration with the Mainland economy, particularly by leveraging its unique advantages and functions during the National 12<sup>th</sup> Five-Year Plan period. Hong Kong and Guangdong as well as other parts of the Mainland will also push ahead with co-operation in many areas. Of particular note will be financial services. Hong Kong will establish itself as a renminbi offshore centre and an asset management centre for the Mainland. The Government will also continue to help Hong Kong's service sectors, notably the six new industries and other professional services, to expand their presence in the Mainland markets. The various major cross-boundary infrastructure projects, when completed, will enhance the efficient flow of people and goods between Hong Kong and the Mainland. In the coming years the construction of these major infrastructure projects will also help to boost domestic demand.

2.25 The Government will also continue to facilitate Hong Kong's transformation into a knowledge-based, high value-added economy. Being a relatively mature economy, Hong Kong has to compete in the global and regional arenas in terms of quality. Hong Kong will continue to uphold its status as an international financial centre and a regional business hub.

2.26 Against this background, the trend GDP growth rate in real terms is forecast at 4% per annum from 2012 to 2015, in line with its trend rate over the past decade. Inflationary pressures are likely to persist beyond 2011, partly because the withdrawal of the massive liquidity in the global banking systems could be a gradual process. The trend rate of change in the underlying Composite CPI in Hong Kong over the medium term is forecast at 3.5% per annum.

**Diagram 2.15 : Economic prospects are bright over the medium term**



2.27 The Government is also mindful of the various challenges facing the global and local economy over the medium term. Globally, it becomes increasingly obvious that the global adjustment process in the aftermath of the global financial crisis could go beyond 2011, resulting in weaker global demand and higher inflation and asset bubble risks in Asia, Hong Kong included. European sovereign debt problems will continue to cast uncertainty as the issue of fiscal sustainability in the highly-indebted euro-zone economies is yet to be solved. The high national debt to GDP ratios in other major advanced economies, including the US and Japan, are also worrisome. Also, the persistence of global imbalances can lead to heightened tensions on trade and exchange rate fronts. This can be complicated by the political implications of persistently high unemployment in the US and Europe. Last but not the least, the period of high inflation could return if global liquidity remains abundant for too long and world commodity prices continue to surge. Domestically, the structural shift of the Hong Kong economy to high value-added and knowledge-based activities would lead to greater variability in income and wealth distribution. The training and re-training needs of Hong Kong's workforce are bound to increase over time if it is to reduce the extent of mismatch between jobs and skills. Stronger efforts on environmental protection and other areas will be needed to improve the quality of life in Hong Kong. The ageing population will also have profound implications on Hong Kong's health care and social welfare systems, as well as on the sustainability of public finance, over the medium and longer run. Prudent fiscal policy is needed in view of these medium-term issues and long-term development needs.

## CHAPTER 3 : THE EXTERNAL SECTOR

### *Summary*

- *Hong Kong's external sector continued to fare strongly in 2010, having started the recovery since mid-2009, thanks to the robust economic performance of Asian economies, particularly the Mainland. The sustained recovery in the US and Europe, albeit at a rather modest pace given their weak fundamentals, also helped. Yet external trade lost some steam towards the end of the year. This was more evident in respect of the merchandise trade flows than service trade flows.*
- *Total exports of goods sustained rapid growth during most of 2010, against the low base of comparison created by the collapse of world trade in early 2009. The sharp rebound in 2010 as a whole had more than offset the record annual decline in 2009. The Asian markets continued to outperform the US and EU markets, mirroring the divergent pattern of global economic recovery across regions. However, the growth momentum of merchandise exports slowed towards the end of the year, against the backdrop of a higher base of comparison and the slower growth of some overseas economies in the latter part of 2010.*
- *Exports of services stayed vibrant throughout 2010, having displayed much resilience to the impact of the global financial crisis during 2009. Strong growth momentum was maintained in all four quarters. Exports of travel services surged noticeably amid thriving inbound tourism. Exports of trade-related and transportation services also grew strongly, in tandem with the marked revival in trade flows. The expansion of exports of financial and business services was likewise sizable, supported by intensive fund-raising activities and robust business conditions.*
- *Hong Kong saw further progress in deepening economic linkages with the Mainland and other markets in 2010. The Supplement VII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) signed in May 2010 extended the coverage of service areas to 44. Hong Kong's renminbi (RMB) business was brought to new heights with the significant expansion of cross-border trade settlement, deposits, bond issuance and the introduction of financial products. Hong Kong also further enhanced ties with other markets in 2010 through various initiatives over the year.*

## Visible trade

### *Total exports of goods*

3.1 Hong Kong's merchandise exports maintained robust growth during most of 2010, having reverted to year-on-year growth in late 2009, capitalising on the sustained robust performance of Asian economies as well as the gradual recovery in the advanced economies. In 2010, *total exports of goods* (comprising re-exports and domestic exports) grew strongly by 18.1% in real terms<sup>(1)</sup>. Such hefty growth partly reflected the depth of the trough in 2009, when there was a record decline of 12.0%. On a year-on-year comparison, export growth in the first three quarters of 2010 was particularly sizable, at 23.4%, 19.7% and 23.2% respectively in real terms. It then tapered to 7.9% in the fourth quarter, amid the effect of a higher base of comparison and slower pace of expansion in some export markets. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods leaped by 6.7% in real terms in the first quarter of 2010, and grew further by 3.6% and 1.9% respectively in the second and third quarters, before showing a 4.1% decline in the fourth quarter.

3.2 The global economy continued to recover over the course of 2010. However, growth pace remained diverse across regions. In the US and Europe, economic recovery proceeded at a moderate pace, partly supported by the earlier stimulus measures and restocking cycle, yet their labour markets were slow to improve. Housing market in the US remained in a depressed state, and the sovereign debt issue in Europe lingered on. On the other hand, many Asian economies, particularly the Mainland, displayed robust growth throughout 2010. The strong regional demand in Asia, coupled with the gradual revival in the advanced economies, propelled trade flows in the Asian region, rendering a staunch support to Hong Kong's export performance in 2010.

3.3 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 97.7% of total export value, rose substantially by 18.1% in real terms in 2010, more than offsetting the decline of 11.3% in 2009. *Domestic exports*, which constitute the remaining share of total exports, likewise bounced back by 15.5% in 2010, having contracted by 34.6% in the previous year.

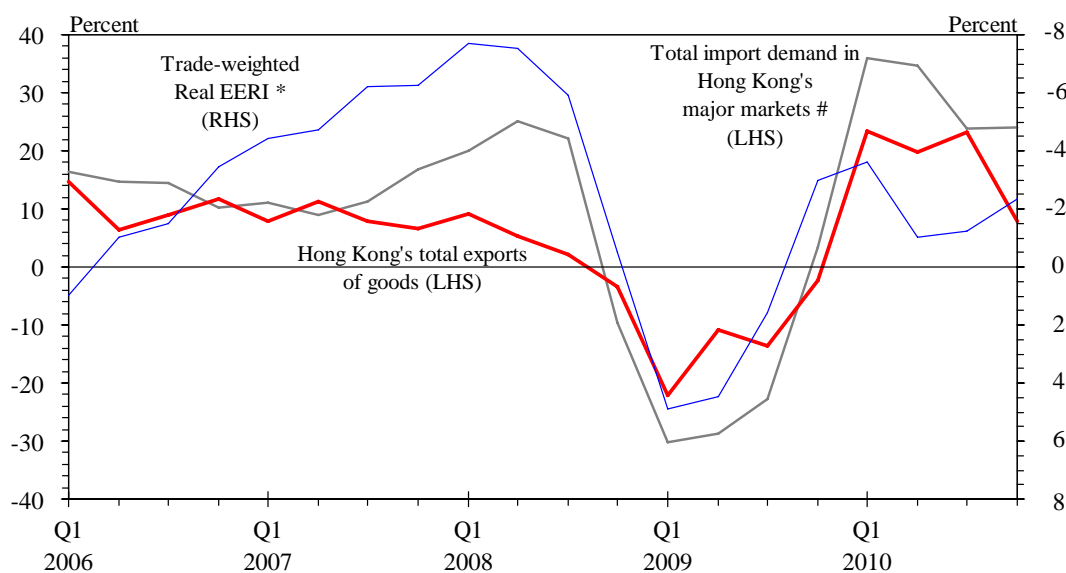
**Table 3.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices
2009 Annual	-12.6	-12.0	1.1	-11.8	-11.3	1.2	-36.4	-34.6	-0.2
Q1	-21.9	-22.2 (-14.6)	2.5	-21.1	-21.4 (-14.4)	2.5	-44.3	-43.3 (-20.4)	2.5
Q2	-12.9	-10.8 (7.4)	0.8	-12.0	-9.9 (7.7)	0.8	-39.6	-37.0 (-2.3)	*
Q3	-14.3	-13.6 (-2.1)	0.2	-13.5	-12.9 (-2.0)	0.3	-38.7	-35.1 (-5.1)	-2.2
Q4	-2.0	-2.3 (9.7)	0.8	-1.4	-1.8 (9.8)	0.9	-21.2	-21.6 (8.2)	-1.2
2010 Annual	22.8	18.1	4.7	22.8	18.1	4.6	20.4	15.5	5.5
Q1	26.0	23.4 (6.7)	2.8	26.1	23.5 (6.5)	2.8	23.1	20.2 (17.0)	3.2
Q2	24.3	19.7 (3.6)	4.0	24.4	19.7 (3.7)	3.9	22.4	17.0 (-3.3)	6.1
Q3	27.8	23.2 (1.9)	5.2	27.9	23.4 (2.0)	5.2	20.2	14.9 (-4.4)	5.7
Q4	14.4	7.9 (-4.1)	6.5	14.3	7.9 (-4.3)	6.5	16.7	11.1 (3.2)	6.7

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

(\*) Change of less than 0.05%.

**Diagram 3.1 : Merchandise exports fared strongly in 2010  
(year-on-year rate of change)**

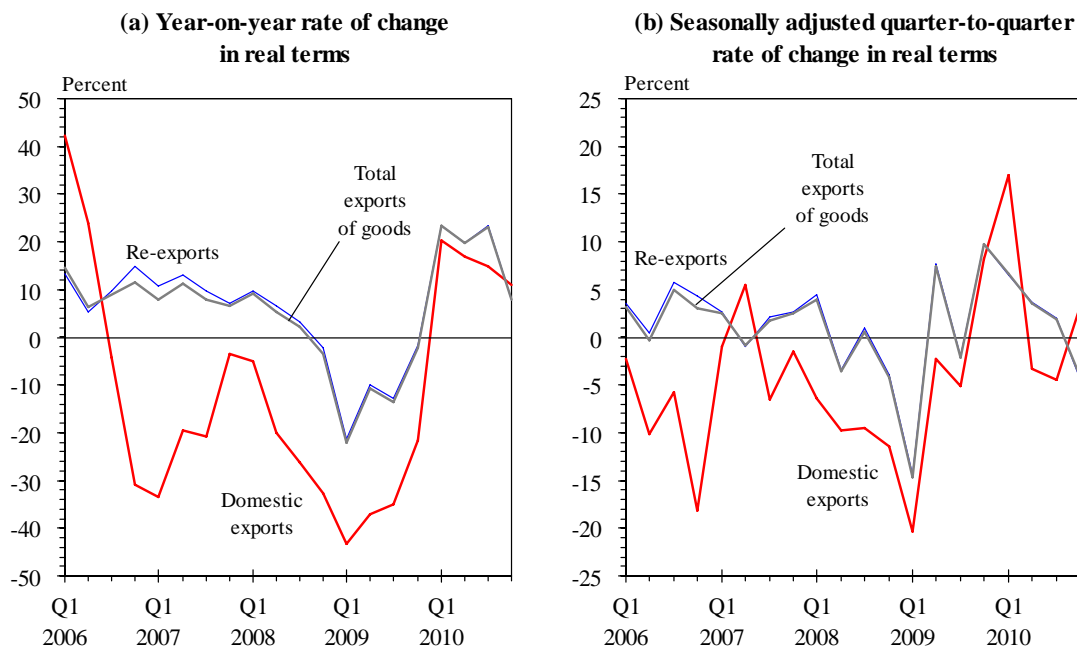


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

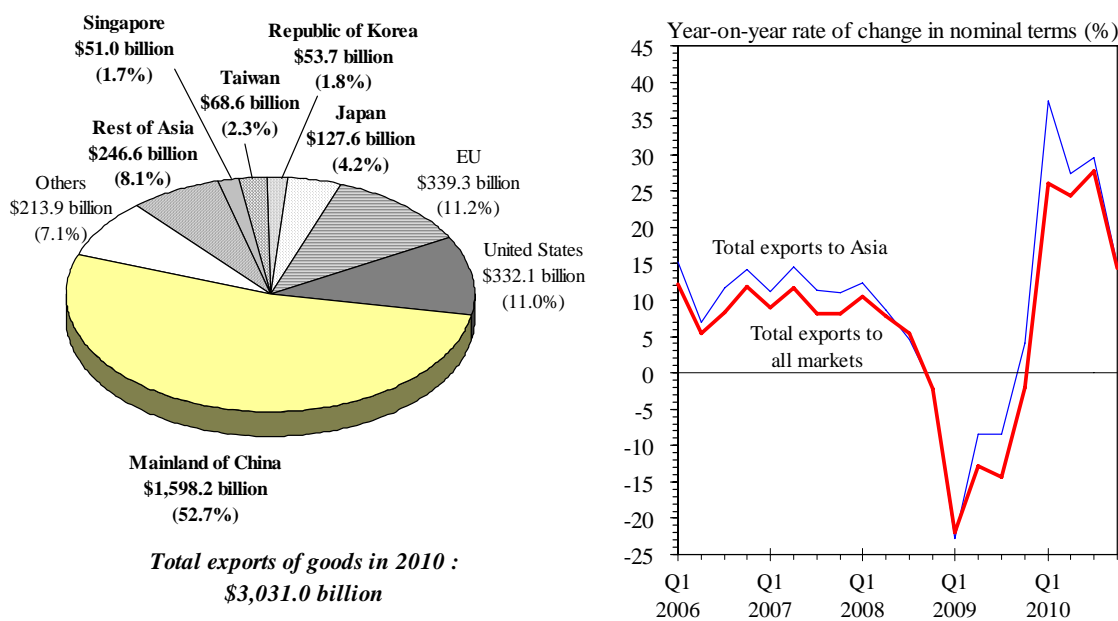
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the fourth quarter of 2010 is based on statistics for October and November 2010.

**Diagram 3.2 : Both re-exports and domestic exports expanded sizably in 2010**



**Diagram 3.3 : The Asian markets continued to outperform the US and EU markets**





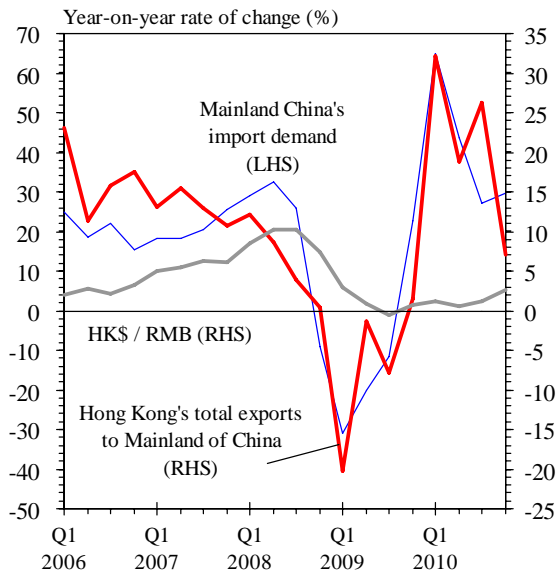
**Table 3.2 : Total exports of goods by major market  
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2009	Annual	-6.6	-20.5	-21.2	-11.8	-14.3	-3.8	-25.0
	Q1	-20.2	-24.6	-22.1	-17.8	-31.9	-27.4	-37.0
	Q2	-1.3	-21.6	-22.6	-19.6	-20.8	-9.6	-27.9
	Q3	-7.9	-22.5	-25.6	-8.2	-11.5	-0.8	-20.2
	Q4	1.5	-13.4	-14.4	-2.2	11.2	21.6	-13.1
2010	Annual	20.0	14.5	6.6	15.5	21.1	23.0	18.1
	Q1	32.1	6.7	-0.6	15.1	37.9	59.8	16.9
	Q2	18.8	19.9	10.4	26.2	24.9	28.1	18.6
	Q3	26.3	19.7	15.8	15.4	13.1	17.6	22.2
	Q4	7.0	10.4	1.0	7.4	13.4	2.8	14.7

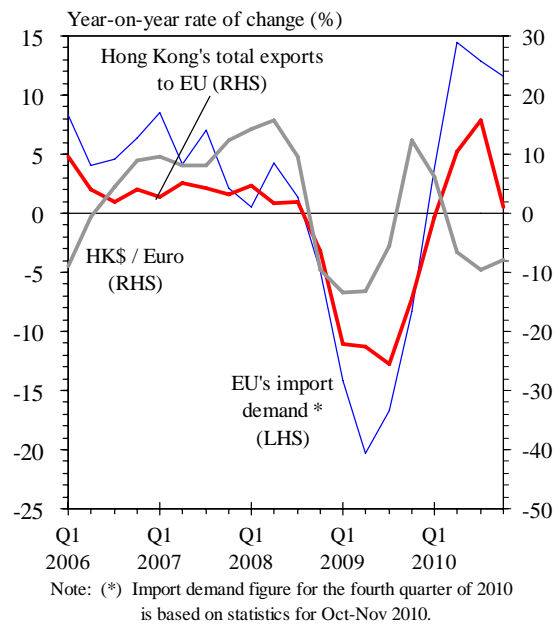
3.4 The performance of Hong Kong's merchandise exports to the major markets mirrored the two-speed recovery of the global economy. The Mainland and other Asian markets, which account for around 70% of Hong Kong's total exports of goods, remained the key growth driver, registering a significant increase of around 20% in real terms in 2010. Exports to the Mainland, Singapore, Taiwan, South Korea and Japan all recorded double-digit growth for the year as a whole, in the region of 15-23%. Exports of raw materials and capital goods to many Asian markets picked up strongly amid brisk production activities and robust investment demand in the region. Exports of consumer goods to the Asian markets also displayed strength, rebounding strongly in 2010, more than offsetting the decline in 2009. However, in the final months of the year, as the stimulus from the restocking cycle in the global economy wore off gradually and as growth in demand in the US and Europe remained modest, industrial production and export activities across Asia saw some moderation, resulting in some tapering of growth in Hong Kong's exports to these Asian markets.

3.5 Exports to the US and Europe also rebounded notably during most of 2010 from the collapse in 2009. However, exports to these markets still fell short of the pre-crisis peaks in 2008. In particular, exports of consumer goods, a dominant proportion of exports to these markets, had yet to make up for the decline in 2009 despite some recovery in 2010. Consumer sentiments remained rather cautious in these advanced economies amid the weak labour market conditions. In particular, the EU market still lagged behind others, as the sovereign debt problem lingered on. Exports to this market decelerated sharply to only a small year-on-year growth in the fourth quarter.

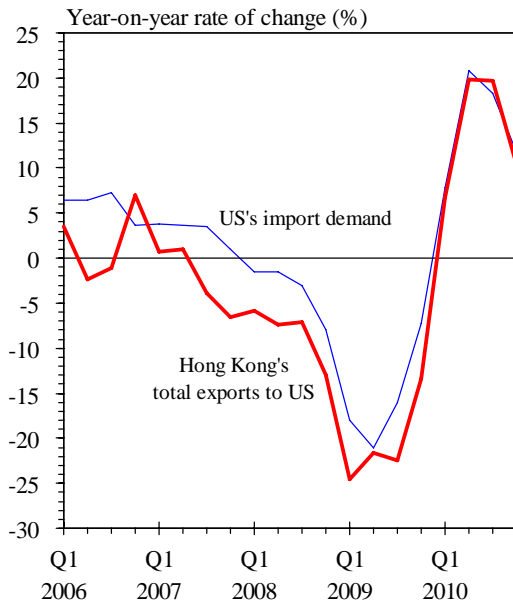
**Diagram 3.4 : Exports to the Mainland stayed robust in 2010**



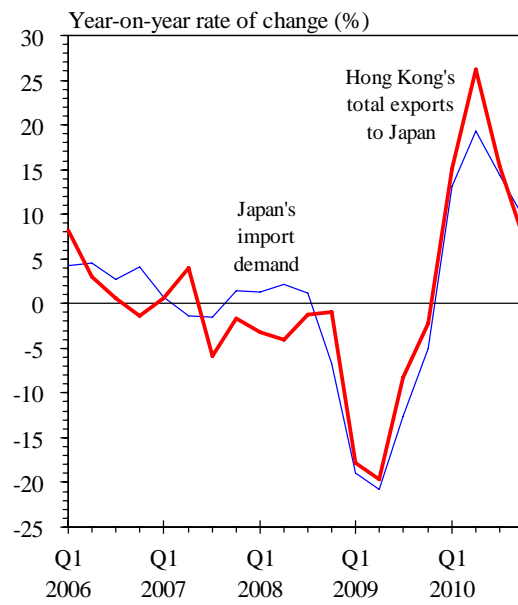
**Diagram 3.5 : Exports to the EU still lagged behind other major markets**



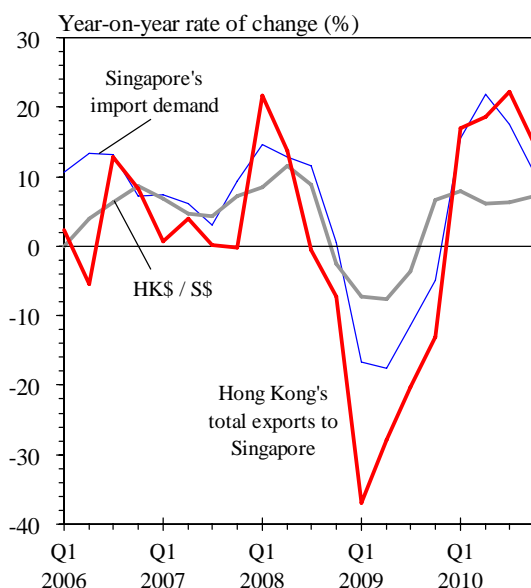
**Diagram 3.6 : Exports to the US recovered notably**



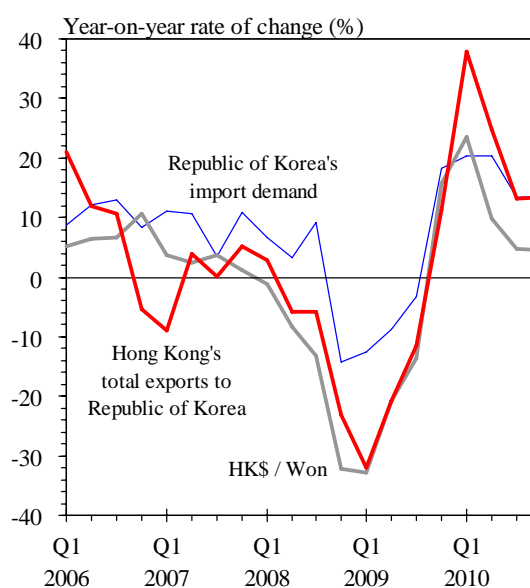
**Diagram 3.7 : Exports to Japan showed slower growth towards year-end**



**Diagram 3.8 : Exports to Singapore registered double-digit growth in 2010**



**Diagram 3.9 : So did exports to the Republic of Korea**



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

3.6 *Imports of goods* expanded markedly by 18.6% in real terms in 2010 after a 9.4% decline in 2009, in tandem with the strong rebound in re-export trade and the strengthening of local demand. *Retained imports*, referring to imports for domestic uses, went up by 19.7% in real terms for 2010 as a whole, following the 3.8% decline in 2009. There was a strong year-on-year expansion of 42.1% in the first half of the year, followed by a further increase of 3.8% in the second half of the year as the effect of a much higher base of comparison set in. Analysed by end-use categories, retained imports of raw materials and semi-manufactures saw the fastest growth in 2010, at 31.3% in real terms, albeit reversing to decline in the second half of 2010. Retained imports of consumer goods also performed strongly, up 22.5% along with sanguine consumer sentiments. Retained imports of capital goods surged by 15.5%, in tandem with robust investment and economic activities. Retained imports of fuels and foodstuffs also grew notably by 13.9% and 11.6% respectively in real terms.

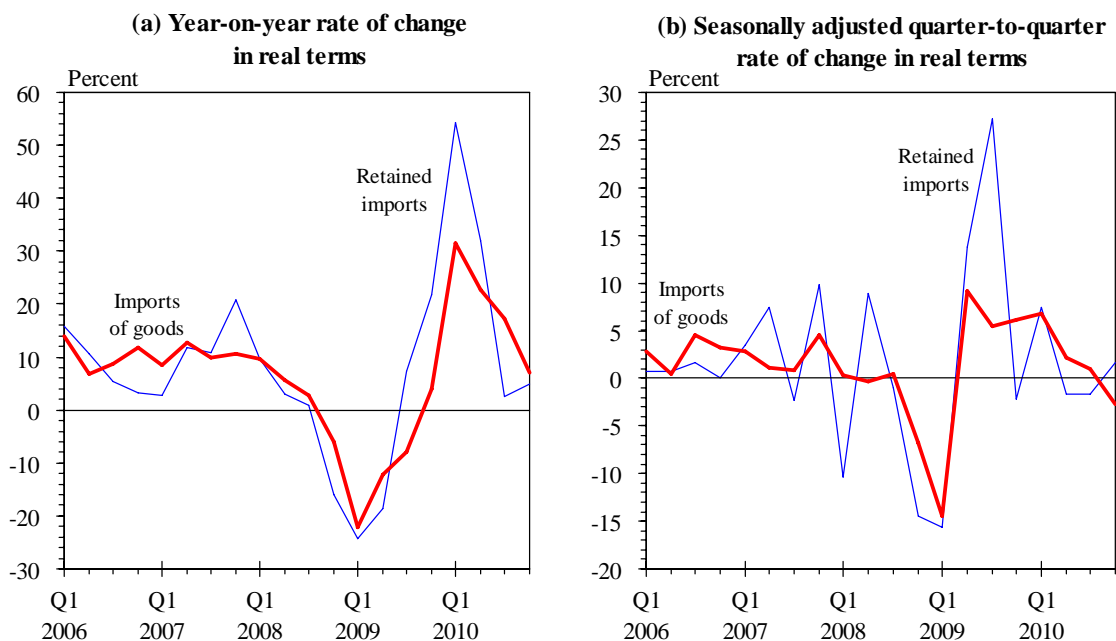
**Table 3.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports<sup>(a)</sup></u>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change In prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2009	Annual	-11.0	-9.4	-0.1	-10.8	-3.8	-5.8		
	Q1	-22.8	-22.2	(-14.4)	1.0	-29.2	-24.2	(-14.6)	-5.8
	Q2	-14.9	-12.3	(9.2)	-0.8	-24.5	-18.6	(13.8)	-7.4
	Q3	-10.4	-7.9	(5.4)	-1.5	-3.3	7.3	(27.2)	-8.2
	Q4	3.4	4.0	(6.1)	0.6	16.3	21.8	(-2.2)	-2.1
2010	Annual	25.0	18.6	6.4	31.3	19.7		11.6	
	Q1	34.3	31.4	(6.8)	3.6	60.5	54.2	(7.4)	6.1
	Q2	29.9	22.8	(2.2)	6.6	47.2	32.0	(-1.6)	14.8
	Q3	24.1	17.3	(1.0)	7.2	13.7	2.5	(-1.6)	13.3
	Q4	15.1	7.0	(-2.7)	8.2	17.2	5.0	(1.7)	13.0

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 3.10 : Both imports and retained imports grew robustly in 2010**



**Table 3.4 : Retained imports by end-use category  
(year-on-year rate of change in real terms (%))**

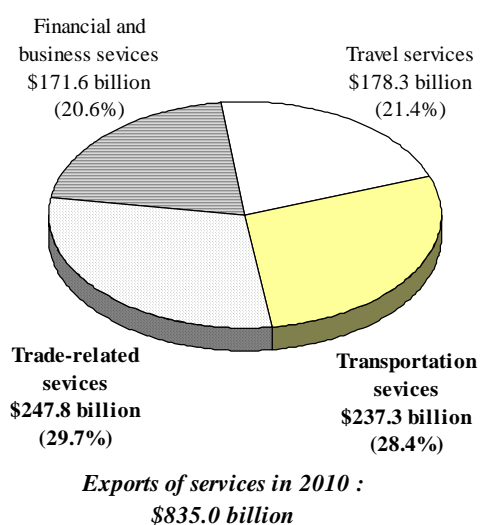
		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2009	Annual	-8.8	7.0	-4.4	-9.7	23.2
	Q1	-30.7	-3.4	-8.1	-69.5	30.8
	Q2	-22.4	6.3	-13.4	-47.4	17.4
	Q3	0.1	11.1	-3.7	41.1	24.1
	Q4	20.8	13.4	7.6	68.2	21.1
2010	Annual	22.5	11.6	15.5	31.3	13.9
	Q1	48.7	28.6	21.2	344.4	-0.2
	Q2	32.9	8.5	24.2	70.8	42.6
	Q3	7.2	2.8	7.2	-18.1	14.6
	Q4	12.6	8.6	12.1	-13.9	1.4

## **Invisible trade**

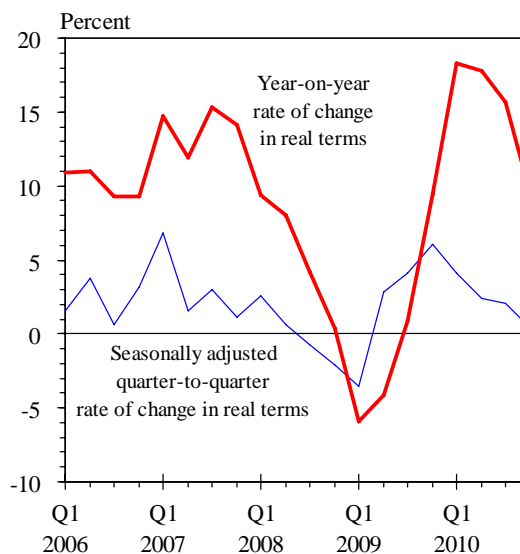
### *Exports of services*

3.7 *Exports of services* sustained strong growth throughout 2010, leaping by 15.0% in real terms for the year as a whole, following the 0.3% growth in 2009. Despite the higher base of comparison, exports of services still grew at a rapid pace in the fourth quarter of 2010. Among the major service components, exports of travel services showed the strongest performance, thanks to the sizable influx of visitors from the regional as well as long-haul markets. Exports of trade-related services, reflecting mainly offshore trade, grew sharply in 2010, benefiting from the improved trading environment for Asia. Exports of transportation services likewise surged along with the expansion of trade flows and flourishing passenger flows. Exports of financial and business services were also strong, on the back of the intensive fund-raising activities in the financial market and the brisk expansion of business activities.

**Diagram 3.11 : Trade-related and transportation services accounted for nearly 60% of service exports, reflecting Hong Kong's position as a trading hub**



**Diagram 3.12 : Exports of services sustained strong growth throughout 2010**



**Table 3.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))**

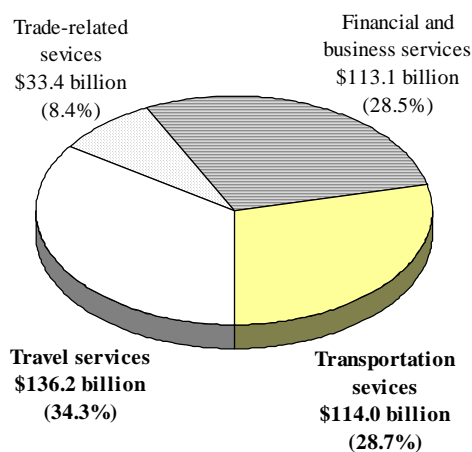
		<i>Of which :</i>				
		Exports of services	Trade-related services <sup>(a)</sup>	Transportation services	Travel services <sup>(b)</sup>	Financial and business services
2009	Annual	0.3	-5.2	-1.8	7.9	5.1
	Q1	-5.9 (-3.5)	-13.0	-10.4	15.3	-5.5
	Q2	-4.1 (2.8)	-10.1	-3.3	-1.7	-0.7
	Q3	0.9 (4.1)	-6.9	1.5	1.4	11.2
	Q4	9.5 (6.1)	5.8	4.8	14.9	17.1
2010	Annual	15.0	14.3	9.1	29.2	12.6
	Q1	18.3 (4.1)	20.7	15.6	19.5	18.2
	Q2	17.8 (2.4)	18.0	11.0	39.2	12.6
	Q3	15.7 (2.1)	14.1	8.6	43.1	8.3
	Q4	9.4 (0.4)	8.2	2.3	19.7	11.2

- Notes :
- (a) Comprising mainly offshore trade.
  - (b) Comprising mainly inbound tourism receipts.
  - ( ) Seasonally adjusted quarter-to-quarter rate of change.

## Imports of services

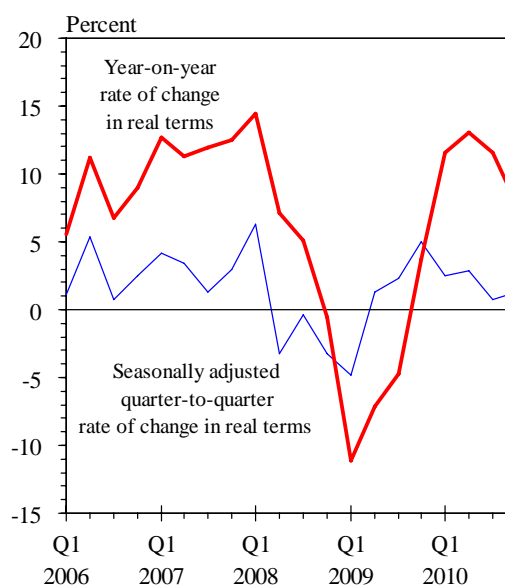
3.8 *Imports of services* were likewise robust, up 10.9% in real terms in 2010, in contrast to the 4.9% contraction in 2009. Imports of travel services grew solidly further along with improving economic conditions. Imports of trade-related services and transportation services both thrived on the strong rebound in offshore trade amid vibrant intra-regional trade flows. Imports of financial and business services also picked up markedly to a double-digit increase in 2010.

**Diagram 3.13 : Travel and transportation services featured more prominently in imports of services**



*Imports of services in 2010 :*  
\$396.6 billion

**Diagram 3.14 : Imports of services were likewise robust**



**Table 3.6 : Imports of services by major service group  
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>					
		<u>Imports of services</u>	<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>	
2009	Annual	-4.9	0.1	-19.9	0.7	6.9	
	Q1	-11.1	(-4.8)	-7.2	-25.1	-7.7	-0.7
	Q2	-7.1	(1.3)	2.7	-21.0	-4.7	-0.3
	Q3	-4.7	(2.3)	-1.3	-18.8	-1.1	10.0
	Q4	3.7	(5.0)	7.2	-14.4	12.3	18.6
2010	Annual	10.9	7.3	12.5	15.8	12.6	
	Q1	11.6	(2.5)	5.2	13.0	22.3	15.9
	Q2	13.1	(2.9)	7.3	16.5	19.6	15.8
	Q3	11.6	(0.7)	11.6	11.9	15.7	10.0
	Q4	7.8	(1.3)	5.2	8.4	9.8	9.6

Notes : (+) Comprising mainly outbound travel spending.

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

### **Visible and invisible trade balance**

3.9 With strong import intake amid the robust upturn in the Hong Kong economy, the visible trade deficit widened in 2010. Nevertheless, this was more than offset by the gain in invisible trade surplus, thanks to vibrant service exports across a broad front. As a result, the combined visible and invisible trade balance in 2010 recorded a surplus of \$104.6 billion, equivalent to 2.8% of the total value of imports of goods and services. This compared with the corresponding figures of \$121.3 billion and 4.0% in 2009. The favourable trade balance continues to underline Hong Kong's strong external competitiveness.



**Table 3.7 : Visible and invisible trade balance  
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of imports
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2009	Annual	2,495	670	2,703	341	-208	330	121	4.0
	Q1	512	154	547	77	-35	77	43	6.8
	Q2	619	144	658	78	-39	65	26	3.5
	Q3	657	177	723	90	-66	86	21	2.5
	Q4	706	196	775	96	-68	100	32	3.7
2010	Annual	3,061	835	3,395	397	-334	438	105	2.8
	Q1	640	191	728	92	-88	99	11	1.4
	Q2	774	186	871	93	-97	94	-4	-0.4
	Q3	838	221	898	104	-60	117	57	5.7
	Q4	809	237	898	108	-89	129	40	4.0

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

## Other developments

3.10 Hong Kong saw further notable progress in deepening the economic linkages with the Mainland during 2010. Specifically for the services sector, access of local professional services to the Mainland market was further broadened through the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) platform. Supplement VII to CEPA was signed on 27 May 2010 and the relevant services liberalisation measures were implemented on 1 January 2011. The new supplement provides for 35 market liberalisation and trade and investment facilitation measures in 19 sectors, bringing the total number of service sectors under CEPA to 44.

3.11 Hong Kong also made a big leap forward in its role as Mainland's offshore renminbi (RMB) business centre. Of particular note was the expansion of the cross-border RMB trade settlement scheme, first in June 2010, whereby the coverage was extended from trade transactions between five Mainland cities and the ASEAN economies to all trade transactions of 20 Mainland provinces and cities<sup>(3)</sup> with the rest of the world, and then in December 2010, with the number of eligible Mainland enterprises that can settle merchandise exports in RMB increasing substantially from 365 to 67 359. The amount of trade settlement in RMB conducted in Hong Kong showed phenomenal growth towards the latter part of the year, with the amount of cross-border settlement rising markedly from a monthly average of RMB4 billion in the first half of 2010 to that of RMB26 billion in the third quarter, and further to RMB88 billion in the fourth quarter.

3.12 Economic co-operation between Hong Kong and Taiwan also developed further. After the implementation of the “Three Direct Links” across the Taiwan Strait, trade between the Mainland and Taiwan expanded markedly by 37.7% in 2010. Yet Hong Kong was able to benefit from such a development, with Hong Kong’s re-exports involving trade across the Strait surging by 31.0% in 2010. The Economic Cooperation Framework Agreement (ECFA) signed by Mainland and Taiwan on 29 June 2010 further promoted regional trade flows. In addition, to facilitate multi-faceted and multi-level exchanges with Taiwan, the Hong Kong-Taiwan Economic & Cultural Co-operation Promotion Council and the Hong Kong-Taiwan Business Co-operation Committee were established in April 2010. Hong Kong will continue to strengthen its exchanges with Taiwan to take advantage of the expansion in economic activity in the region arising from these developments.

3.13 The Government had also been active in promoting linkages with new and emerging markets in 2010. The Hong Kong-New Zealand Closer Economic Partnership Agreement was signed in March 2010, the first of its kind for Hong Kong with a foreign economy. The Agreement came into force on 1 January 2011<sup>(4)</sup>. Exchanges had also been broadened through enhanced contacts with other emerging markets such as Russia, India, the Middle East and South America to encourage more enterprises from these markets to invest in Hong Kong, and to help our enterprises tap the business opportunities in these markets. Indeed, Hong Kong’s total merchandise exports to Russia and India surged by 105% and 42% respectively in 2010 alone, and by about 200% and 240% respectively over the past five years. India has now emerged to become the fifth largest market for Hong Kong’s exports. Hong Kong will continue to position itself to leverage on its role as a platform to reach Guangdong, the rest of the Mainland and the Asia-Pacific region.

## 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) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.
- (3) The cities and provinces are: Beijing, Tianjin, Inner Mongolia, Liaoning, Shanghai, Jiangsu, Zhejiang, Fujian, Shandong, Hubei, Guangdong, Guangxi, Hainan, Chongqing, Sichuan, Yunnan, Jilin, Heilongjiang, Xizang and Xinjiang.
- (4) Under the Agreement, New Zealand will phase out over six years its import tariffs on all goods originating in Hong Kong, and more than 90% of New Zealand's tariff lines will become duty free within two years after the agreement has come into force. Hong Kong service providers will also enjoy secured preferential opportunities in the New Zealand market in a variety of service sectors.

## CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

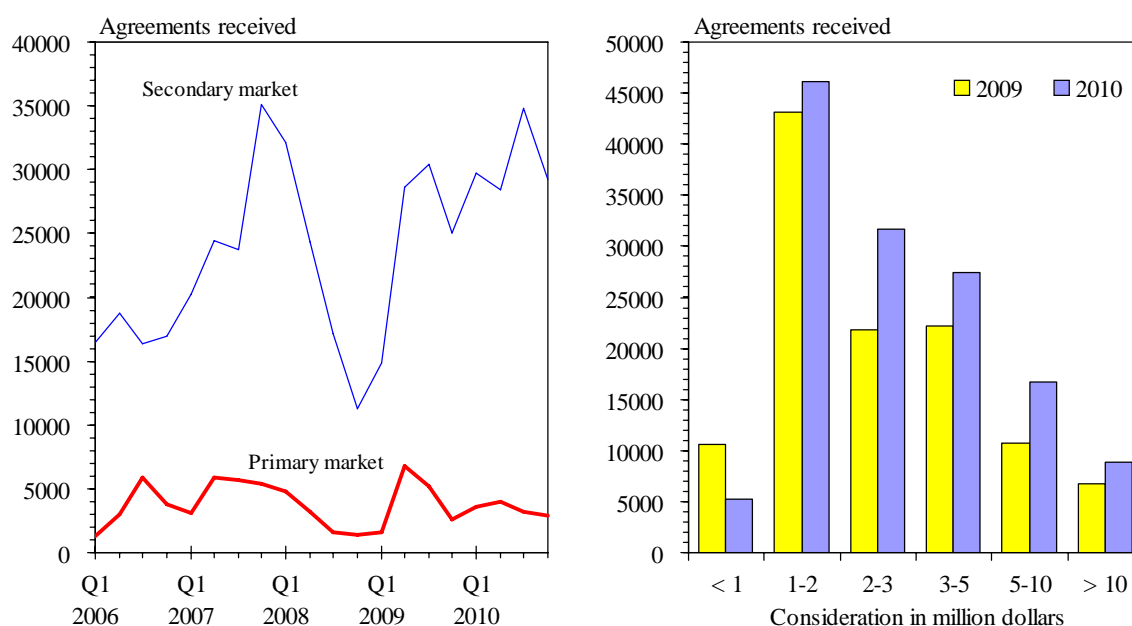
- *Underpinned by the further recovery of the economy, abundant liquidity and extremely low interest rates, the residential property market was buoyant through most parts of 2010. Transaction volume reached a record high since 1997, while overall flat prices soared by another 20% during the year.*
- *The Government introduced a package of measures to ensure a stable and healthy property market in February 2010, and rolled out further packages over the course of the year in response to the changes in the housing market. The measures have achieved noticeable results in raising flat supply, increasing transparency of the property market, preventing excessive growth of mortgage lending and curbing speculative activities.*
- *But the US Federal Reserve's introduction of the second round of quantitative easing measures in November further raised the risk of a property market bubble, and prompted the Government to introduce the Special Stamp Duty on short-term resale transactions and further tighten the loan-to-value ratios for mortgage loans.*
- *Inbound tourism put up a strong performance in 2010, with incoming visitor arrivals surging to a record high of 36.0 million. Visitors from all major markets, especially the Mainland, registered notable growth.*
- *The logistics sector also staged a solid rebound in 2010 alongside the strong growth in external trade, though the pace decelerated in the second half as the base of comparison gradually shifted higher.*

### **Property**

4.1 The residential property market remained buoyant through most parts of 2010, underpinned by the further recovery of the economy. Amid the abundant liquidity environment with exceptionally low interest rates, the number of sale and purchase agreements for residential property received by the Land Registry surged by 18% to 135 778 in 2010, and total consideration by an even sharper 32% to \$560.7 billion, both the highest levels since 1997. Within the total, the number of secondary transactions jumped by 23%, while the number of primary sales fell by 16%. Transactions increased across all

consideration ranges except for flats valued below \$1 million.

**Diagram 4.1 : Trading in the residential property market was active in 2010**



4.2 Residential property prices rose further in tandem. In December 2010 overall flat prices surged by another 20% over a year earlier, following a 29% rebound in the preceding year. With the exuberance gradually spreading from the luxury market to the mass market over the course of the year, prices of small/medium-sized flats soared by 21%, faster than the 16% increase recorded for large flats. Following the rally over the past two years, overall flat prices in December 2010 were only 6% below the 1997 peak, and prices of large flats have even surpassed the 1997 peak by 11%.

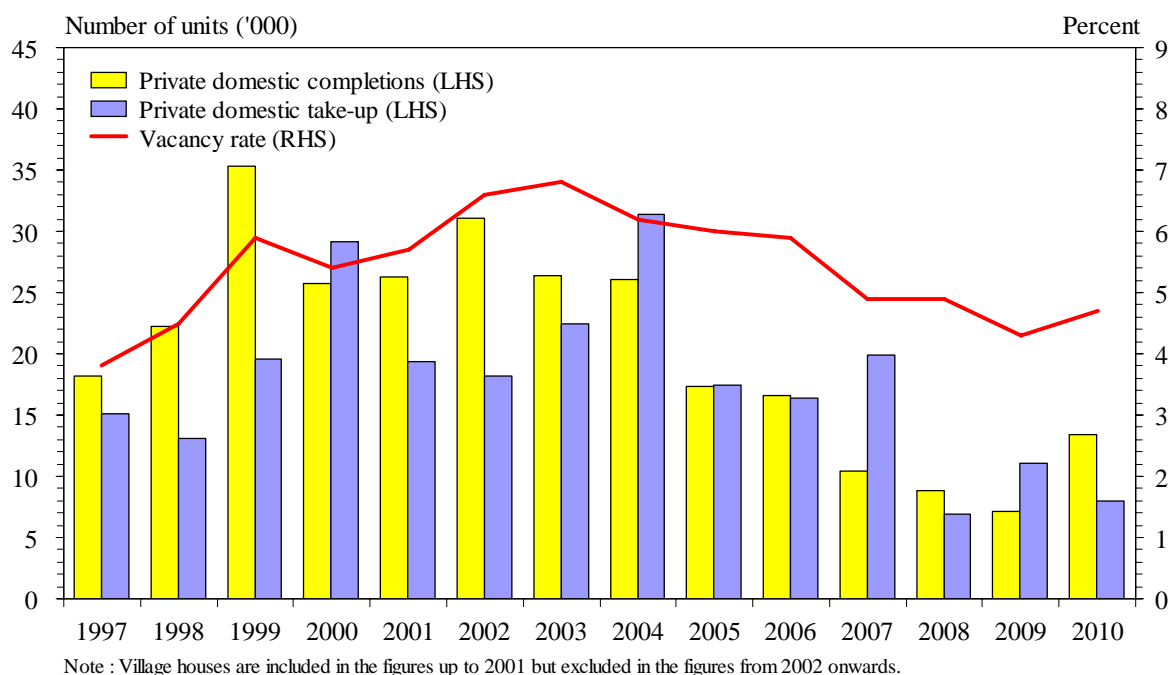
4.3 As home prices continued to rise faster than income, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) soared from 38.4% in the fourth quarter of 2009 to 44.5% in the fourth quarter of 2010, and would move even closer to the long-term average of 51.3% over 1990-2009 should interest rates return to a more normal level.

4.4 The Government has always been mindful of the risk of a property market bubble, as well as the repercussions of wild fluctuation in property prices on the overall economic and financial stability. The Government introduced a package of measures to ensure a stable and healthy property market as early as in February 2010, and rolled out further packages through the year in response to the changes in the housing market<sup>(1)</sup>. The latest package of

measures, which was mainly targeted at curbing speculative activities through the introduction of a Special Stamp Duty (SSD) on short-term resale transactions and further tightening of the loan-to-value ratios for mortgage loans<sup>(2)</sup>, was announced in November after the US Federal Reserve introduced the second round of quantitative easing measures. The successive packages of measures have achieved noticeable results in raising flat supply, increasing transparency of the property market, preventing excessive growth of mortgage lending and curbing speculative activities.

4.5 Regarding supply, completions of private residential flats rebounded sharply by 87% to 13 400 in 2010. With take-up declining by 28% to 8 030<sup>(3)</sup> over the period, the vacancy rate rebounded from a low level of 4.3% at end-2009 to 4.7% at end-2010. Looking forward, reflecting the Government’s effort in boosting land supply, the total supply of flats in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) picked up from 53 000 units as estimated at end-2009 to 59 000 units as estimated at end-2010. Granting the conversion of a number of residential sites into “disposed sites” and the completions of tendering of some sites in the months ahead, another 1 300 units could be added to the potential supply<sup>(4)</sup>.

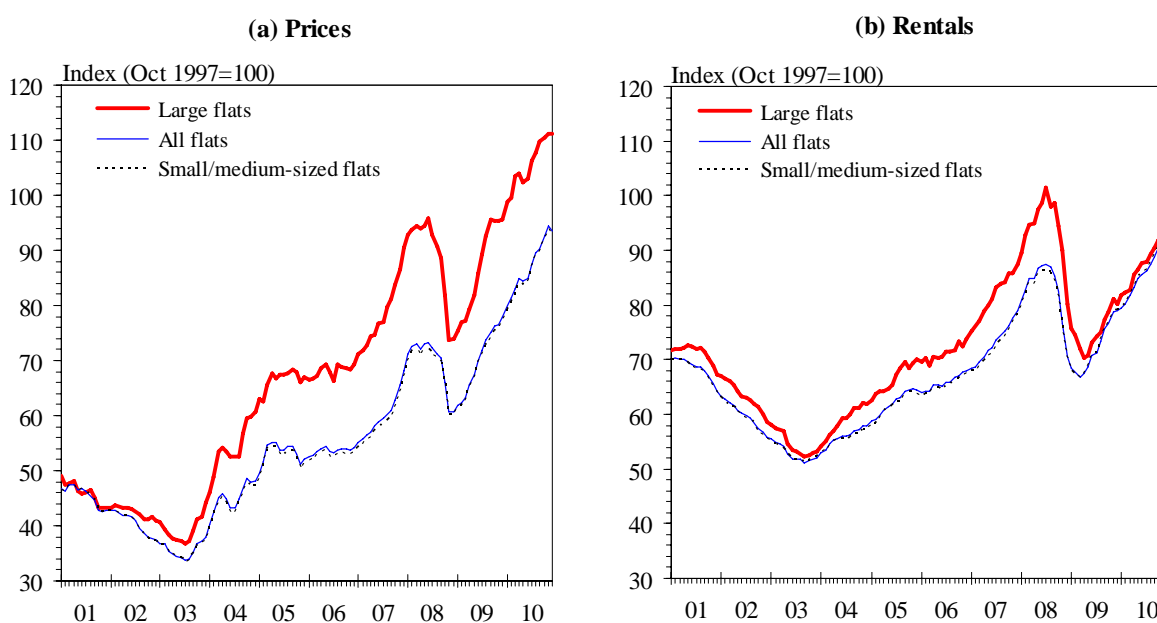
**Diagram 4.2 : Completions surged while take-up declined in 2010**



4.6 After the promulgation of the guidelines for sales of first-hand uncompleted flats in April, market transparency for transacted prices and transactions has improved. The Government has also formed a Steering Committee to deliberate issues on regulating the sale of first-hand flats by legislation and put forward practical recommendations by October 2011. On mortgage lending, in consequence of the tightening of lending standards by the HKMA, the average loan-to-value ratio of new mortgages fell from 64.0% in 2009 to 60.2% in 2010. Commercial banks also followed the HKMA's prudential guidelines on debt-servicing ratio when extending mortgage loans. As regards property speculation, short-term trading activities, i.e. confirmor transactions and short-term resale within 24 months, jumped by 27% for 2010 as a whole amid the abundant liquidity and extremely low interest rate. Yet such activities were mainly concentrated in the first eleven months of the year. Following the announcement of the SSD in mid-November, speculative activities have almost vanished in December.

4.7 In the leasing market, overall flat rentals in December 2010 jumped by another 16% over a year earlier, following a 12% increase in the preceding year. Large flats and small/medium-sized flats both registered gains of 16%. As a consequence of the uninterrupted uptrend since April 2009, overall flat rentals in December 2010 were only 9% below the 1997 peak. With prices rising faster than rentals, the average rental yield for residential property edged down from 3.6% in December 2009 to 3.5% in December 2010.

**Diagram 4.3 : Flat prices and rentals soared further in 2010**



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m<sup>2</sup>, and small/medium-sized flats with a saleable area of less than 100 m<sup>2</sup>.

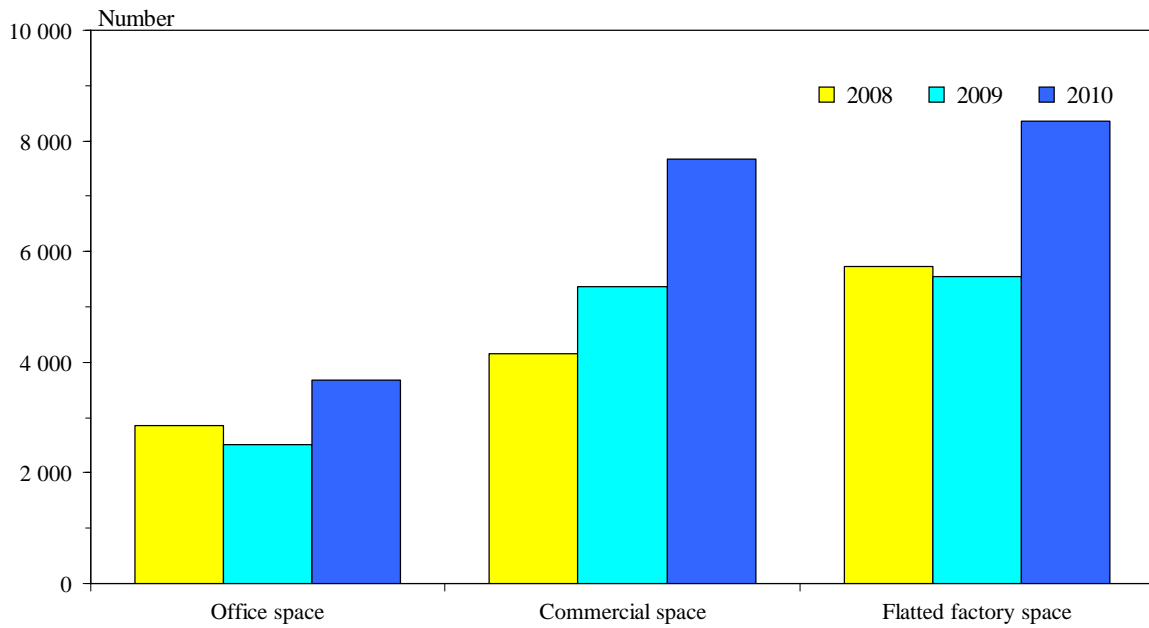
4.8 The *commercial and industrial property markets* also firmed up further, underpinned by the sustained economic recovery. For *office space*, transactions soared by 45% to 3 700 in 2010, though still 11% below the recent peak in 2007. Overall sale prices jumped by 23% between December 2009 and December 2010, with Grade A, B and C office space registering gains of 22%, 24% and 23% respectively. Office rentals also rose steadily through the year, albeit by a less rapid 14%. The rise in rentals of Grade A, B and C office space was largely similar, at 14%, 12% and 12% respectively. Following the rally since 2009, overall office prices have already exceeded their 2008 peak by a wide margin, but rentals were still slightly lower. In December 2010, the average rental yields for Grade A, B and C office space were 3.2%, 3.6% and 3.9% respectively, lower than the 3.3%, 4.0% and 4.2% a year earlier. Reflecting the solid demand against relatively low completion, the overall vacancy rate for office space fell visibly from 10.3% at end-2009 to 8.0% at end-2010.

4.9 The robust retail sector rendered a strong support to the market for *retail shop space* in 2010. Transactions surged by another 43% to 7 700, the highest level since 2004. In tandem with the buoyant activities, sale prices soared by 29% between December 2009 and December 2010, while rentals rose by a less rampant but still substantial 10%. As a result, the average rental yield for retail shop space fell from 3.7% to 3.2%. Both prices and rentals of retail shop space have fully recouped the losses suffered during the global financial crisis. Reflecting the strong take-up relative to completion in the year, the vacancy rate declined from 8.7% at end-2009 to 7.9% at end-2010<sup>(5)</sup>.

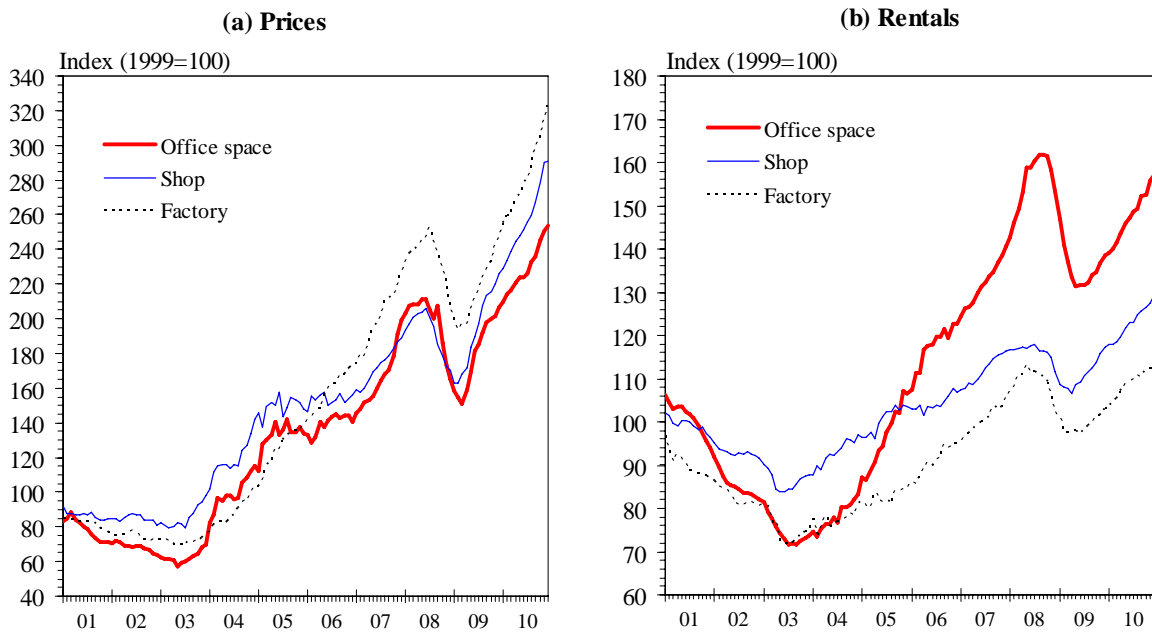
4.10 For *flatted factory space*, trading rebounded sharply by 51% to 8 400 in 2010 after declining for two years. Prices and rentals rose by 30% and 9% respectively between December 2009 and December 2010, leading to a decline in average rental yield from 5.1% to 4.3%. Compared with the 2008 peaks, prices of flatted factory space were already much higher, while rentals were roughly on par. The vacancy rate fell from 8.0% at end-2009 to 6.6% at end-2010.



**Diagram 4.4 : Transactions for commercial and industrial property rose substantially in 2010**



**Diagram 4.5 : Both prices and rentals of non-residential properties rose further in 2010**



## Land

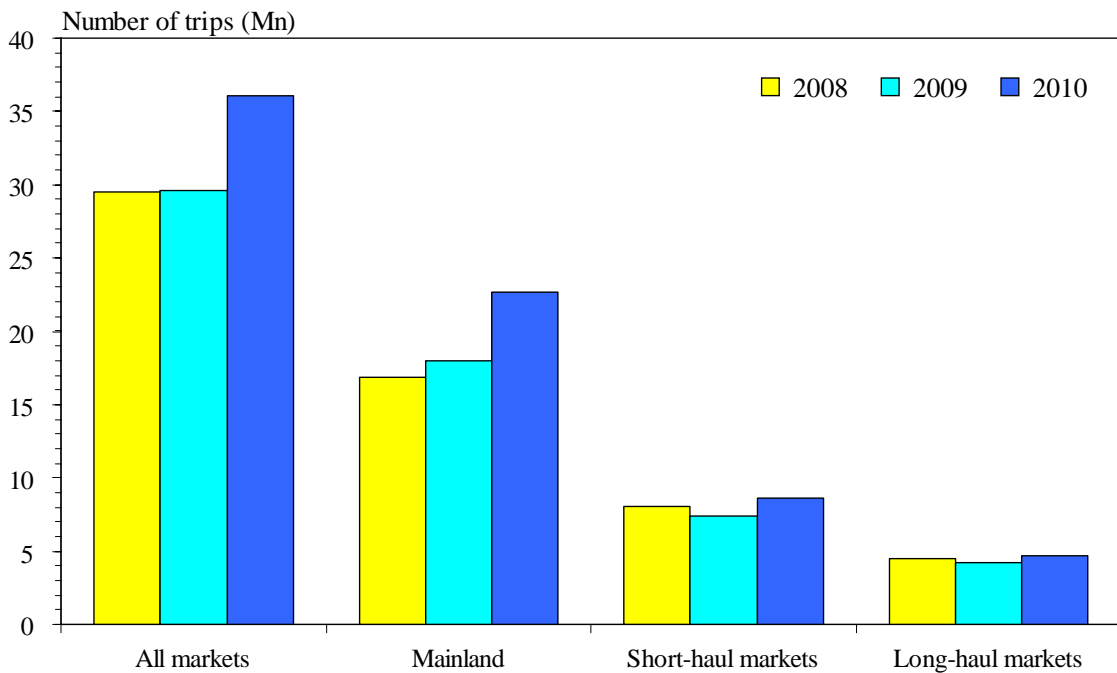
4.11 In parallel with the buoyant property market, land acquisition activities picked up visibly in 2010, especially in the first three quarters. For the year as a whole, 19 land sites with a total area of 15.2 hectares were sold, fetching land premium of \$45.2 billion in total. Among these sites, there were 11 residential sites from the *Application List* (AL) sold through auction (including three initiated by the Government). The remaining eight sites for petrol filling station, business or logistics development purposes were sold through public tender.

4.12 Regarding exchange of land, 17 sites with a total area of 22.9 hectares were approved. Among the approved cases, 12 sites were designated for private residential property development. As to lease modifications on the existing developed and developable land, 93 sites were approved of which 62 sites were for residential use.

## Tourism

4.13 Inbound tourism put up a strong performance in 2010 on the back of sustained global economic recovery, with the number of *incoming visitor arrivals* surging by 21.8% to a record-high of 36.0 million. Mainland visitors, of which 62.8% traveled under the Individual Visitor Scheme, registered a strong growth of 26.3% to 22.7 million and accounted for 63.0% of total visitors. Visitor arrivals from the short-haul markets likewise grew significantly by 17.1%, while those from long-haul markets increased by 10.5%<sup>(6)</sup>. Analysed by length of stay, the growth in the number of same-day visitors, at 25.9%, outpaced that of overnight visitors, at 18.7%. As a result, the share of same-day visitors in total arrivals rose further from 42.8% in 2009 to 44.3% in 2010, while that for overnight visitors declined from 57.2% to 55.7%.

**Diagram 4.6 : Incoming visitor arrivals from all major markets recorded notable growth in 2010**



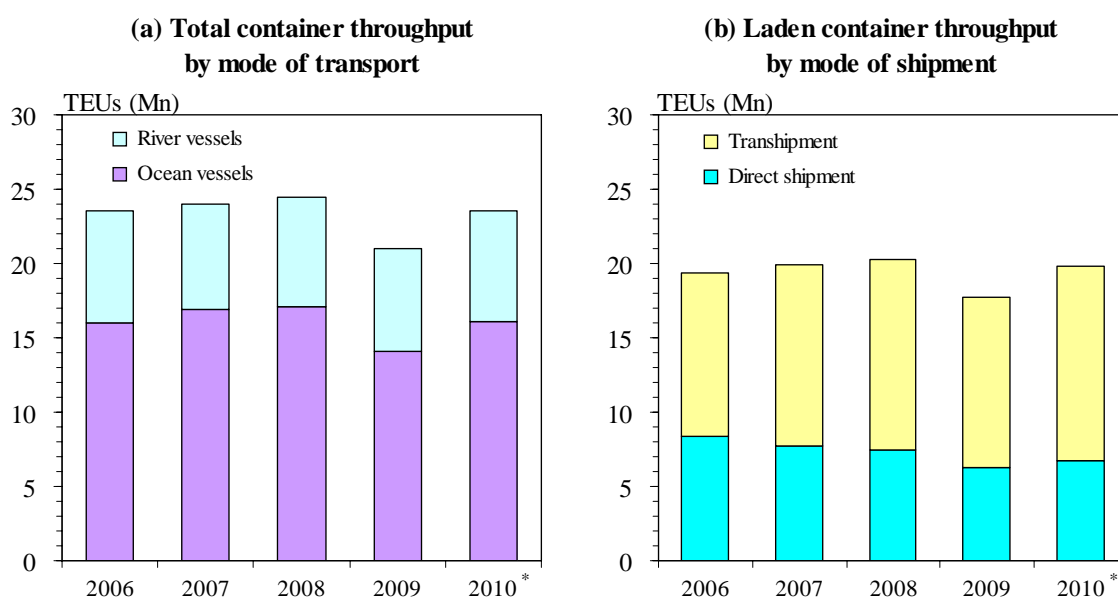
4.14 In parallel with the sharp growth in overnight visitors, the average hotel room occupancy rate jumped from 78% in 2009 to 87% in 2010. The average achieved hotel room rate also rose by 13.9% to \$1,165<sup>(7)</sup>.

4.15 Since 15 December 2010, the arrangement to allow non-Guangdong residents ordinarily residing in Shenzhen to apply for Individual Visit endorsements in Shenzhen to visit Hong Kong has been expanded to cover persons employed by the Shenzhen Municipal Government, employees of enterprises and individual business owners. This expansion will render greater convenience for some four million non-Shenzhen residents to visit Hong Kong.

## Logistics

4.16 The logistics sector staged a solid rebound in 2010 alongside the recovery of Hong Kong's external trade, though the growth tapered in the second half as the base of comparison gradually shifted higher. For the year as a whole, *total container throughput* rebounded by 12.2% to 23.6 million TEUs, recovering most of the losses recorded during the global financial crisis. Within the total, transshipment surged by 15.2%, while direct shipment cargo recorded a more moderate expansion of 8.7%. The value of trade handled at the Hong Kong Port jumped by 16.4% in 2010, yet its share in Hong Kong's total trade declined further from 28.7% in 2009 to 26.9% in 2010.

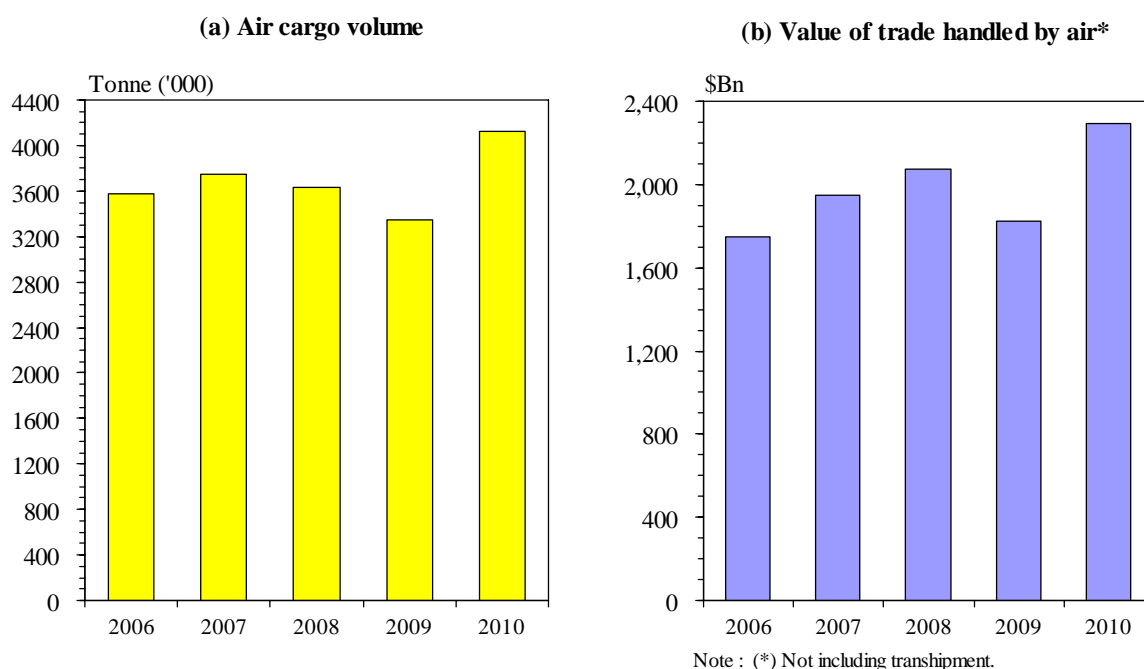
**Diagram 4.7 : Port container throughput staged a solid rebound in 2010**



Note :(\*) Total container throughput for 2010 is the preliminary estimate by Hong Kong Port Development Council. Its breakdowns by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2010.

4.17 *Air freight throughput* likewise rebounded, by a sharp 23.4% to a record-high of 4.1 million tonnes in 2010. In tandem, the total value of trade by air reverted to a strong 25.9% growth and its share in overall trade value edged up from 35.3% in 2009 to 35.8% in 2010.

**Diagram 4.8 : Both air cargo volume and the value of trade by air reached new highs**



## Transport

4.18 After a lacklustre performance in 2009, traffic flows for the major modes of transport revived in 2010. Air passenger traffic grew by 10.3% to 50.9 million, while water-borne passenger trips increased by 8.5% to 25.9 million. As to land-based cross-boundary traffic movements, passenger trips rose by 7.0% to 498 400 per day and vehicular movements by 6.0% to 43 100 per day.

4.19 Significant headways were made on several large-scale transport infrastructure projects in 2010. The construction of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link commenced in January for completion by 2015. The Airport Authority Hong Kong (AA) announced that phase 1 of the midfield expansion project would start in the third quarter of 2011. The project will increase the Hong Kong International Airport's handling capacity to meet the air traffic demand by 2020. The AA is also formulating the Hong Kong International Airport Master Plan 2030 on airport developments in the next twenty years, exploring different development strategies and options, including the feasibility of building a third runway. The public consultation on the Hong Kong International Airport Master Plan 2030 is expected to begin in the first half of 2011.

4.20 On domestic transport, the railway scheme for the Shatin to Central Link was gazetted under the Railways Ordinance in November 2010. The two

sections of the proposed railway line, namely the Tai Wai to Hung Hom Section and the Hung Hom to Admiralty Section, are expected to commence work in 2012 for completion by 2018 and 2020 respectively. In November 2010, the Chief Executive in Council authorised the South Island Line (SIL) (East) and the Kwun Tong Line Extension (KTE). The construction of both projects will start in mid-2011 for completion by 2015.

4.21 Following the completion of a consultancy study on how to improve the utilisation of the three road harbour crossings, in November the Government launched a three-month public consultation on its findings and recommendations. The Government will carefully consider the views of various sectors of the community and stakeholders expressed during the consultation before deciding on the way forward.

### **Creativity and innovation**

4.22 Significant strides were made in cross-boundary technological co-operation in 2010. At the national level, the fifth meeting of Mainland/Hong Kong Science and Technology Co-operation Committee was held in October, at which both sides agreed to explore further trade facilitation measures and encourage Hong Kong's research personnel and institutes to participate in national science and technology programmes. At the regional level, at its fourth meeting held in June, the Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology examined the first-year operation of the three-year action plan under the Shenzhen/Hong Kong Innovation Circle. The action plan, comprising 24 co-operation projects with involvement from government departments, universities, R&D institutions and community organisations in the two places, achieved satisfactory results over the past year. Looking forward, the Guangdong and Hong Kong Governments will work together to implement the objectives and measures stated in the Framework Agreement on Hong Kong/Guangdong Co-operation, including promoting the development of innovation and technology products under the Guangdong-Hong Kong Technology Co-operation Funding Scheme and encouraging the commercialisation of their technology achievements.

4.23 As to the West Kowloon Cultural District (WKCD), the public and a wide range of professional and arts and cultural stakeholders have expressed valuable views on the three Conceptual Plan Options during the Stage 2 Public Engagement exercise ended in November 2010. A selection panel, comprising members with strong backgrounds in arts and culture, technical issues and connection with the local community, was subsequently formed to assess and

consider the Options. The selection panel is expected to submit its recommendation by the first quarter of 2011 for the Board of the WKCD Authority to make a final decision.

## **Environment**

4.24 The Hong Kong-Guangdong Joint Working Group on Sustainable Development and Environmental Protection held the 11th meeting in December. At the meeting, both sides reviewed the progress of various environmental co-operation initiatives and considered that good progress had been made on different fronts, including improving the air quality in the Pearl River Delta (PRD) region, promoting cleaner production, protecting water environment, and managing the forestry and marine resources. Both sides also agreed on the work plans for 2011, which included such key areas as strengthening emission reduction and control measures under the PRD Regional Air Quality Management Plan, embarking upon a final assessment on the achievement of the 2010 air pollutant emission reduction targets at both sides, striving to complete the study on the post-2010 arrangements for air pollutant emission reduction in the PRD region, jointly taking forward the study on regional water quality management plan for the Pearl River Estuary and the review of the regional water quality control strategy for Mirs Bay, and exploring co-operation opportunities on recycling and reuse of detoxified reusable materials.

### **Notes :**

- (1) The Government announced a series of measures in February 2010 to ensure the healthy and stable development of the property market, targeting at four aspects, namely increase the flat supply via fine-tuning the land supply arrangements, discourage property speculation, improve transparency in property transactions and transaction prices, and prevent excessive expansion in mortgage lending. Subsequently in April, August and November, the Government announced further measures along the same directions and indicated that it would consider introducing further appropriate measures when necessary. Separately, in October the Chief Executive introduced in the 2010-11 Policy Address measures premised on three principles of the Government's housing policy. See Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010, and Footnote 2 to this chapter for details of the measures.
- (2) On 19 November 2010, the Government announced that any residential property acquired on or after 20 November 2010 and resold within 24 months will be subject to the proposed Special Stamp Duty (SSD). The SSD payable will be calculated based on the consideration for the resale transaction at the following regressive rates for different holding periods:

<b>Holding period</b>	<b>Rates of Special Stamp Duty</b>
Six months or less	15%
More than six months but for 12 months or less	10%
More than 12 months but for 24 months or less	5%

Also, deferred payment of Stamp Duty, including SSD, for residential property transactions of all values will be disallowed.

Separately, the Hong Kong Monetary Authority has implemented the following measures to strengthen risk management in mortgage lending business:

- (a) Lowering the maximum loan-to-value (LTV) ratio for residential properties with a value at HK\$12 million or above from 60% to 50%;
  - (b) Lowering the maximum LTV ratio for residential properties with a value at or above HK\$8 million and below HK\$12 million from 70% to 60%, but the maximum loan amount will be capped at HK\$6 million;
  - (c) Maintaining the maximum LTV ratio for residential properties with a value below HK\$8 million at 70%, but the maximum loan amount will be capped at HK\$4.8 million; and
  - (d) Lowering the maximum LTV ratio for all non-owner-occupied residential properties, properties held by a company and industrial and commercial properties to 50%, regardless of property values.
- (3) Take-up figures represent the net increase in the number of units occupied for domestic premises. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers.
  - (4) Position as at end-2010.
  - (5) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
  - (6) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific.
  - (7) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.



## CHAPTER 5 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *The low interest rate environment in Hong Kong continued throughout 2010 amid the ongoing accommodative monetary policy in the United States. Interest rates on both wholesale and retail fronts continued to stay at historically low levels.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range of 7.749 to 7.805 per US dollar in 2010. Meanwhile, the Hong Kong dollar Effective Exchange Rate Indices declined alongside the weakening of the US dollar against most major currencies.*
- *Supported by the entrenched economic recovery and buoyant equity fund raising activities, the monetary aggregates expanded further in 2010. Lending to all major economic sectors grew at a brisk pace.*
- *Following the consolidation in the first eight months of 2010, the local stock market picked up visibly starting September, underpinned by the strong growth in the emerging economies especially in the Mainland and a second round of quantitative easing measures in the major economies. Fund raising activities staged a strong performance in 2010, with the equity capital raised from Initial Public Offerings reaching a record high.*
- *In 2010, the financial services industry made notable headways on various fronts. There were a series of policy breakthroughs regarding renminbi business in Hong Kong. Significant progress was also made in investor and deposit protection, market regulation and cross-boundary co-operation.*

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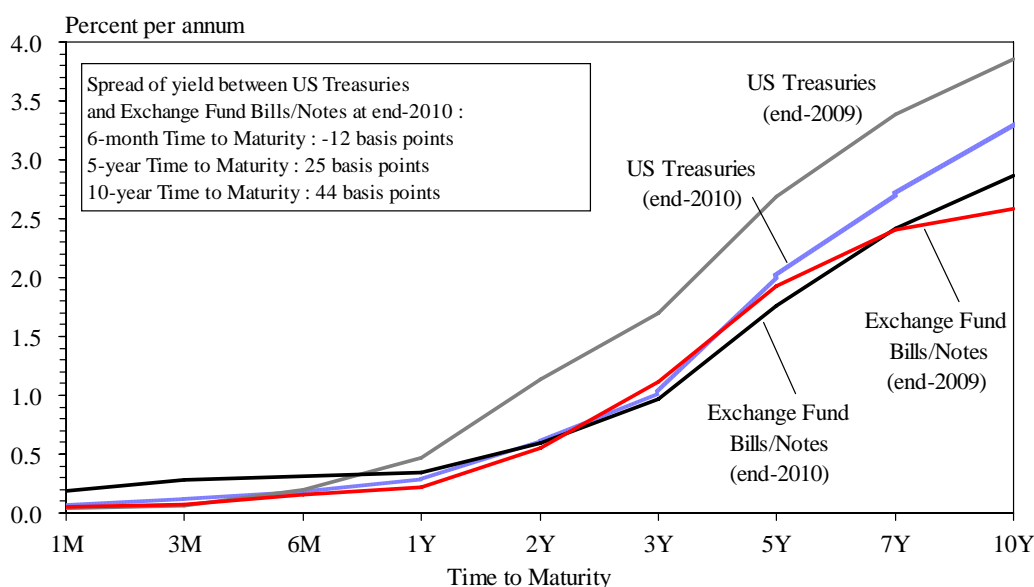
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

5.1 The low interest rate environment in Hong Kong continued throughout 2010 amid the ongoing accommodative monetary policy in the United States. With the US Federal Funds Target Rate staying at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA was unchanged at 0.5%<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* were broadly stable during the year except for a brief uptick in June. Between end-2009 and end-2010, the overnight HIBOR ended up unchanged at 0.13% while the three-month HIBOR edged up from 0.13% to 0.33%.

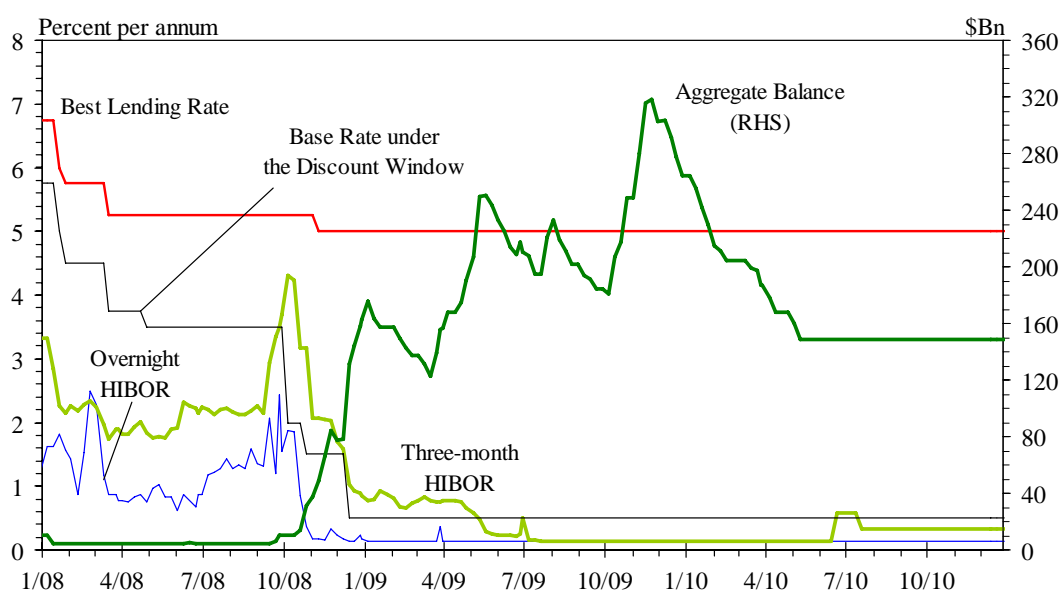
5.2 Hong Kong dollar interest rates continued to stay below their US dollar counterparts, but the negative spreads gradually narrowed in the second half, with the discount of the three-month HIBOR to the corresponding Euro-dollar deposit rate dwindling from 20 basis points at end-2009 to seven basis points at end-2010. Meanwhile, *Hong Kong dollar yields* rose at both the short-end and the long-end, while the *US dollar yield curve* flattened noticeably. As a result, the yield spread between 6-month US Treasury and 6-month Exchange Funds Bills turned from a premium of four basis points at end-2009 to a discount of 12 basis points at end-2010, while the premium between 10-year US Treasury and 10-year Exchange Fund Notes shrank sharply from 127 basis points to 44 basis points.

**Diagram 5.1 : Hong Kong dollar yield curve rose at both the short-end and the long-end, while the US dollar yield curve flattened noticeably**



5.3 Likewise, interest rates on the retail front remained stable at historically low levels. The *Best Lending Rates* (BLR) stayed unchanged at 5.00% or 5.25% throughout the year. The *average savings deposit rate* and one-month *time deposit rate* quoted by major banks also held steady at around 0.01%. In parallel to the movement of the corresponding HIBOR, the one-year time deposit rate edged up in June before reverting to 0.15% towards the end of the year, the same level a year earlier. Yet the *composite interest rate*, which reflects the average cost of funds for banks, crept up from 0.11% at end-2009 to 0.21% at end-2010<sup>(2)</sup>. Meanwhile, mortgage borrowers continued to take advantage of the low interest rates offered by loans priced with reference to HIBOR (the rate of which can be as low as one-month HIBOR plus 0.65 percentage point in mid-November), with the share of such loans in newly approved mortgage loans surging from 61.6% in December 2009 to 90.0% in December 2010.

**Diagram 5.2 : Hong Kong dollar interest rates continued to stay low  
(end for the week)**

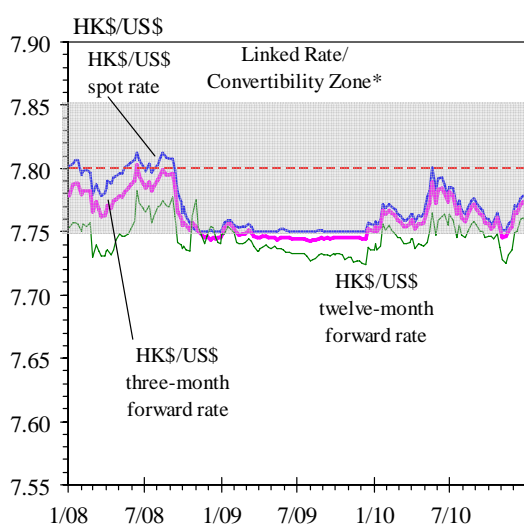


5.4 In 2010, the Hong Kong dollar spot exchange rate moved within a narrow range of 7.749 to 7.805 per US dollar. Notwithstanding a brief weakening around the middle of the year amid possible capital outflows induced by heightened concerns about the European debt crisis, it showed renewed strength thereafter on the back of strong demand associated with the vibrant Initial Public Offerings (IPOs) activities. Between end-2009 and end-2010, the Hong Kong dollar spot exchange rate softened slightly from 7.756 to 7.775. Over the same period, the discount of the *3-month Hong Kong dollar forward rate* widened from 48 pips to 57 pips (each pip equivalent to HK\$0.0001), while the discount of the *12-month Hong Kong dollar forward*

rate narrowed slightly from 193 pips to 191 pips.

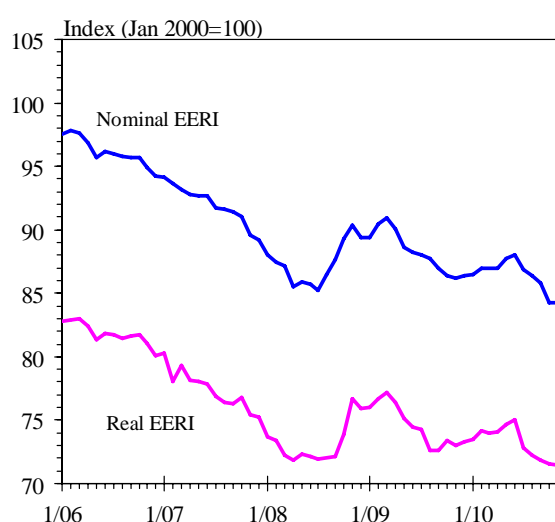
5.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rates against other currencies closely followed those of the US dollar. In 2010, the US dollar strengthened against the Euro and the British Pound amid concerns about the European debt problem but weakened further against most other currencies, especially the Australian dollar and the Japanese Yen. As a result, in December 2010 the trade-weighted *Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices* declined by 2.2% and 2.1% respectively from a year earlier<sup>(3)</sup>.

**Diagram 5.3 : Hong Kong dollar moved within a narrow range against the US dollar (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.

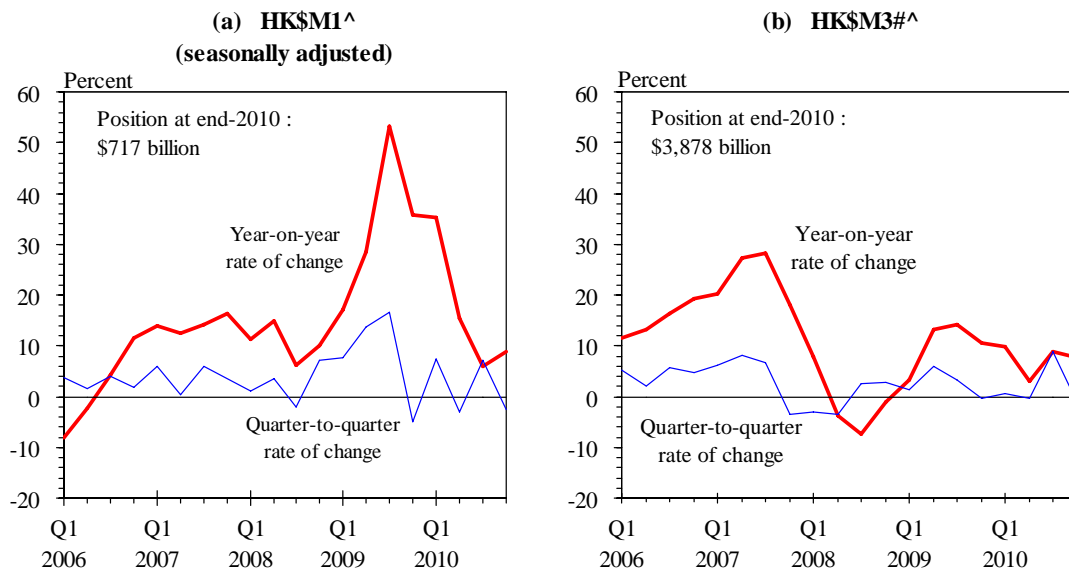
**Diagram 5.4 : Trade-weighted EERIs declined further alongside the weaker US dollar (average for the month)**



## Money supply and banking sector

5.6 Supported by the ongoing economic recovery and buoyant equity fund raising activities, the monetary aggregates expanded further in 2010. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by 8.8% over a year earlier to \$717 billion at end-2010, and the broad money supply (HK\$M3) by 7.6% to \$3,878 billion<sup>(4)</sup>. Over the period, *total deposits* with authorized institutions (AIs) expanded by 7.5% to \$6,862 billion<sup>(5)</sup>, among which Hong Kong dollar deposits rose by 7.2% to \$3,617 billion and foreign currency deposits by 7.9% to \$3,245 billion.

**Diagram 5.5 : Both HK\$M1 and HK\$M3 expanded further in 2010**



**Table 5.1 : Hong Kong dollar money supply and total money supply**

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		HK\$ <sup>^</sup>	Total	HK\$ <sup>(a)</sup>	Total	HK\$ <sup>(a)</sup>	Total
2009	Q1	7.7	6.9	1.3	-0.5	1.3	-0.6
	Q2	13.7	10.1	6.1	4.0	6.0	4.0
	Q3	16.7	19.5	3.4	2.4	3.3	2.3
	Q4	-5.0	-0.7	-0.3	-0.5	-0.3	-0.6
2010	Q1	7.4	4.7	0.4	-0.1	0.5	*
	Q2	-3.0	-4.3	-0.2	-0.3	-0.4	-0.4
	Q3	7.1	19.1	9.0	6.2	8.9	6.2
	Q4	-2.6	-5.4	-1.3	2.1	-1.4	2.1
Total amount at end-2010 (\$Bn)		717	1,017	3,867	7,136	3,878	7,156
% change over a year earlier		8.8	12.8	7.8	8.1	7.6	8.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

(\*) Change of less than 0.05%.

5.7 After staying virtually flat in 2009, *total loans and advances* jumped by 28.6% over a year earlier to a 13-year high of \$4,227 billion at end-2010 (comprising Hong Kong dollar loans of \$2,824 billion and foreign currency loans of \$1,403 billion). Within the total, loans for use in Hong Kong rebounded by 25.1% to \$3,316 billion, while loans for use outside Hong Kong surged by 42.8% to \$911 billion.

5.8 Supported by the entrenched economic recovery, lending to all major economic sectors expanded at a brisk pace. Trade finance and loans to wholesale and retail trade surged by 56.7% and 52.8% respectively alongside the strong external trade performance. Loans to stockbrokers and financial concerns, and loans for purchase of residential flats also recorded impressive growth, on the back of active equity fund raising activities and a buoyant residential property market. Reflecting the brisk growth in loans against the moderate expansion in deposits, the Hong Kong dollar loan-to-deposit ratio rebounded visibly from 71.2% at end-2009 to 78.1% at end-2010.

**Table 5.2 : Loans and advances**

All loans and advances for use in Hong Kong											
Loans to :											
% change during the quarter		Trade finance	Manu-facturing	Wholesale and retail trade	Building, construction, property development And investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock-brokers	Total <sup>(b)</sup>	All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
2009	Q1	-15.1	-1.5	-5.5	-1.0	-0.3	-14.5	-10.3	-3.8	-2.8	-3.6
	Q2	3.3	-5.8	1.9	-0.5	2.0	-9.0	443.6	1.6	-1.0	1.2
	Q3	2.3	1.9	3.8	-2.3	3.5	2.1	-17.2	1.6	5.6	2.3
	Q4	4.6	-7.7	1.4	2.9	2.0	-15.7	-70.8	-1.6	9.2	0.3
2010	Q1	12.2	3.4	10.2	6.8	2.5	7.1	12.3	4.8	8.3	5.5
	Q2	19.8	10.1	15.3	5.6	2.6	13.3	87.9	7.5	14.0	8.8
	Q3	9.1	7.5	13.3	6.1	5.2	3.5	316.3	9.3	9.6	9.4
	Q4	6.8	8.7	6.1	3.8	3.0	3.0	-83.1	1.6	5.6	2.5
Total amount at end-2010 (\$Bn)		274	170	236	845	795	246	18	3,316	911	4,227
% change over a year earlier		56.7	33.2	52.8	24.1	13.9	29.4	48.5	25.1	42.8	28.6

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.

5.9 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II"), the capital adequacy ratio (CAR) of these institutions stayed high at an average of 16.1% at end-September 2010. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

5.10 With a view to strengthening the resilience of the global banking system and reducing the probability and severity of banking crises in future, in December the Basel Committee issued the final text of Basel III rules text, setting out the details of the new global regulatory standards on bank capital adequacy and liquidity<sup>(6)</sup>. To meet the requirement to implement Basel III starting 2013, the HKMA will consider its approach and timeline of implementation of the various measures in consultation with the industry.

5.11 Based on the results of the Quantitative Impact Study on the Basel III consultative proposals conducted by the HKMA, banks in Hong Kong are expected to have little difficulty in meeting the higher capital requirements, given that they are well-capitalised with common equity accounting for a major portion of their capital, and that most of the Basel III regulatory adjustments have been deducted from Tier 1 capital under Hong Kong's existing capital rules.

5.12 Asset quality of the local banking sector continued to improve. The ratio of classified loans to total loans declined further from 1.37% at end-2009 to 0.84% at end-September 2010, and the delinquency ratio for credit card lending from 0.34% to a record low of 0.22%. Likewise, the delinquency ratio for residential mortgage loans edged down from 0.03% at end-2009 to 0.01% at end-2010.

**Table 5.3 : 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> (gross)
2009 Q1	96.09	2.44	1.47
Q2	96.14	2.35	1.51
Q3	96.47	2.12	1.42
Q4	96.74	1.88	1.37
2010 Q1	97.08	1.72	1.20
Q2	97.50	1.53	0.96
Q3	97.72	1.43	0.84

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”.

5.13 There were a series of significant policy breakthroughs regarding renminbi business in Hong Kong in 2010. In February, the HKMA issued a circular to elucidate the supervisory principles and operational arrangements regarding renminbi business in Hong Kong, with a view to simplifying banks’ operational procedures and increasing flexibility. In July, the Settlement Agreement on the Clearing of Renminbi Business (“Clearing Agreement”) was revised. Under the revised Clearing Agreement, there are no longer restrictions on banks in Hong Kong in establishing renminbi accounts for and providing related services to financial institutions, and individuals and corporations are able to conduct renminbi payments and transfers through the banks. Subsequently, the pilot scheme for Renminbi Clearing Bank and other eligible institutions outside the Mainland to invest in the Mainland’s interbank bond market was announced in August, and the HKMA’s eligibility to invest in the Mainland interbank bond market was approved in December. These developments represented significant headways in the development of offshore renminbi business in Hong Kong and could strengthen the territory’s capacity in the provision of renminbi financial intermediation and other services.

5.14 On cross-border trade settlement, in June the Mainland authorities announced an expansion of the renminbi trade settlement scheme to cover trade transactions of 20 Mainland provinces and cities with the rest of the world. In December the Mainland authorities announced to further expand the list of Mainland enterprises eligible for participating in the settlement scheme, substantially boosting the number of eligible enterprises from 365 to 67 359. As a result of the continued expansion of the renminbi trade settlement scheme,



the value of *cross-border renminbi trade settlement* in Hong Kong soared from a meagre RMB1.9 billion in 2009 to RMB369.2 billion in 2010.

5.15 *Total renminbi deposits* in Hong Kong continued to grow significantly, partly due to the increase in renminbi receipts by corporate customers through trade settlement transactions and partly due to the widespread appreciation expectation following People's Bank of China's decision to proceed further with the reform of the RMB exchange rate regime and to enhance the currency's exchange rate flexibility in June<sup>(7)</sup>. The outstanding amount of renminbi deposits jumped from RMB62.7 billion at end-2009 to a historic high of RMB314.9 billion at end-2010. As a result, the share of renminbi deposits to total foreign currency deposits soared from 2.4% to 11.5%.

5.16 Meanwhile, the growing pool of renminbi liquidity has provided an impetus to the development of Hong Kong as an offshore renminbi financing platform. In 2010, a wide spectrum of issuers including local and foreign corporations, Hong Kong branches of foreign banks, international financial institutions and the Ministry of Finance, issued 16 renminbi bonds in Hong Kong, raising a total of RMB36 billion. These issuances were greeted with favourable market responses from both retail and institutional investors.

**Table 5.4 : Renminbi deposits and cross-border renminbi trade settlement  
in Hong Kong**

<u>As at end of period</u>		Demand and savings <u>deposits</u> (RMB Mn)	Time <u>deposits</u> (RMB Mn)	Total <u>deposits</u> (RMB Mn)	<u>Interest rates on</u> <sup>(a)</sup>		Number of authorized institutions engaged in RMB <u>business</u>	Amount of cross-border RMB <u>trade settlement</u> <sup>(c)</sup> (RMB Mn)
					<u>Savings deposits</u> <sup>(b)</sup> (%)	<u>Three-month time deposits</u> <sup>(b)</sup> (%)		
2009	Q1	35,166	17,944	53,110	0.46	0.64	39	N.A.
	Q2	35,924	18,457	54,381	0.46	0.64	40	N.A.
	Q3	40,559	17,616	58,174	0.46	0.66	44	97
	Q4	40,662	22,056	62,718	0.46	0.67	60	1,757
2010	Q1	44,609	26,145	70,755	0.46	0.68	73	4,163
	Q2	52,426	37,275	89,702	0.46	0.68	77	22,974
	Q3	71,947	77,378	149,326	0.46	0.68	92	78,856
	Q4	117,573	197,365	314,938	0.46	0.68	111	263,238
% change over a year earlier		189.1	794.8	402.2	N.A.	N.A.	N.A.	N.A.

- Notes :
- (a) The interest rates are based on a survey conducted by the HKMA.
  - (b) Period average figures.
  - (c) Figures during the period. The RMB cross-border settlement scheme commenced in July 2009 and hence it is not appropriate to compare the figure in the fourth quarter of 2010 against the low base a year earlier.

N.A. Not available.

## The debt market

5.17 Driven by the robust growth in public sector debt, the Hong Kong dollar debt market expanded further in 2010. Total gross issuance of Hong Kong dollar debt securities leapt by another 60.7% to \$1,996.0 billion in 2010. Issuance of Exchange Fund Bills and Notes amounted to a hefty \$1,816.8 billion or 91% of the total, due to the increased supply of short-dated Exchange Fund papers to meet the banks' continued demand for liquidity management. Meanwhile, Hong Kong dollar debt issued by AIs, local corporations and overseas borrowers excluding the multilateral development banks edged up by 2.3% to \$149.2 billion. At end-2010, the total outstanding balance of Hong Kong dollar debt rose noticeably by 12.4% over a year earlier to a new high of \$1,248.8 billion<sup>(8)</sup>, equivalent to 32.2% of HK\$M3 or 26.3% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(9)</sup>.

5.18 As regards the Government Bond ("GB") Programme, a total of \$18.5 billion worth of GBs were issued under seven tenders in 2010, including \$7 billion 2-year GBs in two tenders, \$4 billion 5-year GBs in two tenders and \$7.5 billion 10-year GBs in three tenders. The tenders received favourable market responses from a diversified range of investors such as banks, investment funds, pension funds and insurance companies. The daily turnover of institutional GBs averaged at \$1.83 billion in the year, equivalent to a turnover ratio of 11.7%<sup>(10)</sup>, and the total outstanding size of institutional GBs was \$24 billion at end-2010.

**Table 5.5 : New issuance and outstanding value of Hong Kong dollar debt securities (\$Bn)**

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New issuance</b>											
2009	Annual	1,047.7	29.9	5.5	1,083.1	43.9	19.5	82.4	145.8	13.1	1,242.1
	Q1	130.7	8.6	-	139.4	5.6	2.8	29.6	38.0	5.8	183.1
	Q2	191.1	10.6	-	201.8	15.0	4.8	21.2	41.0	6.2	248.9
	Q3	333.8	9.4	3.5	346.7	11.6	5.2	17.6	34.4	0.4	381.5
	Q4	392.1	1.2	2.0	395.2	11.7	6.7	14.1	32.5	0.8	428.5
2010	Annual	1,816.8	11.2	18.5	1,846.4	85.0	13.4	50.8	149.2	0.3	1,996.0
	Q1	437.4	2.8	6.0	446.2	20.5	4.3	13.8	38.6	-	484.9
	Q2	456.5	3.6	4.5	464.6	17.9	3.2	8.7	29.8	0.3	494.6
	Q3	458.7	1.2	3.5	463.4	21.4	2.8	15.7	39.8	-	503.2
	Q4	464.1	3.6	4.5	472.3	25.2	3.2	12.6	41.0	-	513.3
% change in 2010 Q4 over 2009 Q4		18.4	209.2	125.0	19.5	115.2	-52.6	-10.5	26.1	N.A.	19.8
% change in 2010 over 2009		73.4	-62.5	236.4	70.5	93.7	-31.5	-38.3	2.3	-97.6	60.7
<b>Outstanding (as at end of period)</b>											
2009	Q1	218.9	63.5	5.0	287.4	86.2	67.7	325.2	479.1	19.3	785.8
	Q2	288.4	68.1	5.0	361.5	80.9	72.0	322.9	475.8	25.5	862.9
	Q3	413.0	74.4	5.0	492.5	82.8	73.7	319.8	476.3	23.9	992.7
	Q4	534.1	69.7	7.0	610.8	84.7	79.5	312.1	476.2	24.3	1,111.3
2010	Q1	612.5	68.0	13.0	693.5	90.7	82.6	304.9	478.2	21.1	1,192.8
	Q2	651.4	65.0	17.5	733.9	94.0	84.1	290.3	468.4	18.4	1,220.8
	Q3	652.1	63.8	21.0	736.9	105.2	85.2	290.2	480.6	15.9	1,233.4
	Q4	653.1	63.7	25.5	742.3	122.3	84.7	284.0	491.0	15.5	1,248.8
% change over a year earlier		22.3	-8.7	264.3	21.5	44.4	6.6	-9.0	3.1	-36.3	12.4

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

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

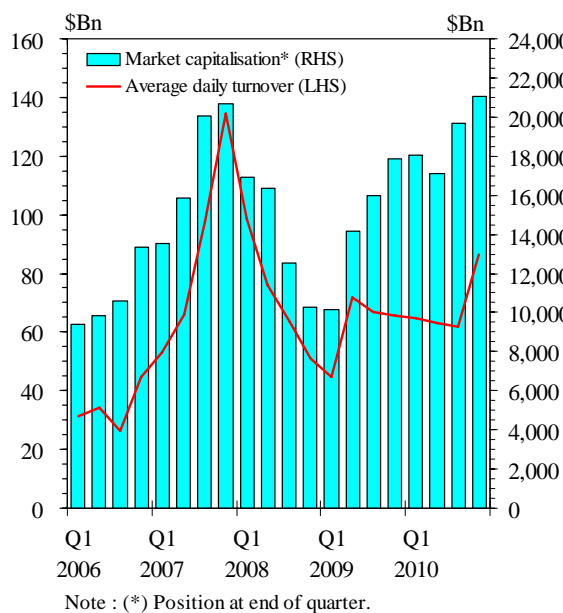
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## The stock and derivatives markets

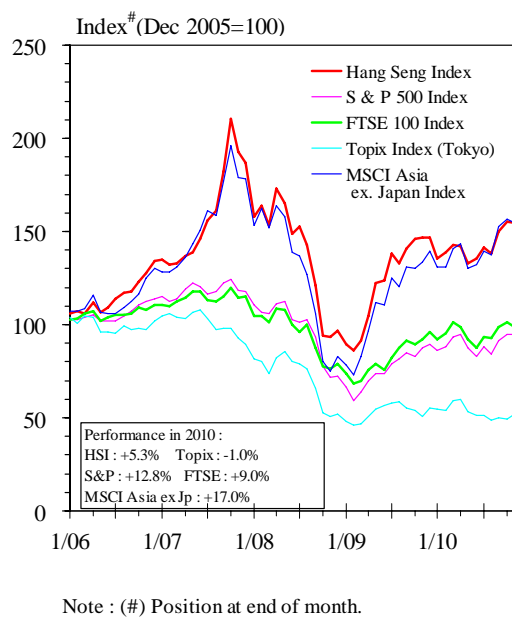
5.19 The *local stock market* underwent a consolidation in the first eight months of the year amid worries about the European debt problems and the economic recovery in the United States losing momentum. Yet supported by the strong growth in the emerging economies especially in the Mainland and a second round of quantitative easing measures in the major economies, investor sentiment has picked up visibly since September. The *Hang Seng Index* (HSI) closed the year at 23 035, 5.3% higher than a year earlier. While this represented a more moderate gain than those recorded in most major markets, the HSI has rallied by a cumulative 103% from the recent trough in early 2009. In parallel, *average daily turnover* increased by 10.9% to \$69.1 billion in 2010, with a particularly sharp revival recorded in the fourth quarter.

5.20 After a weak start in the early months of 2010, fund raising activities staged a strong performance in the second half. For the year as a whole, *equity capital raised* through new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) surged by 33.7% to a historic high of \$858.7 billion. Among the total, a record \$449.5 billion were raised by IPOs of 113 companies including two large-sized financial institutions, representing a 81.1% jump over the preceding year<sup>(11)</sup>. This ranked Hong Kong the first in IPO activities among all major exchanges for the second consecutive year. As a result of the rise in stock prices and buoyant fund-raising activities, the *market capitalisation* expanded briskly by 17.9% over a year earlier to \$21.1 trillion at end-2010, though it was still sharply below the peak in late 2007. According to the *World Federation of Exchanges*, the local bourse continued to be the seventh largest in the world and the third largest in Asia<sup>(12)</sup>.

**Diagram 5.6 : The local stock market has picked up visibly since September 2010**



**Diagram 5.7 : The Hang Seng Index recorded a more moderate gain than most major markets in 2010**



5.21 Mainland enterprises continued to play a prominent role in the local stock market. At end-2010, a total of 592 Mainland enterprises (including 163 H-share companies, 102 “Red Chips” companies and 327 private enterprises) were listed on the Main Board and GEM, representing 42% of the total number of listed companies and 57% of total market capitalisation. In 2010, Mainland-related stocks accounted for 68% of equity turnover and 55% of total equity fund raised in the Hong Kong stock exchange.

5.22 After a lacklustre performance in 2009, trading of *derivatives products* rebounded sharply in 2010. The average daily trading volume of futures and options surged by 17.5%, with different types of products continuing to show mixed performance<sup>(13)</sup>. Trading of HSI options and stock options surged by 58.3% and 28.6% respectively, while trading of HSI futures and H-shares Index futures edged up by 1.3% and 0.1%. The average daily trading value of securitised derivatives jumped by 24.5%. Within the total, trading of derivative warrants soared further by 62.7% while trading of callable bull/bear contracts dwindled by another 13.2% (**Box 5.1**).

**Table 5.6 : Average daily turnover of derivatives products of the Hong Kong market**

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn)^
2009	Annual	83 750	21 686	50 077	191 676	398 134	6,646	6,731	13,377
	Q1	80 094	17 167	54 785	194 279	389 778	5,240	5,856	11,096
	Q2	95 356	21 465	55 346	217 696	449 160	6,770	7,720	14,490
	Q3	84 197	21 857	47 683	168 876	373 514	7,458	6,681	14,139
	Q4	75 403	26 100	42 828	187 277	381 632	7,027	6,660	13,687
2010	Annual	84 803	34 335	50 120	246 474	467 961	10,813	5,845	16,658
	Q1	84 138	29 731	48 617	205 581	417 305	9,646	4,757	14,402
	Q2	83 863	32 252	53 719	237 708	461 361	8,972	4,994	13,966
	Q3	78 556	31 800	46 850	216 830	420 924	10,456	5,486	15,942
	Q4	92 688	43 352	51 470	324 534	571 079	14,010	8,039	22,049
% change in 2010 Q4 over 2009 Q4		22.9	66.1	20.2	73.3	49.6	99.4	20.7	61.1
% change in 2010 over 2009		1.3	58.3	0.1	28.6	17.5	62.7	-13.2	24.5

Notes : (\*) Turnover figures for individual futures and options are in number of contracts, and may not add up to the total futures and options traded as some products are not included.

(^) Comprising derivative warrants and callable bull/bear contracts.

5.23 Following the earlier public consultation, in November the Hong Kong Exchanges and Clearing Limited (HKEx) announced that the trading hours of the securities and derivatives markets would be extended in two phases. The opening time of the morning Continuous Trading Sessions (CTS) will be advanced by half an hour and that of the afternoon CTS by one hour starting 7 March 2011. The afternoon CTS will be further advanced by another half an hour starting 5 March 2012<sup>(14)</sup>. Through raising the overlap in its trading hours with that of the Mainland counterparts, the price discovery function of the local bourse for Mainland-related securities will be enhanced.

## Box 5.1

### Hong Kong's derivatives market in 2009/10

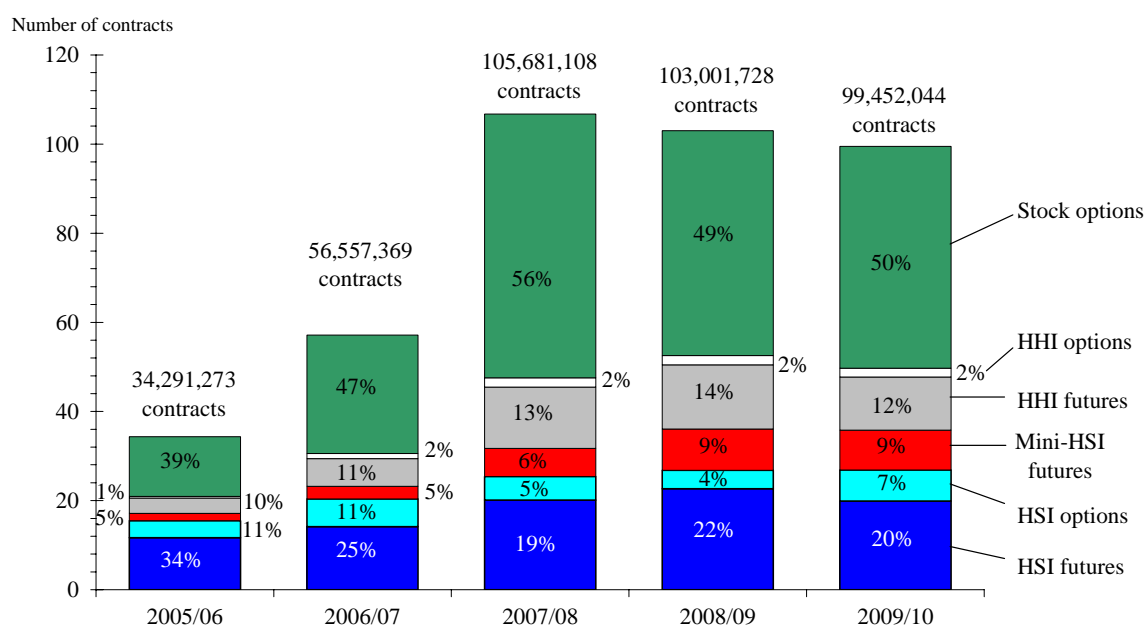
The derivatives market is an indispensable part of Hong Kong's financial market. In order to understand the trading composition in terms of investor type and trading purpose, the Hong Kong Exchanges and Clearing Limited (HKEx) has been conducting an annual survey on the derivatives market since 1994. The latest issue, "The Derivatives Market Transaction Survey 2009/10", covered derivatives transactions for major futures and options products during July 2009 to June 2010 and was published in November 2010<sup>(1)</sup>.

Total market turnover for the covered derivatives products declined by 3% over the preceding year to 99 million contracts in 2009/10, as the decline in trading of index futures and stock options more than offset the gain in trading of index options. Over the past five years, there was a sharp average growth of 38% per annum, though the latest figure was still 6% below the peak in 2007/08.

#### Transaction purpose

In 2009/10, hedging was the main purpose of derivatives transactions, for the first time since the survey commenced. It accounted for 45% of the turnover, significantly up from 32% in 2005/06. Pure trading remained an important purpose, though its share of 39% represented a cumulative decline of ten percentage points from 2005/06. Meanwhile, the share of transactions for arbitrage purpose moved within a narrow range of 16% to 21% over the years.

#### Total market contract turnover and distribution by product (2005/06-2009/10)



Note : Numbers may not add up to 100% due to rounding.

(1) The covered products included Hang Seng Index (HSI) futures, HSI options, Mini-HSI futures, H-shares Index (HHI) futures, HHI options and stock options, which together contributed about 99% of the total turnover volume of the HKEx derivatives market during the period.

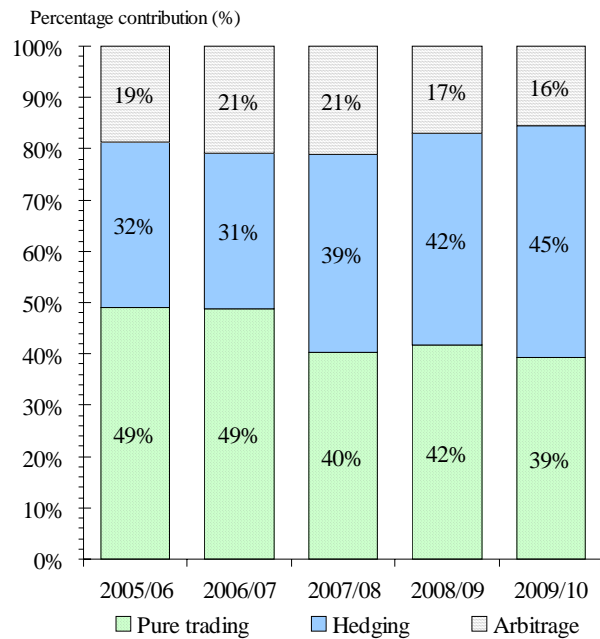


### Box 5.1 (Cont'd)

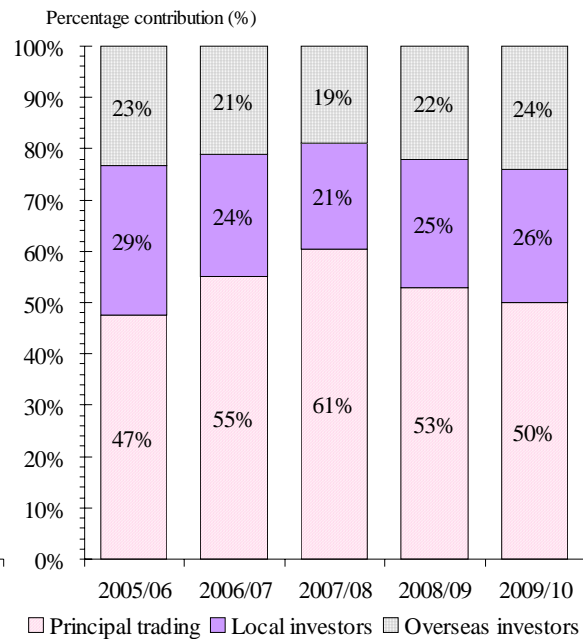
#### Trading by investor type

Major market participants in the derivatives market included principal trading (comprising market-maker trading and proprietary trading of exchange participants), and local/overseas investors with retail/ institutional background. In 2009/10, principal trading continued to be the largest contributor to derivatives trading, accounting for 50% of the total. Local and overseas investors each accounted for about 25%.

**Distribution of trading by transaction purpose**



**Distribution of trading by investor type**



Note : Numbers may not add up to 100% due to rounding.

## **Fund management and investment funds**

5.24 The fund management business continued to put up a solid performance. Gross retail sales of *mutual funds* jumped by 92.3% over the low base in 2009 to US\$28.8 billion in 2010, though it was still much lower than the recent peak in 2007<sup>(15)</sup>. The aggregate net asset value of the approved constituent funds under the *MPF schemes* recorded a distinct expansion of 18.3% over a year earlier to \$365 billion at end-2010<sup>(16)</sup>. Retail hedge funds business also grew sharply during the year<sup>(17)</sup>.

5.25 The Government and the Mandatory Provident Fund Schemes Authority (MPFA) announced a plan to introduce legislation to strengthen the regulatory regime of MPF intermediaries before launching the Employee Choice Arrangement, which will give over two million MPF scheme members a right to transfer the accrued benefits derived from their own mandatory contributions during current employment to an MPF scheme of their choice. The Government and the MPFA are developing legislative proposals in conjunction with financial regulators for consultation and aim to start the legislative process in 2011.

## **Insurance sector**

5.26 In the *insurance sector*, in the third quarter of 2010 gross premium for general business rose by 10.4% over a year earlier, but underwriting profit plunged by 34.5%<sup>(18)</sup>. Meanwhile, gross premium income from long-term business dropped by 3.2%, with both investment-linked plans and non-linked plans showing lacklustre performance.

5.27 The three-month public consultation on the proposed establishment of an independent insurance authority (IIA) ended in October. During the consultation, the public as well as stakeholders in the insurance industry expressed valuable views and comments on the proposed governance structure, organization framework, functions, powers and funding mechanism of the IIA. The Government is analysing the comments and developing detailed proposals to facilitate further discussions with the Legislative Council and the industry. In light of these discussions, the Government will draw up legislative proposals for the establishment of the IIA.

**Table 5.7 : Insurance business in Hong Kong\* (\$Mn)**

		General business			Premium for long-term business <sup>^</sup>					
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	Gross premium from long-term business and general business
2009	Annual	28,550	20,512	2,209	30,965	15,066	279	207	46,517	75,067
	Q1	7,940	5,647	694	6,223	2,198	54	69	8,544	16,484
	Q2	6,568	4,853	600	7,040	3,827	69	37	10,973	17,541
	Q3	7,026	5,122	670	9,658	4,582	72	73	14,385	21,411
	Q4	7,016	4,890	245	8,044	4,459	84	28	12,615	19,631
2010	Q1	9,230	6,460	559	8,729	4,002	33	54	12,818	22,048
	Q2	7,385	5,279	714	11,074	4,515	30	55	15,674	23,059
	Q3	7,756	5,498	439	9,689	4,155	11	65	13,920	21,676
% change over a year earlier		10.4	7.3	-34.5	0.3	-9.3	-84.7	-11.0	-3.2	1.2

Notes : (\*) Figures are based on provisional statistics of the Hong Kong insurance industry.

(^) Figures refer to new business only. Retirement scheme business is excluded.

### Some highlights of market developments

5.28 In 2010, the financial services industry of Hong Kong made further headways on various fronts including investor and deposit protection, market regulation and cross-boundary co-operation. On deposit protection, in June the Legislative Council passed the Deposit Protection Scheme (Amendment) Bill 2010, which raised the protection limit from \$100,000 to \$500,000 with effect from 1 January 2011 (i.e. after the expiry of the full deposit guarantee at end-2010). The higher limit would fully cover about 90% of depositors, on par with the higher end of international standards in terms of percentage of depositors fully covered. The scheme's coverage was also expanded to include deposits pledged as security for banking services.

5.29 In response to the G20's recommendations to improve the regulation of the over-the-counter (OTC) derivatives markets, in December the HKEx and HKMA announced to respectively set up a Central Counterparty (CCP) and a Trade Repository (TR) by end-2012. The CCP will render a stable and efficient central clearing house for OTC derivatives transactions with a view to reducing counterparty risk, while the TR, through maintaining an electronic database of records of such transactions, will provide valuable information for

regulatory authorities to carry out surveillance responsibilities. At the initial stage, the reporting and clearing requirement will apply to interest rate swaps and non-deliverable forwards, and may be later extended to other derivatives asset classes having regard to prevailing local and overseas market developments.

5.30 Having considered the views and comments solicited during the earlier public consultation, in December the Government announced the plan to establish an Investor Education Council (IEC) and a Financial Dispute Resolution Centre (FDRC) in order to enhance investor protection<sup>(19)</sup>. The IEC will devise and take forward the holistic strategy for improving general financial literacy, and therefore the public's ability in managing finance and making informed financial decisions. On the other hand, the FDRC will be responsible for managing an independent and impartial dispute resolution scheme, thus offering a speedy and affordable way to handle monetary disputes between individual consumers and financial institutions.

5.31 In December the HKEx published a consultation paper on the proposed changes to the Code on Corporate Governance Practices and certain Listing Rules relating to corporate governance. The proposed amendments target at such important aspects as communications with shareholders, quality of directors and company secretaries, independent non-executive directors' involvement in the board committees of listed companies and the chairman's role in corporate governance. These proposals are in line with international best practices and are expected to promote the development of higher corporate governance standards amongst the listed companies in Hong Kong.

5.32 As regards cross-boundary co-operation of financial services industry, market access to the Mainland for the banking and securities services sector of Hong Kong has been enhanced since 1 January 2011 under Supplement VII to CEPA signed in May 2010. For banking services, Hong Kong banks that have maintained representative offices in the Mainland for more than one year can apply for setting up a wholly foreign-funded bank or a foreign bank branch, and their operating institutions in the Mainland can apply for conducting renminbi business if they have been operating for more than two years and profitable for one year. In addition, foreign banking institutions established in the Mainland by Hong Kong banks can set up specialised institutions to provide financial services to small enterprises. For securities services, open-end index-tracking exchange-traded funds constituted by Hong Kong listed stocks will be launched in the Mainland at an appropriate time.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (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) Authorized institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-2010, there were 146 licensed banks, 21 restricted licence banks and 26 deposit-taking companies in Hong Kong. Altogether, 193 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The Basel III will tighten the definition of capital and increase the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6%. In addition, banks will be required to hold a capital conservation buffer of 2.5%, bringing the total common equity requirements to 7%. This reinforces the higher capital requirements for trading, derivatives and securitisation activities to be introduced by Basel Committee members including Hong Kong at the end of 2011. The Basel III will also introduce liquidity standards covering a liquidity coverage ratio (i.e. the ratio of high-quality liquid assets to total net cash outflows over the next 30 calendar days) of at least 100% and a net stable funding ratio (i.e. the ratio of available to required amount of stable funding) of above 100%.
- (7) On 19 June 2010, the People's Bank of China announced the decision to proceed further with reform of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility. In further proceeding with reform of the RMB exchange rate regime, continued emphasis would be put on reflecting market supply and demand with reference to a basket of currencies. The daily exchange rate floating bands, at 0.5%, remains the same as previously announced in the inter-bank foreign exchange market.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from Authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (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.
- (10) Turnover ratio is defined as the average daily turnover of bonds divided by the average amount of bonds outstanding.
- (11) At end-2010, there were 1 244 and 169 companies listed on the Main Board and GEM respectively.
- (12) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 52 securities exchanges (as of 16 February 2011), covering almost all globally recognised stock exchanges.
- (13) At end-2010, there were 57 classes of stock options contracts and 38 classes of stock futures contracts.

- (14) The current and the extended morning and afternoon Continuous Trading Sessions (CTS) of the local securities and derivatives markets are as follows :

	Securities market and stock futures/ <u>options markets</u>	Index futures/ <u>options markets</u>
<b>Morning CTS</b>		
Current	10:00-12:30	09:45-12:30
Phase1 (effective 7 March 2011)	09:30-12:00	09:15-12:00
Phase2 (effective 5 March 2012)	09:30-12:00	09:15-12:00
<b>Afternoon CTS</b>		
Current	14:30-16:00	14:30-16:15
Phase1 (effective 7 March 2011)	13:30-16:00	13:30:16:15
Phase2 (effective 5 March 2012)	13:00-16:00	13:00:16:15

In additional to CTS, the securities and index futures/options markets each have an auction session of half an hour before the morning CTS. Also, the index futures/options markets have an auction session of half an hour before the afternoon CTS.

- (15) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorized funds that have responded to the survey. At end-2010, the survey covered a total of 1 319 active authorized funds.
- (16) At end-2010, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 421 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 244 000 employers, 2.26 million employees and 260 000 self-employed persons have participated in MPF schemes.
- (17) At end-2010, there were 10 SFC-authorized retail hedge funds with combined net asset size of US\$952 million. The amount of net assets under management was 40.2% higher than the end-2009 level and more than five times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (18) At end-2010, there were 168 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 103 in general insurance business, and 19 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).
- (19) The Government aims at setting up the FDRC by mid-2012. The IEC will be set up as soon as the Legislative Council approves the relevant amendments to the Securities and Futures Ordinance, which will be introduced in May/June 2011.

## CHAPTER 6 : THE LABOUR SECTOR

### *Summary*

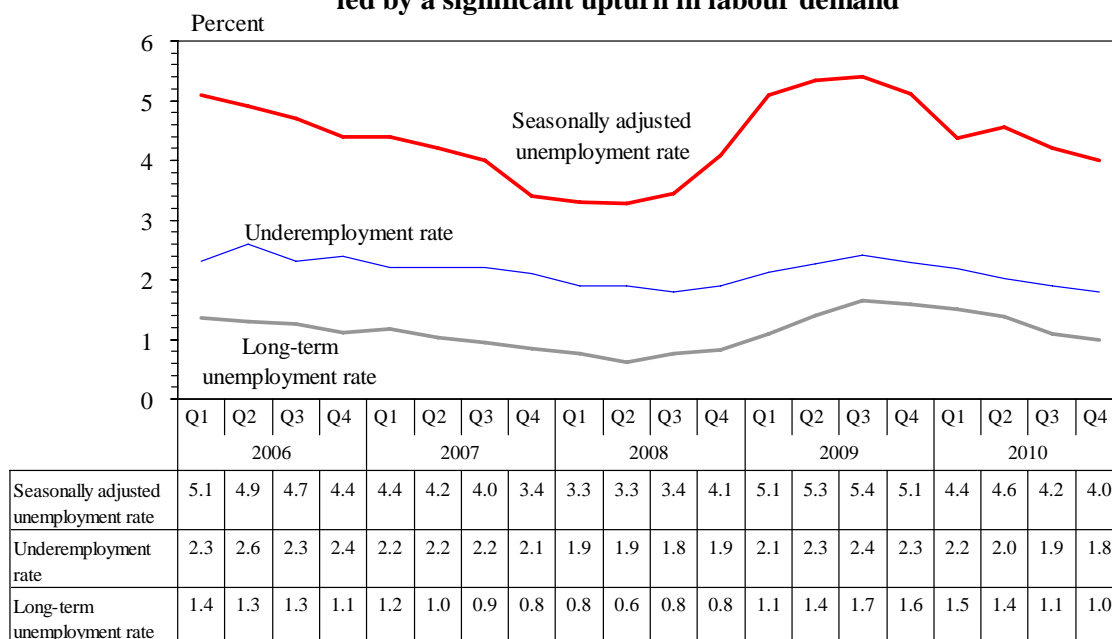
- *Labour market conditions witnessed widespread and noticeable improvements over the course of 2010, thanks to the strong pick-up in economic activity and substantial job creation.*
- *Total employment bounced up especially in the latter part of 2010, reaching an all-time high of 3 563 700 at year-end. The new jobs created were more than adequate in absorbing not only the previously unemployed persons, but also new entrants joining the labour force.*
- *Consequential to the improved manpower balance, both the seasonally adjusted unemployment rate and the number of unemployed persons trended downward during most of 2010, ending the year at 4.0% and 136 300 respectively. These were distinctly below the previous peaks of 5.5% and 217 000 in mid-2009, and were in fact the lowest levels recorded since late 2008.*
- *Wages and payroll resumed increases in the first nine months of 2010, at a pace broadly comparable to the inflation rate. In real terms, both wages and payroll therefore showed little change.*

### **Overall labour market situation**

6.1 Labour market conditions, having staged a gradual turnaround in the second half of 2009, witnessed a noticeable pick-up in the recovery pace in 2010, amid the sustained economic growth and job creation. Total employment rose to a historical high of 3 563 700 by the end of 2010, while the *unemployment rate*<sup>(1)</sup> generally fell, ending the year at the 4.0% mark, the lowest level since September - November 2008. Apparently, employees in the lower segment tended to benefit more from the improved employment situation, as the new jobs created were mainly found in the labour-intensive and lower-skilled sectors such as repair, laundry, domestic and other personal service activities; distributive and catering trades; and real estate. Furthermore, as more and more full-time jobs became available in tandem with the entrenched economic recovery, the *underemployment rate*<sup>(2)</sup> also edged lower to 1.8% at year-end. In tandem with the strengthened labour demand, wages and earnings went up in money terms across all segments of the workforce, although they were broadly steady in real terms.



**Diagram 6.1 : The unemployment rate declined for most of 2010, led by a significant upturn in labour demand**



## Total labour supply and employment

6.2 In 2010, the *labour force*<sup>(3)</sup> showed virtually zero growth, which contrasted with the annual expansion of around 1% prevailing in the past few years. This slowdown was attributable to a reduction of 10.9% in the supply of youth labour, which neutralised the effect of increases in the other age groups. Reduced youth participation after graduation, as borne out by a drop in the labour force participation rate (LFPR) for persons aged 15-24 and a surge in enrolment of youngsters in tertiary education programmes, was the primary factor. Specifically, the LFPR for persons aged 15-19 and 20-24 averaged at 9.8% and 61.9% respectively in 2010, distinctly down from 12.0% and 65.5% in 2009. The quarterly profile revealed that the year-on-year growth was negative in the first three quarters of the year, but turned positive in the fourth quarter as the growing job opportunities induced an increased entry of middle-aged people into the labour market.

6.3 On the other hand, *total employment*<sup>(4)</sup> went up by 1.1% in 2010, reversing the decrease of 1.1% in the preceding year. Growth actually accelerated over the course of the year, from 0.1% year-on-year in the first quarter to 2.4% in the fourth quarter. In absolute terms, the number of employed persons likewise jumped over the same period, from 3 496 700 to a record high of 3 563 700, thanks to the improved economic performance and resultant boost to the labour demand.

6.4 As to the pronounced upsurge in total employment in the fourth quarter of 2010, the disaggregated data showed that the growth impetus came primarily from new jobs created in the domestically-oriented sectors, including repair, laundry, domestic and other personal service activities; education; retail, accommodation and food services; and real estate.

6.5 These were also economic sectors hiring a larger proportion of lower-skilled staff. As a result, employment growth recorded for lower-skilled workers outpaced visibly that for higher-skilled workers in the fourth quarter of 2010, at 3.3% as against 0.8% on a year-on-year basis. Within the former group, workers in elementary occupations, clerks, and service workers and shop sales workers saw more noticeable growth, at 5.6%, 4.0% and 3.6% respectively. In terms of age group and educational attainment, persons aged 25-34 and 50 or above, as well as those with upper secondary education or above, were the ones benefiting more from the increase in employment.

6.6 Analysed by job nature, the number of employees recorded a surge of 127 200 (or 4.1%) in the fourth quarter, more than offsetting the decrease of 41 200 (or 16.1%) in the number of self-employed workers. Within the former group, full-time employees rose distinctly by 4.6%, outweighing the 2.5% drop in part-time employees. Conceivably, some of the previously self-employed persons were lured by the increased availability of full-time jobs in the corporate sector with better security and employment conditions, and joined the ranks of employees during the period.

6.7 Comparing the fourth quarter of 2010 with June - August 2008 (i.e. the period just before the outbreak of the global financial crisis), whereas the higher-skilled workers were still suffering from job losses (-27 700 or -2.1%), the lower-skilled workers generally experienced significant employment gains (60 400 or 2.7%). Taking these two groups together, total employment thus posted a net gain of 32 700 (0.9%). A breakdown by economic sector indicated that the externally-oriented sectors had yet to recoup the ground lost since the financial crisis, with import/export trade and wholesale, manufacturing, and financing services registering a combined job loss of 90 700. Yet this was more than compensated for by the increases, totaling 123 400, in other sectors, especially in consumption-related services; repair, laundry, domestic and other personal service activities; education and real estate.

**Table 6.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2009 Annual	3 676 600 (0.8)	3 479 800 (-1.1)	196 700	86 400
Q1	3 681 700 (1.2)	3 494 000 (-0.7)	187 700	78 500
Q2	3 688 600 (1.4)	3 485 700 (-0.9)	202 900	84 000
Q3	3 692 200 (1.0)	3 483 000 (-1.2)	209 200	89 300
Q4	3 653 400 (-0.2)	3 480 700 (-1.1)	172 600	83 800
2010 Annual <sup>#</sup>	3 675 900 (*)	3 518 300 (1.1)	157 700	72 900
Q1	3 657 300 (-0.7)	3 496 700 (0.1)	160 600	80 000
Q2	3 664 000 (-0.7)	3 492 100 (0.2)	171 800	73 700
Q3	3 682 500 (-0.3)	3 520 600 (1.1)	161 800	71 000
Q4	3 700 000 (1.3)	3 563 700 (2.4)	136 300	67 000
	<0.8>	<1.1>		

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

( ) % change over a year earlier.

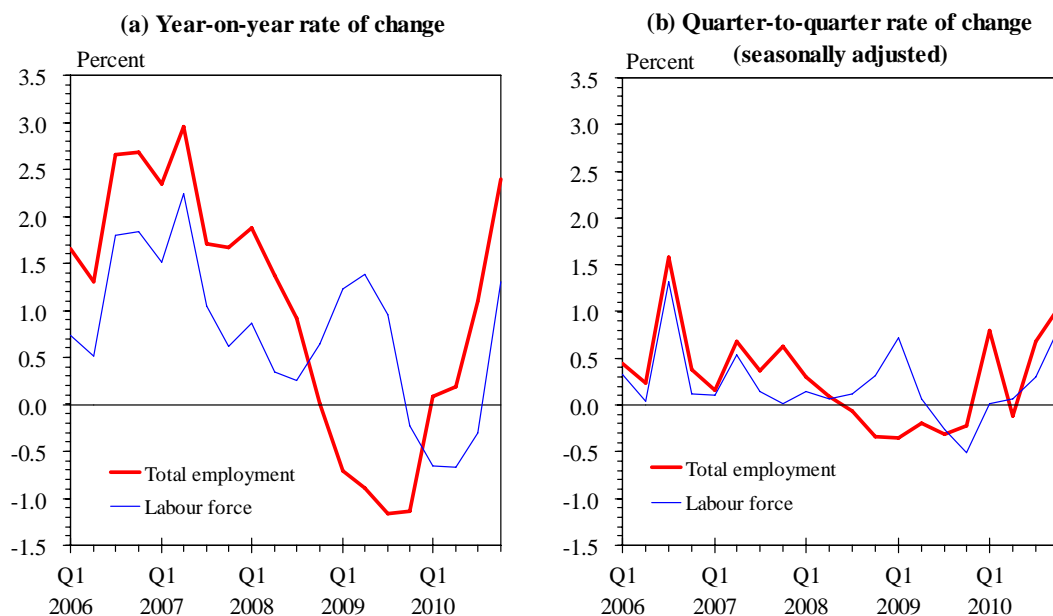
< > Seasonally adjusted quarter-to-quarter % change for October - December 2010.

\* Less than 0.05%.

# Provisional figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 6.2 : Employment growth outstripped the labour force growth in 2010**



**Table 6.2 : Labour force participation rates by gender (%)**

		<u>Male</u>	<u>Female</u>	<u>Both genders combined</u>
2009	Q1	69.6	53.7	61.1
	Q2	69.7	53.5	61.1
	Q3	69.8	53.3	60.9
	Q4	68.7	52.7	60.1
2010	Q1	68.7	52.4	60.0
	Q2	68.6	52.4	59.9
	Q3	68.9	52.2	59.9
	Q4	68.9	52.6	60.1

Source : General Household Survey, Census and Statistics Department.

**Table 6.3 : Labour force participation rates by gender and by age group (%)**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>
<u>Male</u>						
15-19	15.8	14.3	14.8	13.0	12.6	10.3
20-24	69.5	69.0	67.6	65.8	64.8	61.7
25-29	95.3	95.6	95.0	94.3	94.8	94.2
30-39	96.8	96.7	97.1	96.5	96.3	96.5
40-49	95.4	95.2	95.5	95.1	95.0	95.1
50-59	83.7	83.3	83.3	84.0	84.3	84.7
≥60	18.3	19.3	19.6	20.0	21.2	22.2
Overall	71.1	70.9	70.5	69.7	69.4	68.8
<u>Female</u>						
15-19	13.3	13.1	13.5	12.4	11.4	9.4
20-24	72.6	71.1	71.7	69.5	66.2	62.2
25-29	86.2	87.2	87.4	87.3	87.0	86.9
30-39	75.1	75.5	76.2	76.8	77.0	76.2
40-49	63.7	65.1	66.6	66.7	68.5	68.7
50-59	44.3	45.7	46.7	48.5	48.8	49.2
≥60	4.2	4.5	5.2	5.7	6.6	6.9
Overall	51.8	52.6	53.1	53.1	53.1	52.4
<u>Both genders combined</u>						
15-19	14.5	13.7	14.2	12.7	12.0	9.8
20-24	71.2	70.1	69.8	67.7	65.5	61.9
25-29	90.3	90.9	90.7	90.3	90.4	90.0
30-39	84.5	84.6	85.1	85.1	85.1	84.6
40-49	78.8	79.3	80.1	79.8	80.7	80.5
50-59	64.1	64.5	64.9	66.1	66.5	66.7
≥60	11.0	11.7	12.1	12.6	13.7	14.2
Overall	60.9	61.2	61.2	60.9	60.7	60.0

Note : # Provisional figures.

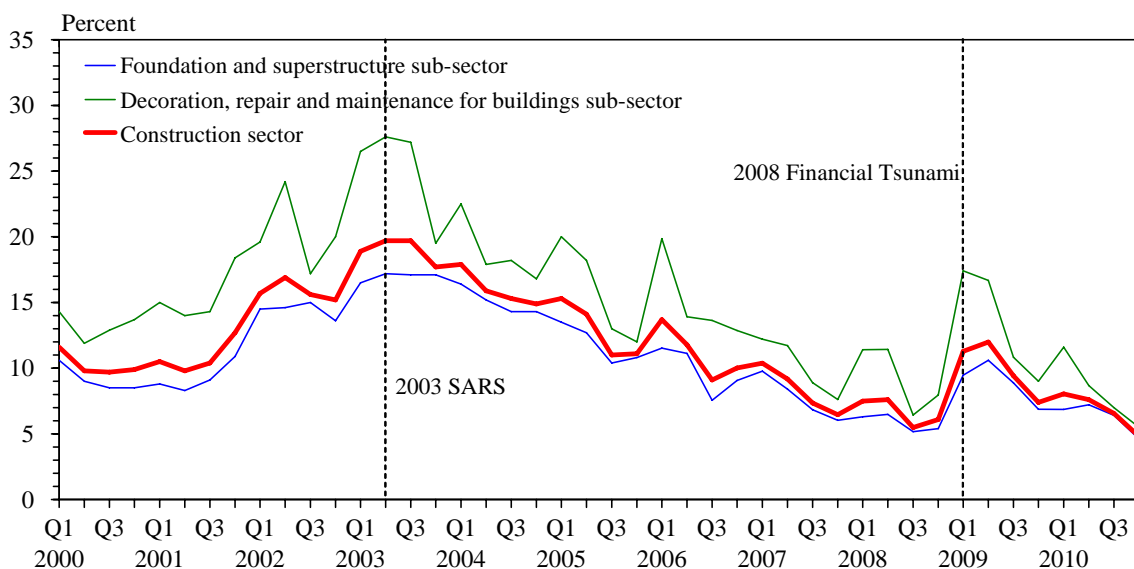
Source : General Household Survey, Census and Statistics Department.

### Box 6.1: Recent employment trends and measures for construction workers

Relative to most other sectors, construction is a major provider of jobs for workers in the lower segment especially those at older age and with lesser educational attainment. In 2010, about 289 900 persons or 7.9% of the total labour force were engaged in this sector. Among them, around 74% were in the foundation and superstructure sub-sector and 26% in the decoration, repair and maintenance for buildings sub-sector. Over the years, the employment situation of these workers has been affected to a large extent by building activities in the private sector and also construction projects implemented by the Government, apart from changes in the overall economic conditions.

As *Chart 1* shows, construction employment moved along a rather erratic path over the past decade. For a prolonged period up to the outbreak of SARS, the sector was mired in stagnation, due to the dearth of large-scale public works projects and slack activities at private sector building sites. Reflecting this, the overall building and construction expenditure shrank from \$170 billion in 2000 to \$140 billion in 2004. The size of construction employment contracted in tandem, from 310 400 in November 2000 - January 2001 to a low of 251 400 in early 2004. As a result, the number of unemployed construction workers soared to a peak of 64 600 in February - April 2003, as did the corresponding unemployment rate to a peak of 20.1% in August - October 2003.

**Chart 1 : Unemployment rate of the construction sector**



This was followed by a period of recovery up to the latter part of 2008, driven mainly by a rebound of the real estate sector and renewed government spending on capital works projects. The numbers unemployed and the unemployment rate in the construction sector both fell back to lower levels of 15 300 and 5.3% in August - October 2008.

However, the outbreak of the global financial tsunami in late 2008, together with the ensuing recession, led to contractions in output and employment in virtually all sectors in the economy. Construction was no exception, for which the unemployment rate rose sharply within a short span of time to 12.8% in early 2009. In absolute terms, the unemployment numbers likewise leapt to 37 200.

### **Box 6.1 (Cont'd)**

To tackle the unprecedented crisis situation, the Government has implemented a series of measures with a view to stabilising the financial system, easing liquidity squeeze in the corporate sector especially that faced by the small and medium-sized enterprises, and creating jobs for the entire workforce. As one of the major job-creation initiatives, several large-scale infrastructure projects were rolled out or advanced.

More specifically, the launch of 10 major infrastructure projects was expedited to the extent possible. Among them, construction works on the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and the Kai Tak Development Plan Stage I have already commenced. For the MTR Sha Tin to Central Link, planning, design and consultation are well in progress, paving the way for implementation of the project in the near term. A similar state of development is observed for the South Island Line (East).

Apart from infrastructure projects, the Government has also implemented more minor works in the wake of the financial tsunami. The statistics showed that public sector expenditure on minor works has gone up substantially by 28% to \$8.5 billion in 2009-10, from \$6.7 billion in 2008-09. This spending translated into some 13 300 man-years of job opportunity for the construction sector. In 2010-11, the provisions for minor works have been maintained at around \$8.5 billion, which can be expected to generate another 13 600 man-years of job opportunity.

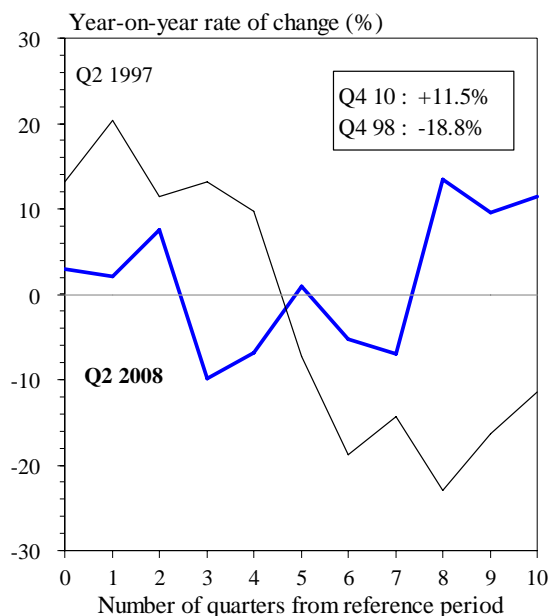
Moreover, in collaboration with the Hong Kong Housing Society (HKHS) and Urban Renewal Authority (URA), the Government has launched the "Operation Building Bright" (OBB) to provide subsidies and one-stop technical assistance to help owners of old buildings to carry out repair and maintenance works. With a total funding of \$2.5 billion approved by the Legislative Council Finance Committee (LegCo FC), the programme is estimated to assist around 2 500 target buildings and create about 50 000 job opportunities for the construction and repair workers as well as related professionals and technicians.

In the 2009-10 LegCo session, the FC has approved a total value of \$101.5 billion, which is expected to create 49 600 new jobs in the construction sector. In that year, the actual capital works expenditure reached about \$45.3 billion, up markedly by 93% over a year ago. As for 2010-11, the capital works expenditure is estimated to increase further to \$49.6 billion. An additional 62 500 job opportunities will be created, including about 6 600 job opportunities for professional/technical staff and 55 900 job opportunities for labourers.

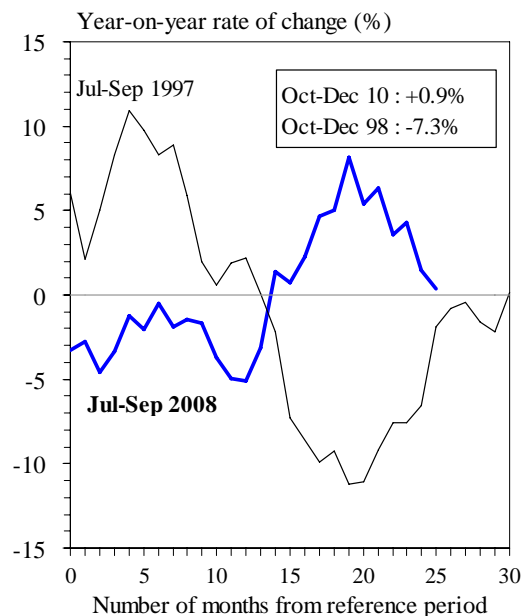
Thanks to these government projects and initiatives and also the distinct rebound in real estate activities, investment in building and construction has resumed positive growth. The employment situation in the construction industry has also improved remarkably, at a faster pace than that seen in the Asian financial crisis. Compared with the peak in 2009, the unemployment rate in the construction sector witnessed a substantial drop of 8.0 percentage points to 4.8% at end-2010, while as many as 22 000 jobs were created. Analysed by sub-sector, the unemployment rate for decoration, repair and maintenance for buildings showed a significant decrease of 16.2 percentage points to 5.5%, whereas the unemployment rate for foundation and superstructure also fell visibly by 6.0 percentage points to 4.6%. Indeed, construction has been one of the star performers among the major economic sectors since the latter half of 2009. All these figures indicate that the Government's efforts to boost employment in the construction sector have progressively taken effect (*Charts 2a and 2b*).

**Box 6.1 (Cont'd)**

**Chart 2a : Real gross value of investment in building and construction**



**Chart 2b : Employment in the construction sector**



With many projects progressively heading towards their construction peaks, the capital works expenditure in each of the next few years is projected to be maintained at an all-time high of over \$50 billion. The unemployment situation in the construction sector is thus expected to improve further in the periods ahead. This notwithstanding, other factors may also come into play to influence the development, such as the state of the property market, supply of construction workers, and vibrancy in the private sector building activity. The Government will continue to monitor the situation closely, and take additional measures if necessary to help relieve the unemployment situation and render assistance to the persons most in need.



## **Profile of unemployment**

6.8 In tandem with the upsurge in labour demand, unemployment was generally on the decline over the course of 2010, thus extending the downtrend established since mid-2009. For 2010 as a whole, the unemployment rate averaged at 4.3%, considerably improved from 5.4% in 2009. The quarterly figures painted an equally encouraging picture. In the fourth quarter of 2010, the seasonally adjusted unemployment rate descended to the 4.0% mark, the lowest level since September - November 2008. Meanwhile, the numbers unemployed shrank to 136 300, the lowest since August - October 2008. These two figures were also markedly below their previous peaks of 5.5% and 217 000 in mid-2009.

6.9 A closer examination of the latest data revealed that the reduction in unemployment during the fourth quarter of 2010, whilst occurring across the board, was most apparent among workers at the lower end of the occupational hierarchy. Reflecting this, the unemployment rate (not seasonally adjusted) of lower-skilled workers fell to 3.8%, from 4.6% in the third quarter. While the unemployment rate of higher-skilled workers likewise went down, the decrease was less distinct from 2.2% to 2.0%. These two figures again represented a marked improvement from the respective highs of 6.2% and 3.1% in mid-2009.

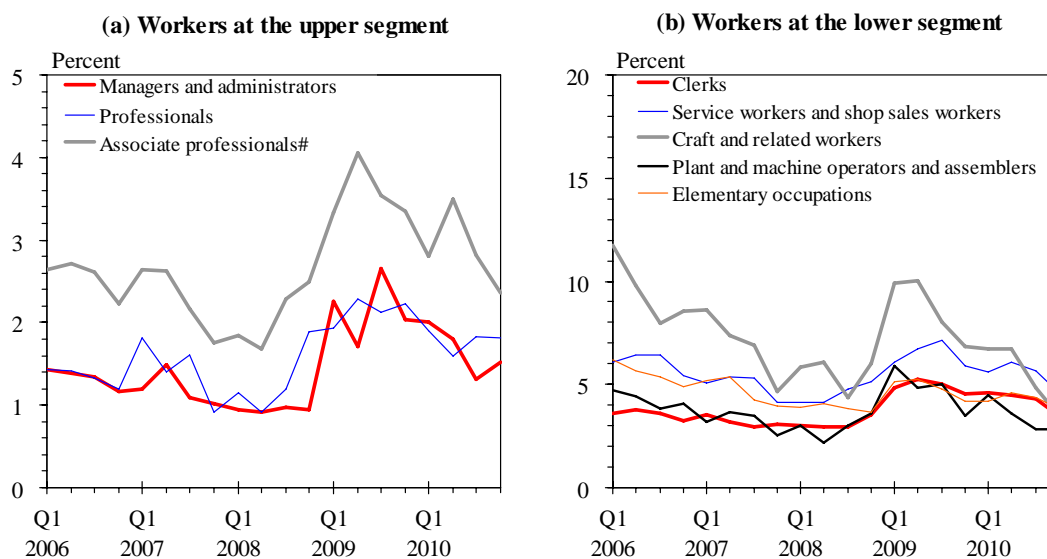
**Table 6.4 : Unemployment rate by major economic sector**

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Import/export trade and wholesale	4.6	4.9	4.8	4.0	4.3	4.5	3.8	3.8
Retail	6.1	6.5	6.8	5.8	5.1	6.0	5.7	4.9
Accommodation and food services	7.3	8.3	8.5	7.1	6.8	6.6	5.9	4.8
Transportation, storage, postal and courier services	5.8	5.0	4.3	3.9	4.1	3.8	3.6	3.3
Information and communications	4.8	4.8	4.3	5.4	4.5	4.7	3.6	3.9
Financing, insurance, real estate, professional and business services	3.6	4.0	3.8	3.7	3.4	3.8	3.3	2.9
Public administration, social and personal services	1.8	2.0	2.4	2.0	1.8	1.9	1.8	1.2
Manufacturing	6.2	6.8	6.2	5.2	4.5	5.9	4.0	3.7
Construction	11.3	12.0	9.4	7.4	8.0	7.6	6.6	4.8
Overall	5.1 (5.1)	5.5 (5.3)	5.7 (5.4)	4.7 (5.1)	4.4 (4.4)	4.7 (4.6)	4.4 (4.2)	3.7 (4.0)

Note : ( ) Seasonally adjusted unemployment figures.

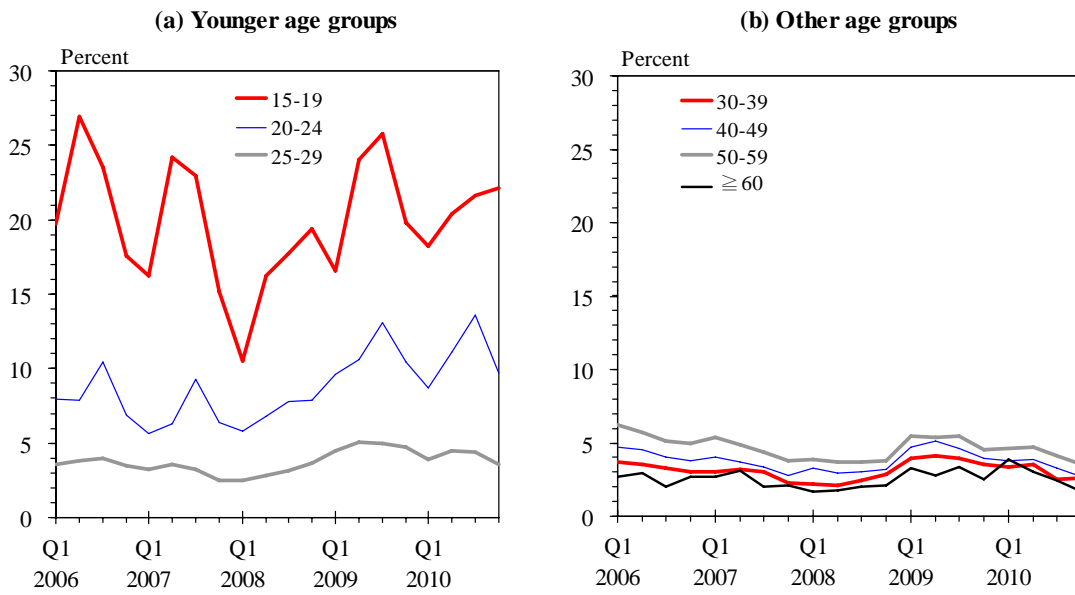
Source : General Household Survey, Census and Statistics Department.

**Diagram 6.3 : Unemployment rate\* showed a broad-based decline across most occupation categories**



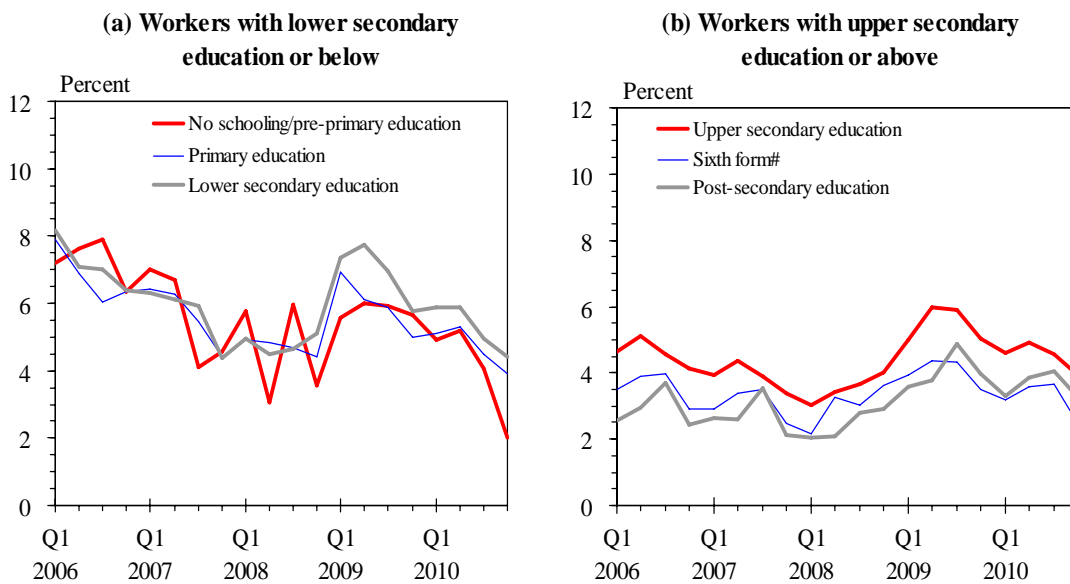
Notes : (\*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.  
 (#) Including technicians and supervisors.

**Diagram 6.4 : Decreases in unemployment rate\* were observed for most age groups, save for younger persons aged 15-19**



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

**Diagram 6.5 : Unemployment rate\* also fell across all educational levels**



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

6.10 Analysed in terms of economic sector, cleaning and similar activities, hotels and construction were the sectors where pronounced decreases in unemployment rate were found, specifically from 5.0%, 3.3% and 6.6% in the third quarter of 2010 to 2.8%, 1.7% and 4.8% in the fourth quarter respectively. Increased labour demand spurred by the robust economic growth and implementation of government infrastructure projects largely contributed. Meanwhile, the warehousing and support activities for transportation sector also saw a noticeable fall in unemployment rate from 4.0% to 2.5%, yet this went in tandem with a contraction in the labour supply. A breakdown by occupation category further revealed that the decline in unemployment rate was concentrated among the less-skilled workers, especially craft and related workers, and service workers and shop sales workers.

6.11 In terms of age group, except for younger persons aged 15-19 whose unemployment rate moved up by 0.4 percentage point between the third and fourth quarters of 2010, persons in other age groups (i.e. 20 or above) generally faced decreases in their unemployment rates, ranging from 0.7 percentage point for people aged 45-49 to 3.9 percentage points for people aged 20-24. As for the unemployed youth aged 15-19, most of them in fact comprised first-time job-seekers and those youngsters who were dissatisfied with previous jobs and left on their own accord.

6.12 Analysed by educational attainment, the recent statistics showed that whereas an across-the-board decrease in unemployment rate was seen during the fourth quarter, the fall was most visible among persons with primary education or below as well as those with upper secondary education or above.

6.13 Long-term unemployment (i.e. six months or longer) similarly witnessed a notable reduction in the numbers from 53 700 in 2009 to 45 800 in 2010, as well as in the unemployment rate from 1.5% to 1.2%. Furthermore, among the total number of unemployed persons in 2010, the proportion of dismissal or lay-off was 56.4%, considerably smaller than that of 68.5% in 2009. All these suggested that the unemployment problem eased off not only in terms of scale but also in terms of intensity over the past year.

## **Profile of underemployment**

6.14 The underemployment situation likewise turned better over the course of 2010. For 2010 as a whole, the underemployment rate averaged at 2.0%, down from 2.3% in 2009. Meanwhile, the total number of underemployed persons fell from 86 400 to 72 900. As regards the latest trends, the underemployment rate edged down further to 1.8% in the fourth quarter of 2010, from 1.9% in the preceding quarter. Among the major economic sectors, decoration, repair and maintenance for buildings, and arts, entertainment and recreation were the ones where noticeable falls in underemployment were seen. These were also sectors in which a significant proportion of part-time and casual workers were engaged. In terms of occupation category, workers in the lower segment, including in particular plant and machine operators and assemblers, and service workers and shop sales workers, experienced more visible reductions in underemployment during the period.

## Profile of employment in establishments

6.15 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to September 2010. Attempts have been made where possible to bring the analysis more up-to-date, by drawing reference to information from supplementary sources.

6.16 Comparing September 2010 with a year earlier, total employment in private sector establishments expanded by 2.6%, further to a 3.0% increase in June. Among the major sectors, conspicuous employment growth was observed at construction sites (up by 17.8%); followed by those in financing, insurance, real estate, professional and business services (4.9%); social and personal services (2.9%); and accommodation and food services (2.8%). These employment gains outweighed continued job loss in the manufacturing sector (down by 5.6%). Analysed by establishment size, small and medium-sized enterprises (SMEs)<sup>(5)</sup> reported a discernible rise in their headcounts at 4.0% year-on-year in September 2010, as did the large enterprises at 1.3%, following respective increases of 2.6% and 3.5% in June. For the first nine months of 2010 as a whole, total employment in private sector establishments went up by 2.8% year-on-year, in contrast to the 1.2% drop in the same period a year earlier. As for the civil service, employment growth remained modest and steady, at 0.3% in September 2010 and 0.6% for the first nine months of the year.

6.17 A comparison with September 2008 (i.e. the period just before the outbreak of the global financial crisis) indicated that total employment in private sector establishments recorded a net gain of 1.6%. Most of this increase took place in the more recent period since late 2009, more than recouping the decrease seen earlier on. Whereas the externally-oriented sectors like manufacturing, and import/export trade and wholesale were still suffering from employment losses, these were more than compensated for by the job gains in most other sectors especially construction, social and personal services, and financing, insurance, real estate, professional and business services.

**Table 6.5 : Employment by major economic sector**

	<u>2009</u>					<u>2010</u>		
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Import/export trade and wholesale	558 700 (-4.1)	559 800 (-4.5)	554 200 (-5.3)	558 300 (-4.1)	562 600 (-2.4)	564 300 (0.8)	562 200 (1.4)	563 700 (1.0)
Retail	235 300 (-0.3)	232 000 (-0.6)	232 600 (-1.5)	236 800 (-0.4)	239 800 (1.2)	240 600 (3.7)	240 800 (3.5)	242 700 (2.5)
Accommodation and food services	241 100 (-0.2)	238 200 (*)	238 800 (-1.3)	240 200 (-2.0)	247 000 (2.6)	247 400 (3.8)	247 500 (3.6)	247 000 (2.8)
Transportation, storage, postal and courier services	158 000 (1.1)	158 000 (1.6)	156 900 (-0.1)	157 700 (0.5)	159 300 (2.2)	159 400 (0.9)	160 400 (2.3)	160 000 (1.4)
Information and communications	87 200 (-1.6)	86 100 (-0.9)	86 900 (-3.3)	87 900 (-2.2)	87 800 (0.1)	87 400 (1.5)	88 400 (1.7)	88 400 (0.6)
Financing, insurance, real estate, professional and business services	582 600 (0.9)	572 700 (-0.2)	577 500 (-0.2)	583 700 (0.3)	596 400 (3.8)	596 300 (4.1)	604 600 (4.7)	612 300 (4.9)
Social and personal services	414 600 (3.2)	407 100 (2.6)	411 600 (3.2)	417 100 (3.0)	422 700 (4.1)	427 700 (5.1)	426 900 (3.7)	429 200 (2.9)
Manufacturing	125 000 (-5.7)	125 700 (-7.0)	124 700 (-6.2)	124 700 (-5.0)	124 900 (-4.4)	122 600 (-2.5)	119 800 (-3.9)	117 700 (-5.6)
Construction sites (manual workers only)	50 500 (2.2)	51 900 (2.8)	48 900 (-1.2)	48 000 (-0.4)	53 200 (7.5)	53 900 (3.8)	55 500 (13.4)	56 500 (17.8)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>2 463 600 (-0.5)</i>	<i>2 442 200 (-1.0)</i>	<i>2 442 600 (-1.5)</i>	<i>2 464 900 (-1.0)</i>	<i>2 504 700 (1.4)</i>	<i>2 510 300 (2.8)</i>	<i>2 517 000 (3.0)</i>	<i>2 528 700 (2.6)</i>
		<i>&lt;-0.7&gt;</i>	<i>&lt;*&gt;</i>	<i>&lt;0.8&gt;</i>	<i>&lt;1.3&gt;</i>	<i>&lt;0.6&gt;</i>	<i>&lt;0.3&gt;</i>	<i>&lt;0.4&gt;</i>
<i>Civil service<sup>(b)</sup></i>	<i>155 700 (1.1)</i>	<i>155 100 (1.1)</i>	<i>155 400 (1.1)</i>	<i>156 000 (1.1)</i>	<i>156 200 (1.2)</i>	<i>156 600 (0.9)</i>	<i>156 300 (0.6)</i>	<i>156 400 (0.3)</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, gas and waste management, 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 outside Hong Kong, 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

6.18 Job vacancies in private sector establishments remained strongly on the increase, amid the reviving business activity and hiring sentiment in the corporate sector. On a year-on-year comparison, private sector vacancies leaped by 31.7% in September 2010, following an equally impressive jump of 43.4% in June. Taking the first nine months of 2010 together, job vacancies surged by 45.0% year-on-year, markedly improved from the 37.0% decrease in the same period a year earlier.

6.19 Analysed by economic sector, the latest increase in job vacancies occurred mainly in information and communications (up by 92.3% year-on-year in September); transportation, storage, postal and courier services (87.8%); import/export trade and wholesale (55.9%); and social and personal services (45.8%). In terms of skill level, vacancies for lower-skilled workers rose notably by 35.3%, as did those for higher-skilled workers by 25.7%, although both figures were somewhat less impressive in comparison to those of 43.8% and 42.9% in June 2010. A breakdown by occupation category indicated that plant and machine operators and assemblers; clerks; craft and related workers; and workers in elementary occupations were the ones where substantial gains in vacancies were reported, at 221.8%, 82.5%, 62.6% and 45.8% respectively. Analysed from the perspective of establishment size, the additional job openings at SMEs amounted to 26.5% year-on-year in September 2010, while those at large enterprises amounted to 37.1%, as against the corresponding growth rates of 43.0% and 43.9% in June 2010. As to the civil service, the number of vacancies also went up by 18.7% in September, exceeding the 10.7% rise in June. For the first nine months of 2010 as a whole, these vacancies were up by 9.9% year-on-year, representing a considerable turnaround from the decrease of 10.0% in the same period a year earlier.

6.20 Comparing the number of job vacancies in private sector establishments with that of unemployed persons, the ratio of job vacancies was 32 per 100 job-seekers in September 2010, higher than that of 26 in June. Concurrently, the ratio for lower-skilled jobs climbed from 23 to 31, and that for higher-skilled jobs from 51 to 63. When expressed as a percentage of total employment opportunities, the vacancy rate for private sector establishments edged higher from 1.8% to 2.0% over the same period.



**Table 6.6 : Vacancies by major economic sector**

	<u>2009</u>					<u>2010</u>			Vacancy rate in Sep 2010 (%)
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep	
Import/export trade and wholesale	4 200 (-44.1)	3 300 (-67.1)	4 300 (-51.9)	4 500 (-37.6)	4 800 (16.5)	6 600 (101.0)	6 100 (41.1)	7 000 (55.9)	1.2
Retail	3 800 (-22.9)	2 900 (-49.6)	3 700 (-29.4)	4 200 (-22.8)	4 600 (29.7)	4 900 (68.4)	4 400 (20.1)	5 600 (32.0)	2.2
Accommodation and food services	5 400 (-2.7)	5 200 (-4.2)	4 500 (-19.2)	7 100 (31.0)	4 700 (-17.0)	6 100 (18.8)	6 600 (47.9)	7 300 (2.9)	2.9
Transportation, storage, postal and courier services	1 100 (-32.5)	1 000 (-58.2)	1 000 (-49.1)	1 100 (-28.7)	1 500 (65.4)	1 700 (70.7)	2 000 (100.5)	2 100 (87.8)	1.3
Information and communications	1 300 (-30.7)	900 (-57.8)	1 500 (-36.7)	1 400 (-37.1)	1 400 (70.9)	2 200 (155.1)	2 300 (51.9)	2 600 (92.3)	2.9
Financing, insurance, real estate, professional and business services	8 500 (-35.2)	6 800 (-58.4)	7 400 (-48.2)	11 100 (-15.3)	8 600 (0.2)	11 800 (73.8)	12 200 (64.1)	12 900 (16.2)	2.1
Social and personal services	7 800 (-25.4)	7 100 (-42.6)	8 400 (-24.2)	8 100 (-27.5)	7 700 (5.0)	11 100 (55.2)	10 100 (19.3)	11 800 (45.8)	2.7
Manufacturing	900 (-43.7)	700 (-67.1)	700 (-67.2)	1 200 (-19.2)	1 200 (10.6)	1 500 (133.9)	1 400 (120.6)	1 600 (30.8)	1.3
Construction sites (manual workers only)	# (-54.2)	# (-92.1)	# (-86.7)	# (-56.1)	# (172.7)	# (1 466.7)	100 (1 375.0)	100 (300.0)	0.1
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	33 200 (-29.4)	27 800 (-50.6)	31 500 (-38.9)	38 800 (-18.8)	34 600 (7.5)	46 000 (65.4)	45 200 (43.4)	51 100 (31.7)	2.0
		<-27.0>	<20.1>	<13.8>	<7.5>	<13.0>	<3.7>	<4.4>	
<i>Civil service<sup>(b)</sup></i>	5 200 (-10.2)	5 300 (-3.8)	5 200 (-15.8)	5 000 (-9.7)	5 200 (-10.8)	5 300 (0.9)	5 700 (10.7)	5 900 (18.7)	3.7

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, gas and waste management, 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.

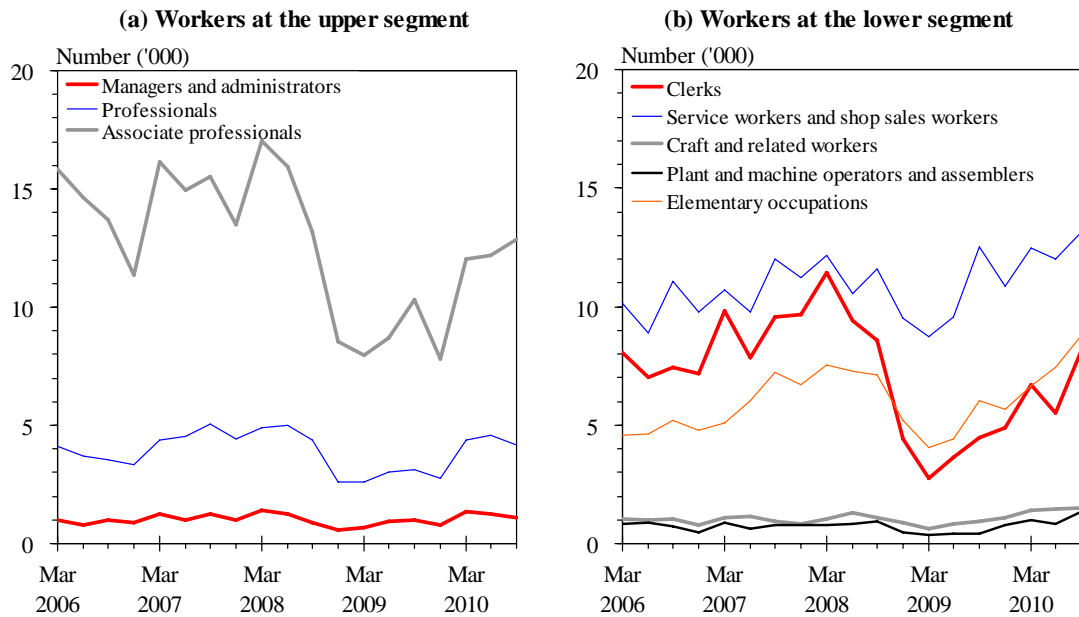
( ) % change over a year earlier.

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

(#) Less than 50.

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

**Diagram 6.6 : Job vacancies continued to increase across the board**



6.21 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints to the latest trend in the labour market. In December 2010, the number of private sector job vacancies registered by the department amounted to 62 800, 14.1% more than a year earlier. The increase was most distinct in the retail and real estate sectors, at 67.0% and 65.3% respectively over a year earlier. On a quarter-to-quarter comparison, the average number of private sector job vacancies was reduced by 4.0% in the fourth quarter, yet this change was subject to the influence of seasonality factor. For 2010 as a whole, the LD posted a monthly average of 62 700 private sector vacancies, which was an all-time high figure and up by 27.6%, more than recouping the decline of 12.2% in 2009.

## Wages and earnings

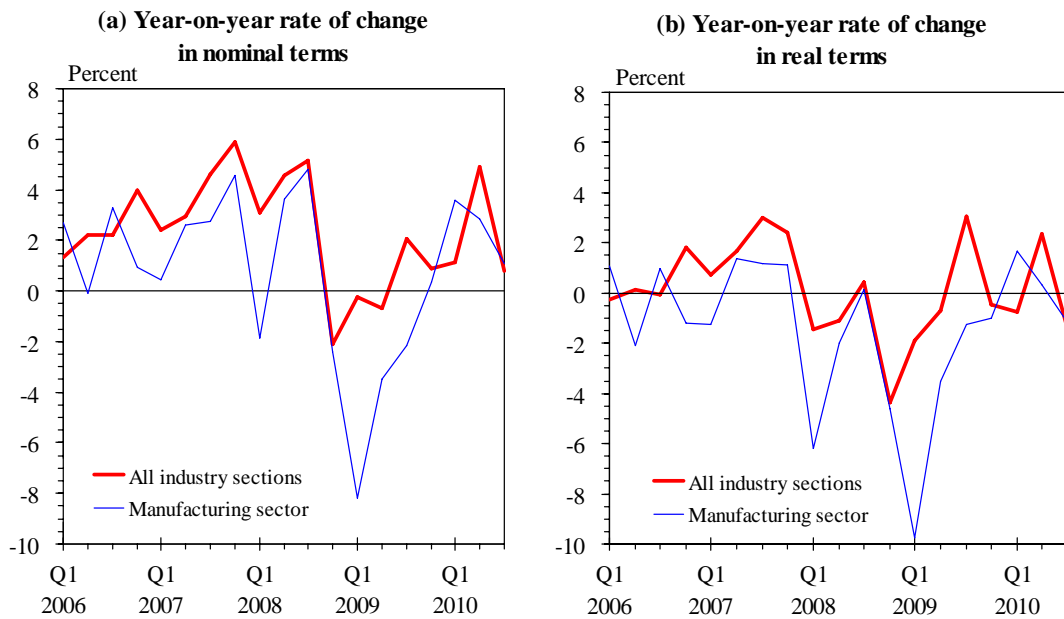
6.22 *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, moved up by 2.4% in September 2010 over a year earlier, somewhat larger than the 2.2% increase in June. After adjusting for consumer price inflation<sup>(6)</sup>, labour wages however showed little change with a 0.8% fall in real terms. Taking the first three quarters of 2010 together, labour wages recorded an increment of 2.2% in money terms and a slight decrease of 0.8% in real terms.

6.23 Analysed by occupation category, the latest rise in nominal wages, whilst occurring across the board, was more noticeable among miscellaneous non-production workers, service workers, and clerical and secretarial workers (up by 3.5%, 2.7% and 2.2% respectively). In terms of economic sector, wage hikes again took place extensively across a wide spectrum of sectors. Among them, professional and business services, and financial and insurance activities were the ones with more visible increases in wages, at 3.1% and 3.0% respectively. Manufacturing was the notable exception where a marginal reduction of 0.3% was seen.

6.24 *Labour earnings*<sup>(7)</sup>, as measured by payroll per person engaged in the private sector, edged up by 0.8% in the third quarter of 2010 over a year earlier. After adjusting for inflation, there was a reduction of 1.5% in real terms. But these figures had to be viewed against the notable increases of 4.9% and 2.4% respectively in the preceding quarter. For the first three quarters of 2010 taken together, the increase in nominal terms was 2.2%. In real terms, there was virtually no change, indicating that the nominal pay hike largely kept up with inflation over the period. Moreover, when compared with the same quarter in 2008 (i.e. pre-crisis level), labour earnings still recorded increases of 2.9% in money terms and 1.5% in real terms.

6.25 A breakdown of the latest figures by economic sector indicated that nominal payroll went up virtually in all sectors in the third quarter of 2010. Within the workforce, employees engaged in financial and insurance activities enjoyed a distinct increment of 5.2% over a year earlier, followed by those in transportation, storage, postal and courier services and in accommodation and food services activities, with corresponding increases of 3.6% and 3.0%.

**Diagram 6.7 : Nominal payroll rose further in the third quarter of 2010, albeit to a lesser extent than in the second quarter**



6.26 More recent data from the General Household Survey, though not strictly comparable to those from the business establishment surveys, indicated that the average monthly employment earnings<sup>(8)</sup> (excluding foreign domestic helpers) for the local workforce rose by 7.8% in the fourth quarter of 2010 over a year earlier, reversing the decline of 4.1% in the third quarter. In a similar vein, employment earnings of higher-skilled workers went up visibly by 10.5% in the fourth quarter, following a decrease of 7.8% in the third quarter. As for lower-skilled workers, their earnings moved up in both periods, by 4.5% and 3.2%. For 2010 as a whole, these three income measures were all higher, by 6.4%, 7.6% and 3.5% respectively in money terms. The corresponding growth rates in real terms were 3.9%, 5.1% and 1.1%.

## **Recent labour-related measures**

6.27 LD has launched a two-year Pilot Employment Navigator Programme to address the problem of manpower mismatch, fully utilise the productivity and encourage employment. Under the programme, a cash incentive of up to \$5 000 will be payable to an unemployed person who has successfully found work after receiving the department's intensive employment consultation service. A total of 11 000 places will be provided each year. Separately, LD will set up a pioneer one-stop employment and training centre in Tin Shui Wai by the end of 2011 to offer targeted assistance to job-seekers.

6.28 In a move to assist young people to find jobs, LD has set up two Youth Employment Resource Centres in 2007 and 2008 respectively, to provide one-stop advisory and support services on employment and self-employment to young persons aged 15 to 29. In addition, the Youth Pre-employment Training Programme (YPTP) and the Youth Work Experience and Training Scheme (YWETS) have been integrated and enhanced into a "through-train" programme - YPTP&YWETS, to provide seamless and comprehensive training and employment support to people aged 15 to 24 with educational attainment at sub-degree level or below.

6.29 Separately, the Minimum Wage Ordinance was passed by the LegCo on 17 July 2010. The statutory minimum wage, at an initial rate of \$28 per hour, will come into force on 1 May 2011. This represents a significant milestone and breakthrough in protecting the well-being of the grassroots workforce in Hong Kong.

## 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 among 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 X-11 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) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (4) 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).

- (5) 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 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.
- (6) 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 in occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector. Meanwhile, the CPI(C) is taken as the price deflator for salaries in respect of middle-level managerial and professional employees.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (8) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

## CHAPTER 7 : PRICES

### *Summary*

- *Inflationary pressures in Hong Kong went up gradually over the course of 2010, due mainly to higher imported inflation. Prices of food and other commodities rebounded strongly in the international markets in 2010, amid the continued global economic recovery and the very accommodative monetary environment worldwide. Domestic cost pressures, albeit still contained in overall terms, were also increasingly felt as a natural consequence of the robust pace of local economic expansion.*
- *The experience of rising inflation in 2010 was not unique to Hong Kong. Many Asian economies with vibrant growth in activities also saw higher inflationary pressures throughout the year.*
- *For 2010 as a whole, the Composite Consumer Price Index<sup>(1)</sup> rose by 2.4%, following the 0.5% increase in 2009 when the economy went into deflation for several months in the year. Netting out the effects of the Government's one-off relief measures to give a more accurate indicator of the inflation trend, the underlying Composite CPI rose by 1.7% in 2010, after an 1.0% increase in 2009. The increases were still relatively moderate for 2010 as a whole, particularly when viewed against the robust economic conditions. Yet underlying inflation turned more visible towards year-end, mainly on higher food prices and increasing feed-through of private residential rentals.*
- *Import prices picked up notably in 2010, due to the strong rebounds in global commodity prices, higher inflation in supply sources, and to a lesser extent the slightly weaker Hong Kong dollar alongside the US dollar.*
- *Domestic price pressures also went up modestly in overall terms in 2010 alongside the recovery. Business cost pressures from rising rentals were visible. While wages also reverted to positive increase, the fast labour productivity growth kept unit labour cost in check.*

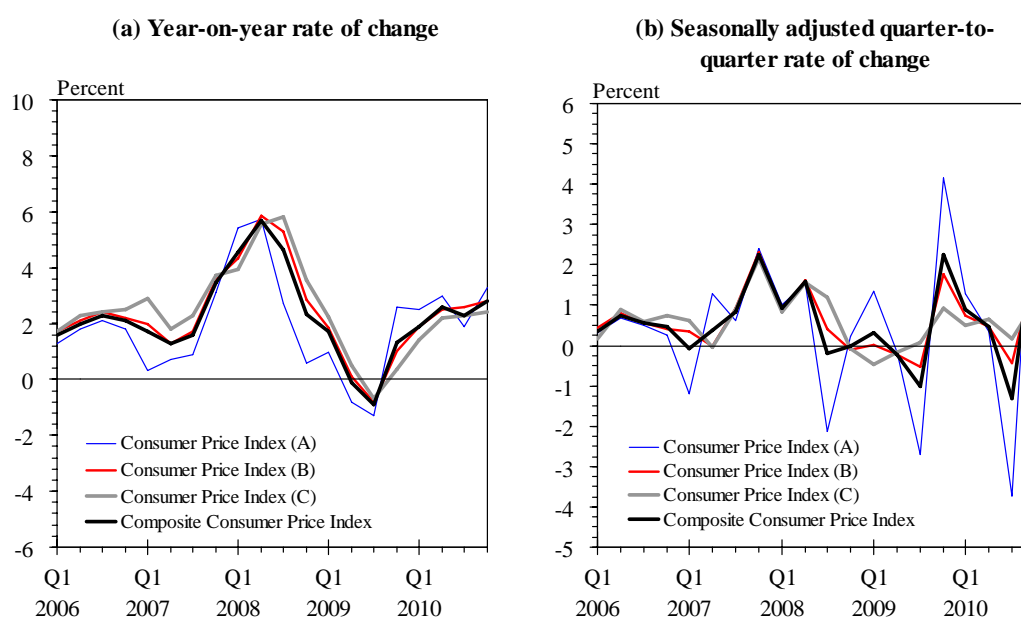
### **Consumer prices**

7.1 Inflation went up progressively in 2010. Higher imported inflation was a major contributing factor, due to the strong rebounds in food prices and other commodity prices in the international markets on the back of continued global economic recovery and a loose global monetary environment.



Domestic price pressures, though still contained, were also on the rise in 2010, being a natural consequence of the brisk expansion of the local economy. In particular, the feed-through of the earlier surge in housing rentals into consumer prices turned more evident in the latter part of 2010. During the year, business cost pressures from rising commercial rentals also became increasingly visible. Labour cost, on the other hand, was still kept in check. The phenomenon of rising inflation over the course of 2010 was not unique to Hong Kong. Indeed, many Asian economies with robust economic growth likewise experienced higher inflationary pressures<sup>(2)</sup>.

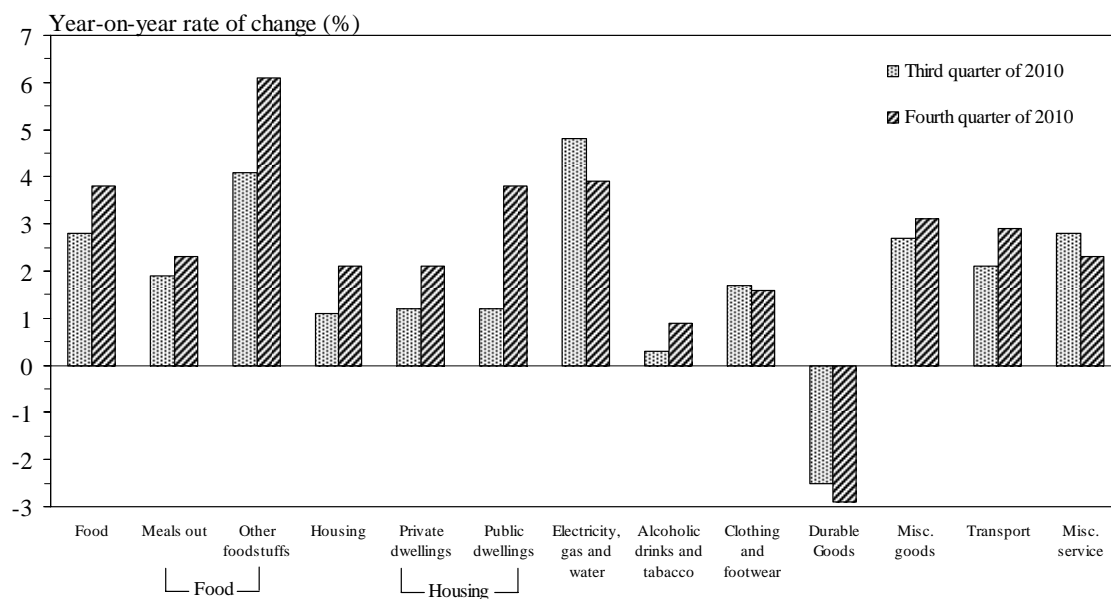
**Diagram 7.1 : Inflationary pressure went up more visibly towards end-2010**



7.2 The *Composite Consumer Price Index* (Composite CPI) rose by an average of 2.4% in 2010, following a below-trend rate of 0.5% in 2009. Netting out the effects of the Government's one-off relief measures to give a more accurate indicator of the inflation trend, underlying consumer price inflation, as measured by the increase in the underlying Composite CPI, averaged at 1.7% for 2010 as a whole, compared with 1.0% in 2009. This annual increase was relatively moderate, particularly when viewed against the strength of the economic upturn. However, underlying inflation turned more visible towards the latter part of the year, rising from 0.8% year-on-year in the first quarter, to 1.5% and 2.0% respectively in the second and third quarters, and further to 2.6% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, the movements of the underlying Composite CPI also gave a similar picture. It rose by 0.6%, 0.4% and 0.4% respectively during the first three quarters of 2010, before showing a more notable increase of 1.1% during the fourth quarter.

7.3 Headline inflation was higher than its underlying counterpart in 2010, mainly due to the lower base effect created by the electricity charge subsidy, which had the final payment ended in August 2009. Nevertheless, an extra month of public housing rental waivers in 2010 as compared to 2009 provided a partial offset.

**Diagram 7.2 : Most components of the underlying Composite CPI saw faster increases in prices towards end-2010**



**Table 7.1 : 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<sup>(a)</sup></u>	<u>Headline</u>			
2009	Annual	1.0	0.5	0.4	0.5	0.6
	H1	2.1	0.8	0.1	1.0	1.4
	H2	-0.2	0.2	0.6	0.1	-0.1
	Q1	3.1 (-0.2)	1.7 (0.3)	1.0 (1.3)	1.9 (*)	2.2 (-0.5)
	Q2	1.2 (-0.3)	-0.1 (-0.2)	-0.8 (-0.2)	0.1 (-0.2)	0.5 (-0.1)
	Q3	-0.3 (-0.1)	-0.9 (-1.0)	-1.3 (-2.7)	-0.8 (-0.5)	-0.7 (0.1)
	Q4	-0.1 (0.5)	1.3 (2.2)	2.6 (4.2)	1.0 (1.8)	0.4 (0.9)
2010	Annual	1.7	2.4	2.7	2.4	2.1
	H1	1.2	2.2	2.8	2.2	1.8
	H2	2.3	2.6	2.6	2.7	2.4
	Q1	0.8 (0.6)	1.9 (0.9)	2.5 (1.3)	1.9 (0.7)	1.4 (0.5)
	Q2	1.5 (0.4)	2.6 (0.5)	3.0 (0.4)	2.5 (0.5)	2.2 (0.7)
	Q3	2.0 (0.4)	2.3 (-1.3)	1.9 (-3.7)	2.6 (-0.4)	2.3 (0.2)
	Q4	2.6 (1.1)	2.8 (2.8)	3.3 (5.6)	2.8 (1.9)	2.4 (1.1)

Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension of Employees Retraining Levy, and subsidies for household electricity charges.

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

(\*) Change of less than 0.05%.

7.4 Among the major components in the Composite CPI, food contributed most to the continued climb-up in consumer price inflation. Global food prices were on an uptrend in 2010 after the decline in 2009, with a notable pick-up in the second half of the year. The sustained robustness in economic activities domestically also increasingly favoured the fuller feed-through of higher import prices, including those of foodstuffs, to the retail levels. The strong rebound in market residential rentals since the second quarter of 2009 was also progressively reflected in the private housing rentals component in the Composite CPI during the year. Prices for other items, such as miscellaneous goods, transport, and miscellaneous services all saw faster

year-on-year increases in the latter part of 2010. The underlying electricity, gas and water component reverted to increase in 2010, largely due to the increase in fuel prices after the decline in 2009. Nevertheless, prices of durable goods continued its secular downtrend.

**Table 7.2 : Composite Consumer Price Index by component  
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2009</u>	<u>2010</u>	<u>Q1</u>	<u>2010</u>		
					<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	26.94	1.3	2.4	1.1	2.0	2.8	3.8
<i>Meals bought away from home</i>	16.86	1.6	1.6	0.8	1.4	1.9	2.3
<i>Other foodstuffs</i>	10.08	0.9	3.6	1.5	2.8	4.1	6.1
Housing <sup>(a)</sup>	29.17	3.7	0.4	-0.1	0.3	-0.7	2.1
		(2.9)	(0.8)	(-0.4)	(0.2)	(1.1)	(2.1)
<i>Private dwellings</i>	23.93	3.6	0.9	*	0.4	1.2	2.1
		(3.3)	(0.8)	(-0.4)	(0.4)	(1.2)	(2.1)
<i>Public dwellings</i>	2.49	9.5	-7.8	0.6	-0.3	-85.7	4.0
		(0.2)	(1.2)	(*)	(-0.2)	(1.2)	(3.8)
Electricity, gas and water	3.59	-25.3	42.9	61.1	64.0	43.1	15.0
		(-6.6)	(5.1)	(5.3)	(6.4)	(4.8)	(3.9)
Alcoholic drinks and tobacco	0.87	18.7	3.5	13.1	0.8	0.3	0.9
Clothing and footwear	3.91	2.7	1.7	1.4	2.0	1.7	1.6
Durable goods	5.50	-3.0	-2.2	-1.7	-1.6	-2.5	-2.9
Miscellaneous goods	4.78	2.3	2.5	2.0	2.3	2.7	3.1
Transport	9.09	-0.9	1.9	1.1	1.7	2.1	2.9
Miscellaneous services	16.15	-2.1	1.8	0.5	2.1	2.5	2.1
		(-1.4)	(2.2)	(1.1)	(2.5)	(2.8)	(2.3)
All items	100.00	0.5	2.4	1.9	2.6	2.3	2.8
		(1.0)	(1.7)	(0.8)	(1.5)	(2.0)	(2.6)

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.

( ) Underlying rate of change after netting out the effect of Government's one-off relief measures.

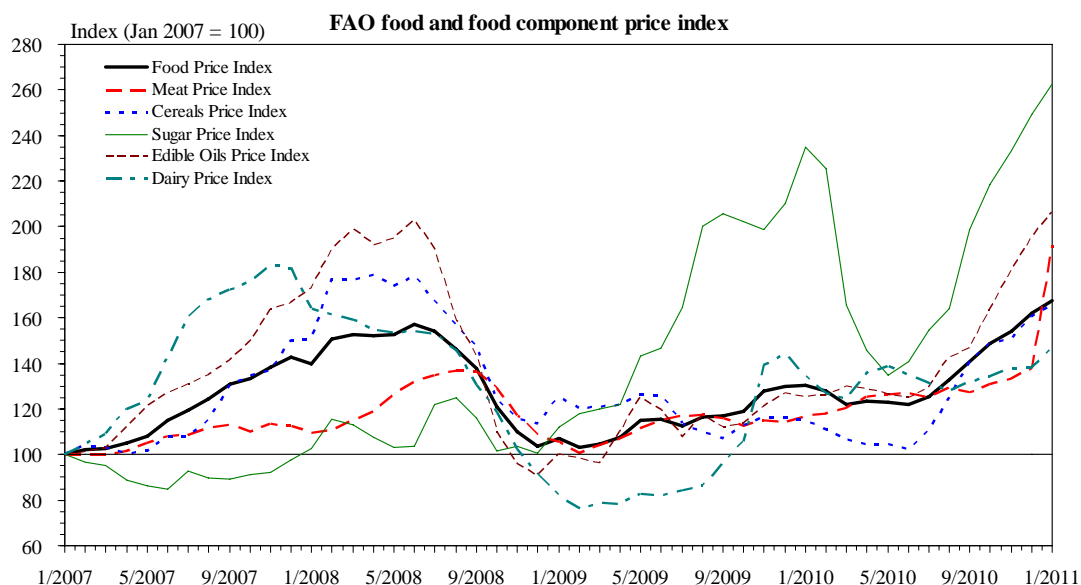
(\*) Change of less than 0.05%.

## Box 7.1

### Recent movements of global food prices

According to the Food Price Index compiled by the Food and Agriculture Organization (FAO) of the United Nations (**Chart 1**), global food prices were on a general uptrend since mid-2009 amid the sustained recovery of the global economy. After a steady phase in the first half of 2010, global food prices embarked on an upsurge since mid-2010. Among the various food groups in the FAO price index, edible oil and cereals saw the biggest jump in prices, up more than 30% year-on-year in late 2010, and prices of meat and sugar also showed double-digit increases. Price of dairy products recouped much of the lost ground in 2010 from the plunge in the latter part of 2008 and early 2009. The latest FAO food price index registered a new monthly high in January 2011 with price increases for most food commodities, surpassing the previous peak in mid-2008. The elevated global food prices are likely to persist in the coming months.

**Chart 1: Prices of various food components have surged since mid-2010**



Based on the analyses by the IMF and the FAO, the upsurge in food prices since mid-2010 can be attributed mainly to the unexpected supply shocks and robust demand from emerging market economies. The ultra-loose monetary environment, the weak US dollar and rebound in fuel prices have also contributed.

Specifically, the global balance of supply and demand in a number of food items tightened in the second half of 2010 due to disruptions to supply. For instance, the severe drought in Russia and Ukraine, the two major wheat producing countries, destroyed a sizable amount of wheat crop in 2010. The restricted trade policy that followed, notably the ban on wheat export from Russia, intensified the price pressures. Rising cereal prices also raised the feeding cost of livestock, thereby spreading the upward pressures on prices of meat and other dairy products.

### **Box 7.1 (Cont'd)**

The dimmer price prospects in the aftermath of the 2008-2009 global economic crisis, though short-lived with hindsight, also impacted on international food supply. Aquaculture producers, for example, reduced the inventory levels in late 2008 and throughout 2009, in view of the slack in demand for fishery products back then. The subsequent strong pick-up in global demand, especially from Asia and South America, for those farmed fishery products in 2010 thus led to a surge in the prices concerned.

Backed by the robust growth of emerging market economies in 2010, the demand for foodstuffs, in particular meat and dairy products, grew markedly. For example, according to the FAO, consumption of milk and milk products in developing countries was estimated to have increased by about 1 kg per capita in 2010 to 67.5 kg per capita. Likewise, the international meat prices ascended steadily due to growing import demand from Asian countries.

On top of tighter supply-demand balances for many food commodities, the ultra-loose monetary environment and the rebound in fuel prices also added to the impetus of food price increases in the international markets in 2010. The weaker US dollar, in particular in the second half of 2010, also gave upward pressures to global commodity prices.

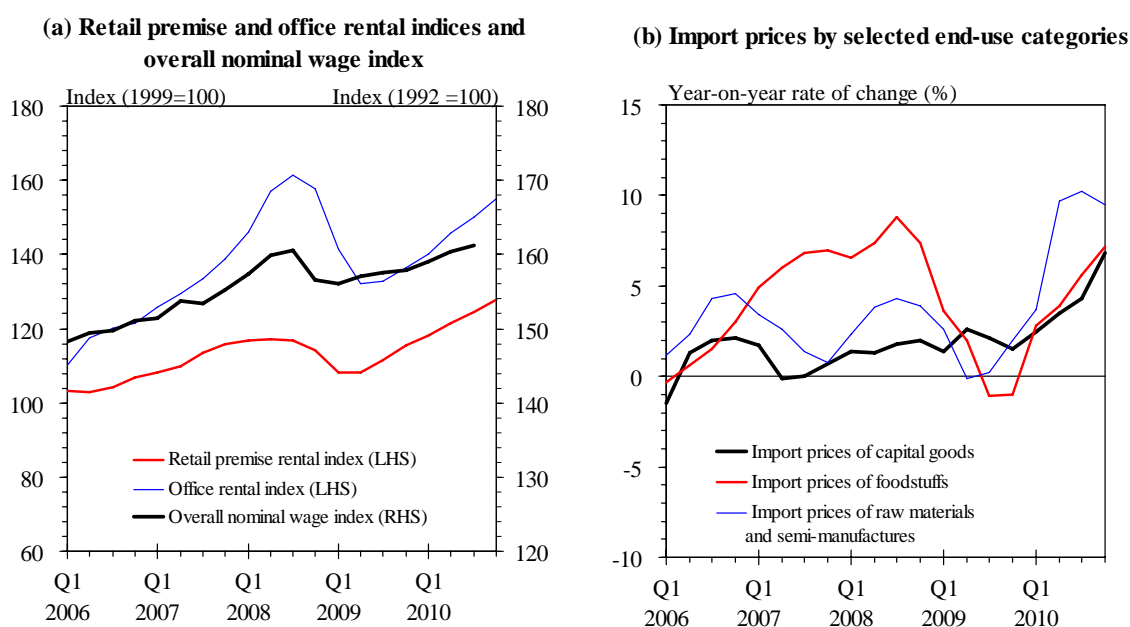
Lastly, the upward pressures on food prices are also related to the rebound in fuel prices in 2010. Higher fuel prices increase the incentives for producing biofuel, thereby boosting demand and prices for corn, oilseeds and sugar. They also bolster the costs along the production chain of foodstuffs, from the costs of fertilizers and packaging to transportation.

Rising global food prices have been one of the key factors contributing to higher inflation in economies with robust growth, including the Mainland and many other Asian economies. Hong Kong likewise faces a similar challenge. Given the importance of the prices of foodstuffs to the livelihood of the lower-income households in Hong Kong, where most of the foodstuffs have to be imported from the rest of the world, the development in global food prices warrants a close monitoring.

## Costs of factor inputs and import prices

7.5 Domestic price pressures were relatively contained in overall terms in 2010 as a whole, despite the brisk economic expansion. But business cost pressures from the rental front became increasingly notable, as market rentals for the new letting of retail premises and offices continued to trend upwards throughout the year. As for labour costs, much of the slack in the labour market back in 2009 was worked off during 2010, as evident from the continued decline in the unemployment rate and renewed increases in wages and earnings. Nevertheless, the hefty growth in labour productivity continued to keep the rise of unit labour costs in check.

**Diagram 7.3 : Wages and rentals rose amid the brisk economic expansion, while import prices picked up notably**



7.6 On the external front, import prices picked up notably in 2010, following a brief period of relapse in 2009. For 2010 as a whole, overall import prices rose by 6.4%, after a decline of 0.1% in 2009. Import prices of the five major end-uses in 2010 all showed faster increases. With the exception of import prices of fuels, the year-on-year increases of import prices of the other four major end-uses (i.e. foodstuffs, consumer goods, raw materials, and capital goods) all progressively enlarged over the course of 2010. The faster imported inflation in large part was driven up by the marked increases in many global commodity prices, including those of food, agricultural raw materials, industrial materials and metals, in 2010 after the declines in 2009. In some cases, their prices in the international markets were close to or even surpassed the previous peaks in 2008. The accumulation of inflationary

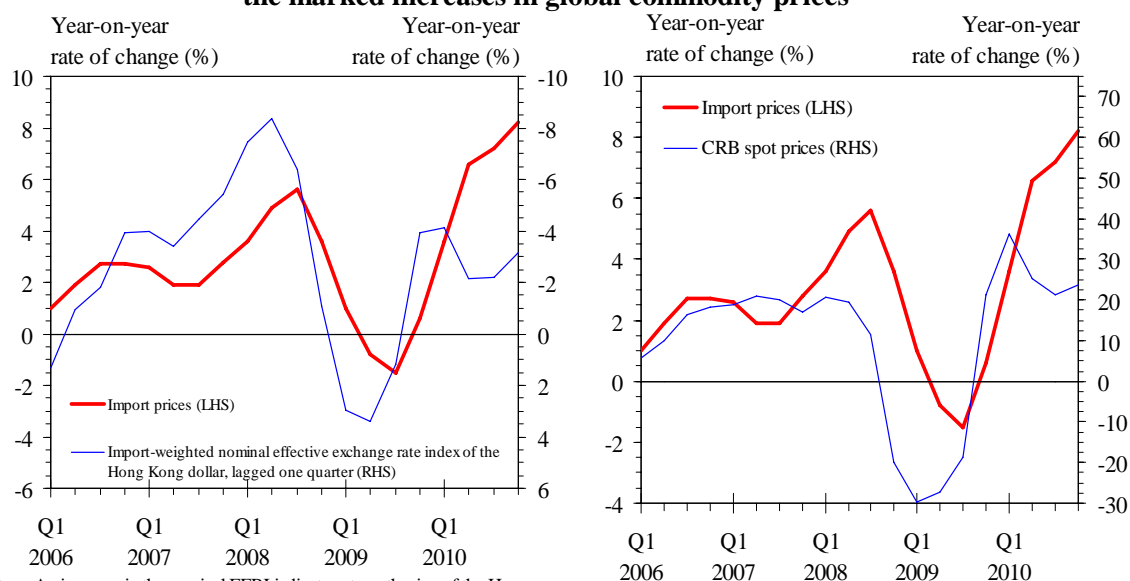
pressures in many Asian economies also added to higher import prices, and so was the slightly weaker Hong Kong dollar alongside the downtrend of the US dollar.

**Table 7.3 : 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>
2009	Annual	0.9	-0.2	1.2	-32.1	2.0	-0.1
	H1	2.8	1.7	1.1	-41.5	2.1	*
	H2	-1.0	-1.9	1.1	-23.1	1.8	-0.5
	Q1	3.6	2.9	2.6	-38.8	1.4	1.0
	Q2	2.0	0.6	-0.1	-43.2	2.6	-0.8
	Q3	-1.1	-2.1	0.2	-37.6	2.1	-1.5
	Q4	-1.0	-1.8	2.0	-3.6	1.5	0.6
	2010	Annual	5.0	4.6	8.3	20.8	4.3
H1		3.4	2.4	7.0	35.0	3.0	5.2
H2		6.6	6.5	9.8	10.6	5.5	7.7
Q1		2.8	1.1	3.7	42.8	2.5	3.6
Q2		3.9	3.7	9.7	27.7	3.5	6.6
Q3		5.6	5.8	10.2	9.9	4.3	7.2
Q4		7.2	7.3	9.5	11.7	6.8	8.2

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

**Diagram 7.4 : Stronger imported inflation mainly reflected the marked increases in global commodity prices**

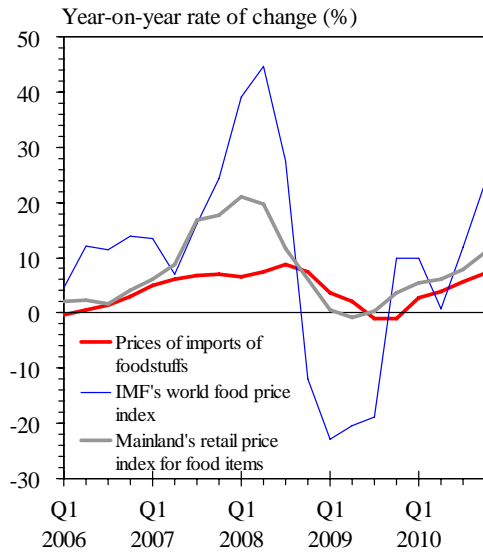


Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

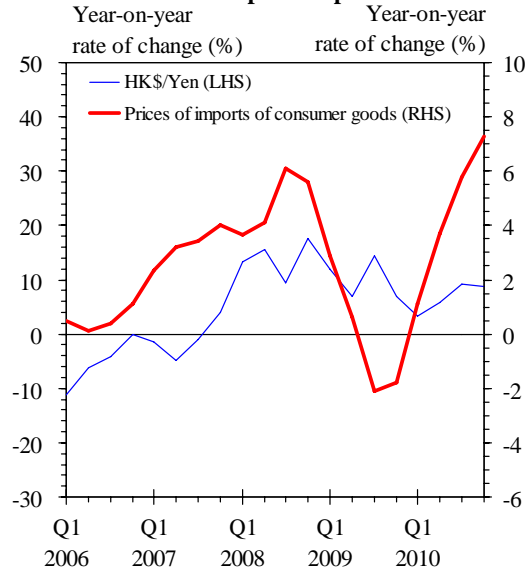


**Diagram 7.5 : Import prices by end-use categories**

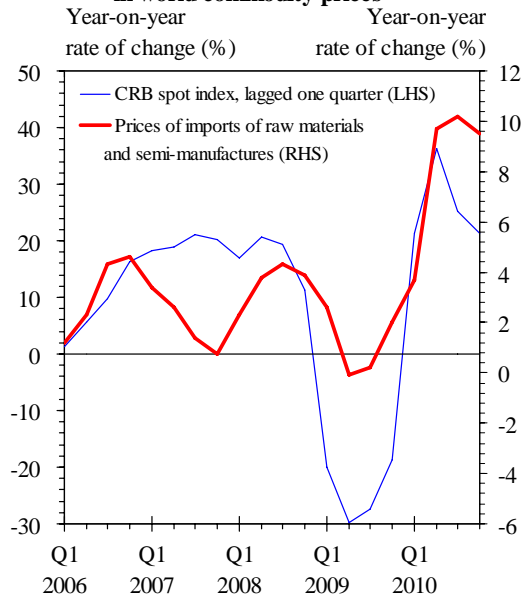
**(a) Import prices of foodstuffs increased notably further**



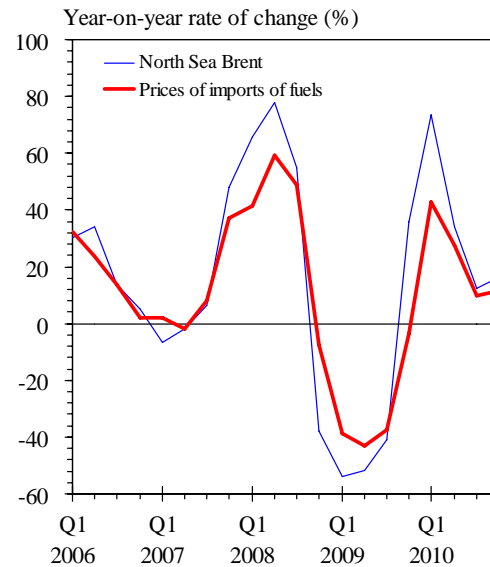
**(b) Import prices of consumer goods also picked up**



**(c) Import prices of raw materials rose sharply in tandem with the general uptrend in world commodity prices**



**(d) Fuel prices remained elevated throughout 2010**



## Output prices

7.7 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, in most sectors reverted to increases in the first three quarters of 2010 from the declines in 2009. With the resurgence of overseas demand, prices of manufacturing output rebounded notably across a wide range of products. Within the services sector, output prices of water transport and air transport surged distinctly from the low bases created by the sharp declines in 2009, thanks to the strong global trade flows, particularly those within Asia. Accommodation services saw output prices picking up amid thriving inbound tourism, recovering almost all the lost ground in 2009. Prices of telecommunications services continued on a secular downtrend due to technological progress and fierce competition in the sector, while those of courier services registered a moderate increase.

**Table 7.4 : Producer Price Indices for the local manufacturing sector and selected service sectors**  
(year-on-year rate of change (%))

<u>Industry group</u>	<u>Annual</u>	<u>2009</u>				<u>2010</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3<sup>®</sup></u>
Manufacturing	-1.7	-1.4	-3.0	-2.0	-0.3	4.0	6.0	6.4
Selected services sector <sup>(a)</sup>								
Accommodation services	-8.1	-7.0	-10.8	-10.5	-4.3	4.4	6.8	9.1
Land transport	-1.0	-0.6	-1.5	-2.0	0.2	0.1	0.9	2.2
Water transport	-16.2	-12.7	-21.0	-20.8	-10.5	13.0	43.7	41.4
Air transport	-8.7	-10.3	-13.6	-15.2	4.7	13.9	17.4	23.5
Telecommunications	-2.5	-2.5	-2.8	-2.5	-2.0	-2.3	-2.1	-1.3
Courier services	2.0	2.1	1.9	1.9	2.1	1.6	2.3	2.3

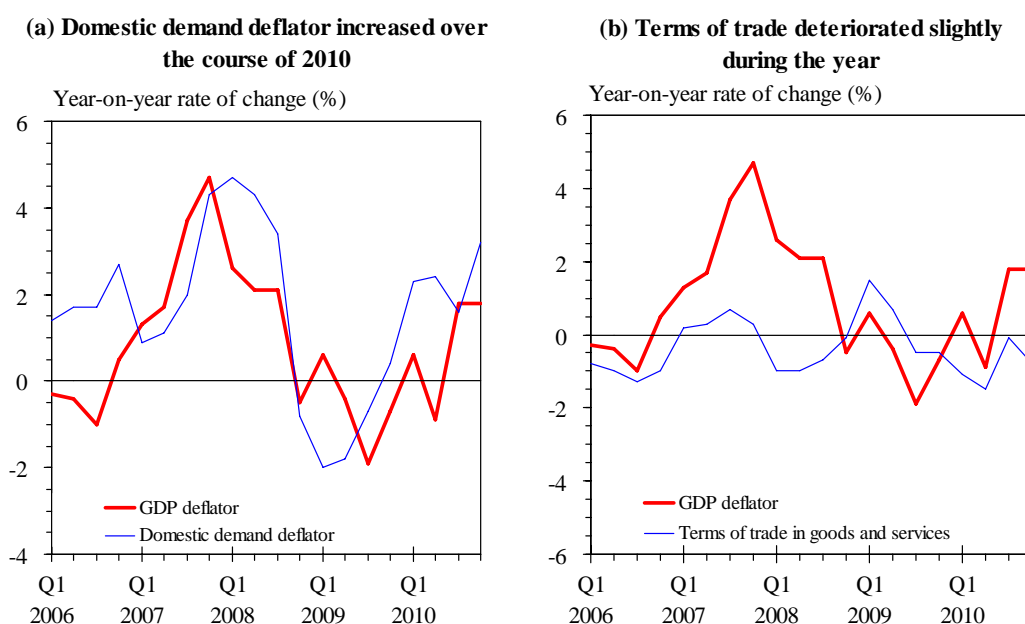
Notes : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

(<sup>®</sup>) Provisional figures except manufacturing.

## GDP deflator

7.8 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 0.9% in 2010, following a decrease of 0.6% in 2009. The rebound reflected a reversal to mild inflation from prior deflation in overall prices during the economic recovery. Domestic demand deflator went up by 2.4% in 2010, after a decline of 1.0% in 2009. On the other hand, the *terms of trade*<sup>(5)</sup> deteriorated slightly by 0.8% in 2010, as compared to the 0.2% improvement in 2009.

Diagram 7.6 : GDP deflator



**Table 7.5 : GDP deflator and the main expenditure component deflators  
(year-on-year rate of change (%))**

	<u>2009</u>					<u>2010</u>				
	<u>Annual<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Annual<sup>+</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>+</sup></u>
Private consumption expenditure	-1.6	-1.1	-2.4	-2.3	-0.6	0.8	0.4	0.4	0.5	1.9
Government consumption expenditure	0.2	3.3	-0.9	-1.2	-0.2	0.2	-0.5	0.4	0.6	0.6
Gross domestic fixed capital formation	0.5	-5.8	0.8	4.5	1.7	7.4	7.8	8.1	4.9	9.2
Total exports of goods	0.5	1.8	0.1	-0.9	0.9	4.6	2.8	4.1	5.6	5.6
Imports of goods	-1.3	-0.8	-2.3	-2.1	-0.1	6.4	3.9	7.1	6.6	7.9
Exports of services	-7.0	-5.9	-10.4	-9.3	-3.1	8.4	4.7	10.1	8.3	10.5
Imports of services	-2.3	-6.1	-6.0	-3.0	5.3	5.0	7.3	4.7	3.7	4.8
<b>Gross Domestic Product</b>	<b>-0.6</b>	<b>0.6</b>	<b>-0.4</b>	<b>-1.9</b>	<b>-0.7</b>	<b>0.9</b>	<b>0.6</b>	<b>-0.9</b>	<b>1.8</b>	<b>1.8</b>
		<-0.4>	<*>	<-0.8>	<0.6>		<0.7>	<-1.1>	<1.6>	<0.6>
Total final demand	-1.1	-0.7	-1.9	-2.2	0.1	4.5	3.0	4.4	4.9	5.6
Domestic demand	-1.0	-2.0	-1.8	-0.7	0.4	2.4	2.3	2.4	1.6	3.2
Terms of trade in goods and services	0.2	1.5	0.7	-0.5	-0.5	-0.8	-1.1	-1.5	-0.1	-0.8

Notes : Figures are derived based on the 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 rate of change.

(\* ) Change of less than 0.05%.

## Notes :

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

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

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

The weightings of the various components in the 2004/05-based CPIs are as follows:

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

- (2) The table below presents the year-on-year rates of consumer price inflation in selected economies.

	<u>2008</u>	<u>2009</u>	<u>2010</u>				
	<u>Annual</u>	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Selected developed economies							
US	3.8	-0.4	1.6	2.4	1.8	1.2	1.3
Canada	2.3	0.3	1.8	1.6	1.4	1.8	2.3
EU	3.7	1.0	2.1	1.7	2.0	2.1	2.4
Japan	1.4	-1.4	-0.7	-1.2	-0.9	-0.8	0.1
Major emerging economies							
Mainland China	5.9	-0.7	3.3	2.2	2.9	3.5	4.7
Russia	14.1	11.7	6.9	7.2	5.9	6.2	8.1
India	8.3	10.9	12.0	15.3	13.7	10.3	9.2
Brazil	5.7	4.9	5.0	4.9	5.1	4.6	5.6
Selected Asian economies							
Hong Kong	4.3	0.5	2.4	1.9	2.6	2.3	2.8
Singapore	6.6	0.6	2.8	0.9	3.1	3.4	4.0
Taiwan	3.5	-0.9	1.0	1.3	1.1	0.4	1.1
South Korea	4.7	2.8	3.0	2.7	2.6	2.9	3.6
Malaysia	5.4	0.6	1.7	1.3	1.6	1.9	2.0
Thailand	5.5	-0.8	3.3	3.7	3.2	3.3	2.9
Indonesia	9.8	4.8	5.1	3.7	4.4	6.2	6.3
Philippines	9.3	3.2	3.8	4.3	4.2	3.8	2.9
Vietnam	23.1	6.7	9.2	8.5	9.0	8.4	10.8
Macao	8.6	1.2	2.8	1.5	2.7	3.1	3.9

- (3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (4) The 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.
- (5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

## **Calendar of Events of Significance for the Hong Kong Economy in 2010**

- 1 Jan            The number of products with rules of origin agreed under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was increased to 1 585.
- 5 Jan            The Hong Kong Monetary Authority (HKMA) announced the offer of additional Exchange Fund Bills, totalling \$35,000 million, to meet the increased demand for the paper by banks.
- 8 Jan            The HKMA issued a circular to Authorized Institutions (AIs) reminding them the importance of adopting prudent pricing strategies in residential mortgage lending.
- 16 Jan           The Finance Committee of the Legislative Council (LegCo FC) approved the funding applications of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL). Construction of the Hong Kong section of the XRL commenced in January 2010 and is expected for completion in 2015.
- 18 Jan           The Hong Kong Special Administrative Region (HKSAR) Government and the European Free Trade Association (EFTA), consisting the Governments of Iceland, Liechtenstein, Norway and Switzerland, commenced negotiations on a Hong Kong and EFTA Free Trade Agreement.
- 19 Jan           The Financial Services and the Treasury Bureau (FSTB) and the Shanghai Municipal Government Financial Services Office signed a Memorandum of Understanding (MOU) Concerning Advancing Hong Kong-Shanghai Financial Co-operation to actively promote dual development and co-operation between financial services in Hong Kong and Shanghai. The Financial Secretary (FS) and the Vice-Mayor of Shanghai witnessed the MOU signing ceremony in Hong Kong.
- 20 Jan           The Heritage Foundation and the Wall Street Journal released the 2010 Index of Economic Freedom. Hong Kong was rated the freest economy in the world for the 16th straight year.
- 20-21 Jan        The Government and the Hong Kong Trade Development Council (HKTDC) jointly hosted a two-day Asian Financial Forum under the theme “Asia in the New Economic Order”, attracting over 1 500 business leaders and 300 journalists from 31 countries and regions.
- 25 Jan           The HKMA and Bank Indonesia jointly launched a new cross-border payment-versus-payment link between Hong Kong’s US-dollar real time gross settlement (RTGS) system and Indonesia’s Rupiah RTGS system.
- 26 Jan           Hong Kong International Airport (HKIA) won the 2009 Top Service Brand Award.
- The HKMA announced the offer of additional Exchange Fund Bills, totalling \$25,000 million, to meet the increased demand for the paper by banks.

- 9 Feb A Co-operation Agreement was signed with the General Administration of Customs to provide facilitation measures for wine exported from Hong Kong to the Mainland.
- 11 Feb The Government announced the Framework for Development of Digital Audio Broadcasting Services in Hong Kong and invited interested parties to submit applications to the Broadcasting Authority (BA) for sound broadcasting licences to provide digital audio broadcasting services.
- The HKMA issued a circular to AIs providing an elucidation of the supervisory principles and operational arrangements regarding renminbi (RMB) business in Hong Kong.
- 23 Feb The Government announced the tendering of 2-year Government Bonds, totalling \$3,500 million, under the Institutional Bond Issuance Programme of the Government Bond Programme.
- The United Kingdom (UK) Foreign and Commonwealth Office presented to UK parliament the 26th Six-monthly Report on Hong Kong covering the period July to December 2009. The Report stated that the “One Country, Two Systems” principle had worked well and that the rights and freedoms guaranteed for Hong Kong had been respected.
- 24 Feb The FS presented the Budget for the financial year 2010-11, focusing on consolidating the recovery, developing the economy and building a caring society.
- The FS proposed a number of one-off measures to help to consolidate the economic recovery and to mitigate the impact from higher inflation pressure, including, among others, reduction of final taxes in respect of salaries tax and tax under personal assessments, rates waiver, and business registration fees waiver. He also proposed a number of other measures, which included (a) abolishing the duty-free concessions on tobacco products for incoming passengers on grounds of public health; (b) accelerating the tax deduction for capital expenditure on environment-friendly vehicles; and (c) granting tax deduction for capital expenditure on the purchase of registered trade marks, copyrights and registered designs.
- The FS also set out the four directions in ensuring a healthy and stable development of the property market: (1) Increase flat supply via fine-tuning land supply arrangement; (2) Forestall excessive expansion in mortgage lending; (3) Improve transparency in property transactions and transaction prices; and (4) Discourage property speculations. A package of stabilization measures were announced in the Budget.
- The Government announced the 2010-11 Application List (AL) for the sale of Government land, comprising 46 residential sites, 8 commercial/business sites and 8 “hotel only” sites. Six residential sites on the 2010-11 AL were designated for Government-initiated sale.



The 2009 Economic Background and 2010 Economic Prospects were published along with the 2010-11 Budget. Hong Kong's Gross Domestic Product (GDP) was forecast to grow by 4% to 5% in real terms in 2010, thanks to a continued global economic recovery, especially in the emerging Asian economies. The headline and underlying Composite Consumer Price Indices (CCPI) for 2010 were forecast to increase by 2.3% and 1.5% respectively.

- 26 Feb The governments of Guangdong, HKSAR and Macao SAR signed an inter-governmental agreement in respect of the construction, operation, maintenance and management of the Hong Kong-Zhuhai-Macao Bridge (HZMB).
- 5 Mar Premier Wen Jiabao presented the "Government Work Report" at the 3rd meeting of the 11th National People's Congress. The Report confirmed the principles of "One Country Two Systems", "Hong Kong people administering Hong Kong" and "High degree of autonomy". It also supported Hong Kong to develop industries with competitive advantages and to strengthen its position as international finance, trade and shipping centres.
- 9 Mar The HKMA announced the offer of additional Exchange Fund Bills, totalling \$18,000 million, to meet the increased demand for the paper by banks.
- 12 Mar The Inland Revenue (Amendment) Ordinance 2010 came into effect, enabling Hong Kong to adopt the Organisation for Economic Co-operation and Development (OECD) 2004 version of the Exchange of Information Article in Hong Kong's Comprehensive Avoidance of Double Taxation Agreements.
- 16-24 Mar The FS visited Malaysia, Brunei and Indonesia to update the business leaders on the latest developments in Hong Kong and foster closer bilateral links.
- 17 Mar The Office of the Government Chief Information Officer (OGCIO) signed a new Designation Agreement and an MOU with Hong Kong Internet Registration Corporation Limited (HKIRC) to enhance the administration of Internet domain names in Hong Kong.
- 20 Mar The HKSAR Government and the Government of the His Majesty the Sultan and Yang Di-Pertuan of Brunei Darussalam signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Brunei.
- 22 Mar The HKSAR and the Kingdom of the Netherlands signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Hong Kong.
- 23 Mar The HKSAR Government and the Government of the Republic of Indonesia signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Jakarta.
- 24 Mar The Finance Ministers and Central Bank Governors of the ASEAN Member States, China, Japan and Korea (ASEAN + 3) and the HKMA announced that the Chiang Mai Initiative Multilateralisation came into effect.

- 25 Mar The HKMA announced the offer of additional Exchange Fund Bills, totalling \$19,000 million, to meet the increased demand for the paper by banks.
- 29 Mar The HKSAR Government signed a Closer Economic Partnership Agreement with the Government of New Zealand. The Agreement was Hong Kong's first free trade agreement with a foreign economy.
- 31 Mar The Hong Kong Council for Testing and Certification (HKCTC) submitted its Report containing a three-year market-oriented development plan for the industry to the Chief Executive (CE).
- 1 Apr New measures to revitalise older industrial buildings through wholesale conversion and redevelopment came into operation.
- The Government launched a \$200 million "R&D Cash Rebate Scheme" to encourage business enterprises to establish stronger partnership with local public research institutions.
- Hong Kong established the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council (ECCPC). The ECCPC will deal with its counterpart, the Taiwan-Hong Kong Economic and Cultural Co-operation Council (THEC), on issues of mutual interest.
- The Hong Kong-Taiwan Business Co-operation Committee was also established to foster co-operation in trade, investment and tourism between Hong Kong and Taiwan at the corporate level.
- 7 Apr The CE and the Governor of Guangdong Province signed the Framework Agreement on Hong Kong/Guangdong Co-operation in Beijing in the presence of the State Leaders. It is the first agenda on Hong Kong/Guangdong co-operation ever endorsed by the State Council, translating the macro policies on Hong Kong/Guangdong co-operation in the "Outline of the Plan for the Reform and Development of the Pearl River Delta" into concrete measures. It further confirms the respective roles of and division of labour between Hong Kong and Guangdong, providing clear directions for future collaboration.
- 9-10 Apr The CE attended the Boao Forum for Asia Annual Conference 2010 in Hainan Province.
- 13-16 Apr The OGCIO supported the HKTDC to organize the International ICT Expo 2010. The event consisted of exhibition, conferences and forums which provided a platform for the industry to promote its Information and Communications Technologies (ICT) products and services. The event attracted 570 exhibitors and over 28 000 trade visitors worldwide.
- 21 Apr The Government introduced further measures on the property market along the four directions as set out in the 2010-11 Budget. Specifically, the Government requested the Real Estate Developers Association of Hong Kong to issue new guidelines on sales of first-hand private residential flats, and announced to auction two residential sites in June and July 2010. Separately, the HKMA conducted a new round of on-site examinations of the major mortgage lenders to ensure that they adopt prudential lending practices.

The Government announced the extension of the application period of the \$100 billion Special Loan Guarantee Scheme from 30 June to 31 December 2010 for the last time.

- 23 Apr The LegCo FC approved the financial arrangement for the development of Hong Kong Science Park Phase 3, with a view to further promoting the development of innovation and technology in Hong Kong. The whole project will be completed by 2016.
- 26 Apr The Government announced the tendering of 10-year Government Bonds, totalling \$3,000 million, under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 26-30 Apr The CE visited Shanghai where he met with the Party Secretary and the Mayor of Shanghai. The CE then visited Jiangsu Province, covering Wuxi, Nanjing, Yangzhou, Suzhou and Kunshan, where the CE paid visits to various enterprises and met with local leaders.
- 27 Apr The HKMA announced the offer of additional Exchange Fund Bills, totalling \$19,000 million, to meet the increased demand for the paper by banks.
- 30 Apr The CE, CS and other HKSAR government officials attended the opening ceremony of the Shanghai Expo. The World Expo 2010 was held in Shanghai from 1 May to 31 October.
- 1 May The CE officiated at the opening ceremony of the Hong Kong Pavilion and Hong Kong's Urban Best Practices Area (UBPA) Exhibition in the Shanghai Expo Park.
- 2 May A €110 billion package of emergency loans was jointly provided by the eurozone governments and the International Monetary Fund (IMF) to Greece.
- 4 May The HKSAR Government and the Government of Israel signed an MOU on Customs Co-operation to enhance co-operation between the two Customs administrations.
- 7 May The second-phase public consultation on the draft provisions of the Companies Bill commenced. The rewrite of the Companies Ordinance is a major exercise to update and modernise the legal framework for companies in Hong Kong.
- 8 May Construction works of the Kai Tak Cruise Terminal Building began. The terminal building and the first berth are expected to commence operation in mid-2013.
- 10 May The European Union (EU) and IMF set up a €750 billion European Financial Stability Facility (EFSF) backed by the IMF, the EU and the European Central Bank.
- 12 May The HKSAR Government and the Government of the Republic of Hungary signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Budapest.

- 13 May HKIA was named the “World’s Best Airport” among airports serving over 40 million passengers annually at the Airport Services Quality Awards 2009.
- The HKSAR Government and the Government of the State of Kuwait signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Hong Kong, as well as an Agreement for the Promotion and Protection of Investments and an Economic and Technical Co-operation Agreement in Hong Kong.
- 14 May The Government released the GDP figures for the first quarter of 2010. The Hong Kong economy grew markedly by 8.2% (preliminary figure) in real terms in the first quarter over a year earlier.
- In the May update of the economic forecast for 2010, the forecast growth rate in real terms of GDP was maintained at 4-5% as announced in the 2010-11 Budget. The forecast rates of increase in the headline and underlying CCPI were likewise remained unchanged at 2.3% and 1.5% respectively.
- 15 May-31 Oct CreateHK sponsored Hong Kong Design Centre (HKDC) to organise the exhibition entitled “Hong Kong Creative Ecologies – Business, Living, Creativity”, in Shanghai during the World Expo 2010 to promote the energy, innovation and branding power of Hong Kong creative industries to the Mainland and global audience.
- 16 - 22 May The FS led a Hong Kong business delegation to Heilongjiang Province in the Mainland and Vladivostok in Russia to strengthen closer economic ties with the two places.
- 17 May An MOU on Co-operation in Wine-related Businesses was signed with the United States, covering such areas as trading, investment, tourism, education/manpower training and combating counterfeits.
- The Customs and Excise Department (C&ED) officially launched the Road Cargo System (ROCARS), an electronic cargo information submission system that promoted seamless clearance. Submissions to the ROCARS will become mandatory on 17 November 2011 after an 18-month transitional period.
- 19 May Hong Kong ranked second in the Enabling Trade Report 2010 published by the World Economic Forum, same place as in the previous year.
- 20 May The total gross tonnage registered under the Hong Kong Shipping Register crossed the 50 million mark.
- 24 May The Government announced the tendering of 5-year Government Bonds, totalling \$1,500 million, under the Institutional Bond Issuance Programme of the Government Bond Programme.
- The governments of Guangdong, HKSAR and Macao SAR established the “Joint Works Committee of the Three Governments” to oversee the construction, operation, maintenance and management of the HZMB project.

- 25 May The HKSAR Government and the Government of the Republic of Austria signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital in Hong Kong.
- A supplemental MOU was signed with Bordeaux, France. It covered areas including the continued organisation of the Wine and Dine Festival in 2010 and 2011, and encouraging joint operations to promote wine business.
- 27 May The HKSAR Government and the Central People's Government signed Supplement VII to the CEPA.
- 28 May The LegCo FC approved a new commitment of \$500 million to assist primary and secondary students from low-income families with eLearning at home through the provision of an Internet Access Subsidy in the 2010/11 school year and the implementation of a five-year Internet Learning Support Programme starting from the 2011/12 school year.
- The Securities and Futures Commission (SFC) announced a package of measures to strengthen the regulatory regime governing the sale of investment products.
- 1 Jun The Government launched through the Lands Department's Consent Scheme and the guidelines of the Real Estate Developers Association of Hong Kong the "nine new measures and 12 requirements" to further enhance the transparency of information on sales brochures, price lists, show flats and transactions of uncompleted first-hand private residential properties.
- The European Commission (EC) published its 12th report on Hong Kong, affirming the expansion of relations and co-operation between the EU and Hong Kong in terms of trade, investment and dialogue on issues of common interest and recognising Hong Kong's strategic importance as a trade and investment partner in EU's economic growth.
- The HKSAR Government and the People's Government of Guangdong Province jointly organised a forum on the Framework Agreement on Hong Kong/Guangdong Co-operation in Hong Kong to brief representatives from various sectors of the community on the six clear positions and roles of Hong Kong and Guangdong in furthering co-operation and development, as well as on how the overall competitiveness of the whole region could be enhanced by complementarities and co-ordinated development between the two places.
- 4 Jun The amendment scheme of the South Island Line (East) was gazetted under the Railways Ordinance (Cap. 519).
- 8 Jun A residential site with a site area of about 1.6 hectares in Homantin was sold at a Government land auction with a premium of \$10.9 billion.
- 11 Jun Standard & Poor's affirmed Hong Kong's long-term local-currency and foreign-currency sovereign ratings at "AA+", with "Stable" outlook.

- 21 Jun The HKSAR Government and the Government of the United Kingdom of Great Britain and Northern Ireland signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital Gains in London.
- 22 Jun The HKSAR Government and the Government of Ireland signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Dublin.
- The People's Bank of China (PBoC), together with other relevant Mainland authorities, announced an expansion of the RMB trade settlement scheme, extending the coverage from trade transactions between five Mainland cities and the ASEAN economies to all trade transactions of 20 provinces and cities on the Mainland with the rest of the world.
- 25 Jun The 4th meeting of the Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology was held in Hong Kong. The two sides reviewed the implementation of the first three-year action plan under the Shenzhen/Hong Kong Innovation Circle and noted satisfactory progress in the launch of the relevant projects.
- The SFC Codes on Takeovers and Mergers and Share Repurchases became applicable to SFC-authorized real estate investment trusts (REITs).
- The amendment scheme of the Kwun Tong Line Extension was gazetted under the Railways Ordinance (Cap. 519).
- The Council for Sustainable Development (SDC) submitted a report on the public engagement on Building Design to Foster a Quality and Sustainable Built Environment. The Government responded to the SDC report in October 2010 with a series of new measures to be implemented in April 2011.
- 26 Jun The FS attended the G20 summit in Toronto as member of Chinese delegation.
- 29 Jun The CE in Council accepted the recommendations of the BA following the mid-term review of the domestic free television programme service licences of Asia Television Limited and Television Broadcasts Limited, including new licence conditions to be imposed for the remaining validity period of the licences i.e. until December 2015, to improve the services of the two licensees.
- The Office of the Telecommunications Authority (OFTA) completed the auction of frequency spectrum for provision of broadcast-type mobile television services in Hong Kong. The new services will propel the further development of the mobile market and strengthen Hong Kong's status as a world class wireless city.
- 30 Jun The Government introduced the Communications Authority Bill into the Legislative Council (LegCo). The Bill provides for the merger of the functions of the Telecommunications Authority (TA) and the BA in an era of media convergence for the more effective and efficient regulation of telecommunications and broadcasting services.

The Deposit Protection Scheme (Amendment) Ordinance 2010 was passed by the LegCo to provide for the implementation of the enhancements to the Deposit Protection Scheme, including the increase of the protection limit of the Scheme from \$100,000 to \$500,000 on 1 January 2011.

1 Jul The Harbourfront Commission was established to succeed the Harbour-front Enhancement Committee to advise the Government on harbourfront planning, design, management and other related matters with the objective of fostering and facilitating the development of the Victoria harbourfront.

The number of products with CEPA rules of origin agreed was increased to 1 592.

2 Jul The LegCo FC approved a new injection of \$3 billion into the Arts and Sport Development Fund to provide a sustainable source of funding support for arts, culture and sports initiatives.

The LegCo FC approved the 2010-11 Civil Service Pay Adjustment, which took retrospective effect on 1 April 2010. The adjustment rates ranged from 0.56% to 1.60%.

7 Jul The Companies (Amendment) Ordinance 2010 was enacted by the LegCo. The Amendment Ordinance provided for, among others, electronic company registration and filing of documents, an expedited company name approval process as well as electronic communication between companies and their members.

The Hong Kong, Guangdong and Macao governments held a joint meeting of the Expert Groups on Hong Kong/Guangdong and Macao/Guangdong Town Planning and Development to consider the Preliminary Proposals of the “Action Plan for the Bay Area of the Pearl River Estuary”, and agreed to proceed with further study on the basis of the Proposals.

8 Jul HKIA won the Air Transport Research Society’s 2010 Asia-Pacific Efficiency Excellence Award for the fourth consecutive year.

9 Jul The 5th meeting of the Hong Kong/Guangdong Expert Group on Co-operation in Informatisation under the Hong Kong/Guangdong Co-operation Joint Conference was held in Guangzhou. It was agreed that the co-operation between Guangdong and Hong Kong would focus on, among others, “promoting pilot run of mutual recognition of electronic signature certificates”, “supporting building of e-business service platforms”, and “strengthening exchange and co-operation in industry standards”.

The LegCo FC approved additional funding support of \$500 million for the second round of the “Operation Building Bright” to increase the total budget of the Operation to \$2.5 billion.

12 Jul The FSTB launched a 3-month public consultation on the proposed establishment of an independent Insurance Authority.

- 13 Jul The HKMA announced the signing of a Memorandum of Co-operation with the PBoC in relation to the RMB Clearing Bank's Taiwan RMB cashnote business.
- 15 Jul The Government launched a public consultation on legislation to enhance protection for consumers against unfair trade practices. The legislative proposals sought to prohibit commonly seen unfair trade practices and ensure a level playing field for business.
- 16 Jul The copying and distribution offence in the Copyright Ordinance came into effect. It prescribed the numeric limits beyond which unauthorised copying and distribution of printed copyright works for use in business might attract criminal liability.
- The Business Registration (Amendment) Ordinance 2010 was gazetted to provide mainly for simultaneous business registration applications on incorporation or application for non-Hong Kong company registration under the Companies Ordinance, and electronic transactions for business registration. The new legislation will come into effect on 21 February 2011.
- 17 Jul The Minimum Wage Ordinance was enacted by the LegCo to establish a statutory minimum wage regime which provides a wage floor to forestall excessively low wages, but without unduly jeopardising Hong Kong's labour market flexibility, economic growth and competitiveness or causing significant adverse impact on employment opportunities for vulnerable workers.
- 19 Jul The HKMA and the PBoC signed a Supplementary Memorandum of Co-operation on the expansion of the RMB trade settlement scheme. The PBoC and Bank of China (Hong Kong) Limited, the RMB Clearing Bank, also signed a revised Settlement Agreement on the Clearing of RMB Businesses.
- 20 Jul The HKMA and the three note-issuing banks announced the issue of the 2010 new series Hong Kong banknotes.
- 21 Jul The FSTB, Hong Kong Exchanges and Clearing Limited (HKEx), and Invest Hong Kong co-organised a high-level Finance Forum in Shanghai, featuring the theme "Stronger Links, Stronger Markets: Hong Kong, the Mainland and the World". Speakers included top level policymakers from Hong Kong, the Mainland and overseas, as well as senior representatives of major financial institutions. The Forum was attended by 400 leaders from the financial and business community.
- 23 Jul Hong Kong was the world's 4th largest, and Asia's 2nd largest, Foreign Direct Investment (FDI) recipient in 2009, according to the World Investment Report 2010 unveiled by the United Nations Conference on Trade and Development.
- 25-27 Jul The CE led a government delegation to Sichuan to inspect the progress of reconstruction projects after the Sichuan earthquake. He also met with and encouraged the front-line staff involved in reconstruction and rehabilitation.



- 27 Jul The SFC released its Fund Management Activities Survey, which showed that Hong Kong's combined fund management business amounted to \$8,507 billion as at end-2009, representing an increase of 45.4% from end-2008.
- 28 Jul A residential site with a site area of about 2.3 hectares at Mount Nicholson was sold at a Government land auction with a premium of \$10.4 billion. In 2010, a total of 11 residential sites were sold at government auctions.
- 2 Aug To advance the work of Hong Kong/Shenzhen co-operation and Hong Kong/Guangdong co-operation, the Hong Kong Economic and Trade Office in Guangdong has set up a Shenzhen Liaison Unit to enhance communications with the relevant Shenzhen authorities, and assist in pushing ahead various Hong Kong/Shenzhen co-operation initiatives, including the development of modern service industries in Qianhai.
- 5 Aug The 7th meeting of the Guangdong/Hong Kong Expert Group on Co-operation in Innovation and Technology was held in Hong Kong. The meeting agreed to continue to promote and facilitate Guangdong/Hong Kong technology co-operation with a view to enhancing the competitiveness of the region. An Agreement on Joint Promotion of Hong Kong/Guangdong Industry-Academia-Research Co-operation was signed during the 13th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference held in Guangzhou on 16 September.
- 6 Aug The SFC authorised the first fund denominated in RMB for sale to retail investors in Hong Kong.
- 12 Aug The HKSAR Government and the Government of the Principality of Liechtenstein signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital in Liechtenstein.
- 13 Aug The Government introduced further measures on the property market. Among others, the Government prohibited "subsale (i.e. confirmor transactions) of uncompleted first-hand private residential properties, raised the forfeiture amount for the cancellation of transactions from the previous 5% to the current 10% of the amount of consideration, and would also designate 3 more residential sites on the 2010-11 AL for Government-initiated sale with a view to increasing the supply of small and medium flats.

The HKMA issued a circular to AIs requiring them to apply a maximum loan-to-value (LTV) ratio of 60% to properties with a value at or above \$12 million; lower the maximum LTV ratio for properties which are not intended to be occupied by the owners to 60%; and standardise the limit on debt servicing ratios (DSR) of mortgage applicants to 50%. In addition, banks should stress-test mortgage applicants' repayment ability, assuming an increase in mortgage rates of at least two percentage points, and limit the stressed DSR to a cap of 60%.

The Hong Kong Mortgage Corporation Limited (HKMC) announced the revisions to the Mortgage Insurance Programme (MIP), including the suspension of applications or mortgage loans exceeding 90% LTV ratio; lowering of the maximum amount for mortgage loans of 90% or below LTV from \$12 million to \$7.2 million; and capping of the maximum debt-to-income ratio at 50% for all income groups.

The Government released the GDP figures for the second quarter of 2010. The Hong Kong economy continued to show a broadly-based recovery in the second quarter, benefited mainly from the robust growth momentum in the Mainland and other Asian economies. Real GDP leaped distinctly further by 6.5% (preliminary figure) in the second quarter over a year earlier.

In the August update of the economic forecast for 2010, the forecast growth rate in real GDP was revised upwards to 5-6%. The forecast rates of increase in the headline and underlying CCPI were kept unchanged at 2.3 and 1.5% respectively.

- 17 Aug The PBoC promulgated a notice on a pilot scheme for the RMB Clearing Bank and other eligible institutions outside the Mainland to make use of their RMB funds to invest in the Mainland's interbank bond market.
- 20 Aug West Kowloon Cultural District Authority (WKCDA) started the three-month Stage 2 Public Engagement exercise to collect views of the public and stakeholders on the three Conceptual Plan Options for the cultural district.
- 24 Aug The Government announced the tendering of 2-year Government Bonds, totalling \$3.5 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 26 Aug The State Council gave approval in-principle to the "Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area", which designates Qianhai as a Hong Kong/Guangdong modern service industry innovation and co-operation exemplary zone. It provides more business and development opportunities for Hong Kong businesses and professional service providers to explore the Mainland service market, and renders substantial support to co-operation between Hong Kong and Guangdong in enhancing regional competitiveness.
- 27 Aug The HKMA announced the re-appointment of The Hongkong and Shanghai Banking Corporation Limited as the Settlement Institution for the US dollar RTGS system in Hong Kong for a third five-year period.

- 28-31 Aug The FS led a business delegation to visit Taiwan in his capacity as Honorary Chairperson of the ECCPC to strengthen economic and cultural ties between the two places.
- 31 Aug - 2 Sep The CE led a business delegation in his first official visit to Russia to strengthen bilateral co-operation with Russia. During his visit, the CE met with the President of Russia, senior government officials and business leaders. The CE also attended trade and tourism-promotion events.
- 1 Sep The HKMA announced the Hong Kong results of the Bank for International Settlements (BIS) triennial survey on foreign exchange and derivatives market turnover. Hong Kong ranked 6th in the global foreign exchange market as in the last survey in 2007. If transactions in the over-the-counter interest rate derivatives market were included, Hong Kong's ranking moved up from 8th in 2007 to 7th in 2010.
- 1-7 Sep The FS led a business delegation to visit Jilin to foster economic ties between the two places. The FS then visited Beijing to meet with Central Government officials responsible for financial and monetary matters to discuss issues of mutual concern.
- 4 Sep The HKSAR Government and the Government of Ukraine signed a Customs Cooperative Arrangement to enhance co-operation between the two Customs administrations.
- 6 Sep The CE led a government delegation to Shenzhen to attend the celebration of the 30th anniversary of the establishment of the Shenzhen Special Economic Zone.
- 9 Sep The World Economic Forum released its Global Competitiveness Report 2010-11. Hong Kong ranked the 11th, same place as in the previous year.
- 10 Sep The Government commenced public consultation on Hong Kong's climate change strategy and action agenda, with a view to charting the way forward to transform Hong Kong into a low carbon city.
- 13 Sep The Stock Exchange of Hong Kong Limited (SEHK) and the Hong Kong Interbank Clearing Limited launched the RMB clearing service for Central Clearing and Settlement System items so as to prepare for potential listing of RMB denominated bonds and stocks on the SEHK and to provide listed companies with the flexibility of distributing dividend payments in RMB.
- The HKMC announced the launch of the Premium Loan Guarantee Scheme to complement the Government's initiative on revitalising the Home Ownership Scheme secondary market.
- 13-16 Sep Cyberport and Shanghai Knowledge and Innovation Community signed an MOU on a broad range of areas from marketing co-operation to collaboration in exchange programmes and training for enhancing cross-border ICT collaboration.

- 15 Sep The Government announced three selected non-profit making organisations for the adaptive re-use of three Government-owned historic buildings under Batch II of the “Revitalising Historic Buildings Through Partnership Scheme”.
- The UK Foreign and Commonwealth Office presented to UK parliament the 27th Six-monthly Report on Hong Kong covering the period January to June 2010. The Report stated that the “One Country, Two Systems” principle had worked well and that the rights and freedoms guaranteed for Hong Kong had been respected.
- 16 Sep The CE and the Governor of Guangdong Province jointly presided over the 13th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference in Guangzhou. At the meeting, the two sides discussed the way forward and agreed to enhance the overall competitiveness of the region through closer co-operation in various aspects, such as formulation of regional co-operation plans, financial services, commerce and trade, cross-boundary infrastructure, education, medical services, environmental protection and tourism.
- 20 Sep Hong Kong remained the freest economy in the world, according to the 2010 Annual Report on the Economic Freedom of the World jointly released by the Fraser Institute of Canada, CATO Institute of the US and more than 70 other research institutes around the world.
- 21 Sep The SFC, the HKEx and the Federation of Share Registrars Limited jointly released a set of consultation conclusions followed by the announcement to implement in phases the scripless regime.
- The Government launched a public consultation exercise to gauge the public’s views on whether Hong Kong should bid to host the 2023 Asian Games. The consultation period ended on 1 December 2010.
- 24 Sep The Government announced the tendering of 10-year Government Bonds, totalling \$2 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 25-26 Sep The CE attended the Expo Central China 2010 in Nanchang, Jiangxi Province.
- 27 Sep Rating and Investment Information, Inc. affirmed Hong Kong’s long-term local-currency and foreign- currency sovereign ratings at “AA+”, with “Stable” outlook.
- 3-9 Oct The FS visited London and Washington to strengthen Hong Kong’s economic ties with United Kingdom and United States. The FS also attended the Annual Meeting of the International Monetary Fund/World Bank held in Washington as a member of the Chinese delegation.
- 6 Oct The Government published the second stage public consultation document on healthcare reform, under which a government-regulated, voluntary Health Protection Scheme - aimed at enhancing the long-term sustainability of the healthcare system - is proposed for public consultation for three months.
- 7 Oct HKIA was voted the “Best Airport” for the eighth consecutive year in the TTG Travel Awards.

- 11 Oct The Government and the Hong Kong Jockey Club announced the revised design of the Central Police Station Compound to revitalise it as a centre for heritage, arts and leisure, complementing the organic development of the neighbouring area as a contemporary arts zone.
- The “Task Force on the Review of the Operation and Regulation of Mainland Inbound Group Tours” of the Travel Industry Council of Hong Kong (TIC) submitted its report to the Government recommending 10 measures to strengthen the TIC’s regulatory system on Mainland group tours and enhance protection to travellers.
- 13 Oct The CE announced in the 2010 Policy Address that the Government, among other things, would give priority to livelihood issues, promote economic development, raise quality of life, and ensure social stability. On ensuring healthy and stable development of the property market, the Government would ensure sufficient land supply for the production of 20 000 private flats and 15 000 public rental housing units per year in the long term. A rent-to-buy subsidised housing scheme known as “My Home Purchase Plan” would also be launched by the Government in collaboration with the Hong Kong Housing Society, to help potential sandwich class save up for home purchase. Furthermore, a steering committee would be set up to discuss specific issues on regulating the sale of first-hand flats by legislation and put forward practicable recommendations within one year. (The Steering Committee on the Regulation of the Sale of First-hand Residential Properties held its first meeting on 15 November 2010).
- The Government announced that in order to ensure that the Capital Investment Entrant Scheme is up-to-date and continues to serve the best overall interest of Hong Kong, various amendments would be introduced to the Scheme with effect from 14 Oct 2010.
- 18 Oct The 5th Plenum of the 17th Communist Party of China Central Committee examined and approved the “Proposal of Formulating the National Economic and Social Development Plan for the 12th Five-Year (2011–2015)”. The content of “deepening Hong Kong, Guangdong and Macao co-operation, boosting regional economic development” as well as supporting Hong Kong to “consolidate and enhance” its status as international financial, trade and shipping centres, and “enhancing the ability of industrial renovation and pushing forward balanced economic and social development” were mentioned for the first time in the Proposal of the National Five-Year Plan at the national level.
- 19 Oct The Asian Development Bank (ADB) and International Finance Corporation of the World Bank Group announced the issuance of RMB bonds in Hong Kong.
- The findings of the “2010 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong” were announced. Of the 6 561 companies surveyed, 1 285 are regional headquarters, 2 353 are regional offices and 2 923 are local offices.
- 20 Oct Launch of Hong Kong Week at Expo 2010 Shanghai China. The CE officiated at the opening ceremony.

The PBoC raised RMB benchmark deposits and loan rates of financial institutions for the first time since the financial tsunami.

- 20-21 Oct The FS visited Paris to promote economic co-operation between Hong Kong and France. He also signed the Comprehensive Agreement for the Avoidance of Double Taxation between the two places.
- 21 Oct An MOU on Co-operation in Wine-related Businesses was signed with Burgundy, France covering the promotion of trading, investment, tourism, education and training, and combating counterfeits.
- 22 Oct An MOU on Co-operation in Wine-related Businesses was signed with Portugal, covering the promotion of trading, investment, tourism, education and training, and combating counterfeits.
- 25-29 Oct The CE led a business delegation in his first official visit to India to promote government and economic relations.
- The CE officiated at the opening of “Festive Hong Kong Week” organised by the Hong Kong Tourism Board and spoke at the HK-Guangdong Business Conference co-organised by Invest Hong Kong and Guangdong Province of Mainland China in New Delhi, and officiated at “Lifestyle Expo” co-organised by the HKTDC and Guangdong Province in Mumbai.
- 26 Oct The Ministry of Environmental Protection and the Environment Bureau/Environmental Protection Department of the HKSAR signed a new co-operation arrangement (CA) on tackling air pollution. Under the new CA, both sides will draw up annual co-operation plans with reference to a five-year work agenda.
- 27 Oct The 5th meeting of the Mainland/Hong Kong Science and Technology Co-operation Committee was held in Hong Kong. The two sides agreed, among others, to explore further trade facilitation measures through the provisions of the CEPA VII and other appropriate measures.
- The Environmental Protection Department (EPD) signed a design, build and operate contract for a sludge treatment facility at Tsang Tsui, Tuen Mun.
- 29 Oct AIA Group Ltd was listed on the Main Board of the SEHK. By raising \$159 billion, it was Hong Kong’s largest ever initial public offering.
- 31 Oct The CE attended the opening ceremony of the Shanghai Expo summit entitled “Urban Innovation and Sustainable Development”, which was the highest-level event in the series of Expo forums. The CE also attended the closing ceremony of the Shanghai Expo officiated by Premier Wen Jiabao.
- 1 Nov The HKMC announced a series of promotional activities on the Mortgage Insurance Programme.

- 2 Nov The CE in Council accepted the recommendation of the BA and approved in principle the applications of Metro Broadcast Corporation Limited, Phoenix U Radio Limited and Wave Media Limited for sound broadcasting licences to provide digital audio broadcasting services in Hong Kong. The licences to be issued will be valid for 12 years.
- 3 Nov The US Federal Reserve announced that it would purchase a further US\$600 billion of longer-term Treasury securities by the end of the second quarter of 2011, at a pace of about US\$75 billion per month.
- 5-7 Nov The FS attended the APEC Finance Ministers' Meeting in Kyoto.
- 6 Nov The number of visitor arrivals to Hong Kong exceeded the 30 million mark for the first time, setting a new record.
- 8 Nov The HKMC announced the introduction of the Risk-based Scoring Model as an enhancement to its MIP.
- 9 Nov The HKSAR Government and the Government of Japan signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Hong Kong.
- 10 Nov The Government announced the adoption of the recommendation of the Provisional Minimum Wage Commission to set the initial statutory minimum wage rate at \$28 per hour which was scheduled to come into force on 1 May 2011.
- The Pacific Economic Co-operation Council published its State of the Region Report 2010-2011. The Report recognised Hong Kong as one of the economies most highly integrated with the Asia Pacific region.
- 11 Nov Moody's upgraded Hong Kong's government bond ratings to "Aa1" from "Aa2" with "Positive" outlook.
- 11-14 Nov The CE attended the 18th APEC Economic Leaders' Meeting in Yokohama, Japan, together with Leaders of 20 other Asia-Pacific economies. Leaders committed to promoting high quality growth; accelerating stronger and deeper regional economic integration; and enhancing food security. Leaders also reaffirmed their strong commitment to bring the Doha Development Agenda under the World Trade Organization (WTO) to a prompt and successful conclusion, and to resisting protectionism. Separately, the CE also visited incineration plants in Tokyo and Yokohama and addressed the business community in the APEC CEO Summit.
- 12 Nov The Government released the GDP figures for the third quarter of 2010. The Hong Kong economy remained robust in the third quarter, with real GDP growing by 6.8% year-on-year (preliminary figure).
- In the November update of the economic forecast for 2010, the forecast economic growth was revised upward to 6.5%. The forecast rates of increase in the headline and underlying CCPI were slightly revised upwards to 2.5% and 1.7% respectively.

The FS attended the G20 summit in Seoul as member of the Chinese delegation.

15 Nov The HKMC announced the launch of the SME Financing Guarantee Scheme on 1 January 2011.

The Government announced the selection of a non-profit-making organisation to transform and operate the former Police Married Quarters site on Hollywood Road as a creative industries and design landmark in Hong Kong named “PMQ”.

16 Nov The total gross tonnage registered under the Hong Kong Shipping Register crossed the 55 million mark.

“Hong Kong: China’s Global Financial Centre Conference” was held in London as the first leg of a global promotional campaign launched by the FSTB and supported by Invest Hong Kong, the HKMA and the SFC. It would be followed by a similar event (during the Asian Financial Forum) in Hong Kong to be held on 18 January 2011, and in New York to be held on 1 March 2011.

17 Nov A recent study conducted by the University of Oxford reveals that Hong Kong ranks second in the global broadband leadership table.

HKIA was voted the “Best Airport in China” by readers of a leading travel publication “Business Traveller China” for the fourth time in six years.

18 Nov In its Preliminary Conclusions following the 2010 Article IV consultation discussions, the IMF Staff Mission to Hong Kong raised its forecast for Hong Kong’s economic growth and maintained its long-standing support for the Linked Exchange Rate System.

19 Nov Further measures were announced to ensure healthy and stable development of the property market. The FS announced, among other things, the introduction of a Special Stamp Duty on the short-term resales of residential properties.

The HKMA issued a circular to AIs requiring them to implement measures to strengthen risk management in residential mortgage lending business, including the lowering of the maximum LTV ratios for residential, industrial and commercial properties, and the introduction of a cap of \$6.8 million on the value of property that could be covered under the MIP for all products.

22 Nov The Ministry of Finance and the HKMA signed a Memorandum of Co-operation on using Central Moneymarkets Unit for Issuance of RMB Sovereign Bonds. The Ministry of Finance also announced the issuance of RMB sovereign bonds totalling RMB 5 billion to institutional investors through the CMU BID, a bond tendering platform offered by the Central Moneymarkets Unit operated by the HKMA.



The 5th meeting of the Hong Kong-Shenzhen Joint Task Force on Boundary District Development (JTF) was convened in Shenzhen. The JTF agreed, among other things, to launch concurrently the Stage One Public Engagement of the Planning and Engineering Study on Development of Lok Ma Chau Loop in Hong Kong and Shenzhen.

The 4th annual structured dialogue meeting between the EC and the HKSAR Government was held in Brussels. The two sides had fruitful exchange on a number of issues including trade, innovation and technology, creative industries, testing and certification and agreed to continue to strengthen co-operation in these areas.

23 Nov The HKEx announced its decision to extend the trading hours of its markets in two phases. The changes are expected to help improve the price discovery function for Mainland-related securities by increasing the overlap of trading hours with the Mainland exchanges, and strengthen the HKEx's competitiveness by narrowing the gap between the duration of its trading hours and those of its competitors in the region.

The Government announced the tendering of 5-year Government Bonds, totalling \$2.5 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.

24 Nov The Buildings Energy Efficiency Ordinance was enacted. It mandates the compliance with codes of practice promulgated by the Electrical and Mechanical Services Department concerning the energy efficiency of buildings services installations and energy audits.

The OGCIIO organised the "Hong Kong Clean PC Day 2010" Campaign in collaboration with the Hong Kong Police Force and the Hong Kong Computer Emergency Response Team Coordination Centre to promote information security in the community.

25 Nov Fitch upgraded Hong Kong's long-term foreign-currency sovereign rating to "AA+" from "AA", with "Stable" outlook.

The CE and the Mayor of Beijing co-chaired the 3rd Plenary Session of the Beijing-Hong Kong Economic and Trade Co-operation Conference in Hong Kong. Both sides reviewed the co-operation progress in recent years, and agreed, among other things, to strengthen liaison on various fronts, enhance collaboration in the implementation of CEPA, step up co-operation on innovation technology and culture and creative industries, and join hands to promote local brand-name products, tourism and financial services.

26 Nov The scheme of the Shatin to Central Link was gazetted under the Railways Ordinance (Cap. 519).

28 Nov The EU agreed to provide Ireland with a financing package of up to €85 billion.

- 29 Nov-10 Dec The FS visited Auckland and signed a Comprehensive Agreement for the Avoidance of Double Taxation with New Zealand. He then proceeded to a business mission to Chile and Brazil to explore business opportunities and promote Hong Kong' status as an international financial centre and gateway to China.
- 30 Nov The Ministry of Finance launched the second issue of RMB sovereign bonds in Hong Kong.
- The CE in Council authorised the South Island Line (East) and Kwun Tong Line Extension projects.
- 1 Dec 10th anniversary of the Mandatory Provident Fund (MPF) System.
- 1 & 3 Dec Hong Kong was commended for its open and free trade policies in the WTO Trade Policy Review of Hong Kong, China.
- 2 Dec An MOU on Co-operation in Wine-related Businesses was signed with Chile, covering the promotion of trading, investment, tourism, storage, and education and training.
- 3 Dec The Government announced a comprehensive resource package for the next several years to fully support the development of RTHK as a public service broadcaster.
- The IMF released its Staff Report on Hong Kong, welcoming the Government's efforts in maintaining financial stability and reiterating its support for the Linked Exchange Rate System.
- 6 Dec The HKSAR Government and the Swiss Federal Council signed an Agreement for the Avoidance of Double Taxation with Respect to Taxes on Income in Hong Kong.
- The PBoC and relevant Mainland authorities announced a substantial expansion of the list of Mainland enterprises that are eligible for participating in the cross-border RMB trade settlement scheme.
- The CS and the Mayor of Shenzhen co-chaired the Hong Kong/Shenzhen Co-operation Meeting in Shenzhen. On the same day, the CS led a Hong Kong delegation, comprising members of the Greater Pearl River Delta Business Council and representatives from business and professional communities, to a meeting with the Mayor of Shenzhen to exchange views on the promotion of modern service industries in Qianhai, followed by a site visit to Qianhai.
- 10 Dec The OFTA published the reserve price and an information memorandum in respect of the auction of spectrum in the 850MHz, 900MHz and 2GHz bands. The auction is expected to take place in early 2011 and serves to meet a growing demand for spectrum for public mobile communications services stemming from an expanding number of subscribers and the increasing popularity of mobile data services.

The HKMA, the SFC and the HKEx announced that they would establish regulatory regime and clearing facilities respectively for the over-the-counter (OTC) derivatives markets. This represents a major step for Hong Kong to implement the commitment agreed by the G20 leaders to improve regulations in the OTC derivatives markets.

The "Second Technical Memorandum for Allocation of Emission Allowances in Respect of Specified Licences" under the Air Pollution Control Ordinance came into effect, thereby further tightening the emission caps of the power sector starting 2015 from the 2010 levels by 34% to 50%.

13 Dec Following public consultation from 9 February to 8 May, the Government announced its decision to establish an Investor Education Council (IEC) and a Financial Dispute Resolution Centre (FDRC). IEC would holistically oversee the delivery of investor education and help empower the public in making financial decisions. FDRC offers an impartial, speedy and affordable way to handle monetary disputes between consumers and financial institutions by way of 'mediation first, arbitration next'. IEC and FDRC, together with enhanced investor protection measures adopted by regulators, provide a comprehensive protection for the investing public.

15 Dec On the basis of the convergence of the accounting and auditing standards of Hong Kong and the Mainland, HKEx commenced a scheme to allow Mainland incorporated companies listed in Hong Kong a choice to prepare financial statements under Mainland accounting standards and engage Mainland audit firms which meet relevant qualification requirements to audit their statements. The scheme should increase market efficiency and reduce compliance costs for Mainland incorporated companies listed in Hong Kong.

The scope of eligibility of the pilot arrangement to allow non-Guangdong residents ordinarily residing in Shenzhen to apply for Individual Visit endorsements in Shenzhen to visit Hong Kong was expanded to cover most of such residents being employed in Shenzhen.

16 Dec The HKMC announced the launch of a pilot scheme on reverse mortgage in 2011, which will enable the elderly people to enter into reverse mortgage loans in return for a stream of annuity payments while staying at their original residence.

Standard & Poor's upgraded Hong Kong's long-term foreign-currency and local-currency ratings to "AAA" from "AA+", with "Stable" outlook. This was the first triple-A rating from one of the three major rating agencies received by Hong Kong.

20 Dec The Hong Kong-Guangdong Joint Working Group on Sustainable Development and Environmental Protection held its 11th annual meeting in Hong Kong. The meeting noted the good progress made in various environmental co-operation initiatives, and agreed to enhance co-operation to actively transform the PRD region into a Green and Quality Living Area and jointly explore co-operation opportunities on recycling and reuse of detoxified reusable materials with a view to fostering co-operation and development of recovery and recycling industries of the two places.

- 23 Dec The HKMA announced the introduction of a number of refinements to the arrangement for conversions of RMB conducted by Participating Banks with their customers for RMB cross-border trade settlement transactions.
- 28 Dec C&ED announced the introduction of a certification service to enable traders routing goods through Hong Kong to enjoy the tariff benefits under the Economic Co-operation Framework Agreement between the Mainland and Taiwan (which stipulated direct consignments between the two places unless the goods would be routed through a third party such as Hong Kong under the supervision of the customs there). The service would be provided starting 1 January 2011, tying in with the effective date of the tariff benefits.
- 30 Dec The HKMA announced that the enhanced Deposit Protection Scheme providing a higher protection limit of \$500,000 will come into operation on 1 January 2011.
- 31 Dec The first consignment of chilled beef from the Mainland arrived in Hong Kong, thereby adding to the variety of beef available to local consumers.

In 2010, the amount of funds raised through initial public offerings on the SEHK totalled \$445 billion, making Hong Kong rank first in the world.

HKIA made passenger and cargo volume history by handling over 50 million passengers and 4 million tonnes of air cargo in 2010.

The total net asset value of all MPF schemes reached \$365.4 billion, ten years after the launch of the MPF System on 1 December 2000.

The Full Deposit Guarantee and the Contingent Bank Capital Facility expired as originally scheduled.

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
	(\$Mn)					
Private consumption expenditure	782,984	748,402	719,873	767,923	804,936	863,591
Government consumption expenditure	128,866	131,291	130,151	127,327	121,435	123,033
Gross domestic fixed capital formation	333,044	286,025	261,576	275,034	289,170	322,691
<i>of which:</i>						
Building and construction	142,659	131,757	116,628	107,692	105,993	106,268
Machinery, equipment and computer software	180,011	144,832	136,537	150,545	163,287	199,631
Changes in inventories	-4,060	5,660	9,111	7,076	-4,761	-2,129
Total exports of goods	1,480,987	1,562,121	1,749,089	2,027,031	2,251,744	2,467,357
Imports of goods	1,549,222	1,601,527	1,794,059	2,099,545	2,311,091	2,576,340
Exports of services	320,799	347,836	362,420	429,584	495,394	565,054
Imports of services	194,180	202,494	203,400	242,507	264,237	287,900
<b>GDP</b>	<b>1,299,218</b>	<b>1,277,314</b>	<b>1,234,761</b>	<b>1,291,923</b>	<b>1,382,590</b>	<b>1,475,357</b>
<i>Per capita GDP (\$)</i>	<i>193,500</i>	<i>189,397</i>	<i>183,449</i>	<i>190,451</i>	<i>202,928</i>	<i>215,158</i>
<b>GNP</b>	<b>1,327,761</b>	<b>1,282,966</b>	<b>1,263,252</b>	<b>1,315,333</b>	<b>1,384,238</b>	<b>1,502,705</b>
<i>Per capita GNP (\$)</i>	<i>197,751</i>	<i>190,235</i>	<i>187,682</i>	<i>193,902</i>	<i>203,170</i>	<i>219,146</i>
Total final demand	3,042,620	3,081,335	3,232,220	3,633,975	3,957,918	4,339,597
Total final demand excluding re-exports <sup>(a)</sup>	1,983,301	1,923,623	1,896,483	2,062,142	2,212,697	2,406,861
Domestic demand	1,240,834	1,171,378	1,120,711	1,177,360	1,210,780	1,307,186
Private	1,053,973	986,542	939,104	1,001,588	1,048,026	1,149,285
Public	186,861	184,836	181,607	175,772	162,754	157,901
External demand	1,801,786	1,909,957	2,111,509	2,456,615	2,747,138	3,032,411

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>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>			<u>2010</u>	
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Private consumption expenditure	972,028	1,022,862	1,012,377	1,079,527	254,098	268,524	264,236	292,669
Government consumption expenditure	130,404	139,262	142,855	147,121	38,683	34,771	36,705	36,962
Gross domestic fixed capital formation	325,366	334,352	322,734	374,571	83,870	95,175	95,362	100,164
<i>of which:</i>								
Building and construction	111,776	127,312	123,789	144,103	31,793	37,756	36,868	37,686
Machinery, equipment and computer software	189,093	182,189	174,707	192,433	44,042	48,508	47,894	51,989
Changes in inventories	12,841	8,480	22,908	42,285	25,961	13,905	-5,695	8,114
Total exports of goods	2,698,850	2,843,998	2,494,746	3,061,252	640,479	773,959	838,073	808,741
Imports of goods	2,852,522	3,024,089	2,702,966	3,395,057	728,114	871,131	898,127	897,685
Exports of services	660,847	718,630	670,150	835,036	190,712	186,283	221,181	236,860
Imports of services	332,240	366,484	340,601	396,645	91,699	92,618	104,249	108,079
<b>GDP</b>	<b>1,615,574</b>	<b>1,677,011</b>	<b>1,622,203</b>	<b>1,748,090</b>	<b>413,990</b>	<b>408,868</b>	<b>447,486</b>	<b>477,746</b>
<i>Per capita GDP (\$)</i>	<i>233,266</i>	<i>240,339</i>	<i>231,621</i>	<i>247,332</i>	--	--	--	--
<b>GNP</b>	<b>1,660,011</b>	<b>1,760,317</b>	<b>1,665,069</b>	<b>N.A.</b>	<b>439,609</b>	<b>426,436</b>	<b>441,376</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>239,682</i>	<i>252,278</i>	<i>237,741</i>	<i>N.A.</i>	--	--	--	--
Total final demand	4,800,336	5,067,584	4,665,770	5,539,792	1,233,803	1,372,617	1,449,862	1,483,510
Total final demand excluding re-exports <sup>(a)</sup>	2,660,146	2,805,196	2,656,136	3,064,191	715,845	748,750	769,915	829,683
Domestic demand	1,440,639	1,504,956	1,500,874	1,643,504	402,612	412,375	390,608	437,909
Private	1,278,479	1,329,853	1,317,074	1,438,566	349,438	365,159	339,757	384,212
Public	162,160	175,103	183,800	204,938	53,174	47,216	50,851	53,697
External demand	3,359,697	3,562,628	3,164,896	3,896,288	831,191	960,242	1,059,254	1,045,601

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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Private consumption expenditure	1.8	-0.9	-1.3	7.0	3.0	5.9
Government consumption expenditure	6.0	2.4	1.8	0.7	-3.2	0.3
Gross domestic fixed capital formation	2.6	-4.7	0.9	2.5	4.1	7.1
<i>of which:</i>						
Building and construction	-1.1	-1.3	-5.4	-10.7	-7.6	-7.1
Machinery, equipment and computer software	6.2	-7.6	7.0	10.3	12.8	19.2
Total exports of goods	-3.3	8.6	14.0	14.9	10.4	9.3
Imports of goods	-1.9	7.9	13.1	13.7	8.0	9.2
Exports of services	6.4	11.1	7.6	18.0	11.6	10.1
Imports of services	2.0	3.9	-2.2	14.6	7.8	8.1
<b>GDP</b>	<b>0.5</b>	<b>1.8</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>	<b>7.0</b>
<b>Per capita GDP</b>	<b>-0.2</b>	<b>1.4</b>	<b>3.2</b>	<b>7.6</b>	<b>6.6</b>	<b>6.3</b>
<b>GNP</b>	<b>2.0</b>	<b>0.1</b>	<b>4.9</b>	<b>7.9</b>	<b>5.3</b>	<b>8.8</b>
<b>Per capita GNP</b>	<b>1.3</b>	<b>-0.3</b>	<b>5.1</b>	<b>7.0</b>	<b>4.8</b>	<b>8.1</b>
Total final demand	-0.7	5.0	7.9	11.8	7.7	8.4
Total final demand excluding re-exports <sup>(a)</sup>	0.3	2.0	3.1	8.9	5.4	7.3
Domestic demand	0.9	-0.7	-0.2	5.0	1.6	6.0
Private	0.5	-1.0	-0.5	6.2	3.0	7.5
Public	3.3	1.1	1.4	-1.2	-6.2	-3.8
External demand	-1.7	9.0	12.8	15.4	10.6	9.4

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.

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

(--) Not applicable.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 1999-2009.

(~) Average annual rate of change for the 5-year period 2004-2009.



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

(%)

	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>				Average annual rate of change:	
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	10 years 2000 to 2010 <sup>#</sup>	5 years 2005 to 2010 <sup>#</sup>
Private consumption expenditure	8.5	2.4	0.6	5.8	7.2	3.9	4.9	7.1	3.2	4.6
Government consumption expenditure	3.0	1.8	2.3	2.7	3.3	2.7	3.1	1.8	1.8	2.0
Gross domestic fixed capital formation	3.4	1.0	-3.9	8.1	8.4	16.0	0.2	8.8	2.0	3.1
<i>of which:</i>										
Building and construction	-0.3	6.8	-5.5	6.7	-7.0	13.5	9.6	11.5	-2.7	*
Machinery, equipment and computer software	3.0	-0.7	-3.0	6.3	11.8	16.2	-6.6	6.5	5.1	4.7
Total exports of goods	7.0	1.9	-12.7	17.3	21.6	20.1	20.8	8.4	6.4	4.1
Imports of goods	8.8	1.8	-9.5	18.1	28.0	23.6	16.5	7.4	6.6	5.3
Exports of services	14.1	5.2	0.3	15.0	18.3	17.8	15.7	9.4	9.8	8.8
Imports of services	12.1	6.3	-4.9	10.9	11.6	13.1	11.6	7.8	5.7	6.3
<b>GDP</b>	<b>6.4</b>	<b>2.3</b>	<b>-2.7</b>	<b>6.8</b>	<b>8.1</b>	<b>6.4</b>	<b>6.7</b>	<b>6.2</b>	<b>4.0</b>	<b>3.9</b>
<i>Per capita GDP</i>	<i>5.3</i>	<i>1.5</i>	<i>-3.0</i>	<i>5.8</i>	--	--	--	--	<i>3.4</i>	<i>3.1</i>
<b>GNP</b>	<b>7.4</b>	<b>4.5</b>	<b>-4.8</b>	<b>N.A.</b>	<b>10.2</b>	<b>4.7</b>	<b>5.1</b>	<b>N.A.</b>	<b>4.2</b> <sup>^</sup>	<b>4.1</b> <sup>~</sup>
<i>Per capita GNP</i>	<i>6.3</i>	<i>3.7</i>	<i>-5.2</i>	<i>N.A.</i>	--	--	--	--	<i>3.6</i> <sup>^</sup>	<i>3.5</i> <sup>~</sup>
Total final demand	8.2	2.3	-6.9	13.6	19.3	17.0	12.8	7.0	5.6	4.9
Total final demand excluding re-exports <sup>(a)</sup>	7.9	1.8	-2.6	10.6	17.0	14.4	6.6	5.8	4.4	4.9
Domestic demand	7.9	1.6	0.7	7.0	16.4	11.4	-1.8	3.5	2.9	4.6
Private	9.0	1.5	0.3	6.5	17.9	11.5	-3.5	2.5	3.2	4.9
Public	0.2	2.6	4.3	10.2	7.3	10.4	11.3	12.0	1.1	2.6
External demand	8.3	2.6	-10.1	16.8	20.8	19.7	19.7	8.6	7.0	5.0

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

	<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	953	0.1	947	0.1	1,015	0.1	925	0.1	1,090	0.1
Manufacturing	39,143	2.9	39,303	2.7	31,729	2.0	30,993	1.9	28,227	1.8
Electricity, gas and water supply, and waste management	40,719	3.0	41,239	2.8	40,685	2.6	39,585	2.5	34,961	2.3
Construction	38,984	2.9	39,124	2.7	40,611	2.6	48,357	3.0	50,146	3.2
Services	1,239,446	91.2	1,332,191	91.7	1,466,109	92.8	1,473,037	92.5	1,436,427	92.6
<i>Import/export, wholesale and retail trades</i>	355,185	26.1	361,169	24.9	374,614	23.7	393,914	24.7	365,880	23.6
<i>Accommodation and food services</i>	37,492	2.8	42,697	2.9	48,827	3.1	53,596	3.4	48,787	3.1
<i>Transportation, storage, postal and courier services</i>	115,311	8.5	116,104	8.0	119,728	7.6	98,245	6.2	99,048	6.4
<i>Information and communications</i>	44,813	3.3	48,243	3.3	50,873	3.2	48,258	3.0	46,808	3.0
<i>Financing and insurance</i>	172,108	12.7	228,178	15.7	304,764	19.3	255,586	16.0	235,581	15.2
<i>Real estate, professional and business services</i>	121,748	9.0	128,111	8.8	146,562	9.3	165,594	10.4	173,583	11.2
<i>Public administration, social and personal services</i>	243,792	17.9	245,295	16.9	254,391	16.1	269,601	16.9	279,453	18.0
<i>Ownership of premises</i>	148,997	11.0	162,393	11.2	166,352	10.5	188,244	11.8	187,286	12.1
<b>GDP at basic prices</b>	<b>1,359,245</b>	<b>100.0</b>	<b>1,452,803</b>	<b>100.0</b>	<b>1,580,148</b>	<b>100.0</b>	<b>1,592,897</b>	<b>100.0</b>	<b>1,550,851</b>	<b>100.0</b>
Taxes on products	35,305	--	40,348	--	64,634	--	59,919	--	55,967	--
Statistical discrepancy (%)	-0.9	--	-1.2	--	-1.8	--	1.4	--	0.9	--
<b>GDP at current market prices</b>	<b>1,382,590</b>	<b>--</b>	<b>1,475,357</b>	<b>--</b>	<b>1,615,574</b>	<b>--</b>	<b>1,677,011</b>	<b>--</b>	<b>1,622,203</b>	<b>--</b>

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

Starting from the reference year of 2009, statistics on GDP by economic activity are compiled based on the Hong Kong Standard Industrial Classification Version 2.0. Besides, the valuation of value added has been changed from factor cost to basic prices to follow international standard. As a result of these statistical developments, the series of the GDP by economic activity has been revised and backcasted to 2000.

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

(--) Not applicable.

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

	(%)									
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2009</u>	<u>2010</u>		
							Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Agriculture, fishing, mining and quarrying	0.4	-0.2	-3.3	-4.3	-17.0	-4.6	-2.0	-2.2	-4.3	-8.0
Manufacturing	1.8	1.7	2.2	-1.4	-6.7	-8.3	-4.9	0.4	2.2	5.4
Electricity, gas and water supply, and waste management	2.2	2.3	0.8	1.3	0.7	1.5	-0.5	2.3	0.2	-1.9
Construction	-9.1	-7.9	-9.4	-1.0	8.9	-7.6	-4.3	3.3	21.9	21.3
Services	9.8	7.4	7.0	6.9	2.5	-1.6	3.6	8.4	5.8	6.8
<i>Import/export, wholesale and retail trades</i>	<i>14.3</i>	<i>14.7</i>	<i>8.6</i>	<i>6.1</i>	<i>6.8</i>	<i>-9.4</i>	<i>0.8</i>	<i>22.0</i>	<i>17.5</i>	<i>15.9</i>
<i>Accommodation and food services</i>	<i>22.8</i>	<i>6.2</i>	<i>9.7</i>	<i>10.7</i>	<i>1.7</i>	<i>-11.3</i>	<i>-8.1</i>	<i>8.3</i>	<i>9.8</i>	<i>7.4</i>
<i>Transportation, storage, postal and courier services</i>	<i>13.9</i>	<i>7.0</i>	<i>6.5</i>	<i>5.2</i>	<i>2.5</i>	<i>-5.5</i>	<i>1.5</i>	<i>6.2</i>	<i>10.3</i>	<i>6.8</i>
<i>Information and communications</i>	<i>9.1</i>	<i>2.6</i>	<i>8.0</i>	<i>6.5</i>	<i>-1.5</i>	<i>0.9</i>	<i>1.2</i>	<i>1.8</i>	<i>0.9</i>	<i>1.4</i>
<i>Financing and insurance</i>	<i>20.9</i>	<i>11.8</i>	<i>19.6</i>	<i>17.7</i>	<i>-0.8</i>	<i>4.3</i>	<i>14.0</i>	<i>9.4</i>	<i>0.6</i>	<i>7.2</i>
<i>Real estate, professional and business services</i>	<i>2.6</i>	<i>4.6</i>	<i>2.3</i>	<i>6.5</i>	<i>1.7</i>	<i>1.7</i>	<i>3.6</i>	<i>2.5</i>	<i>1.6</i>	<i>0.7</i>
<i>Public administration, social and personal services</i>	<i>2.7</i>	<i>0.2</i>	<i>0.6</i>	<i>1.5</i>	<i>2.2</i>	<i>2.8</i>	<i>3.0</i>	<i>3.9</i>	<i>2.8</i>	<i>3.3</i>
<i>Ownership of premises</i>	<i>1.3</i>	<i>3.0</i>	<i>2.6</i>	<i>2.8</i>	<i>1.8</i>	<i>1.3</i>	<i>0.6</i>	<i>*</i>	<i>*</i>	<i>0.1</i>
Taxes on products	16.9	-1.5	7.7	24.9	-1.7	-4.6	0.6	15.0	-1.4	2.3
<b>GDP in chained (2008) dollars</b>	<b>8.5</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>2.3</b>	<b>-2.7</b>	<b>2.5</b>	<b>8.1</b>	<b>6.4</b>	<b>6.7</b>

Notes : Starting from the reference year of 2009, statistics on GDP by economic activity are compiled based on the Hong Kong Standard Industrial Classification Version 2.0. Besides, the valuation of value added has been changed from factor cost to basic prices to follow international standard. As a result of these statistical developments, the series of the GDP by economic activity has been revised and backcasted to 2000.

(#) 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>		<u>2010</u>	
						Q4	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Current account <sup>(a)</sup>	156,933	178,166	199,279	229,506	139,570	30,199	30,455	7,849	44,065
Goods	-59,347	-108,983	-153,672	-180,091	-208,220	-68,193	-87,635	-97,172	-60,054
Services	231,157	277,154	328,607	352,146	329,549	100,320	99,013	93,665	116,932
Income	1,648	27,348	44,437	83,306	42,866	4,241	25,619	17,568	-6,110
Current transfers	-16,524	-17,353	-20,093	-25,855	-24,625	-6,168	-6,542	-6,212	-6,703
Capital and financial account <sup>(a)</sup>	-182,431	-209,935	-259,247	-231,162	-155,371	-21,675	-36,921	7,152	-57,147
Capital and financial non-reserve assets (net change)	-171,752	-163,199	-144,749	32,707	393,891	208,967	-16,746	12,650	-41,795
Capital transfers	-4,939	-2,900	10,338	16,393	36,210	9,520	11,834	6,652	11,790
Financial non-reserve assets (net change)	-166,812	-160,300	-155,086	16,314	357,680	199,447	-28,580	5,998	-53,585
<i>Direct investment</i>	49,996	635	-52,577	70,393	-89,900	-23,505	-12,409	12,905	-30,102
<i>Portfolio investment</i>	-245,017	-207,879	-21,452	-295,148	-332,417	-79,982	-85,587	-101,069	-105,652
<i>Financial derivatives</i>	30,502	25,925	43,534	63,338	24,560	6,156	7,728	10,777	6,314
<i>Other investment</i>	-2,294	21,019	-124,592	177,732	755,438	296,778	61,688	83,384	75,854
Reserve assets (net change)	-10,679	-46,735	-114,498	-263,869	-549,262	-230,641	-20,175	-5,498	-15,352
Net errors and omissions	25,498	31,769	59,968	1,656	15,801	-8,525	6,466	-15,001	13,083
<b>Overall balance of payments</b>	<b>10,679</b>	<b>46,735</b>	<b>114,498</b>	<b>263,869</b>	<b>549,262</b>	<b>230,641</b>	<b>20,175</b>	<b>5,498</b>	<b>15,352</b>

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

(a) In accordance with the Balance of Payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. For the capital and financial account, a positive value indicates a net capital and financial inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>			
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	3,061,252	640,479	773,959	838,073	808,741
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057	728,114	871,131	898,127	897,685
<b>Visible trade balance</b>	<b>-108,983</b>	<b>-153,672</b>	<b>-180,091</b>	<b>-208,220</b>	<b>-333,805</b>	<b>-87,635</b>	<b>-97,172</b>	<b>-60,054</b>	<b>-88,944</b>
	<b>(-4.2)</b>	<b>(-5.4)</b>	<b>(-6.0)</b>	<b>(-7.7)</b>	<b>(-9.8)</b>	<b>(-12.0)</b>	<b>(-11.2)</b>	<b>(-6.7)</b>	<b>(-9.9)</b>
Exports of services	565,054	660,847	718,630	670,150	835,036	190,712	186,283	221,181	236,860
Imports of services	287,900	332,240	366,484	340,601	396,645	91,699	92,618	104,249	108,079
<b>Invisible trade balance</b>	<b>277,154</b>	<b>328,607</b>	<b>352,146</b>	<b>329,549</b>	<b>438,391</b>	<b>99,013</b>	<b>93,665</b>	<b>116,932</b>	<b>128,781</b>
	<b>(96.3)</b>	<b>(98.9)</b>	<b>(96.1)</b>	<b>(96.8)</b>	<b>(110.5)</b>	<b>(108.0)</b>	<b>(101.1)</b>	<b>(112.2)</b>	<b>(119.2)</b>
Exports of goods and services	3,032,411	3,359,697	3,562,628	3,164,896	3,896,288	831,191	960,242	1,059,254	1,045,601
Imports of goods and services	2,864,240	3,184,762	3,390,573	3,043,567	3,791,702	819,813	963,749	1,002,376	1,005,764
<b>Visible and invisible trade balance</b>	<b>168,171</b>	<b>174,935</b>	<b>172,055</b>	<b>121,329</b>	<b>104,586</b>	<b>11,378</b>	<b>-3,507</b>	<b>56,878</b>	<b>39,837</b>
	<b>&lt;5.9&gt;</b>	<b>&lt;5.5&gt;</b>	<b>&lt;5.1&gt;</b>	<b>&lt;4.0&gt;</b>	<b>&lt;2.8&gt;</b>	<b>&lt;1.4&gt;</b>	<b>&lt;-0.4&gt;</b>	<b>&lt;5.7&gt;</b>	<b>&lt;4.0&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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>			
	(% change)		(% change)		(\$Mn)		Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>All markets</b>	<b>9.4</b>	<b>9.2</b>	<b>5.1</b>	<b>-12.6</b>	<b>22.8</b>	<b>3,031,019</b>	<b>26.0</b>	<b>24.3</b>	<b>27.8</b>	<b>14.4</b>
Mainland of China	14.2	13.2	4.7	-7.8	26.5	1,598,222	40.2	25.9	31.1	13.7
United States	2.9	-0.8	-2.4	-20.6	16.4	332,089	4.4	21.1	23.4	14.9
Japan	1.6	-0.7	1.2	-10.0	17.2	127,647	12.4	26.5	18.4	12.8
Germany	4.0	7.2	15.8	-15.5	1.6	80,637	-10.5	2.1	11.2	3.3
United Kingdom	6.3	1.7	0.7	-20.8	1.9	60,780	-2.1	2.1	7.1	-0.3
Singapore	4.4	3.8	9.6	-23.6	20.7	50,978	18.3	21.4	26.0	16.9
Taiwan	3.3	1.6	3.8	-0.4	25.4	68,604	71.4	29.3	18.1	3.5
Republic of Korea	7.5	2.0	-6.4	-13.0	24.4	53,668	37.2	27.3	17.5	19.2
Rest of the world	8.5	13.2	11.3	-17.3	23.6	658,394	16.6	26.8	30.8	19.9

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

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>			
	(% change)			(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>All sources</b>	<b>11.6</b>	<b>10.3</b>	<b>5.5</b>	<b>-11.0</b>	<b>25.0</b>	<b>3,364,840</b>	<b>34.3</b>	<b>29.9</b>	<b>24.1</b>	<b>15.1</b>
Mainland of China	13.7	11.5	6.1	-11.4	22.4	1,529,751	25.7	26.6	22.9	16.1
Japan	4.5	7.2	3.6	-20.6	30.4	308,161	57.4	37.9	25.2	12.9
Singapore	21.9	18.2	0.1	-10.4	35.9	237,407	49.0	48.0	37.0	16.3
Taiwan	15.9	5.2	-6.4	-8.5	28.0	224,761	62.0	39.5	20.3	4.8
United States	3.6	12.3	8.6	-5.7	26.0	179,160	24.8	25.2	31.8	22.7
Republic of Korea	16.1	-0.2	-1.1	-12.7	29.8	133,714	51.9	52.3	22.9	6.1
Rest of the world	7.6	10.7	11.5	-7.6	23.0	751,885	32.7	23.2	22.2	16.5

Note : Individual 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>			
	(% change)			(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>Overall</b>	<b>14.3</b>	<b>9.4</b>	<b>5.3</b>	<b>-10.8</b>	<b>31.3</b>	<b>902,377</b>	<b>60.5</b>	<b>47.2</b>	<b>13.7</b>	<b>17.2</b>
Foodstuffs	4.3	12.9	19.7	9.9	17.7	92,546	30.3	9.3	9.6	21.9
Consumer goods	3.1	11.4	9.0	-14.0	41.4	194,607	79.3	56.8	18.4	29.5
Raw materials and semi-manufactures	8.8	17.7	-4.5	-6.4	34.4	332,133	86.2	55.3	17.2	7.2
Fuels	22.8	20.1	26.6	-18.4	33.8	116,162	34.8	73.6	26.2	12.6
Capital goods	33.2	-8.3	2.5	-18.7	15.9	158,846	26.6	26.7	-5.8	23.5

Note : Individual 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>		<u>2010</u>			
	(% change)				(% change)	(\$Mn)	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>14.1</b>	<b>17.0</b>	<b>8.7</b>	<b>-6.7</b>	<b>24.6</b>	<b>835,036</b>	<b>23.9</b>	<b>29.7</b>	<b>25.3</b>	<b>20.8</b>
Transportation	10.2	14.6	12.7	-18.4	29.2	237,312	31.3	33.5	26.3	26.6
Travel	12.9	18.7	11.1	7.0	39.8	178,312	27.0	50.2	54.4	32.6
Trade-related	9.9	11.6	8.5	-4.3	19.8	247,773	24.1	22.8	20.0	15.3
Other services	28.4	26.8	2.3	-4.0	12.7	171,639	13.8	16.6	9.4	11.8
<b>Imports of services</b>	<b>9.0</b>	<b>15.4</b>	<b>10.3</b>	<b>-7.1</b>	<b>16.5</b>	<b>396,645</b>	<b>19.8</b>	<b>18.4</b>	<b>15.7</b>	<b>12.9</b>
Transportation	10.9	20.4	13.5	-23.0	20.0	113,951	22.5	24.0	18.7	15.7
Travel	5.4	7.6	6.8	-3.1	12.2	136,222	13.3	11.8	14.6	9.0
Trade-related	12.6	15.9	10.6	0.5	23.5	33,359	26.7	27.5	24.1	18.8
Other services	11.2	21.2	11.0	6.8	16.4	113,113	23.5	19.0	11.6	13.1
<b>Net exports of services</b>	<b>19.9</b>	<b>18.6</b>	<b>7.2</b>	<b>-6.4</b>	<b>33.0</b>	<b>438,391</b>	<b>28.0</b>	<b>43.2</b>	<b>35.3</b>	<b>28.4</b>

Notes : Individual 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>			
						Q1	Q2	Q3	Q4
<u>('000)</u>									
<b>All sources</b>	<b>25 251.1</b>	<b>28 169.3</b>	<b>29 506.6</b>	<b>29 590.7</b>	<b>36 030.3</b>	<b>8 624.7</b>	<b>8 231.3</b>	<b>9 319.9</b>	<b>9 854.4</b>
Mainland of China	13 591.3	15 485.8	16 862.0	17 956.7	22 684.4	5 548.9	4 938.3	6 008.2	6 189.0
South and Southeast Asia	2 659.7	2 888.1	2 936.2	2 885.2	3 500.9	715.2	954.1	820.7	1 010.9
Taiwan	2 177.2	2 238.7	2 240.5	2 009.6	2 164.8	537.0	519.1	582.8	525.8
Europe	1 548.2	1 772.2	1 711.4	1 610.5	1 757.8	438.3	408.4	399.2	511.9
Japan	1 311.1	1 324.3	1 324.8	1 204.5	1 316.6	334.2	309.2	339.5	333.7
United States	1 159.0	1 230.9	1 146.4	1 070.1	1 171.4	265.2	300.4	280.4	325.4
Others	2 804.5	3 229.2	3 285.3	2 854.0	3 434.5	785.9	801.8	889.1	957.7
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>8.1</b>	<b>11.6</b>	<b>4.7</b>	<b>0.3</b>	<b>21.8</b>	<b>16.5</b>	<b>30.8</b>	<b>24.9</b>	<b>16.9</b>
Mainland of China	8.4	13.9	8.9	6.5	26.3	18.7	37.7	30.2	21.8
South and Southeast Asia	10.2	8.6	1.7	-1.7	21.3	13.9	36.2	26.0	11.7
Taiwan	2.2	2.8	0.1	-10.3	7.7	10.7	13.4	7.1	0.5
Europe	10.7	14.5	-3.4	-5.9	9.1	12.3	6.9	8.0	9.3
Japan	8.3	1.0	*	-9.1	9.3	5.7	34.1	2.2	2.4
United States	1.4	6.2	-6.9	-6.7	9.5	9.1	11.9	8.8	8.2
Others	11.2	15.1	1.7	-13.1	20.3	18.0	20.1	28.2	15.8

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

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

**Table 12 : Property market**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</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)	26 262	31 052	26 397	26 036	17 321	16 579	10 471
Commercial property	208	304	417	371	145	291	368
<i>of which :</i>							
Office space	76	166	299	280	34	108	320
Other commercial premises <sup>(b)</sup>	132	138	118	91	111	183	48
Industrial property <sup>(c)</sup>	45	29	15	1	17	27	16
<i>of which :</i>							
Industrial-cum-office premises	14	0	15	0	4	0	0
Conventional flatted factory space	30	3	0	1	0	0	16
Storage premises <sup>(d)</sup>	0	27	0	0	13	27	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	47 590	20 154	13 705	20 614	24 691	4 430	4 795
Subsidized sales flats <sup>(e)</sup>	25 702	1 072	320	0	0	0	2 010
<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	1 002.5	790.0	1 038.4	530.0	550.7	706.7	956.1
Commercial property	265.0	365.3	200.0	161.3	481.9	468.4	327.5
Industrial property <sup>(f)</sup>	45.7	107.1	0.8	16.4	35.1	23.9	103.5
Other properties	75.0	109.3	444.2	407.1	408.0	199.2	207.7
Total	1 388.1	1 371.8	1 683.3	1 114.8	1 475.8	1 398.2	1 594.8
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	69 667	72 974	71 576	100 630	103 362	82 472	123 575
Primary market	18 366	23 088	26 498	25 694	15 994	13 986	20 123
Secondary market	51 301	49 886	45 078	74 936	87 368	68 486	103 452
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 774	1 639	1 817	3 213	3 431	2 874	4 129
Other commercial premises	2 989	3 167	4 142	7 833	7 143	4 402	5 490
Flatted factory space	3 493	3 756	3 813	5 889	6 560	7 409	9 072

Notes : Individual 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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>			
				Q1	Q2	Q3	Q4
<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)	8 776	7 157	13 405	4 879	2 151	4 042	2 333
Commercial property	390	235	189	76	33	52	29
<i>of which :</i>							
Office space	341	151	124	67	0	34	24
Other commercial premises <sup>(b)</sup>	49	84	65	9	33	18	5
Industrial property <sup>(c)</sup>	78	3	21	0	0	21	0
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	0	0	0	0
Conventional flatted factory space	70	3	21	0	0	21	0
Storage premises <sup>(d)</sup>	4	0	0	0	0	0	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	22 759	19 021	6 385	6 385	0	0	0
Subsidized sales flats <sup>(e)</sup>	2 200	370	1 110	0	1 110	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	530.0	546.8	586.5	150.6	84.7	239.3	111.9
Commercial property	147.7	178.3	156.3	95.0	32.2	28.5	0.6
Industrial property <sup>(f)</sup>	106.6	97.1	34.3	17.5	6.7	9.3	0.8
Other properties	212.8	253.2	459.2	39.7	146.3	193.4	79.8
Total	997.1	1 075.4	1 236.3	302.8	269.9	470.5	193.2
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	95 931	115 092	135 778	33 249	32 380	38 080	32 069
Primary market	11 046	16 161	13 646	3 567	3 978	3 224	2 877
Secondary market	84 885	98 931	122 132	29 682	28 402	34 856	29 192
Selected types of non-residential properties <sup>(h)</sup>							
Office space	2 845	2 521	3 665	812	845	909	1 099
Other commercial premises	4 149	5 359	7 676	1 755	1 727	2 158	2 036
Flatted factory space	5 741	5 554	8 367	1 685	1 900	2 153	2 629

Notes (e) The series, sourced from the Housing Authority's housing production figures, 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.

**Table 13 : Property prices and rentals**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	78.7	69.9	61.6	78.0	92.0	92.7	103.5
Office space	78.7	68.4	62.5	99.3	133.0	139.3	165.5
Shopping space	86.8	85.0	85.5	119.3	149.3	153.5	172.5
Flatted factory space	82.0	74.8	71.7	88.6	125.0	158.5	199.5
Property rental indices <sup>(b)</sup> :							
Residential flats	95.4	83.4	73.6	77.7	86.5	91.6	101.8
Office space	101.0	85.4	74.6	78.1	96.4	117.4	131.9
Shopping space	99.4	92.9	86.4	92.8	100.5	104.3	111.8
Flatted factory space	90.3	82.7	74.9	77.3	82.6	91.0	100.5
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-12.2	-11.2	-11.9	26.6	17.9	0.8	11.7
Office space	-12.5	-13.1	-8.6	58.9	33.9	4.7	18.8
Shopping space	-7.3	-2.1	0.6	39.5	25.1	2.8	12.4
Flatted factory space	-10.1	-8.8	-4.1	23.6	41.1	26.8	25.9
Property rental indices <sup>(b)</sup> :							
Residential flats	-2.8	-12.6	-11.8	5.6	11.3	5.9	11.1
Office space	2.5	-15.4	-12.6	4.7	23.4	21.8	12.4
Shopping space	-1.9	-6.5	-7.0	7.4	8.3	3.8	7.2
Flatted factory space	-5.3	-8.4	-9.4	3.2	6.9	10.2	10.4

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

(b) 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>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		
				Q1	Q2	Q3 <sup>#</sup>	Q4 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	120.5	121.3	150.8	140.8	146.4	154.1	161.7
Office space	199.0	179.8	229.5	213.5	222.9	231.6	250.0
Shopping space	192.2	193.1	257.3	233.7	248.0	261.1	286.6
Flatted factory space	235.9	216.3	283.6	258.3	272.8	289.3	314.0
Property rental indices <sup>(b)</sup> :							
Residential flats	115.7	100.4	119.6	112.0	117.8	121.9	126.6
Office space	155.5	135.7	147.8	140.2	145.7	150.1	155.1
Shopping space	116.2	110.9	123.0	118.1	121.5	124.5	127.7
Flatted factory space	109.3	99.4	108.9	104.3	108.5	110.4	112.3
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	16.4	0.7	24.3	30.4	25.0	21.2	21.7
Office space	20.2	-9.6	27.6	38.1	31.0	20.9	23.2
Shopping space	11.4	0.5	33.2	42.2	36.5	26.8	29.9
Flatted factory space	18.2	-8.3	31.1	31.6	33.0	30.0	30.2
Property rental indices <sup>(b)</sup> :							
Residential flats	13.7	-13.2	19.1	18.8	22.6	19.2	16.4
Office space	17.9	-12.7	8.9	-1.0	10.3	13.1	13.5
Shopping space	3.9	-4.6	10.9	9.1	12.3	11.6	10.5
Flatted factory space	8.8	-9.1	9.6	5.7	11.1	11.3	10.1

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	229,841	259,411	354,752	412,629	348,248	387,909	454,342
M2 <sup>(a)</sup>	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017
M3 <sup>(a)</sup>	2,016,635	2,004,225	2,122,861	2,219,557	2,345,838	2,795,545	3,300,500
Total money supply (\$Mn)							
M1	258,056	295,650	413,423	484,494	434,684	491,648	616,709
M2	3,550,060	3,518,326	3,813,442	4,166,706	4,379,057	5,054,332	6,106,348
M3	3,594,130	3,561,852	3,858,044	4,189,544	4,407,188	5,089,741	6,139,758
Deposit (\$Mn)							
HK\$	1,854,651	1,824,911	1,930,790	2,017,911	2,131,579	2,568,283	3,075,042
Foreign currency	1,551,852	1,492,631	1,636,227	1,848,145	1,936,322	2,188,993	2,793,856
Total	3,406,502	3,317,542	3,567,018	3,866,056	4,067,901	4,757,275	5,868,898
Loans and advances (\$Mn)							
HK\$	1,647,684	1,615,667	1,573,079	1,666,740	1,797,350	1,917,437	2,184,705
Foreign currency	537,301	460,659	462,000	488,964	514,637	550,392	776,971
Total	2,184,986	2,076,325	2,035,079	2,155,704	2,311,987	2,467,828	2,961,676
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(b)(c)</sup>							
Trade-weighted	104.7	104.0	100.7	98.3	97.4	96.1	91.9
Import-weighted	105.1	104.7	101.6	99.2	98.1	96.8	92.5
Export-weighted	104.3	103.3	99.8	97.3	96.7	95.5	91.3
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	12.7	12.9	36.8	16.3	-15.6	11.4	17.1
M2 <sup>(a)</sup>	0.5	-0.7	6.2	4.8	5.5	19.2	18.1
M3 <sup>(a)</sup>	0.7	-0.6	5.9	4.6	5.7	19.2	18.1
Total money supply :							
M1	5.8	14.6	39.8	17.2	-10.3	13.1	25.4
M2	-2.7	-0.9	8.4	9.3	5.1	15.4	20.8
M3	-2.7	-0.9	8.3	8.6	5.2	15.5	20.6
Deposit							
HK\$	0.2	-1.6	5.8	4.5	5.6	20.5	19.7
Foreign currency	-7.4	-3.8	9.6	13.0	4.8	13.0	27.6
Total	-3.4	-2.6	7.5	8.4	5.2	16.9	23.4
Loans and advances							
HK\$	-0.3	-1.9	-2.6	6.0	7.8	6.7	13.9
Foreign currency	-33.6	-14.3	0.3	5.8	5.3	6.9	41.2
Total	-11.2	-5.0	-2.0	5.9	7.2	6.7	20.0
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	2.9	-0.7	-3.2	-2.4	-0.9	-1.3	-4.4
Import-weighted	3.5	-0.4	-3.0	-2.4	-1.1	-1.3	-4.4
Export-weighted	2.4	-1.0	-3.4	-2.5	-0.6	-1.2	-4.4

**Definition of Terms :**

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate.

**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>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>			
				Q1	Q2	Q3	Q4	
<u>(as at end of period)</u>								
Hong Kong dollar money supply (\$Mn) :								
M1	491,115	671,241	730,093	713,252	671,558	831,730	730,093	
M2 <sup>(a)</sup>	3,239,857	3,587,717	3,866,768	3,603,170	3,596,605	3,919,053	3,866,768	
M3 <sup>(a)</sup>	3,261,306	3,604,843	3,878,172	3,623,214	3,610,315	3,932,327	3,878,172	
Total money supply (\$Mn)								
M1	645,833	901,819	1,017,227	944,516	903,577	1,075,764	1,017,227	
M2	6,268,058	6,602,310	7,136,176	6,596,941	6,578,945	6,989,183	7,136,176	
M3	6,300,751	6,626,843	7,156,164	6,623,605	6,599,942	7,010,353	7,156,164	
Deposit (\$Mn)								
HK\$	3,033,980	3,373,595	3,617,161	3,379,965	3,370,815	3,680,087	3,617,161	
Foreign currency	3,024,004	3,007,445	3,245,004	2,990,665	2,981,399	3,056,000	3,245,004	
Total	6,057,984	6,381,040	6,862,165	6,370,630	6,352,214	6,736,087	6,862,165	
Loans and advances (\$Mn)								
HK\$	2,354,755	2,401,323	2,824,445	2,478,636	2,620,076	2,856,271	2,824,445	
Foreign currency	930,883	887,160	1,402,902	989,922	1,152,454	1,269,836	1,402,902	
Total	3,285,638	3,288,483	4,227,347	3,468,558	3,772,531	4,126,107	4,227,347	
Nominal Effective Exchange Rate Indices								
(Jan 2000 =100) <sup>(b)(c)</sup>								
Trade-weighted	87.1	88.2	86.2	86.8	87.6	86.4	84.4	
Import-weighted	87.1	87.9	85.3	86.2	86.7	85.4	83.2	
Export-weighted	87.2	88.5	87.2	87.5	88.5	87.5	85.7	
<u>(% change over a year earlier)</u>								
Hong Kong dollar money supply :								
M1	8.1	36.7	8.8	34.9	15.4	19.8	8.8	
M2 <sup>(a)</sup>	-1.3	10.7	7.8	9.8	3.3	8.9	7.8	
M3 <sup>(a)</sup>	-1.2	10.5	7.6	9.7	3.1	8.7	7.6	
Total money supply :								
M1	4.7	39.6	12.8	36.8	18.9	18.5	12.8	
M2	2.6	5.3	8.1	5.8	1.4	5.3	8.1	
M3	2.6	5.2	8.0	5.7	1.3	5.2	8.0	
Deposit								
HK\$	-1.3	11.2	7.2	9.8	2.7	8.5	7.2	
Foreign currency	8.2	-0.5	7.9	1.7	-0.4	0.8	7.9	
Total	3.2	5.3	7.5	5.8	1.2	4.9	7.5	
Loans and advances								
HK\$	7.8	2.0	17.6	6.7	10.7	20.0	17.6	
Foreign currency	19.8	-4.7	58.1	17.4	37.6	41.6	58.1	
Total	10.9	0.1	28.6	9.5	17.8	25.9	28.6	
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>								
Trade-weighted	-5.2	1.3	-2.3	-3.9	-1.5	-1.4	-2.2	
Import-weighted	-5.8	0.9	-3.0	-4.1	-2.1	-2.2	-3.1	
Export-weighted	-4.5	1.5	-1.5	-3.4	-0.8	-0.5	-1.3	

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.

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

(%)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>		
					Q4	Q1	Q2	Q3
<b>Service Industry</b>								
Import and export trade	10.3	8.1	7.4	-13.7	2.2	23.5	21.2	20.3
Wholesale	7.9	10.4	6.3	-12.6	2.6	32.6	28.6	24.8
Retail	7.2	12.8	10.6	0.6	12.8	18.8	16.9	17.9
Transportation	10.0	10.5	4.4	-19.9	-4.3	17.3	34.6	32.4
<i>within which :</i>								
Land transport	4.3	3.7	2.2	-2.6	2.0	2.6	8.7	7.6
Water transport	16.4	16.8	6.1	-24.1	-14.0	11.0	27.4	26.5
Air transport	6.8	7.3	3.5	-21.0	2.0	28.1	50.1	46.2
Warehousing and storage	10.2	15.9	6.6	1.4	7.3	16.3	11.1	5.4
Courier	6.9	5.5	2.1	-6.1	18.4	34.4	35.4	29.1
Accommodation	13.8	15.2	3.8	-17.4	-7.4	18.1	32.3	25.2
Food services	9.6	13.4	13.1	0.6	2.0	5.1	4.4	5.2
Information and communications	6.1	8.4	6.0	-3.2	-0.7	0.9	2.6	6.2
<i>within which :</i>								
Telecommunications	-0.7	11.0	9.8	1.4	0.6	-2.9	-1.1	5.3
Film entertainment	1.7	6.1	-0.7	-12.6	0.8	5.7	-16.0	-3.8
Banking	19.5	38.3	-16.9	1.5	35.3	6.3	-0.3	9.3
Financing (except banking)	47.9	68.8	-19.4	-10.3	45.3	54.4	-2.7	-1.8
<i>within which :</i>								
Financial markets and asset management	49.3	71.7	-20.0	-11.7	55.5	60.2	-6.6	-5.5
<i>within which : Asset management</i>	51.8	56.8	-5.2	-12.1	55.2	62.5	26.5	17.1
Insurance	21.3	28.8	*	0.7	18.1	10.0	11.9	4.8
Real estate	-0.3	39.5	-3.7	9.7	19.1	20.5	3.6	8.6
Professional, scientific and technical services	13.2	12.3	6.8	-0.5	5.8	16.4	15.1	11.2
Administrative and support services	20.9	11.5	9.4	-12.4	-2.3	6.4	14.9	15.4
<b>Service Domain</b>								
Tourism, convention and exhibition services	14.1	18.9	10.1	3.5	15.4	24.2 <sup>+</sup>	44.8 <sup>+</sup>	41.8 <sup>+</sup>
Computer and information technology services	9.8	6.8	5.3	-15.0	-0.2	23.9	34.0	42.6

Notes : Upon the implementation of the new HSIC Version 2.0 by the C&SD in October 2008, the new classification has been adopted in compiling the quarterly business receipts indices. Starting from the first quarter of 2009, all business receipts indices are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The series of business receipts indices under the HSIC Version 2.0 has also been backcasted to the first quarter of 2005.

(+) Provisional figures.

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



**Table 16 : Labour force characteristics**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>+</sup></u>	<u>2010</u>			
						Q1 <sup>+</sup>	Q2 <sup>+</sup>	Q3 <sup>+</sup>	Q4 <sup>+</sup>
<u>(%)</u>									
Labour force participation rate	61.2	61.2	60.9	60.7	60.0	60.0	59.9	59.9	60.1
Seasonally adjusted unemployment rate	4.8	4.0	3.6	5.4	4.3	4.4	4.6	4.2	4.0
Underemployment rate	2.4	2.2	1.9	2.3	2.0	2.2	2.0	1.9	1.8
<u>('000)</u>									
Population of working age	5 832.2	5 928.4	5 993.9	6 056.6	6 129.5	6 099.4	6 116.7	6 145.4	6 156.4
Labour force	3 571.8	3 629.6	3 648.9	3 676.6	3 675.9	3 657.3	3 664.0	3 682.5	3 700.0
Persons employed	3 400.8	3 483.8	3 518.8	3 479.8	3 518.3	3 496.7	3 492.1	3 520.6	3 563.7
Persons unemployed	171.1	145.7	130.1	196.7	157.7	160.6	171.8	161.8	136.3
Persons underemployed	86.3	79.2	69.0	86.4	72.9	80.0	73.7	71.0	67.0
<u>(% change over a year earlier)</u>									
Population of working age	0.5	1.6	1.1	1.0	1.2	1.3	1.3	1.4	1.2
Labour force	1.1	1.6	0.5	0.8	*	-0.7	-0.7	-0.3	1.3
Persons employed	1.9	2.4	1.0	-1.1	1.1	0.1	0.2	1.1	2.4
Persons unemployed	-13.4	-14.8	-10.7	51.2	-19.9	-14.4	-15.3	-22.7	-21.0
Persons underemployed	-10.4	-8.2	-12.9	25.2	-15.5	2.0	-12.2	-20.4	-20.1

Notes : (+) Provisional figures.

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

**Table 17 : Employment in selected major industries**

Selected major industries	2005	2006	2007	2008	2009	2009	2010			No.
	(% change)					Dec	Mar	Jun	Sep	
Manufacturing	-2.6	-3.2	-2.9	-3.5	-5.7	-4.4	-2.5	-3.9	-5.6	117 686
Construction sites (manual workers only)	-10.6	-10.8	-5.1	-1.5	2.2	7.5	3.8	13.4	17.8	56 502
Import and export trade	2.5	1.0	0.8	-0.3	-4.4	-2.7	0.7	1.5	0.9	499 307
Wholesale	2.0	-4.2	-0.3	-2.7	-2.0	-0.5	1.9	1.1	1.7	64 397
Retail	2.0	3.1	2.1	2.8	-0.3	1.2	3.7	3.5	2.5	242 652
Food and beverage services	2.4	5.0	3.3	1.8	*	3.3	4.7	4.0	3.0	215 067
Accommodation services	8.5	8.0	5.4	3.1	-1.0	-2.0	-1.9	1.4	1.8	31 948
Transportation, storage, postal and courier services	3.2	1.6	2.5	3.5	1.1	2.2	0.9	2.3	1.4	159 984
Information and communications	-0.7	1.4	2.2	3.6	-1.6	0.1	1.5	1.7	0.6	88 443
Financing and insurance	4.9	4.6	7.3	5.6	-0.5	2.4	2.6	4.7	6.0	193 086
Real estate	6.6	5.3	4.4	2.7	0.5	3.3	5.1	4.7	2.9	110 241
Professional and business services (excluding cleaning and similar services)	3.3	4.9	4.8	3.4	0.9	2.1	2.3	2.4	2.0	238 597
Cleaning and similar services	3.4	2.5	0.6	-1.7	6.7	16.5	14.3	13.9	16.1	70 326
Education	1.8	5.0	3.3	4.8	5.3	6.3	5.5	5.4	2.1	165 184
Human health services	1.7	3.7	5.5	5.1	3.8	3.2	4.1	2.2	2.7	92 806
Residential care and social work services	-0.4	1.5	1.4	1.3	1.5	3.2	2.0	1.3	1.5	56 684
Arts, entertainment, recreation and other services	18.1	3.3	1.5	1.9	0.8	2.2	6.8	3.8	4.9	114 489
Civil Service <sup>(a)</sup>	-2.7	-1.3	-0.4	0.1	1.1	1.2	0.9	0.6	0.3	156 399
Others <sup>(b)</sup>	-6.9	-0.3	0.9	7.0	-1.0	1.9	1.2	2.2	7.4	11 281

Notes : Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and arts, entertainment, recreation and other services. The series of employment statistics under the HSIC Version 2.0 has also been backcasted to March 2004.

(a) 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 outside Hong Kong, and other Government employees such as non-civil service contract staff are not included.

(b) Include employment in mining and quarrying and in electricity, gas and waste management.

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

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u> Dec	Mar	<u>2010</u> Jun	Sep
<u>(number)</u>									
Building sites									
Private sector	31 556	30 993	29 240	28 899	28 776	29 778	28 429	30 154	29 571
Public sector <sup>(a)</sup>	10 135	7 643	7 767	8 136	10 277	11 165	11 532	10 325	10 943
Sub-total	41 690	38 636	37 007	37 034	39 053	40 943	39 961	40 479	40 514
Civil engineering sites									
Private sector	2 198	1 569	1 674	1 686	1 618	1 675	1 635	1 665	1 873
Public sector <sup>(a)</sup>	15 378	12 661	11 504	10 703	9 831	10 536	12 317	13 379	14 115
Sub-total	17 576	14 230	13 178	12 388	11 449	12 211	13 952	15 044	15 988
<b>Total</b>	<b>59 266</b>	<b>52 865</b>	<b>50 185</b>	<b>49 422</b>	<b>50 501</b>	<b>53 154</b>	<b>53 913</b>	<b>55 523</b>	<b>56 502</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-6.1	-1.8	-5.7	-1.2	-0.4	5.7	-4.2	6.3	8.3
Public sector <sup>(a)</sup>	-23.9	-24.6	1.6	4.7	26.3	20.9	3.8	11.1	14.7
Sub-total	-11.2	-7.3	-4.2	0.1	5.5	9.4	-2.0	7.5	10.0
Civil engineering sites									
Private sector	-14.3	-28.6	6.7	0.7	-4.0	-2.3	12.5	3.4	8.1
Public sector <sup>(a)</sup>	-8.3	-17.7	-9.1	-7.0	-8.1	2.1	26.7	38.3	50.3
Sub-total	-9.1	-19.0	-7.4	-6.0	-7.6	1.5	24.9	33.3	43.7
<b>Total</b>	<b>-10.6</b>	<b>-10.8</b>	<b>-5.1</b>	<b>-1.5</b>	<b>2.2</b>	<b>7.5</b>	<b>3.8</b>	<b>13.4</b>	<b>17.8</b>

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

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

**Table 19 : Rates of change in indices of payroll per person engaged  
by selected industry section**

	(%)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>	<u>2010</u>		
Selected industry section						Q4	Q1	Q2	Q3
<b>(in nominal terms)</b>									
Manufacturing	0.9	1.7	2.5	0.9	-3.5	0.4	3.6	2.8	1.1
Sewerage, waste management and remediation activities	28.0	10.4	17.0	-8.6	2.1	-5.4	-4.3	2.1	1.6
Import/export and wholesale trade	6.9	3.9	1.8	6.3	-1.6	-0.3	2.2	2.7	0.5
Retail trade	9.0	2.1	2.6	8.1	-1.5	-1.3	1.2	3.6	2.4
Transportation, storage, postal and courier services	5.2	3.0	3.9	-0.6	-0.2	0.2	2.4	6.6	3.6
Accommodation and food service activities	2.0	2.6	3.9	2.6	-0.6	0.3	4.4	3.8	3.0
Information and communications	*	0.6	-2.9	6.6	0.2	1.3	5.2	4.6	1.2
Financial and insurance activities	5.5	10.0	9.8	9.0	-3.3	-1.7	4.7	6.8	5.2
Real estate activities	5.7	-2.5	-0.4	8.0	-2.4	2.5	3.7	0.5	1.3
Professional and business services	2.5	3.3	4.8	3.5	0.6	2.7	4.6	2.7	0.2
Social and personal services	-3.2	1.0	1.5	3.1	1.7	-0.4	-3.0	-2.9	-2.4
<b>All industries surveyed</b>	<b>3.5</b>	<b>2.4</b>	<b>4.0</b>	<b>2.6</b>	<b>0.5</b>	<b>0.9</b>	<b>1.1</b>	<b>4.9</b>	<b>0.8</b>
<b>(in real terms)</b>									
Manufacturing	*	-0.3	0.5	-3.3	-4.0	-1.0	1.7	0.3	-1.2
Sewerage, waste management and remediation activities	26.8	8.2	14.8	-12.3	1.5	-6.6	-6.1	-0.4	-0.7
Import/export and wholesale trade	5.9	1.8	-0.2	1.9	-2.2	-1.7	0.3	0.2	-1.8
Retail trade	8.0	0.1	0.6	3.6	-2.1	-2.6	-0.7	1.1	0.1
Transportation, storage, postal and courier services	4.2	0.9	1.9	-4.7	-0.7	-1.1	0.5	4.0	1.3
Accommodation and food service activities	1.0	0.6	1.8	-1.7	-1.2	-1.1	2.5	1.3	0.7
Information and communications	-0.9	-1.4	-4.7	2.2	-0.4	*	3.3	2.1	-1.1
Financial and insurance activities	4.5	7.9	7.7	4.6	-3.9	-3.0	2.7	4.2	2.8
Real estate activities	4.8	-4.4	-2.3	3.5	-3.0	1.2	1.8	-2.0	-1.0
Professional and business services	1.6	1.3	2.8	-0.7	*	1.3	2.6	0.2	-2.1
Social and personal services	-4.1	-1.0	-0.5	-1.2	1.2	-1.7	-4.8	-5.2	-4.6
<b>All industries surveyed</b>	<b>2.6</b>	<b>0.4</b>	<b>1.9</b>	<b>-1.7</b>	<b>*</b>	<b>-0.4</b>	<b>-0.7</b>	<b>2.4</b>	<b>-1.5</b>

Notes : The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2004/05-based Composite CPI.

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) by the C&SD in October 2008, the new classification has been adopted in compiling the payroll statistics. Starting from the first quarter of 2009, all the payroll statistics, unless otherwise specified, are compiled based on the HSIC V2.0. The series of payroll indices under HSIC V2.0 has also been backcasted to the first quarter of 2004.

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

**Table 20 : Rates of change in wage indices  
by selected industry section**

	(%)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>		<u>2010</u>	
Selected industry section						Dec	Mar	Jun	Sep
<b>(in nominal terms)</b>									
Manufacturing	1.6	0.2	4.3	2.6	-1.2	-2.9	-1.6	-1.0	-0.3
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	1.6	1.1	2.3	3.6	-1.1	0.7	1.5	1.8	2.6
Import/export and wholesale trades:	2.7	1.0	2.8	3.1	-1.2	--	1.7	--	2.7
Retail trade	0.8	0.8	-1.7	4.9	-0.2	--	-0.8	--	1.6
Transportation	1.2	0.1	1.5	1.8	*	1.7	1.1	0.8	1.0
Accommodation and food service activities	*	1.0	1.4	3.1	-2.3	-0.2	1.6	2.6	2.3
Financial and insurance activities <sup>(b)</sup>	0.1	2.1	2.4	2.8	-0.5	2.1	3.9	2.8	3.0
Real estate leasing and maintenance management	0.5	2.3	1.4	2.7	-0.4	1.2	3.0	3.3	2.3
Professional and business services	-1.9	2.4	4.8	4.9	0.8	2.2	3.1	3.7	3.1
Personal services	2.4	3.4	8.5	0.5	-0.7	-0.1	3.4	3.1	2.8
<b>All industries surveyed</b>	<b>1.1</b>	<b>1.7</b>	<b>2.6</b>	<b>3.4</b>	<b>-0.9</b>	<b>0.8</b>	<b>1.9</b>	<b>2.2</b>	<b>2.4</b>
<b>(in real terms)</b>									
Manufacturing	0.4	-1.5	2.4	-0.1	-1.6	-4.4	-4.0	-4.1	-3.3
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	0.4	-0.6	0.4	0.9	-1.4	-0.9	-1.0	-1.4	-0.6
Import/export and wholesale trades:	1.5	-0.7	0.9	0.4	-1.5	--	-0.8	--	-0.5
Retail trade	-0.5	-0.9	-3.5	2.2	-0.5	--	-3.2	--	-1.6
Transportation	*	-1.7	-0.4	-0.8	-0.3	*	-1.4	-2.4	-2.1
Accommodation and food service activities	-1.3	-0.8	-0.4	0.4	-2.6	-1.8	-0.9	-0.6	-0.9
Financial and insurance activities <sup>(b)</sup>	-1.1	0.3	0.6	0.2	-0.8	0.5	1.3	-0.4	-0.2
Real estate leasing and maintenance management	-0.8	0.6	-0.5	0.1	-0.7	-0.4	0.5	0.1	-0.9
Professional and business services	-3.0	0.7	2.9	2.2	0.5	0.6	0.6	0.5	-0.1
Personal services	1.2	1.6	6.5	-2.1	-1.0	-1.7	0.9	-0.2	-0.4
<b>All industries surveyed</b>	<b>-0.2</b>	<b>*</b>	<b>0.7</b>	<b>0.7</b>	<b>-1.3</b>	<b>-0.8</b>	<b>-0.6</b>	<b>-1.0</b>	<b>-0.8</b>

Notes : The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2004/05-based CPI(A).

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) by the C&SD in October 2008, the new classification has been adopted in compiling the wage statistics. Starting from March 2009, all the wage statistics, unless otherwise specified, are compiled based on the HSIC V2.0. The series of wage indices under HSIC V2.0 has also been backcasted to March 2004.

(a) Starting from 2009, the sample size of the wage enquiry conducted in the second and fourth quarters of a year will be reduced. Therefore, wage statistics at detailed industry breakdowns will not be available for June and December of a year.

(b) Excluding stock, commodity and bullion brokers, exchanges and services companies; insurance agents and brokers; and real estate agencies.

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

(--) Not applicable.

**Table 21 : Rates of change in prices**

(%)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
GDP deflator	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3	2.9	1.5
Domestic demand deflator	-2.3	-4.9	-4.2	0.1	1.2	1.9	2.1	2.8
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-1.6	-3.0	-2.6	-0.4	1.0	2.0	2.0	4.3
CPI(A)	-1.7	-3.2	-2.1	*	1.1	1.7	1.3	3.6
CPI(B)	-1.6	-3.1	-2.7	-0.5	1.0	2.1	2.2	4.6
CPI(C)	-1.5	-2.8	-2.9	-0.9	0.8	2.2	2.7	4.7
Unit Value Indices :								
Domestic exports	-4.7	-3.3	0.2	1.5	2.2	-2.1	0.8	5.1
Re-exports	-2.0	-2.7	-1.5	1.1	1.2	1.1	2.4	3.8
Total exports of goods	-2.3	-2.7	-1.4	1.2	1.3	1.0	2.3	3.8
Imports of goods	-3.1	-3.9	-0.4	2.9	2.7	2.1	2.3	4.4
Terms of Trade Index	0.9	1.2	-1.0	-1.7	-1.4	-1.1	0.1	-0.5
Producer Price Index for all manufacturing industries <sup>(b)</sup>	-1.6	-2.7	-0.3	2.2	0.8	2.2	3.0	5.6
Tender Price Indices :								
Public sector building projects	-8.5	-11.7	-0.3	-1.5	1.4	5.0	20.1	41.9
Public housing projects	-15.1	-9.6	-10.0	3.5	7.7	11.2	19.7	30.8

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.

(b) Starting from the first quarter of 2009, the producer price indices for all manufacturing industries are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The new series has also been backcasted to the first quarter of 2005. The rates of change before 2006 presented here are the old series compiled based on the HSIC Version 1.1. The two series are therefore not strictly comparable.

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

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

(--) Not applicable.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 1999-2009.

(~) Average annual rate of change for the 5-year period 2004-2009.

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

	(%)							
	<u>2009</u>	<u>2010</u>	<u>2010</u>				<u>Average annual rate of change:</u>	
			Q1	Q2	Q3	Q4	10 years 2000 to 2010	5 years 2005 to 2010
GDP deflator	-0.6 #	0.9 #	0.6 #	-0.9 #	1.8 #	1.8 #	-1.1 #	0.9 #
Domestic demand deflator	-1.0 #	2.4 #	2.3 #	2.4 #	1.6 #	3.2 #	-0.2 #	1.6 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	0.5	2.4	1.9	2.6	2.3	2.8	0.4	2.2
CPI(A)	0.4	2.7	2.5	3.0	1.9	3.3	0.4	1.9
CPI(B)	0.5	2.4	1.9	2.5	2.6	2.8	0.5	2.3
CPI(C)	0.6	2.1	1.4	2.2	2.3	2.4	0.5	2.5
Unit Value Indices :								
Domestic exports	-0.2	5.5	3.2	6.1	5.7	6.7	0.4	1.8
Re-exports	1.2	4.6	2.8	3.9	5.2	6.5	0.9	2.6
Total exports of goods	1.1	4.7	2.8	4.0	5.2	6.5	0.9	2.6
Imports of goods	-0.1	6.4	3.6	6.6	7.2	8.2	1.3	3.0
Terms of Trade Index	1.3	-1.7	-0.8	-2.4	-1.9	-1.6	-0.4	-0.4
Producer Price Index <sup>(b)</sup> for all manufacturing industries	-1.7	N.A.	4.0	6.0	6.4	N.A.	--	--
Tender Price Indices :								
Public sector building projects	-15.9	N.A.	5.6	18.1	12.4	N.A.	0.5 ^	8.8 ~
Public housing projects	-6.8	N.A.	3.4	5.5	7.5	N.A.	1.0 ^	11.8 ~

**Table 22 : Rates of change in Composite Consumer Price Index**

(%)								
	Weight	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>All items</b>	<b>100.0</b>	<b>-1.6</b> (--)	<b>-3.0</b> (--)	<b>-2.6</b> (--)	<b>-0.4</b> (--)	<b>1.0</b> (--)	<b>2.0</b> (--)	<b>2.0</b> (2.8)
Food	26.94	-0.8	-2.1	-1.5	1.0	1.8	1.7	4.3
<i>Meals bought away from home</i>	16.86	-0.3	-1.5	-1.5	0.2	0.9	1.3	2.5
<i>Food, excluding meals bought away from home</i>	10.08	-1.7	-3.1	-1.7	2.5	3.2	2.5	7.1
Housing <sup>(a)</sup>	29.17	-3.1	-5.7	-4.8	-5.2	0.1	4.7	2.0
<i>Private housing rent</i>	23.93	-2.9	-6.5	-6.3	-6.6	-0.1	5.6	4.0
<i>Public housing rent</i>	2.49	-8.3	-2.7	9.1	2.5	0.2	0.1	-17.7
Electricity, gas and water	3.59	-1.9	-7.0	1.4	11.4	4.1	2.1	-0.7
Alcoholic drinks and tobacco	0.87	3.3	2.4	0.1	*	0.4	-3.7	-1.2
Clothing and footwear	3.91	-4.6	0.7	-2.7	6.4	2.0	1.0	4.1
Durable goods	5.50	-7.1	-6.3	-6.4	-2.2	-3.2	-6.4	-4.7
Miscellaneous goods	4.78	1.3	1.7	2.3	3.6	1.5	1.7	2.5
Transport	9.09	0.4	-0.6	-0.4	0.4	1.4	0.7	-0.1
Miscellaneous services	16.15	0.5	-2.3	-3.2	-0.2	1.0	1.9	1.7

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.

Figures in bracket represent the underlying rate of change after netting out the effect of Government's one-off relief measures.

(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  $\pm 0.05\%$ .

(-- ) Not applicable.



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

	Weight	(%)								
		<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>				Average annual rate of change:	
					Q1	Q2	Q3	Q4	10 years 2000 to 2010	5 years 2005 to 2010
<b>All items</b>	<b>100.0</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>2.4</b> <b>(1.7)</b>	<b>1.9</b> <b>(0.8)</b>	<b>2.6</b> <b>(1.5)</b>	<b>2.3</b> <b>(2.0)</b>	<b>2.8</b> <b>(2.6)</b>	<b>0.4</b> <b>(--)</b>	<b>2.2</b> <b>(--)</b>
Food	26.94	10.1	1.3	2.4	1.1	2.0	2.8	3.8	1.8	3.9
<i>Meals bought away from</i>	<i>16.86</i>	<i>5.9</i>	<i>1.6</i>	<i>1.6</i>	<i>0.8</i>	<i>1.4</i>	<i>1.9</i>	<i>2.3</i>	<i>1.1</i>	<i>2.6</i>
<i>Food, excluding meals bought     away from home</i>	<i>10.08</i>	<i>16.8</i>	<i>0.9</i>	<i>3.6</i>	<i>1.5</i>	<i>2.8</i>	<i>4.1</i>	<i>6.1</i>	<i>2.9</i>	<i>6.0</i>
Housing <sup>(a)</sup>	29.17	4.1	3.7	0.4	-0.1	0.3	-0.7	2.1	-0.5	2.9
<i>Private housing rent</i>	<i>23.93</i>	<i>6.8</i>	<i>3.6</i>	<i>0.9</i>	<i>*</i>	<i>0.4</i>	<i>1.2</i>	<i>2.1</i>	<i>-0.3</i>	<i>4.2</i>
<i>Public housing rent</i>	<i>2.49</i>	<i>-27.2</i>	<i>9.5</i>	<i>-7.8</i>	<i>0.6</i>	<i>-0.3</i>	<i>-85.7</i>	<i>4.0</i>	<i>-4.9</i>	<i>-9.5</i>
Electricity, gas and water	3.59	-6.5	-25.3	42.9	61.1	64.0	43.1	15.0	0.8	0.2
Alcoholic drinks and tobacco	0.87	0.1	18.7	3.5	13.1	0.8	0.3	0.9	2.2	3.2
Clothing and footwear	3.91	0.8	2.7	1.7	1.4	2.0	1.7	1.6	1.2	2.1
Durable goods	5.50	-2.0	-3.0	-2.2	-1.7	-1.6	-2.5	-2.9	-4.4	-3.7
Miscellaneous goods	4.78	5.0	2.3	2.5	2.0	2.3	2.7	3.1	2.4	2.8
Transport	9.09	2.5	-0.9	1.9	1.1	1.7	2.1	2.9	0.5	0.8
Miscellaneous services	16.15	0.8	-2.1	1.8	0.5	2.1	2.5	2.1	*	0.8

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

(%)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Private consumption expenditure	-1.1	-3.6	-2.5	-0.3	1.8	1.3	3.7
Government consumption expenditure	1.1	-0.5	-2.6	-2.9	-1.4	1.0	2.9
Gross domestic fixed capital formation	-6.6	-9.9	-9.4	2.6	1.0	4.2	-2.5
Total exports of goods	-2.6	-2.9	-1.8	0.9	0.6	0.3	2.2
Imports of goods	-3.5	-4.2	-0.9	2.9	1.9	2.1	1.7
Exports of services	-4.3	-2.4	-3.1	0.5	3.3	3.6	2.5
Imports of services	-1.1	0.3	2.7	4.1	1.0	0.8	2.9
<b>Gross Domestic Product</b>	<b>-1.9</b>	<b>-3.5</b>	<b>-6.2</b>	<b>-3.5</b>	<b>-0.1</b>	<b>-0.3</b>	<b>2.9</b>
Total final demand	-2.7	-3.6	-2.8	0.6	1.2	1.2	2.2
Domestic demand	-2.3	-4.9	-4.2	0.1	1.2	1.9	2.1

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>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>				<u>Average annual rate of change:</u>	
				<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>10 years 2000 to 2010<sup>#</sup></u>	<u>5 years 2005 to 2010<sup>#</sup></u>
Private consumption expenditure	2.8	-1.6	0.8	0.4	0.4	0.5	1.9	0.1	1.4
Government consumption expenditure	4.9	0.2	0.2	-0.5	0.4	0.6	0.6	0.3	1.9
Gross domestic fixed capital formation	1.7	0.5	7.4	7.8	8.1	4.9	9.2	-1.3	2.2
Total exports of goods	3.4	0.5	4.6	2.8	4.1	5.6	5.6	0.5	2.2
Imports of goods	4.1	-1.3	6.4	3.9	7.1	6.6	7.9	0.9	2.6
Exports of services	3.4	-7.0	8.4	4.7	10.1	8.3	10.5	0.4	2.0
Imports of services	3.8	-2.3	5.0	7.3	4.7	3.7	4.8	1.7	2.0
<b>Gross Domestic Product</b>	<b>1.5</b>	<b>-0.6</b>	<b>0.9</b>	<b>0.6</b>	<b>-0.9</b>	<b>1.8</b>	<b>1.8</b>	<b>-1.1</b>	<b>0.9</b>
Total final demand	3.2	-1.1	4.5	3.0	4.4	4.9	5.6	0.2	2.0
Domestic demand	2.8	-1.0	2.4	2.3	2.4	1.6	3.2	-0.2	1.6

