



First Quarter Economic Report 2011

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2011

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy stayed robust in the first quarter of 2011, leaping by 7.2% over a year earlier, after a similarly strong 7.0% growth in 2010.*
- *The sustained global economic expansion, led by thriving emerging markets, continued to provide a strong support to Hong Kong's external trade. This was notwithstanding some negative external developments of late, including the policy tightening in Asia, the political unrest in Middle East and North Africa, and the earthquake and nuclear incident in Japan.*
- *Merchandise exports regained strong growth momentum in the first quarter, thanks to the robust demand and production activities in Asia as well as the continued recovery in the US and Europe. But also evident was the increasing role of China as a source of final demand in Asia. Exports of services likewise grew briskly further in the first quarter, benefitting from the thriving regional demand and an increasingly solid global recovery.*
- *Local consumption expenditure displayed further strength, amid improving income and job conditions. The surge in public sector construction works lent further support to domestic demand. However, machinery and equipment investment, which is usually rather volatile, declined after a notable increase in 2010. Nevertheless, local business confidence apparently remained sanguine during the first quarter.*
- *The labour market continued to improve on a broad front. Job creation gathered further pace in the first quarter, in tandem with the strong economic expansion, cumulating to an increase of over 90 000 new jobs over the past ten months. The encouraging result was the successive improvement in the seasonally adjusted unemployment rate, to 3.4% in the first quarter, largely back to the post-1997 low of 3.3% in mid-2008. Along with this, the income situation of workers continued to improve at a notable pace and on a broad front.*
- *The local stock market ended slightly higher during the quarter, amid some fluctuations. Residential flat prices rose back after a brief relapse towards end-2010, by 9% during the first quarter, surpassing the peak in 1997. The Government introduced further initiatives to increase land and housing supply.*
- *Consumer price inflation went up notably in the first quarter. Rising food prices, amid global food inflation, and the feed-through of higher private housing rentals to the consumer price indices were the two key driving*

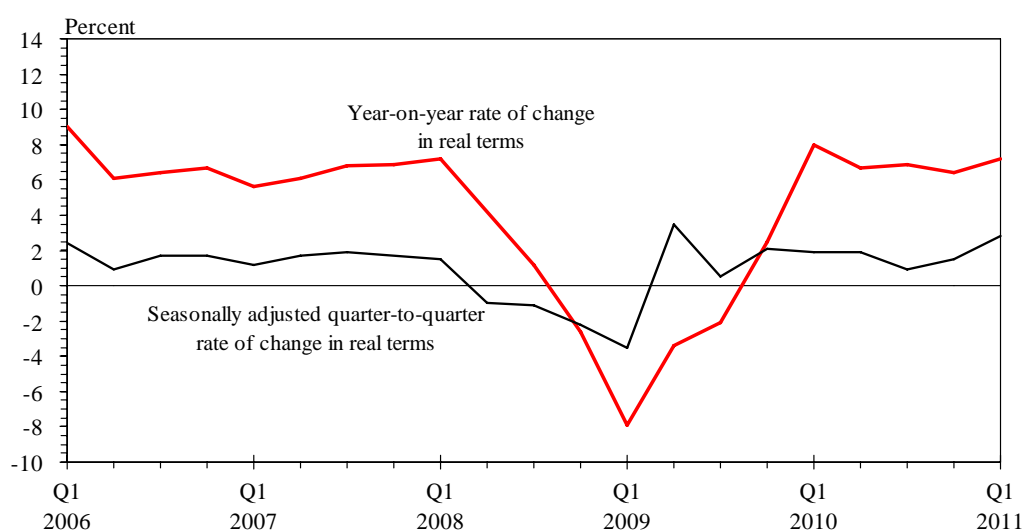
forces.

Overall situation

1.1 The Hong Kong economy stayed robust in the first quarter of 2011. External trade was vibrant alongside the rapid growth in many Asian economies and further recovery in the US and Europe. Domestic demand largely held firm, supported by the sustained surge in public sector works and by the upbeat consumer sentiment amid further broad-based improvement in the labour market. Nevertheless, new challenges also emerged in the external environment, including the political unrest in the Middle East and North Africa and the earthquake and nuclear incident in Japan. With higher imported inflation and sustained strong local economic upturn, consumer price inflation went up notably in the first quarter. Residential property prices rose back in the first quarter after a brief relapse late last year. The Government introduced further initiatives to increase land and housing supply and reiterated its commitment to contain excessive credit growth, with a view to ensuring a healthy development of the property market as well as safeguarding macroeconomic and financial stability.

1.2 In the first quarter of 2011, the *Gross Domestic Product (GDP)*⁽¹⁾ leaped by 7.2% in real terms over a year earlier, further to the robust growth of 6.4% in the fourth quarter of 2010 (revised from the earlier estimate of 6.2%) and 7.0% for 2010 as a whole (revised from the earlier estimate of 6.8%). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP grew strongly further by 2.8% in real terms in the first quarter, the eighth consecutive quarterly expansion.

Diagram 1.1 : The strong economic upturn continued in the first quarter of 2011



The external sector

1.3 Hong Kong's *total exports of goods* surged by 16.8% in real terms in the first quarter of 2011 over a year earlier, re-accelerating from the 8.2% growth in the fourth quarter of 2010. The strong export performance was driven mainly by exports to the robust Asian economies, particularly the Mainland market. Exports to the US also fared well. Yet exports to Europe continued to lag behind other major markets, as the overhanging sovereign debt issue in the Euro Area continued to pose challenge to the region's economic recovery.

1.4 *Exports of services* grew briskly by 9.1% year-on-year in real terms in the first quarter of 2011. This followed the 9.3% growth in the fourth quarter of 2010. Financial and other business services surged on the back of strong growth in cross-border financing and sustained external demand for Hong Kong's commercial and professional services. Exports of trade-related services grew robustly further in tandem with vibrant regional trade flows. Exports of travel services likewise grew further apace, thanks to strong tourist arrivals from Asia as a whole and further increase in arrivals from the long-haul markets. Yet exports of transportation services showed only moderate growth.

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

	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>				<u>2011</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	0.7	6.2	7.4 (0.7)	4.1 (1.3)	5.3 (1.8)	8.1 (3.7)	7.6 (0.7)
Government consumption expenditure	2.3	2.7	3.3 (0.9)	2.7 (0.8)	3.2 (0.9)	1.6 (-0.8)	2.7 (1.9)
Gross domestic fixed capital formation	-3.9	7.8	8.2	15.8	-0.3	8.6	-1.1
<i>of which :</i>							
Building and construction	-5.5	6.6	-7.1	13.2	9.6	11.3	13.4
Machinery, equipment and computer software	-3.0	5.9	11.5	15.9	-7.3	6.4	-11.8
Total exports of goods	-12.7	17.3	21.6 (6.2)	20.2 (3.9)	20.8 (1.8)	8.2 (-3.5)	16.8 (14.4)
Imports of goods	-9.5	18.1	28.3 (7.5)	23.4 (3.3)	16.7 (-0.6)	7.5 (-2.3)	12.6 (12.0)
Exports of services	0.3	15.0	18.4 (4.1)	17.5 (2.2)	15.8 (2.2)	9.3 (0.3)	9.1 (4.0)
Imports of services	-4.9	10.4	11.2 (2.2)	11.9 (2.4)	10.8 (1.0)	7.7 (1.7)	5.1 (-0.1)
Gross Domestic Product	-2.7	7.0	8.0 (1.9)	6.7 (1.9)	6.9 (0.9)	6.4 (1.5)	7.2 (2.8)
<i>Change in the main price indicators (%)</i>							
GDP deflator	-0.6	0.5	0.9 (1.1)	-1.9 (-2.4)	1.7 (2.3)	1.1 (0.2)	1.4 (1.2)
Composite CPI							
Headline	0.5	2.4[@]	1.9 (0.9)	2.6 (0.5)	2.3 (-1.3)	2.7[@] (3.7)[@]	3.8[@] (1.8)[@]
Underlying[^]	1.0	1.7[@]	0.8 (0.6)	1.5 (0.4)	2.0 (0.4)	2.4[@] (1.0)[@]	3.7[@] (1.8)[@]
<u>Change in nominal GDP (%)</u>	-3.3	7.5	8.9	4.7	8.7	7.6	8.8

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.

([@]) By reference to the new 2009/10-based CPI series.

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

The domestic sector

1.5 *Private consumption expenditure* grew strongly further in the first quarter of 2011, by 7.6% in real terms over a year earlier. Consumer sentiment was well supported by the improving job and income situations and to some extent by the further increases in asset prices. *Government consumption expenditure* continued to increase steadily in the first quarter, by 2.7% in real terms over a year earlier.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2010	Annual	8.7	3.8	28.3	14.5	4.7	5.5	25.6	6.2
	H1	8.3	3.3	28.5	13.6	4.9	4.3	26.8	5.7
	H2	9.1	4.3	28.1	15.3	4.5	6.6	24.6	6.8
	Q1	9.2	3.9	30.1	14.6	5.5	4.9	19.0	7.4
	Q2	7.4	2.9	26.8	12.6	4.3	3.7	36.9	4.1
	Q3	8.9	4.1	27.9	14.9	5.1	10.2	39.3	5.3
	Q4	9.2	4.5	28.4	15.7	4.0	3.1	12.7	8.1
2011	Q1	8.5	3.1	24.5	17.8	3.4	0.6	9.6	7.6

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 sustained a strong momentum in the first quarter of 2011

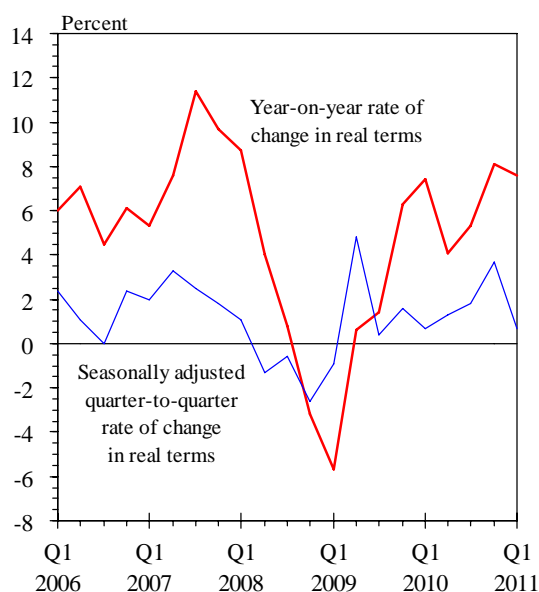
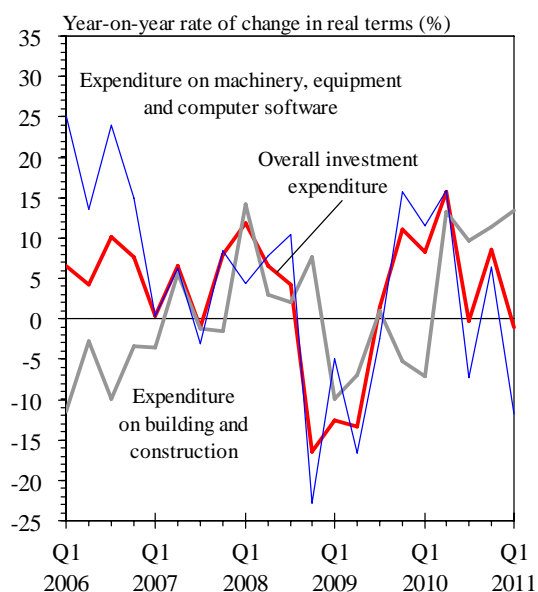


Diagram 1.3 : Fixed investment declined after a notable increase in 2010



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* however relapsed to a year-on-year decline of 1.1% in real terms in the first quarter of 2011, after the 8.6% growth in the preceding quarter and 7.8% growth for 2010 as a whole. This was due to the fall-back in private machinery and equipment investment, by 13.8% in real terms in the first quarter having registered a notable increase in 2010, which was more volatile from quarter to quarter. Yet building and construction expenditure in the public sector continued to surge in the first quarter of 2011 as several large-scale infrastructure projects were under way. As such, overall building and construction expenditure showed a notable growth of 13.4% in real terms in the first quarter, despite a further decline in private sector building and construction expenditure. The fall-off in overall investment in the first quarter was thus more likely to be a temporary aberration from the underlying upturn. Indeed, business confidence generally held firm, as shown by the results of the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department among the large enterprises in March and early April. The views of small and medium-sized enterprises (SMEs) were also largely steady in recent months (See **Box 1.1** for details of the consultation on SMEs).

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)⁽¹⁾ 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 **2010 Economic Background and 2011 Prospects**.

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 in recent months (**Table 1**). In April 2011, a larger proportion of SMEs in eight out of the ten sectors surveyed reported stable or improvement in business receipts. Among them, financing institutions saw the most notable improvement, reflecting buoyant financial activities. On the other hand, the indices on business services and real estate dipped below the boom-bust dividing line of 50. Separately, the results of the consultation indicated that SMEs' employment situation remained largely stable in recent months. In April 2011, financing institutions and business services were more positive in employment situation (**Table 2**).

Specifically for import and export firms, from the June 2010 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 returned to the boom-bust dividing line of 50 in February-April after dipping to 49.2 in January.

(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 largely stabilised in recent months. The proportion of SMEs reporting very tight/tighter-than-normal credit access came down successively to 2.8% in February 2011 from above 12% in late November 2008, but edged back up to 3.2% in March and April (*Chart 1*). The proportion of SMEs expecting tighter credit access in the coming month remained at zero in April 2011, and credit pricing held broadly stable, thanks to the accommodative monetary conditions and the Government's efforts to relieve credit strains through providing loan guarantees to SMEs. As at the end of April 2011, some 21 200 companies benefited under the enhanced and special loan guarantee schemes (the latter was closed for new application at end-2010), involving approved loan amount of over \$107 billion. This also indirectly helped to secure the jobs of those employed by these companies, totaling over 340 000.

Table 1 : Diffusion indices[^] on business receipts

	2010						2011				
	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>											
Restaurants	47.5	49.1	50.8	49.2	51.8	48.2	50.0	50.0	50.0	49.1	50.0
Travel	46.6	53.4	53.4	48.3	48.3	48.3	48.3	48.3	48.3	48.3	50.0
Real estate	47.0	56.1	48.5	45.6	57.4	33.8	47.1	60.6	52.9	48.5	45.6
Retail trade	43.9	50.0	50.0	51.3	50.0	50.9	49.1	50.0	48.3	50.4	50.0
Wholesale trade	47.5	47.4	47.4	47.4	52.6	55.3	50.0	50.0	50.0	52.8	50.0
Insurance	45.3	45.0	47.5	47.5	52.5	50.0	52.5	60.5	57.9	57.9	50.0
Business services	43.8	50.0	45.5	45.5	51.5	51.5	45.5	51.6	48.5	47.0	48.5
<i>External segments</i>											
Import/export trades	50.0	50.0	50.9	47.3	48.3	50.0	49.6	49.2	50.0	50.0	50.0
Logistics	52.6	44.7	42.5	44.7	44.7	47.4	50.0	50.0	52.8	50.0	50.0
Financing institutions	47.2	44.7	44.9	50.0	56.6	48.7	43.8	50.0	48.7	52.6	52.6
All the above sectors*	47.5	49.7	49.3	48.1	49.8	49.7	49.1	50.4	49.8	50.0	49.7

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)

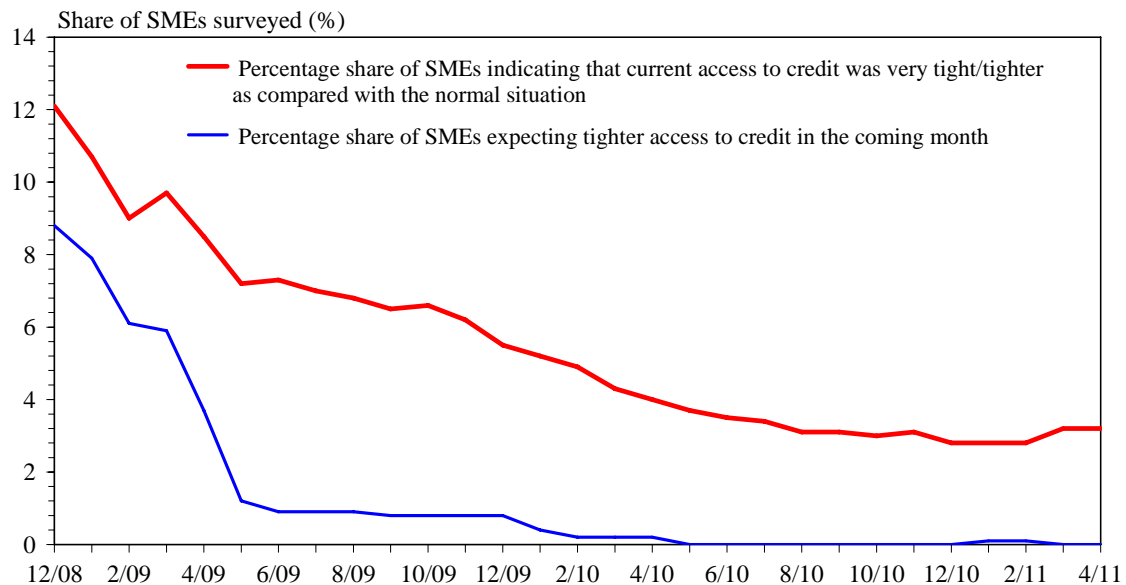
Table 2 : Diffusion indices[^] on employment situation

	2010						2011				
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
<i>Local segments</i>											
Restaurants	49.2	49.1	49.2	49.2	50.0	50.0	50.0	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	50.0	50.0	50.0
Real estate	50.0	48.5	48.5	51.5	50.0	51.5	50.0	50.0	50.0	50.0	48.5
Retail trade	50.0	49.6	50.0	50.0	50.0	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	50.0	50.0	50.0
Insurance	54.8	50.0	50.0	50.0	50.0	50.0	52.5	55.3	52.6	52.6	50.0
Business services	48.4	53.0	48.5	48.5	50.0	50.0	50.0	50.0	50.0	50.0	51.5
<i>External segments</i>											
Import/export trades	50.5	50.0	50.0	50.0	50.0	50.4	50.0	50.0	50.0	50.0	50.0
Logistics	47.4	47.4	47.5	47.4	50.0	50.0	50.0	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	53.8	52.6	51.3
All the above sectors*	49.9	49.9	49.6	49.8	50.0	50.3	50.0	50.1	50.1	50.1	50.1

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 largely stabilised



The labour sector

1.7 The labour market saw further widespread improvement in the first quarter of 2011 amid the robust economic conditions. Employment for both the higher-skilled and lower-skilled segments had surpassed their pre-crisis levels, with a more notable improvement for the lower-skilled workers. The *seasonally adjusted unemployment rate* came down progressively to 3.4% in the first quarter, largely back to the post-1997 low of 3.3% in mid-2008. The *underemployment rate* also stayed low at 1.8%. Reflecting the strong hiring sentiment, vacancies continued to surge. Labour wages and earnings continued to increase. In particular, the average employment earnings of full-time employees (excluding foreign domestic helpers) rose by 6.9% in nominal terms, or by 3.0% in real terms in the first quarter of 2011 over a year earlier. The average increase for the lowest decile of full-time employees was likewise impressive, by 6.2% in nominal terms and by 2.0% in real terms.

The asset markets

1.8 The *local stock market* went up slightly during the first quarter, amid some fluctuations due to the political unrest in the Middle East and North Africa and the earthquake in Japan. The Hang Seng Index closed the quarter at 23 528, 2% higher than at end-2010. Fund-raising activities in the stock market cooled down visibly during the quarter.

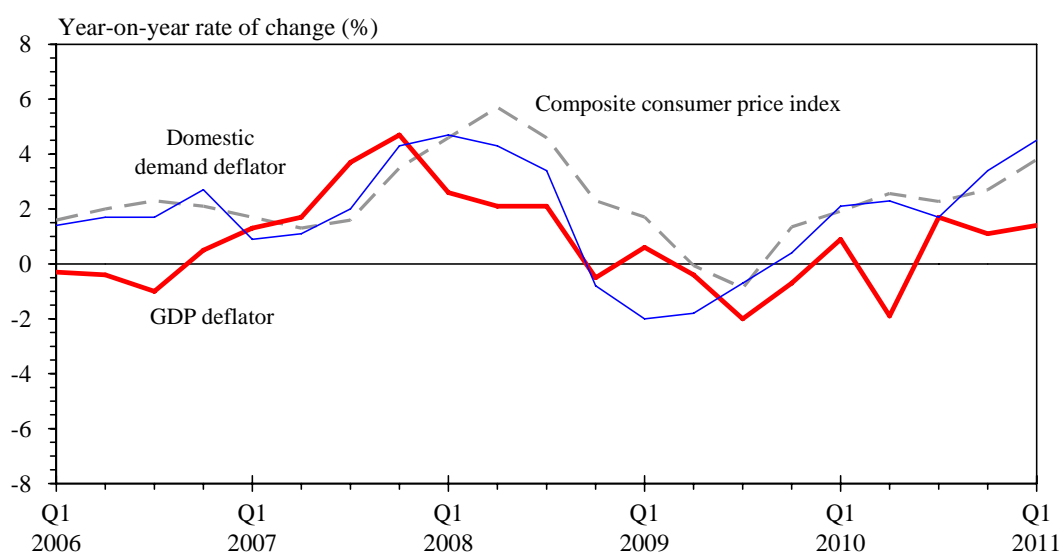
1.9 *Residential property market* resumed increases in prices in the first quarter of 2011, following a brief relapse towards the end of 2010 immediately after the announcement of the Special Stamp Duty. Residential property prices went up by 9% during the first quarter of 2011. By March 2011, overall flat prices had surpassed the previous historic peak in 1997 by around 3%. Transactions also revived stepping into 2011, though still considerably lower than the pre-Special Stamp Duty peak in November 2010. Residential property rentals saw a brief decline in January 2011, but resumed some increase in February and March, yet cumulating to a small increase of merely 1% between December 2010 and March 2011. Meanwhile, rentals for offices and shops in March 2011 were modestly higher than their corresponding levels in December 2010 by 2% and 1%.

Inflation

1.10 *Consumer price inflation* went up further during the first quarter of 2011. The notable increase in import prices remained a major driving factor, as global commodity prices continued to rise strongly on the back of sustained economic growth, loose monetary environment, and a weaker US dollar. The political unrest in the Middle East and North Africa also fuelled the increase in oil prices. Meanwhile, domestic factors also played an increasing role in driving inflation amid the robust local economic conditions. This was particularly so on the rental front, with the feed-through of rising private housing rentals turning more evident. Indeed, inflation emerged as a major concern on a region-wide basis, given the vibrant growth of Asian economies and abundant liquidity in the region. By reference to the new 2009/10-based series, *headline consumer price inflation* rose to 3.8% in the first quarter, from 2.7% in the preceding quarter (or from 2.8% to 4.0% by reference to the old 2004/05-based series). Netting the effect of the Government's relief measures, *underlying consumer price inflation* climbed up to 3.7% in the first quarter from 2.4% in the previous quarter (or from 2.6% to 3.9% by reference to the old 2004/05-based series).

1.11 The *GDP deflator* recorded a small increase of 1.4% in the first quarter, as the deterioration in the terms of trade partially offset the effect from the further pick-up in domestic prices.

Diagram 1.4 : Inflation went up further driven by higher price pressures on both the external and domestic fronts



GDP by major economic sector

1.12 With the robust, broad-based upturn in the economy in 2010, many major sectors saw brisk expansion in activities. Net output of the services sector as a whole leaped by 7.0% in real terms in 2010, reversing the 1.6% contraction in 2009. Among the major sectors, import/export, wholesale and retail trades saw the fastest expansion, backed by the strong resurgence in trade flows and buoyant demand. This was followed by financing and insurance, transportation and storage, accommodation and food services, and professional and business services, thanks to solid consumption demand and thriving commercial and trading activities. Real estate activity, mainly reflecting the net output of private sector developers, reverted to a small increase in the fourth quarter of 2010, though still recording a modest decline for 2010 as a whole. As for the secondary sector, manufacturing output increased by 3.5% in 2010, recovering from the steep decline of 8.3% in 2009, while construction output soared by 15.8% in 2010 as the works of various large-scale infrastructure projects intensified, compared with a 7.6% fall in 2009.

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

	<u>2009</u>		<u>2010</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</u>	<u>Q4</u>
Manufacturing	-8.3	3.5	-10.1	-9.5	-8.6	-4.9	0.4	2.2	5.4	5.7		
Construction	-7.6	15.8	-12.3	-10.5	-2.6	-4.3	2.7	21.3	20.2	19.8		
Services ^(b)	-1.6	7.0	-6.5	-2.9	-1.1	3.6	8.4	6.1	7.3	6.4		
Import/export, wholesale and retail trades	-9.4	15.6	-17.7	-12.3	-10.3	0.8	22.4	17.9	15.9	9.1		
Import and export trade	-11.3	15.4	-19.9	-14.2	-12.3	-1.1	23.3	18.3	15.7	7.7		
Wholesale and retail trades	1.1	16.5	-7.0	-3.0	2.0	10.6	18.3	15.8	16.6	15.7		
Accommodation and food services	-11.3	7.3	-10.6	-15.1	-11.6	-8.1	8.8	10.0	6.8	4.1		
Transportation, storage, postal and courier services	-5.5	8.8	-9.5	-7.8	-6.0	1.5	6.7	12.6	9.6	6.6		
Transportation and storage	-5.1	7.8	-9.0	-7.3	-5.6	1.6	5.3	11.4	8.5	6.2		
Postal and courier services	-12.3	27.0	-17.4	-17.8	-13.3	-2.2	34.9	35.0	31.3	11.7		
Information and communications	0.9	1.6	1.1	-0.6	1.9	1.2	1.9	1.7	2.1	0.8		
Financing and insurance	4.3	7.9	-7.2	2.8	8.4	14.0	9.1	1.3	7.0	13.8		
Real estate, professional and business services	1.7	2.7	-2.4	0.9	4.7	3.6	3.0	2.0	1.3	4.5		
Real estate	1.2	-1.7	-5.0	1.9	5.4	3.6	-1.9	-2.7	-3.1	0.9		
Professional and business services	2.2	7.2	*	-0.1	4.2	4.2	8.6	6.9	5.7	7.5		
Public administration, social and personal services	2.8	2.5	2.5	3.1	2.6	3.0	3.1	2.1	3.1	1.8		

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 $\pm 0.05\%$.

The above statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 and the series has been backcasted to 2000.

Some highlights of economic policy

1.13 With the economy fully emerged from the 2008-09 Global Recession and on track to solid upturn, the 2011-12 Budget laid down our strategy for both long-term economic development and tackling the near-term challenges. Specifically, a series of measures were unveiled with a view to alleviating the impact of rising inflation, stabilising the property market and reducing the risk of asset-price bubbles, improving people's livelihood by increasing spending on areas such as education, health and social welfare, and investing in the future through building the infrastructure and institutions, nurturing talents and developing the industries. By creating better economic conditions and opening up more opportunities, the goal is to enable the society at large to share the fruits of economic growth.

1.14 Specifically on ensuring a stable development of the property market, the Government strives to increase land supply by putting up in the Budget and subsequently in April more residential sites on and outside of the Application List for open auction or tender in the short run, and by exploring the feasibility of reclamation on an appropriate scale outside Victoria Harbour and rock cavern development in the long run. In addition, in light of the rapid credit growth, the Hong Kong Monetary Authority issued a letter to banks in April asking them to reassess their business plans and funding strategies for the rest of this year, with a view to enhancing risk management and safeguarding financial stability.

1.15 On economic integration with the Mainland, the National 12th Five-Year Plan was promulgated in March. A chapter of the Plan is dedicated to Hong Kong and Macao to elaborate on their positioning in the development strategy of the country. In addition to consolidating its position as an international financial, trade and shipping centre, Hong Kong will continue to nurture emerging industries and develop the six industries where it enjoys clear advantages⁽³⁾. In this regard, the Government will strengthen cooperation with the Mainland to explore the market through the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and existing regional platforms, while at the same time helping to upgrade the country's industry structure, particularly the development of service industries.

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 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.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *External trade rose briskly again in the first quarter of 2011, after some moderation of growth in the preceding quarter. Robust demand from the Asian markets continued to be the main growth driver. Further revival in demand from the US and Europe also contributed. Trade performance in the first quarter was little affected by the reported repercussions to global supply chains from the Japan incident.*
- *Total exports of goods regained strong growth momentum in the first quarter. Exports to Asian markets as a whole attained double-digit growth and continued to outperform those to the US and EU markets, reflecting the uneven growth pace across regions.*
- *Exports of services likewise stayed buoyant in the first quarter. Financial and other business services surged on the back of strong growth in cross-border financing and sustained expansion of commercial activities. Exports of trade-related services grew robustly further in tandem with vibrant regional trade flows. Exports of travel services likewise remained on a strong uptrend. Yet exports of transportation services showed only moderate growth.*
- *Hong Kong will continue to enhance its position as an international financial, trade and shipping centre, an offshore renminbi business centre, and an international asset management centre, in complementing the National 12th Five-Year Plan. Further cooperation ventures were fostered between Hong Kong companies and their Fujian counterpart. Also, further facilitation measures for business and investment were put in place by the Government to broaden our links with overseas markets.*

Visible trade

Total exports of goods

2.1 Hong Kong's merchandise exports regained strong momentum in the first quarter of 2011, thanks to the vibrant intra-regional trade flows in Asia and sustained demand from the US and Europe. *Total exports of goods* (comprising re-exports and domestic exports) expanded by 17.7% in real terms⁽¹⁾ in the first quarter over a year earlier, re-accelerating from the 7.9% growth in the fourth quarter of 2010. On a seasonally adjusted basis, total exports of goods also gathered steam, increasing by 16.3% in real terms in the first quarter

over the previous quarter.

2.2 The Asian markets, in particular the Mainland, continued to render the key impetus to Hong Kong's export performance. Robust economic conditions in these markets, as reflected in strong production and export activities, boosted their import demand, in turn benefiting trade flows in the region. The US and European markets also showed signs of firmer footing as their economic recovery continued. However, conditions for a self-sustained recovery there are yet to be in place, as unemployment stays high and housing markets remain depressed. The sovereign debt issue in the euro area continued to be a source of uncertainty. Credit ratings in the vulnerable member economies saw further downgrade actions, and Portugal became the third economy in the euro area calling for bail-out after failing to implement an austerity plan. The first quarter also saw new sources of uncertainties in the external environment. The political unrest in Middle East and North Africa became a key concern during the first quarter, exerting further upward pressure on oil prices. The rising inflationary pressure and asset market bubble risks prompted successive policy tightening actions in many Asian economies where growth had been robust. Also, the Japan earthquake on 11 March and subsequent radiation leakages from the damaged Fukushima Dai-ichi nuclear power plant reportedly caused some disruptions to global supply chains. Noting the prevailing recovery in the global economy is still unbalanced, the International Monetary Fund (IMF) in April maintained its forecast for global economic growth in 2011 at 4.4%⁽²⁾.

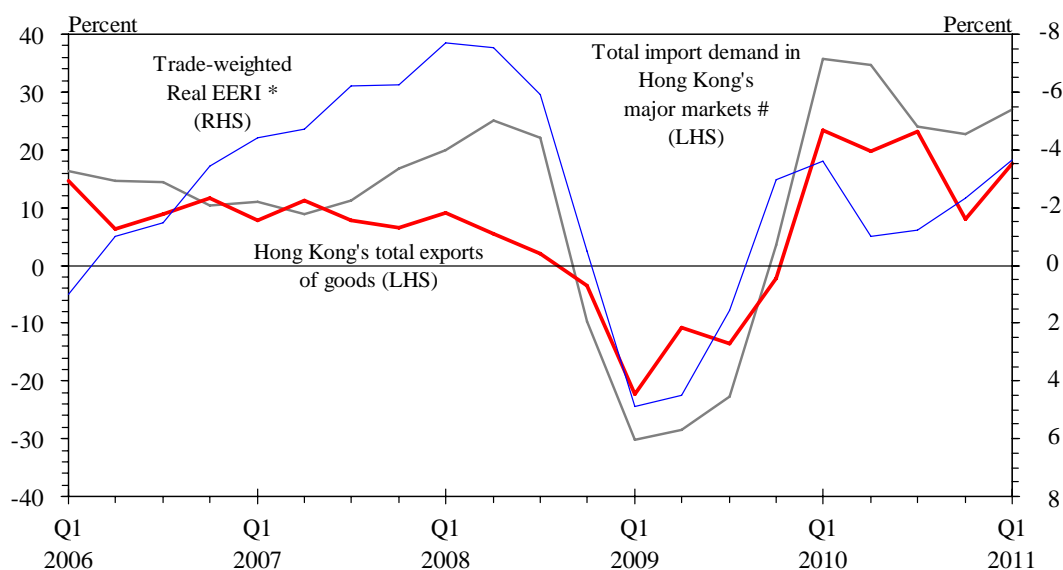
2.3 *Re-exports*⁽³⁾, the mainstay of overall merchandise exports and accounting for 97.8% of total exports by value, grew sizably by 18.2% in real terms in the first quarter of 2011, up from the 7.9% in the fourth quarter of 2010. *Domestic exports*, which constitute the remaining share of total exports, reverted to modest decline of 4.1% in the first quarter, in contrast to the 11.1% expansion in the preceding quarter.

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

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>			
	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	
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)	26.1	23.5	(6.5)	23.1	20.2	(17.0)	3.2
Q2	24.3	19.7	(3.6)	24.4	19.7	(3.7)	22.4	17.0	(-3.3)	6.1
Q3	27.8	23.2	(1.9)	27.9	23.4	(2.0)	20.2	14.9	(-4.4)	5.7
Q4	14.4	7.9	(-4.1)	14.3	7.9	(-4.3)	16.7	11.1	(3.2)	6.7
2011 Q1	24.6	17.7	(16.3)	24.9	18.2	(16.6)	11.9	-4.1	(0.4)	6.7

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

**Diagram 2.1 : Merchandise exports regained momentum in the first quarter
(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 first quarter of 2011 is based on statistics for January and February 2011.

Diagram 2.2 : Re-exports remained the key driver of Hong Kong's exports

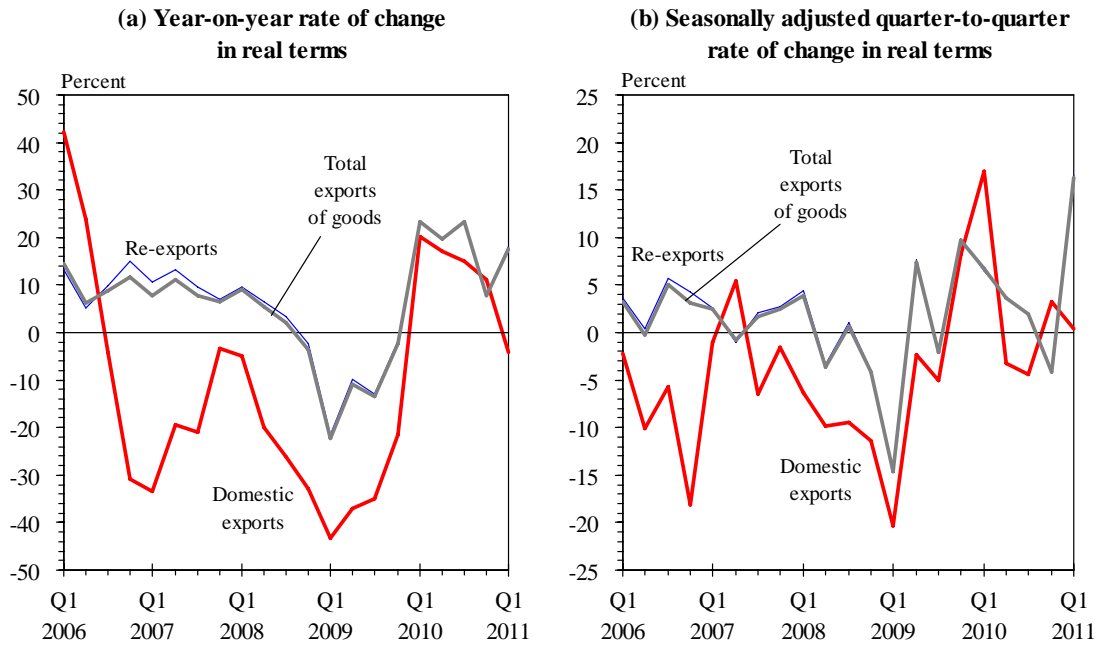
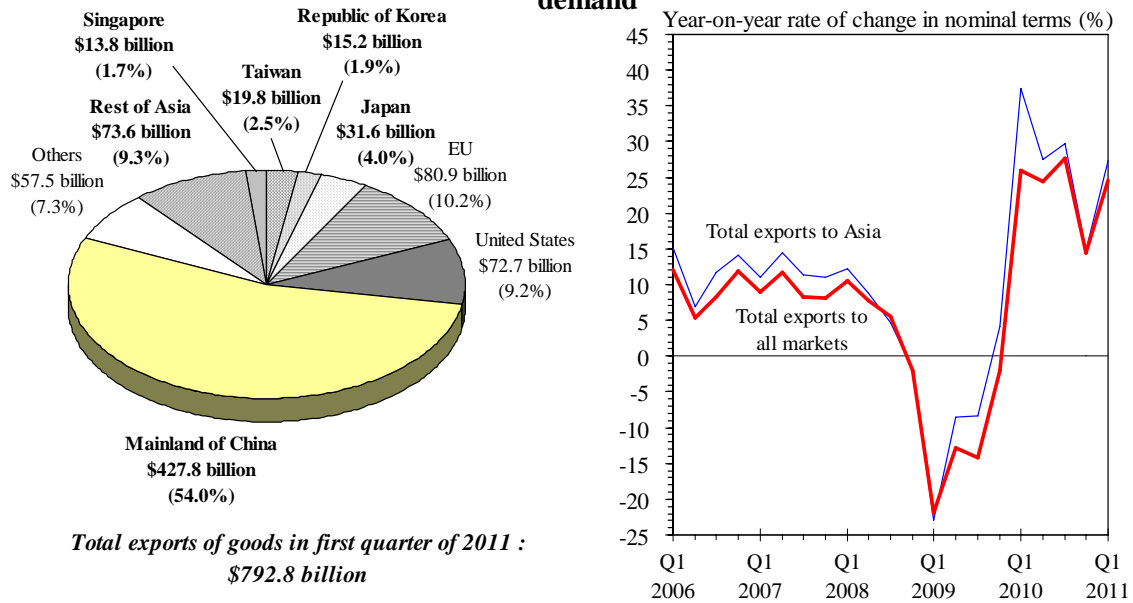


Diagram 2.3: The rapid growth in Hong Kong's exports to Asia reflected not only the rebound of export processing trade, but also the rising significance of Asia as a source of final demand



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

		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
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
2011	Q1	20.8	7.0	6.4	3.2	14.8	20.5	21.7

2.4 Asian markets continued to feature prominently in the marked expansion of total exports of goods in the first quarter of 2011. Total exports to the Mainland re-accelerated to a strong year-on-year growth of 20.8% in the first quarter, thanks partly to the buoyant domestic demand there. Likewise, total exports to other Asian destinations such as Singapore, Taiwan and Korea registered double-digit growth in the range of 14-22%, on the back of sustained strong growth in production activity and intra-regional trade. Yet Japan saw only a modest growth of 3.2%. The impact from the earthquake and nuclear incident in Japan on regional trade flows had little impact on trade performance in the first quarter, but could become more discernible in the second quarter.

2.5 Reflecting the sustained economic recovery in the US and Europe, exports to these markets grew further in the first quarter. Yet the extent of recovery in the EU markets continued to lag behind other major markets. There were indeed declines in exports to such European markets as the UK and the Netherlands. The overhanging sovereign debt issue in the Euro Area continued to pose a challenge to the region's economic recovery. Meanwhile, Hong Kong's exports to the US and Europe in the first quarter were still below their pre-crisis levels.

Diagram 2.4 : Exports to the Mainland regained strong momentum

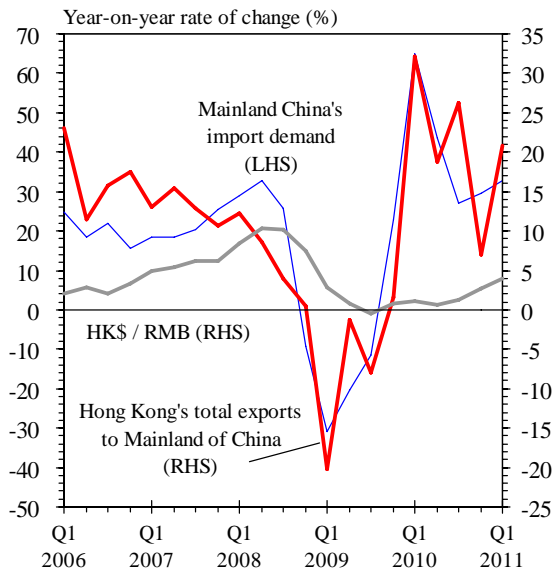


Diagram 2.5 : Exports to the EU recovered further, albeit still lagging behind other major markets

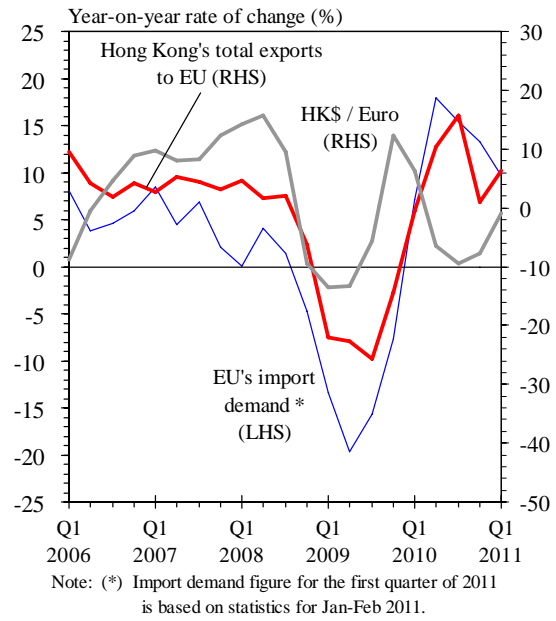


Diagram 2.6 : Exports to the US grew briskly, as the economic recovery there continued to consolidate

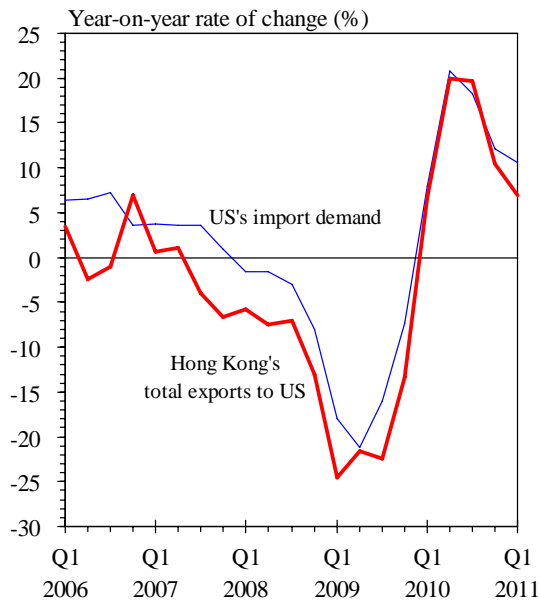


Diagram 2.7 : Exports to Japan saw solid growth before the earthquake

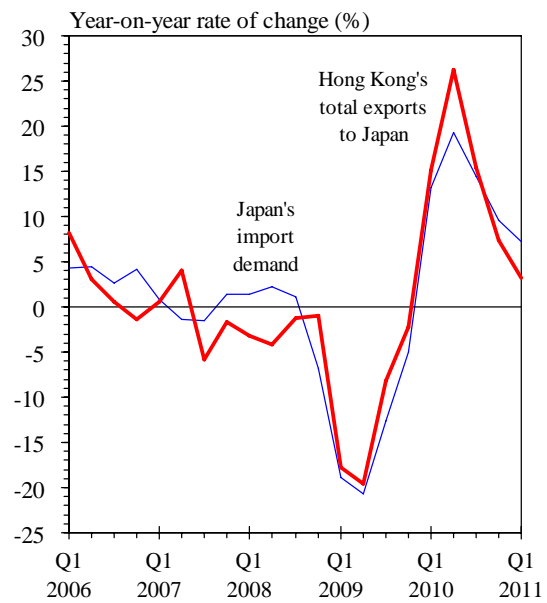


Diagram 2.8 : Exports to Singapore continued to record double-digit growth, partly boosted by the surge in regional production activities

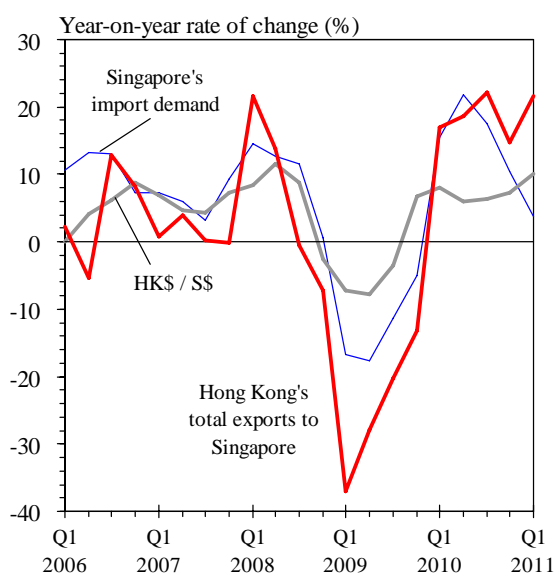
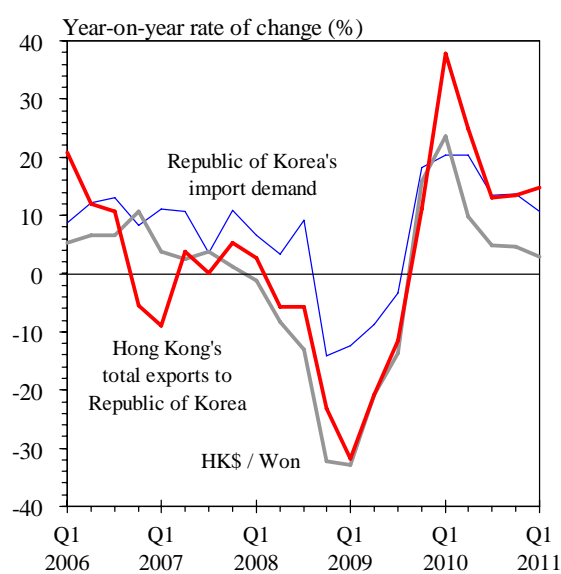


Diagram 2.9 : So did exports to the Republic of Korea



Imports of goods

2.6 *Imports of goods* grew notably further by 12.9% in real terms in the first quarter of 2011, after the 7.0% growth in the fourth quarter of 2010. Much of the growth momentum in imports in the first quarter came hand in hand with buoyant re-export trade. *Retained imports*, which accounted for around one fourth of total imports, grew at a more modest pace of 0.5% over a year earlier. Analysed by major end-use categories, retained imports of consumer goods remained robust, thanks to firm local consumption and tourist spending, and those of fuels and capital goods rose steadily. Yet those of foodstuffs reverted to a moderate decline, and those of raw materials fell more following the very strong growth last year. After seasonal adjustment, retained imports increased by 0.4% in the first quarter over the previous quarter.

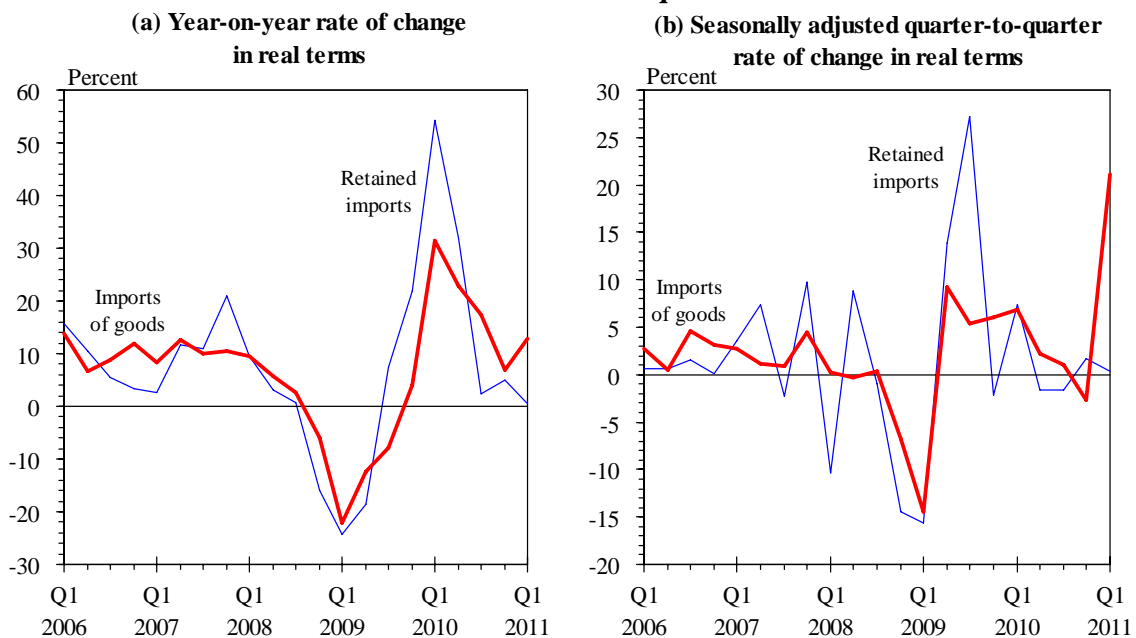
**Table 2.3 : Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports^(a)</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>
2010	Annual	25.0	18.6	6.4	31.3	19.7	11.6
	Q1	34.3	31.4	(6.8)	60.5	54.2	(7.4)
	Q2	29.9	22.8	(2.2)	47.2	32.0	(-1.6)
	Q3	24.1	17.3	(1.0)	13.7	2.5	(-1.6)
	Q4	15.1	7.0	(-2.7)	17.2	5.0	(1.7)
2011	Q1	20.6	12.9	(12.1)	10.0	0.5	(0.4)

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

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

Diagram 2.10 : Imports grew notably further while retained imports were more muted in the first quarter



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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
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
2011	Q1	20.4	-6.1	2.3	-22.6	4.6

Invisible trade

Exports of services

2.7 *Exports of services* grew briskly further in the first quarter of 2011, by 9.1% in real terms over a year earlier, in tandem with the more solid global recovery and vibrant growth in Asia. Exports of financial and other business services surged on the back of strong growth in cross-border financing and sustained external demand for commercial and professional services. Exports of trade-related services grew robustly further in tandem with vibrant regional trade flows. Exports of travel services likewise grew apace, thanks to strong tourist arrivals from Asia as a whole and further increase in arrivals from the long-haul markets. But exports of transportation services showed only modest growth. The impact of the incidents in Japan on Hong Kong's trade in services was very limited in the first quarter, although visitors from Japan fell in March.

Diagram 2.11 : Trade-related and transportation services accounted for more than 50% of service exports, reflecting Hong Kong's position as a trading hub

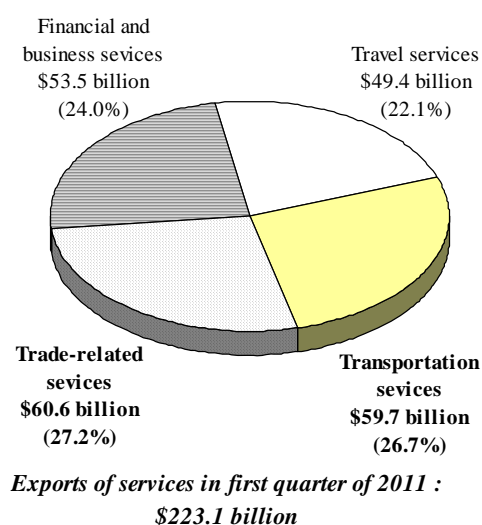


Diagram 2.12 : Exports of services remained buoyant in tandem with the global recovery and strong growth in Asia

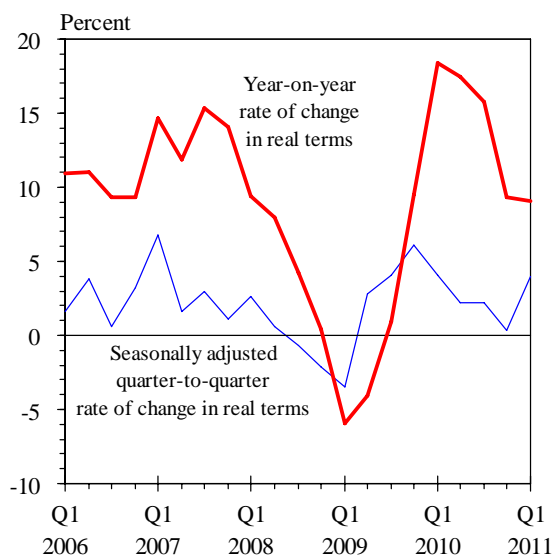


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

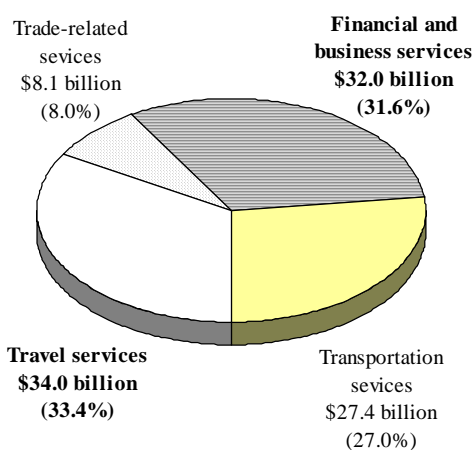
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2010	Annual	15.0	14.3	10.0	25.7	12.8
	Q1	18.4 (4.1)	20.7	16.2	19.1	18.4
	Q2	17.5 (2.2)	18.1	12.3	37.0	13.2
	Q3	15.8 (2.2)	14.1	9.7	39.4	8.4
	Q4	9.3 (0.3)	8.3	2.8	12.7	11.3
2011	Q1	9.1 (4.0)	11.4	1.0	9.6	14.3

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

Imports of services

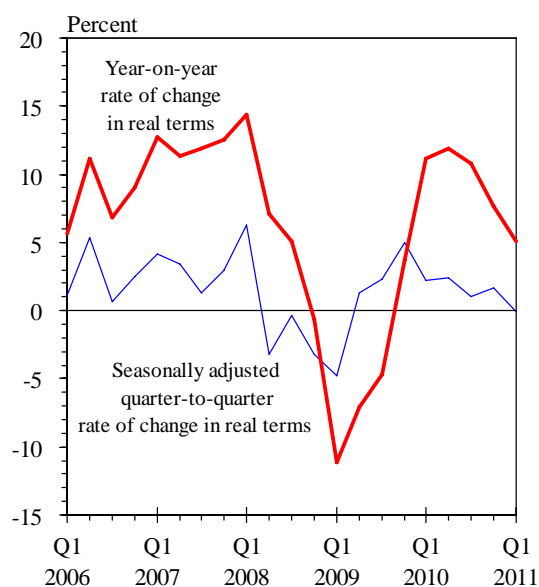
2.8 *Imports of services* recorded further solid growth in the first quarter of 2011, of 5.1% in real terms over a year earlier. Imports of trade-related services stayed buoyant amid thriving trading activities, while growth of transportation services saw some moderation. Imports of financial and other business services grew notably further, in tandem with the sustained expansion of financial and commercial activities during the quarter. Meanwhile, imports of travel services rose only moderately.

Diagram 2.13 : Travel services, financial and business services featured more prominently in imports of services



*Imports of services in first quarter of 2011 :
\$101.5 billion*

Diagram 2.14 : Imports of services saw further but moderating growth



**Table 2.6 : 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⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>	
2010	Annual	10.4	6.5	12.1	15.8	11.9	
	Q1	11.2	(2.2)	4.5	12.8	15.4	
	Q2	11.9	(2.4)	5.3	15.6	15.8	
	Q3	10.8	(1.0)	10.3	11.4	9.5	
	Q4	7.7	(1.7)	5.9	8.5	8.1	
2011	Q1	5.1	(-0.1)	2.1	4.1	7.3	

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

2.9 The surplus in the invisible trade account continued to more than offset the deficit in the merchandise trade account in the first quarter of 2011, giving an overall surplus of \$27.8 billion in the combined visible and invisible trade balance, equivalent to 2.8% of the total value of imports of goods and services. This was larger than the corresponding figures of \$11.8 billion and 1.4% in the same quarter of last year, reflecting Hong Kong's strong external sector.

**Table 2.7 : Visible and invisible trade balance
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	<u>As % of imports</u>
2010	Annual	3,061	827	3,395	395	-334	432	98	2.6
	Q1	640	191	728	91	-88	99	12	1.4
	Q2	774	186	871	92	-97	94	-3	-0.3
	Q3	838	220	898	104	-60	116	56	5.6
	Q4	809	230	898	108	-89	122	33	3.3
2011	Q1	796	223	890	102	-94	122	28	2.8

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

Other developments

2.10 The National 12th Five-Year Plan (the Plan) promulgated in March included a dedicated chapter to Hong Kong and Macao for the first time. The document elaborated on the positioning of Hong Kong in the national development strategy. On top of further strengthening Hong Kong's position as an international financial, trade and shipping centre, the Plan also supported Hong Kong's development as an offshore renminbi business centre and an international asset management centre. Hong Kong's development in the six industries will be well supported. Economic co-operation between Guangdong, Hong Kong and Macao will be strengthened. The Government will co-operate further with the Mainland authorities to forge ahead with developing advanced manufacturing and modern services industries and the opening up of Guangdong market under the "early and pilot measures" to Hong Kong's service industries.

2.11 In late March, agreements on 59 projects worth a total investment of \$67 billion were signed between Hong Kong companies and representatives of the Fujian delegation at the "Fujian-Hong Kong Cooperation and Development Promotion Fair", with a view to strengthening ties between the two places and achieving mutual development. The projects included 40 in the modern services industry and 19 in the new manufacturing sector.

2.12 The Government will continue to develop Hong Kong-Taiwan economic relations on various fronts. These include active discussions on ways to promote financial regulatory co-operation, update air services arrangements and avoid double taxation on shipping income, and plans to set up a multi-functional office and to establish a Hong Kong Tourism Board office in Taipei.

2.13 In facilitating the development of asset management business and fostering economic links with more overseas markets, the Government signed agreements with Portugal and Spain on the avoidance of double taxation. The agreements will come into force after the completion of ratification procedures on both sides. By reducing the withholding taxes on passive income, this will help investors better assess their potential tax liabilities from cross-border economic activities, and provide added incentives for foreign companies to do business or invest in Hong Kong. On a broader perspective, the Government will strive to create a more favourable business environment through improving working procedures and reducing compliance costs.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) In April, the IMF maintained its forecast of world economic growth at 4.4% in 2011 and 4.5% in 2012, same as those announced in January. Specifically for Asia, the IMF forecast the region to expand by 6.7% in 2011 and 6.8% in 2012, and the Mainland to grow by 9.6% and 9.5% respectively in 2011 and 2012. On the other hand, the US was forecast to grow by 2.8% and 2.9% respectively, and the eurozone by 1.6% and 1.8% respectively.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

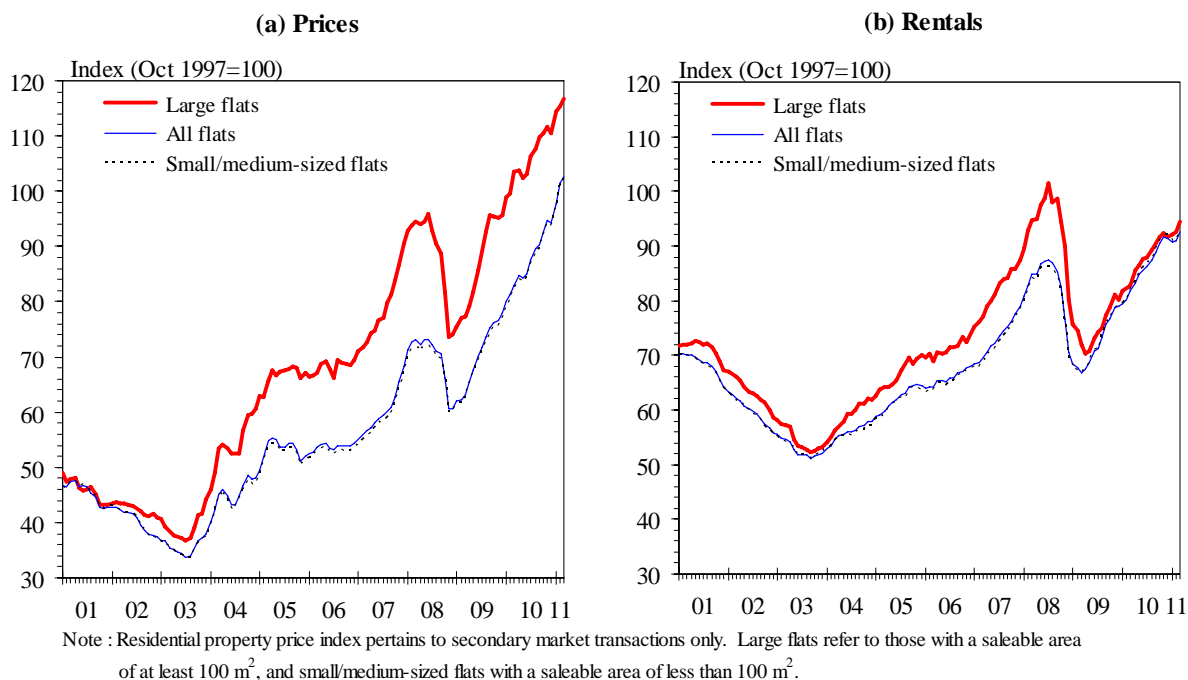
- *Amid the further strong economic growth and low interest rate environment, the residential property market stayed generally buoyant in the first quarter. Demand from end-users and long-term investors continued to drive up flat prices. Yet the market showed some consolidation towards the end of the quarter following the earthquake and nuclear crisis in Japan and the tightening of mortgage lending terms by the major banks in Hong Kong.*
- *Following through the efforts to ensure a healthy and stable development of the property market, the Government announced further measures to increase the land supply in February and April.*
- *Inbound tourism continued to show impressive performance. Incoming visitor arrivals increased by another 12.6% in the first quarter, with Mainland visitors remaining the main engine of growth.*
- *Following a strong recovery in 2010, performance of the logistics sector turned more steady on entering 2011. Both container throughput and air freight throughput registered moderate growth in the first quarter.*

Property

3.1 Amid the further strong economic growth and low interest rate environment, the *residential property market* stayed generally buoyant in the first quarter of 2011. Demand from end-users and long-term investors continued to drive up flat prices, though trading activities moderated somewhat following the introduction of the Special Stamp Duty (SSD) late last year. Yet the market showed some consolidation towards the end of the quarter following the earthquake and nuclear crisis in Japan and the tightening of mortgage lending terms by the major banks in Hong Kong.

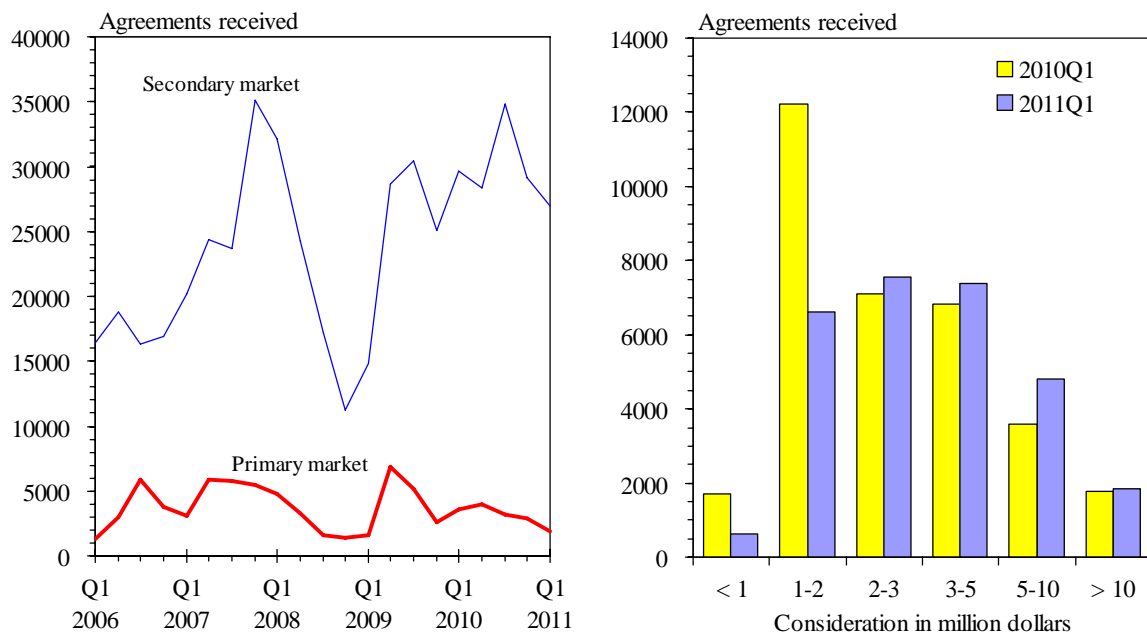
3.2 Overall flat prices soared by another 9% between December 2010 and March 2011, with most of the gains occurring in the first two months. Prices of small/medium-sized flats rose sharply by 9%, and those of large flats also by a rapid 6%. Following the rally since early 2009, overall flat prices in March 2011 were already 3% higher than the 1997 peak, while prices of large flats have even exceeded the 1997 peak by a rampant 17%.

Diagram 3.1 : Flat prices continued to rise faster than rentals



3.3 As regards trading activities, the number of sale and purchase agreements for residential property received by the Land Registry fell by 10% over the preceding quarter or 13% over a year earlier to 28 848 in the first quarter. Within the total, the number of secondary transactions fell by 8% over the preceding quarter, and the number of primary sales by a sharp 34%. In parallel, total consideration dropped by 9% over the preceding quarter to \$130.8 billion.

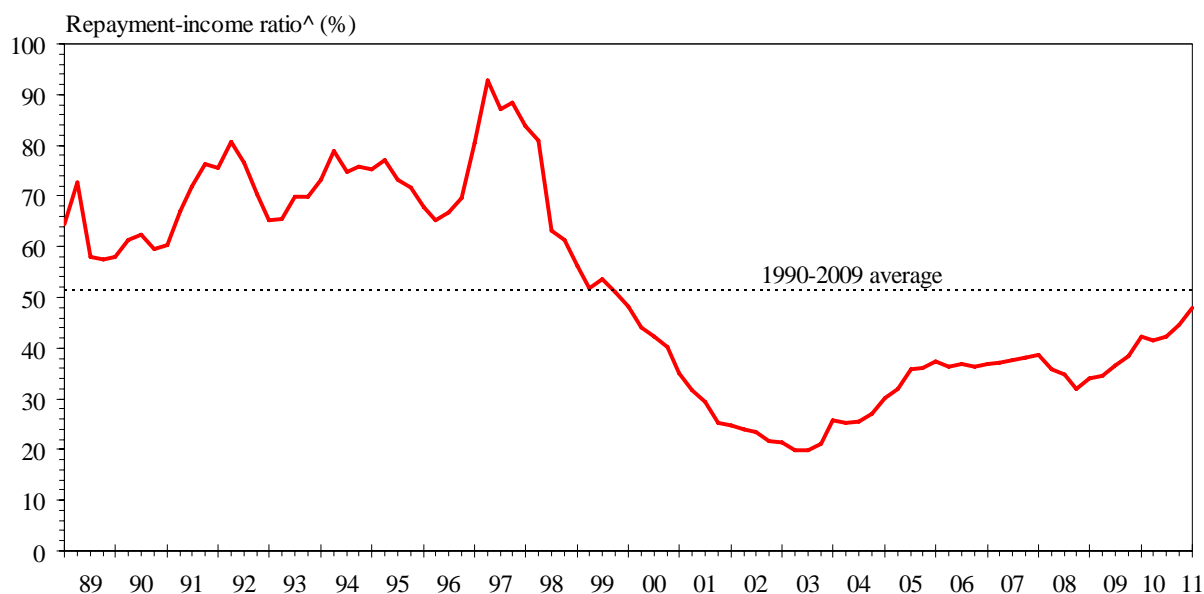
Diagram 3.2 : Trading in the residential property market moderated somewhat



3.4 The leasing market was more stable by comparison. Overall flat rentals edged up by 1% between December 2010 and March 2011, conceivably as the introduction of SSD had diverted an increasing supply of flats to the leasing market. Analysed by size of property, rentals of large flats rose by 3% and rentals of small/medium-sized flats by a lesser 1%. As a result of the surge starting early 2009, flat rentals in March were only 7% below the 1997 peak. With prices rising faster than rentals, the average rental yield for residential property declined further from 3.5% in December 2010 to a record low of 3.2% in March 2011.

3.5 As flat 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 further from 45% in the fourth quarter of 2010 to around 48% in the first quarter of 2011, only slightly lower than the long-term average of 51% over 1990-2009.

Diagram 3.3 : Home purchase affordability deteriorated further



Note : (^) The ratio of mortgage payment for a 45m² flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

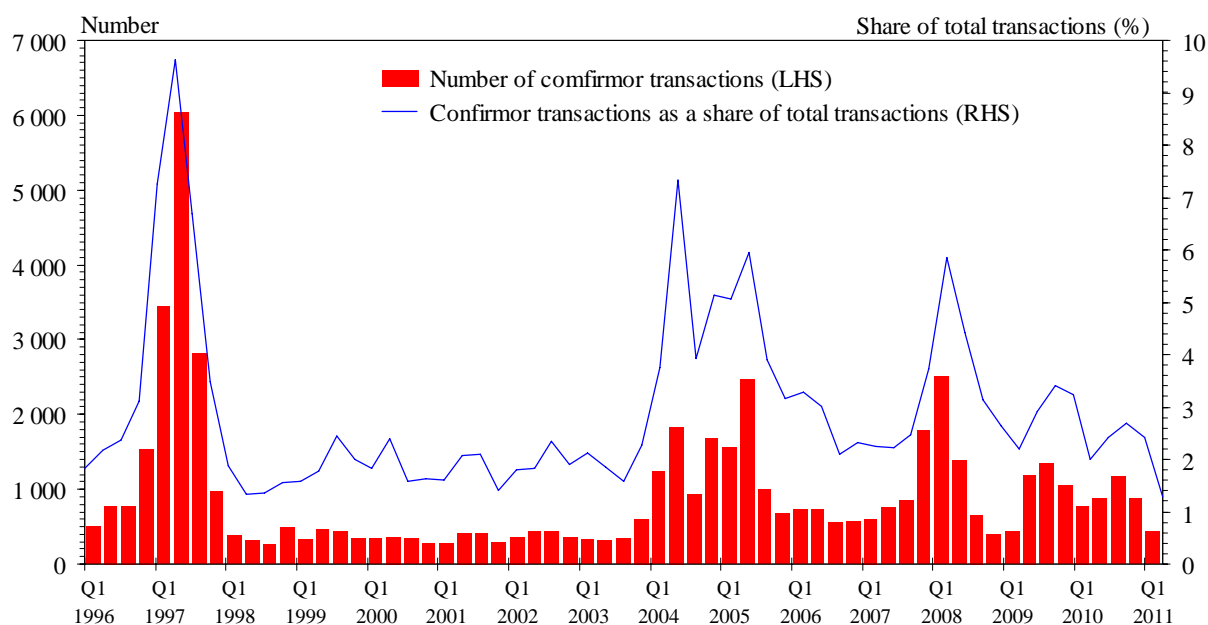
3.6 In order to ensure the healthy and stable development of the property market, the Government introduced several packages of measures throughout 2010 along four directions, viz. raise flat supply through increasing the land supply, curb speculative activities, prevent excessive growth of mortgage lending and increase transparency of the property market⁽¹⁾. Following through these efforts, in the 2011-12 Budget the Financial Secretary specified four residential sites in the 2011-12 Application List for government-initiated sale by auction or tender, and earmarked another five residential sites with size restrictions for sale by tender. Subsequently in April, the Government announced to designate another three residential sites in the Application List for government-initiated sale by auction. In the long run, the Government would allocate about \$300 million to explore the feasibility of reclamation on an appropriate scale outside Victoria Harbour and rock cavern development to increase the supply of land.

3.7 The various Government measures have achieved their intended results. Regarding *flat supply*, it is estimated that housing land available in 2011/12, including government residential sites available for sale, projects from railway property developments and Urban Renewal Authority, lease modifications/land exchanges, and private redevelopment not subject to lease modification, will provide a total of 30 000 to 40 000 private residential flats. 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) is estimated to be 59 000 units as at end-March 2011, same as at end-2010. In addition, another 2 650 units could be produced from the nine residential sites to be auctioned/tendered in the second quarter.

3.8 *Speculative activities* cooled down visibly after the announcement of SSD last November. Confirmor transactions plunged by 44% over a year earlier to 434 cases in the first quarter, and its share in total transactions fell to a meagre 1%. As regards *mortgage lending*, in consequence of the tightening of lending standards by the Hong Kong Monetary Authority, the average loan-to-value ratio of new mortgages fell noticeably from 61.7% in the first quarter of 2010 to 57.0% in the first quarter of 2011. The major banks also tightened their mortgage lending terms and raised the margin for the HIBOR-based mortgage loans in March. *Market transparency* for transacted prices and transactions has improved after the promulgation of the guidelines for sales of first-hand uncompleted flats in April 2010. The Steering Committee on the Regulation of the Sale of First-hand Residential Properties by Legislation is making steady progress on its work, and will come up with practical legislative proposals in October 2011.

Diagram 3.4 : Speculative activities cooled down visibly



Note : Confirmor transactions refer to resale before assignment.

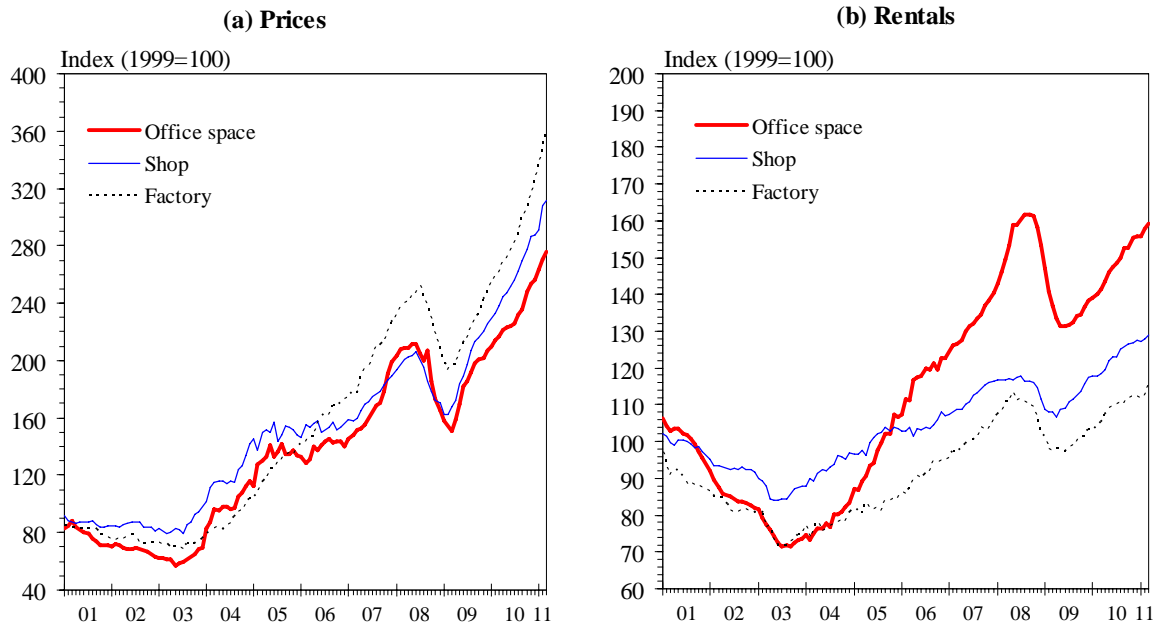
3.9 The *commercial and industrial property markets* also put up a brisk performance in the first quarter. Comparing March 2011 with December 2010, sale prices of *office space* rallied by another 8%, with Grade A, B and C office space registering gains of 6%, 9% and 9% respectively. Office rentals rose by

a more moderate 2%, with all grades of office space registering a similar increase of 2%. In March, office prices have already exceeded the recent peak in 2008 by a wide margin while rentals were roughly on par. Meanwhile, the respective average rental yields for Grade A, B and C office space declined from the 3.1%, 3.6% and 3.8% in December 2010 to 3.0%, 3.3% and 3.5% in March 2011. Transactions for office space rose by 5% over the preceding quarter or 33% over a year earlier to 1 080 cases in the first quarter.

3.10 For *retail shop space*, sale prices soared further by 8% between December 2010 and March 2011, while rentals edged up by 1%. Following the rally since 2009, prices and rentals for retail shop space in March have exceeded their recent peaks in 2008 by 51% and 9% respectively. Reflecting the sharper rise in prices than rentals, the average rental yield for retail shop space fell from 3.2% in December 2010 to 3.0% in March 2011. While trading retreated by 5% from the high base in the preceding quarter to 1 870 cases in the first quarter, it was still 6% higher than a year earlier⁽²⁾.

3.11 For *flatted factory space*, sale prices in March 2011 soared by 11% over December 2010, while rentals rose by a more moderate 3%. As a result, the average rental yield declined from 4.3% to 4.0% over the period. In March, prices of flatted factory space have surpassed the peak in 2008 by a wide margin while rentals were marginally higher. As to trading activities, transactions for flatted factory space rose by 5% over the preceding quarter or 54% over a year earlier to a record high of 2 600 cases in the first quarter.

Diagram 3.5 : Both prices and rentals of non-residential properties rose further



Land

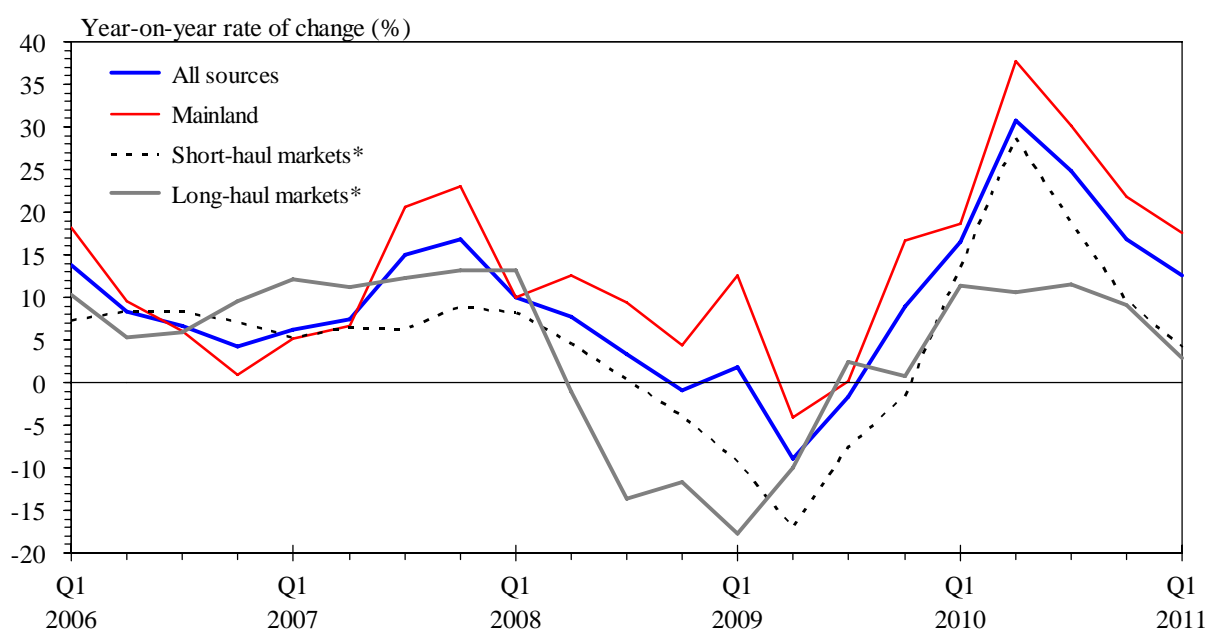
3.12 In the first quarter, one residential site in Yuen Long with an area of 1.2 hectares was sold by public tender, fetching a land premium of \$2.4 billion. In April, a residential site in Hung Hom with an area of 0.19 hectare was sold by government-initiated auction for \$1.525 billion. The tender exercise for another two residential sites in Hung Hom with a combined area of 0.19 hectare was also launched in late April.

3.13 Regarding exchange of land, one site with an area of 0.22 hectare for commercial/residential use was approved in the first quarter. As to lease modifications, ten sites were approved of which six sites were for residential use.

Tourism

3.14 Inbound tourism continued to show impressive performance, with the number of *incoming visitor arrivals* surging by 12.6% over a year earlier to 9.7 million in the first quarter. As the main engine of growth, Mainland visitors expanded by another 17.5% to 6.5 million and accounted for 67.2% of total visitors. Visitor arrivals from the short-haul markets and long-haul markets grew by 4.0% and 2.9% respectively⁽³⁾. Analysed by length of stay, the number of same-day visitors soared by 21.3% while that of overnight visitors increased by only 5.7%. As a result, the share of same-day visitors in total arrivals rose further from 43.9% in the first quarter of 2010 to 47.3% in the first quarter of 2011, while the share of overnight visitors declined from 56.1% to 52.7%.

Diagram 3.6 : Incoming visitor arrivals continued to show strong growth



Note : (*) See note (3) at the end of this chapter for the definition of short-haul and long-haul markets.

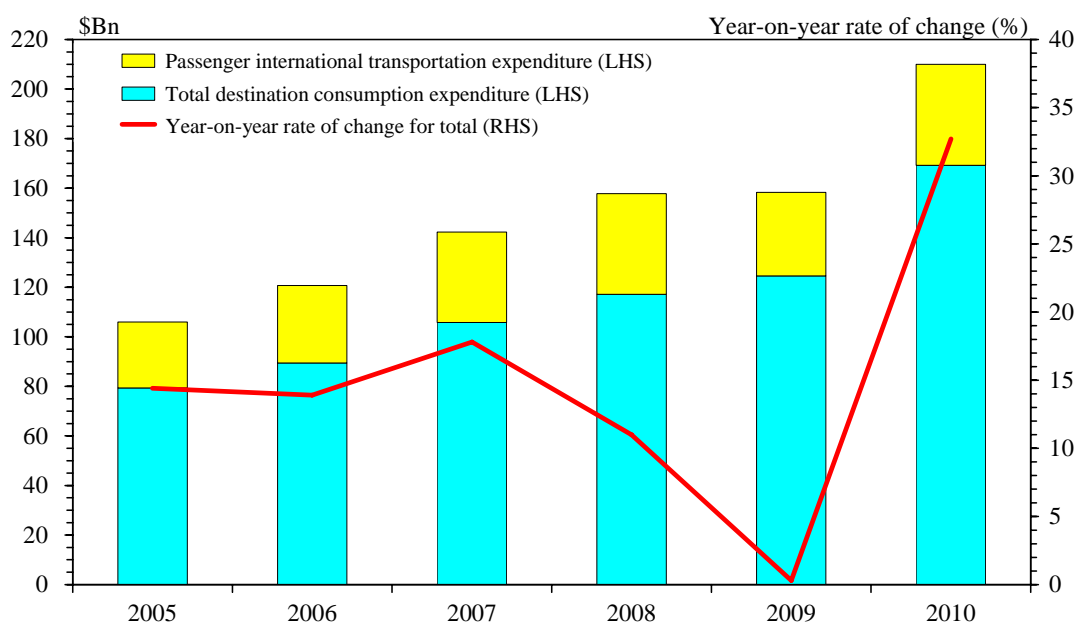
3.15 In parallel, the average hotel room occupancy rate rose further from 85% a year earlier to 88% in the first quarter of 2011. The average achieved hotel room rate also rose by 17.5% to \$1,299⁽⁴⁾ (**Box 3.1**).

Box 3.1

Total tourism spending in 2010

Reflecting the recovery in inbound tourism, Total Tourism Expenditure Associated to Inbound Tourism (TEAIT) leapt by 33% to a record high of \$210 billion in 2010. Within this total, International Transportation Expenditure soared by 21% to \$41 billion, and Destination Consumption Expenditure by an even sharper 36% to \$169 billion⁽¹⁾. Manifesting the rising importance of the tourism industry in the Hong Kong economy, TEAIT grew by 98% between 2005 and 2010, equivalent to an average annual growth of 15%.

Tourism expenditure associated to inbound tourism (TEAIT) surged in 2010



Within the destination consumption expenditure, spending by overnight and same-day in-town visitors soared by 38% and 29% respectively in 2010. While the surge in spending by overnight visitors was the combined result of the increase in both the number of such visitors and also their per-capita spending, the growth in spending by same-day in-town visitors was mainly driven by the increase in the number of such visitors. Meanwhile, spending by other visitors (including cruise-in/cruise-out passengers, servicemen, aircrew members, transit/transfer passengers) registered a more moderate growth of 9%.

Analysed by spending category, overnight visitors spent the most on shopping, accounting for 62% of their Destination Consumption Expenditure. Hotel bills, meals outside hotels and other items constituted the remaining 19%, 11% and 9% of their expenditure respectively. For same-day in-town visitors, 89% of their expenditure was spent on shopping and the remaining 11% on other items.

(1) TEAIT comprises Destination Consumption Expenditure and Passenger International Transportation Expenditure. Destination Consumption Expenditure is the sum of payments made by all inbound visitors and travellers for goods and services they consume in Hong Kong. Passenger International Transportation Expenditure represents the receipts of Hong Kong based carriers for the cross-boundary transportation of non-resident visitors by air, sea or land.

Box 3.1 (Cont'd)

Mainland visitors contributed significantly to the tourism industry of Hong Kong. Spending by Mainland overnight and same-day in-town visitors accounted for 64% and 88% of the corresponding total visitor spending in 2010. Also, their per-capita spending, at \$7,453 and \$2,356 respectively, was the highest amongst all major markets. As to spending category, shopping took up 74% of Mainland overnight visitors' spending, and 92% of the Mainland same-day in-town visitors' spending.

Table : Performance indicators for overnight and same-day in-town visitors in 2010

	<u>Overnight Visitors</u>	<u>Same-day in-town visitors</u>	<u>Total</u>
Visitor spending (\$ billion)	\$135.1 (38.4%)	\$29.4 (29.4%)	\$164.5 (36.7%)
<i>Within which :</i>			
<i>Mainland visitors</i>	\$87.0 (36.1%)	\$25.9 (33.0%)	\$113.0 (35.3%)
<i>Non-Mainland visitors</i>	\$48.1 (42.8%)	\$3.4 (7.3%)	\$51.5 (39.7%)
Number of visitors (million)	20.1 (18.7%)	15.9 (26.0%)	36.0 (21.8%)
<i>Within which :</i>			
<i>Mainland visitors</i>	11.7 (20.8%)	11.0 (32.7%)	22.7 (26.3%)
<i>Non-Mainland visitors</i>	8.4 (15.8%)	4.9 (13.0%)	13.3 (14.7%)
Per-capita visitor spending (\$)	\$6,728 (16.6%)	\$1,846 (2.7%)	n.a.
<i>Within which :</i>			
<i>Mainland visitors</i>	\$7,453 (12.6%)	\$2,356 (0.2%)	n.a.
<i>Non-Mainland visitors</i>	\$5,722 (23.3%)	\$699 (-5.0%)	n.a.

Note : Figures in bracket represent the year-on-year rate of change.

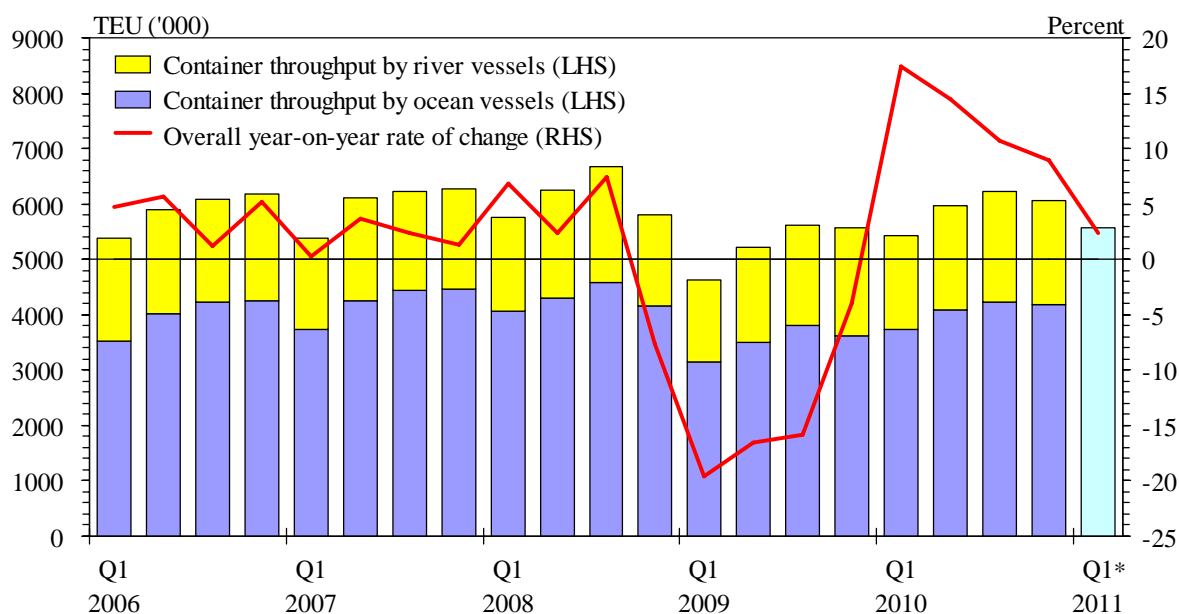
(n.a.) Not applicable.

3.16 In March the Government launched the tender exercise for operating and managing the new cruise terminal at Kai Tak. The Government has funded the design and construction of the new terminal, and will lease it to an operator for a term of 10 years, with an option of a five-year extension by the Government subject to the operator's satisfactory performance. Marking a milestone in the further development of cruise tourism in Hong Kong, the terminal building and the first berth are expected to come into operation in mid-2013.

Logistics

3.17 Following the strong recovery in 2010, performance of the logistics sector turned more steady on entering 2011. *Total container throughput* rose by 2.4% over a year earlier to 5.6 million TEUs in the first quarter. While the value of trade handled at the Hong Kong Port jumped by an impressive 18.6%, its share in Hong Kong's total trade declined further from 27.1% a year earlier to 26.3%.

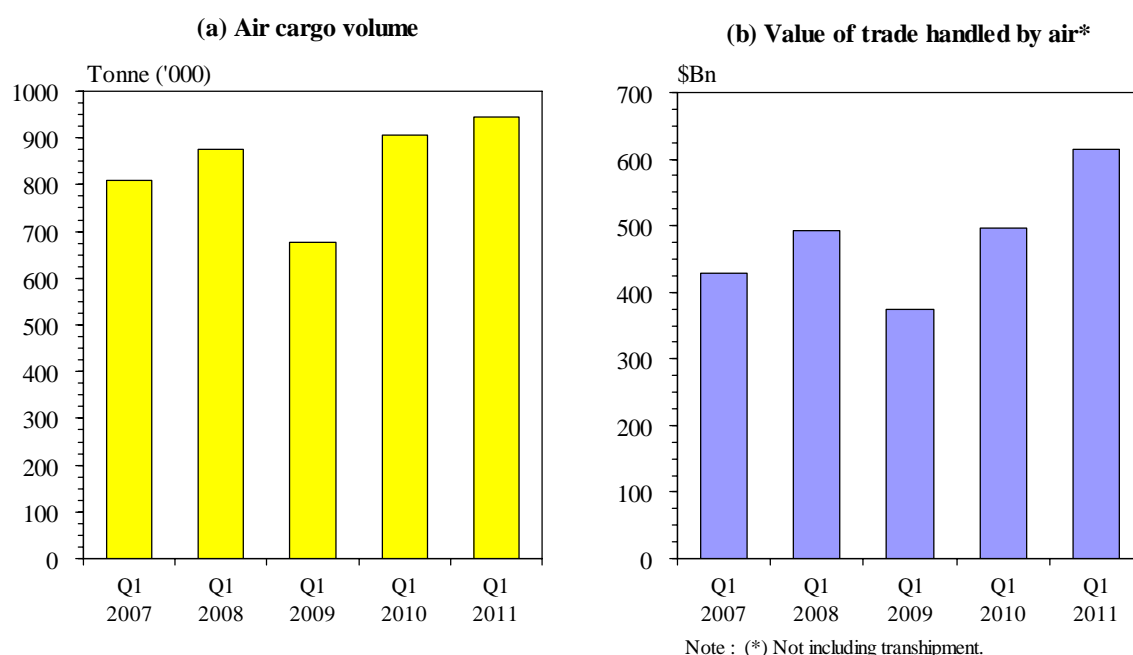
Diagram 3.7 : Port container traffic showed steady growth



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

3.18 *Air freight throughput* likewise grew by a moderate 4.3% over a year earlier to 944 000 tonnes in the first quarter. The total value of trade by air surged by 23.7%, while its share in total trade edged up from 36.5% a year earlier to 36.8%.

Diagram 3.8 : Air cargo recorded a steady growth while the value of trade by air surged further



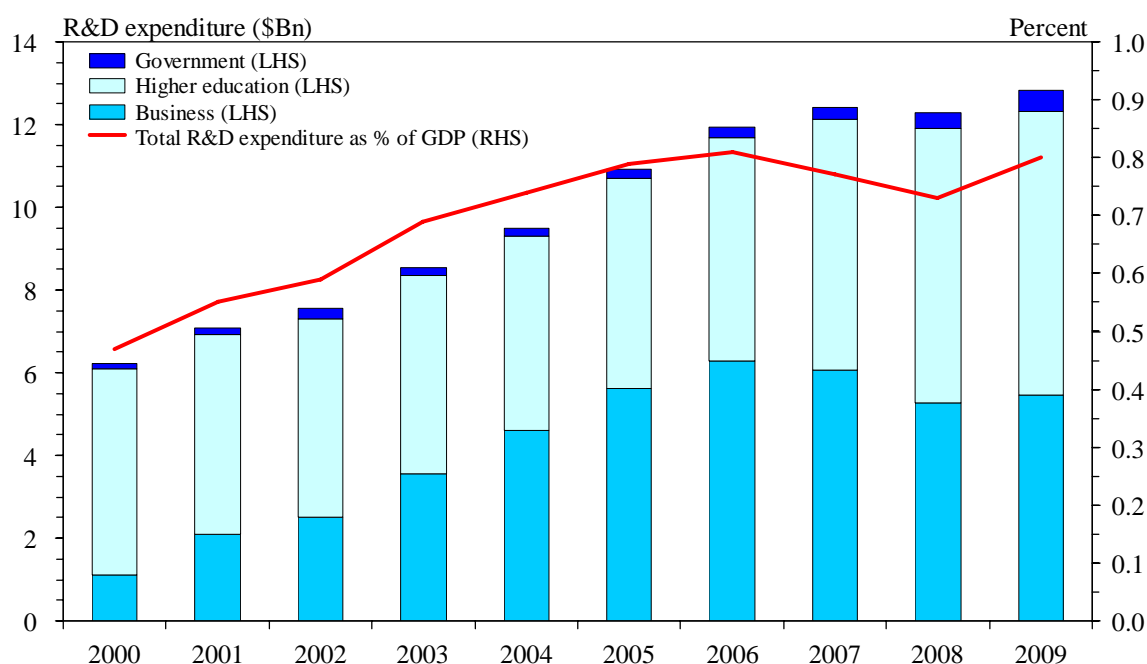
Transport

3.19 Traffic flows for all major modes of transport recorded further growth in the first quarter. Air passenger traffic grew by 4.6% over a year earlier to 12.5 million and water-borne passenger trips by 2.9% to 6.4 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 3.5% to 503 100 while average daily vehicular movements stayed at 40 500, roughly the same as a year earlier.

Creativity and innovation

3.20 Research and development (R&D) expenditure rebounded by 4% to \$12,830 million in 2009, more than recouping the fall recorded in 2008 in the midst of the global financial crisis. Within the total, expenditure by the higher education continued to expand by 3% to \$6,840 million, while that by the government sector surged further by 38% to \$520 million. Meanwhile, expenditure by the business sector rebounded by 4% to \$5,470 million. Reflecting Hong Kong's ongoing transition towards a knowledge-based economy, R&D expenditure registered a distinct average growth of 8% per annum between 2000 and 2009, and its ratio to GDP rose from 0.5% to 0.8%.

Diagram 3.9 : Research and development expenditure rebounded in 2009



3.21 Regarding the West Kowloon Cultural District (WKCD), in early March 2011 the Board of WKCD Authority endorsed the Selection Panel’s recommendation and selected the preferred option out of the three Conceptual Plans for the future development of WKCD. Based on the preferred option, the WKCD Authority will prepare a Development Plan which will be unveiled to the public before submission to the Town Planning Board around the end of this year.

Environment

3.22 At the 16th Working Meeting of the Hong Kong/Guangdong Co-operation Joint Conference held in February, Hong Kong and Guangdong agreed on a number of matters regarding further co-operation on environmental protection. Specifically, the two governments will continue to take forward the emission reduction measures under the PRD Regional Air Quality Management Plan, and embark upon a final assessment on the achievement of the 2010 emission reduction targets. Both sides are also striving to complete the study on the post-2010 arrangements for emission reduction in the PRD region as soon as possible. In addition, both sides will continue to pursue co-operation under the Cleaner Production Partnership Programme, and examine co-operation in recycling and reuse of reusable materials with a view to launching a trial scheme on cross-boundary recycling of reusable materials.

3.23 On improving roadside air quality, the \$300 million Pilot Green Transport Fund, aiming to encourage the transport sector to test out innovative green transport technologies, has been open for application since late March. Separately, the Government is preparing a number of trial schemes in collaboration with the franchised bus companies, including the trying out of hybrid buses on busy corridors and retrofitting of Euro II and III buses with catalytic reduction devices to upgrade their emission performance to Euro IV level, with a view to promoting a green economy.

Notes :

- (1) See Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and Footnote 2 of Chapter 4 in the 2010 Economic Background and 2011 Prospects for details of the measures.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-build office space.
- (3) 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.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *Amid the ongoing expansionary monetary policy in the United States, the low interest rate environment in Hong Kong continued in the first quarter of 2011.*
- *The Hong Kong dollar spot exchange rate weakened slightly against the US dollar during the first two months amid repatriation of some equity-related funds, before showing some rebound in March. Meanwhile, the Hong Kong dollar Effective Exchange Rate Indices declined further alongside the weakening of the US dollar against most major currencies.*
- *Underpinned by the entrenched economic growth, loans and advances expanded further. In view of the rapid loan growth, in April the Hong Kong Monetary Authority (HKMA) stepped up its monitoring of authorized institutions' business plans and funding strategies, with a view to ensuring prudential risk management.*
- *The stock market underwent some fluctuations. Stock prices gained further on entering the year, but consolidated later as sentiment was affected first by concerns over further monetary tightening in the Mainland and then by the earthquake and nuclear crisis in Japan in mid-March. Yet trading activities remained generally active in the quarter.*
- *In the 2011-12 Budget the Financial Secretary announced a number of measures to facilitate the development of Hong Kong's financial services industry, including the issuance of inflation-linked retail bonds and the initiation of the feasibility study on microfinance in Hong Kong.*

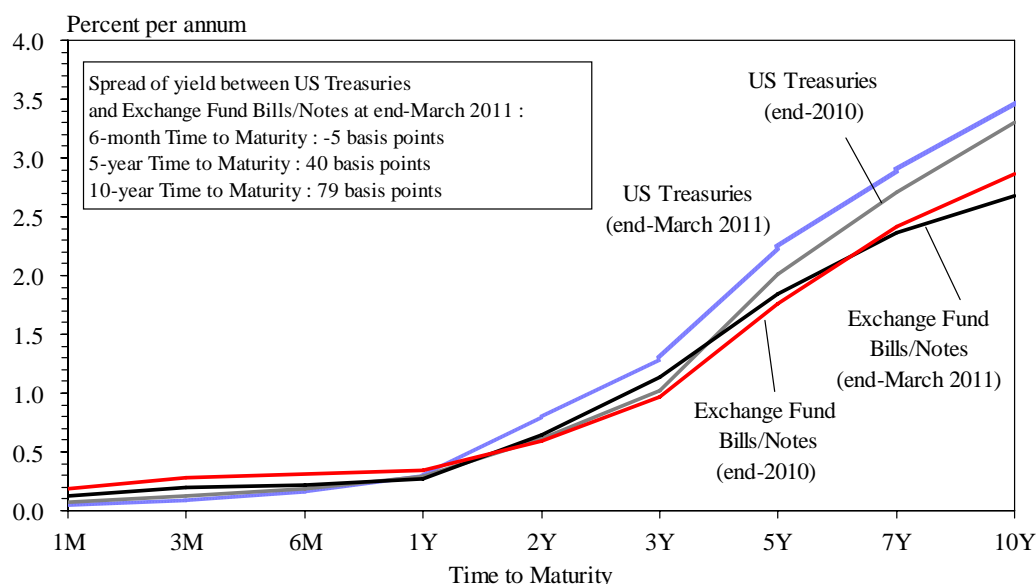
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 Amid the ongoing expansionary monetary policy in the United States, the low interest rate environment in Hong Kong continued in the first quarter of 2011. 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%⁽¹⁾. The *Hong Kong dollar interbank interest rates* also stayed flat, with the overnight and the three-month HIBOR hovering at 0.13% and 0.33% respectively.

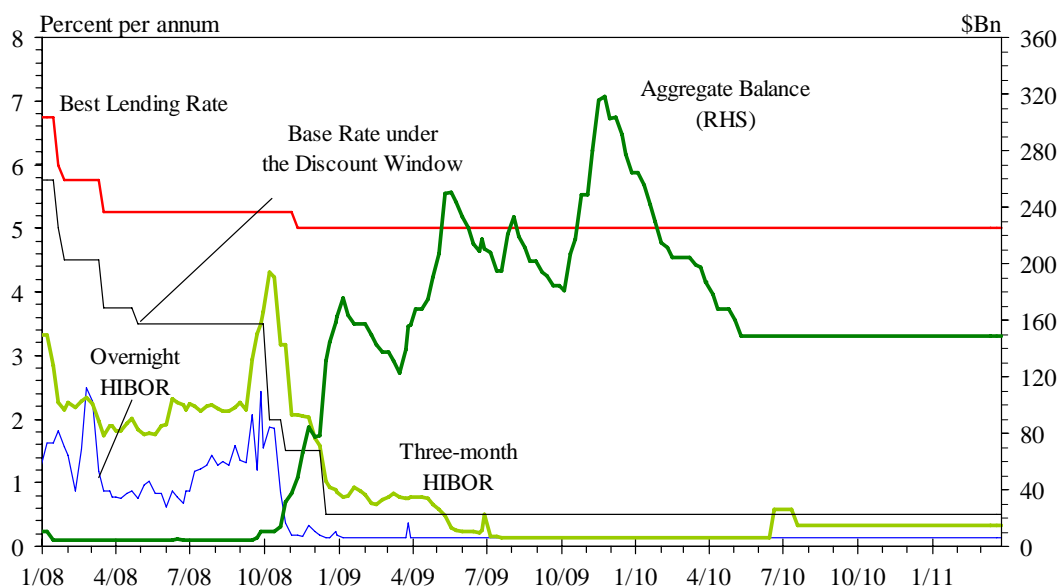
4.2 As a result of the decline in US dollar interbank rates, the discount of the one-month HIBOR to the corresponding Euro-dollar deposit rate dwindled from 20 basis points at end-2010 to only one basis point at end-March 2011, and the spread between the corresponding three-month rates reverted from a discount of seven basis points to a premium of five basis points. Meanwhile, the *Hong Kong dollar yields* declined at both the short and long ends whilst the *US dollar yield curve* steepened. As a result, the negative yield spread between 10-year Exchange Funds Notes and the corresponding US Treasury Notes widened from 44 basis points at end-2010 to 79 basis points at end-March 2011.

Diagram 4.1 : The Hong Kong dollar yields declined at both the short and long ends whilst the US dollar yield curve steepened



4.3 Interest rates at the retail level also stayed low in the first quarter of 2011. The *Best Lending Rates* (BLR) remained unchanged at 5.00% or 5.25%. The *average savings deposit rate* and *one-month time deposit rate* quoted by major banks held steady at around 0.01%, while the one-year time deposit rate rose marginally to 0.16%. The *composite interest rate*, which reflects the average cost of funds for banks, hovered at around 0.2%⁽²⁾. One notable development in the quarter was the general tightening of mortgage lending terms by banks. Specifically, the interest rate margins for the HIBOR-based loans were raised by 10 to 50 basis points in mid-March.

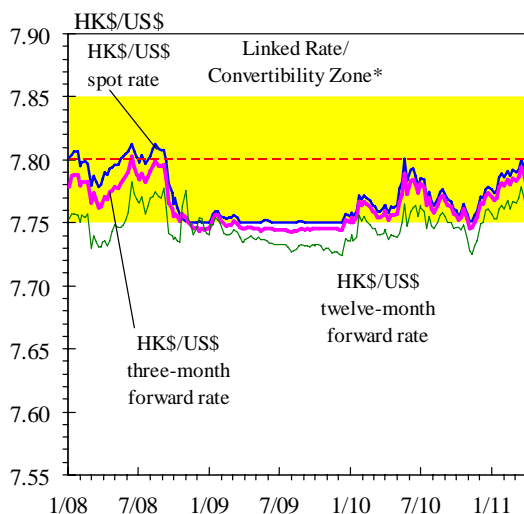
**Diagram 4.2 : Hong Kong dollar interest rates continued to stay low
(end for the week)**



4.4 The Hong Kong dollar weakened slightly against the US dollar in the first two months amid repatriation of some equity-related funds, before showing some rebound in March. Between end-2010 and end-March 2011, the Hong Kong dollar spot exchange rate weakened from 7.775 per US dollar to 7.784 per US dollar. Meanwhile, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* widened from 57 and 191 pips (each pip equivalent to HK\$0.0001) to 62 and 265 pips respectively.

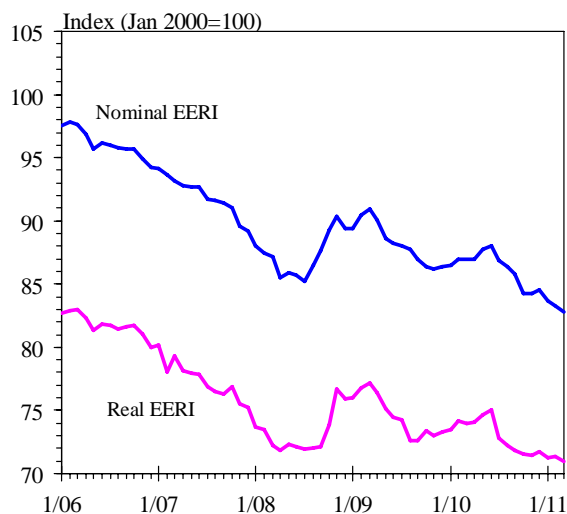
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rates against other currencies closely followed those of the US dollar. Alongside the weakening of the US dollar against most major currencies, the trade-weighted *Hong Kong dollar Nominal* and *Real Effective Exchange Rate Indices* declined by another 2.0% and 1.0% respectively during the first quarter⁽³⁾.

**Diagram 4.3 : Hong Kong dollar weakened slightly 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 4.4 : Trade-weighted EERIs declined further alongside the weaker US dollar
(average for the month)**



Money supply and banking sector

4.6 The monetary aggregates showed a rebound in the first quarter of 2011. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by 3.4% over end-2010 to \$741 billion at end-March 2011, while the broad money supply (HK\$M3) was virtually flat, only up by 0.1% to \$3,882 billion⁽⁴⁾. *Total deposits* with authorized institutions (AIs) grew by 3.1% to \$7,073 billion over the period, as the 6.8% increase in foreign currency deposits more than offset the 0.3% decline in Hong Kong dollar deposits⁽⁵⁾.

Diagram 4.5 : The monetary aggregates showed a rebound

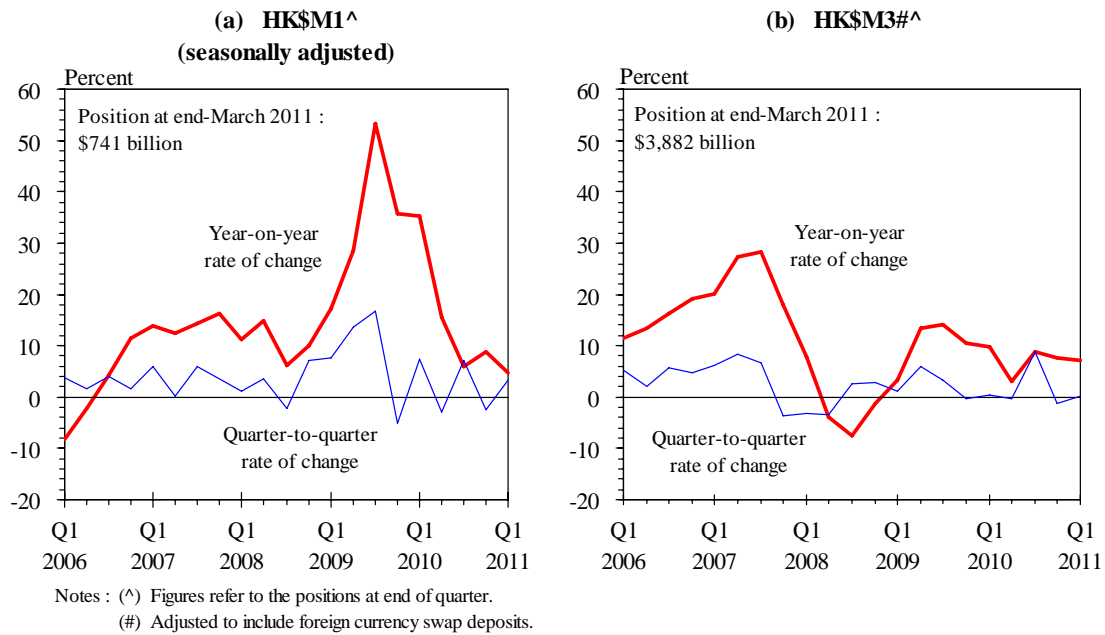


Table 4.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
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
2011	Q1	3.4	2.9	*	3.3	0.1	3.4
Total amount at end-March 2011 (\$Bn)		741	1,047	3,869	7,372	3,882	7,396
% change over a year earlier		4.7	10.9	7.4	11.7	7.2	11.7

Notes : ([^]) Seasonally adjusted.

(^a) Adjusted to include foreign currency swap deposits.

(*) Change of less than 0.05%.

4.7 *Total loans and advances* expanded further, by 7.4% over end-2010 to \$4,539 billion at end-March 2011. Within the total, Hong Kong dollar loans grew by 4.3% to \$2,945 billion, while foreign currency loans surged by 13.6% to \$1,594 billion.

4.8 Specifically, loans for use in Hong Kong grew by another 7.3% to \$3,542 billion at end-March. Within the total, growth in loans to wholesale and retail trade and trade finance accelerated to 18.9% and 12.9% respectively on the back of sustained growth in retail sales and external trade. Yet growth in loans for purchase of residential property tapered to 2.4% in tandem with the decline in property transactions. With a strong growth in loans against a small decline in deposits, the Hong Kong dollar loan-to-deposit ratio rose further from 78.1% at end-2010 to 81.7% at end-March 2011.

4.9 In view of the rapid credit growth, in April the HKMA requested the AIs to submit their business plans and funding strategies for the rest of 2011 for review. The HKMA will then discuss with the AIs individually, with particular emphasis on loan and deposit growth, loan-to-deposit ratios and other relevant risk indicators, with a view to ensuring prudential risk management. Separately, the Office of the Privacy Commissioner for Personal Data revised the Code of Practice on Consumer Credit Data in April 2011 to allow for the implementation of the Positive Mortgage Data Sharing (PMDS). In addition to the sharing of negative mortgage data for residential properties, under the PMDS, positive mortgage data for residential properties and both positive and negative mortgage data for non-residential properties can be shared among credit providers (including AIs) through the use of a central credit database operated by a credit reference agency. The PMDS should help enhance the credit risk management capability of the banking sector, thereby conducive to overall banking and financial stability in Hong Kong.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property and development investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
% change during the quarter											
2010	Q1	12.2	3.5	10.2	6.0	2.5	7.1	17.1	4.8	8.3	5.5
	Q2	19.8	9.7	15.1	5.7	2.6	12.7	87.9	7.4	14.3	8.8
	Q3	9.1	7.6	13.4	6.2	5.4	3.9	316.3	9.4	9.3	9.4
	Q4	6.9	7.8	4.0	3.7	3.0	0.4	-83.1	1.2	7.2	2.5
2011	Q1	12.9	7.8	18.9	4.5	2.4	12.2	25.7	7.3	7.7	7.4
Total amount at end-March 2011 (\$Bn)		309	181	273	884	815	267	23	3,542	997	4,539
% change over a year earlier		57.9	37.1	61.4	21.6	14.0	31.9	66.3	27.6	44.1	30.9

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

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

4.10 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 15.9% at end-2010. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.11 Following the release of the Basel III rules text by the Basel Committee in last December, the HKMA issued a circular to all AIs in January 2011 indicating its intention to fully implement Basel III in accordance with the Basel Committee's timetable, including the transitional arrangements⁽⁶⁾. The HKMA has started the preparatory work, particularly the necessary legislative processes and the policy frameworks for the new liquidity and countercyclical capital buffer requirements. The HKMA has also commenced discussion with individual institutions on their plans to ensure compliance with Basel III, and will consult the industry on its detailed implementation proposals in due course.

The HKMA anticipates enactment of the Banking Amendment Bill by the first quarter of 2012, followed by the amendments of the Banking (Capital) Rules and the Banking (Disclosure) Rules, for implementation at the beginning of 2013.

4.12 Based on the results of the Quantitative Impact Study on the Basel III consultative proposals conducted by the HKMA, AIs 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.

4.13 Asset quality of the local banking sector continued to improve. The ratio of classified loans to total loans declined further from 0.84% in the third quarter of 2010 to 0.77% in the fourth quarter, and the delinquency ratio for credit card lending from 0.22% to a record low of 0.20%. The delinquency ratio for residential mortgage loans stayed at a low 0.01% in the first quarter of 2011.

Table 4.3 : 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	1.38
2010 Q1	97.08	1.72	1.20
Q2	97.50	1.53	0.96
Q3	97.72	1.43	0.84
Q4	97.95	1.28	0.77

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

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

4.14 The renminbi banking business in Hong Kong grew further in the first quarter of 2011. Renminbi trade settlement and financing businesses continued to put up a solid performance after the expansion of the renminbi trade settlement scheme last year. As regards renminbi bonds, the depth and breadth of the market have improved. A wide range of issuers from private corporations to multinational financial institutions have issued renminbi bonds exceeding a total of RMB90 billion so far.

4.15 *Total renminbi deposits* in Hong Kong continued to grow significantly, conceivably due to the increase in renminbi receipts by corporate customers through trade settlement transactions. The outstanding amount of renminbi deposits jumped from RMB314.9 billion at end-2010 to RMB451.4 billion at end-March 2011, and the share of renminbi deposits in total foreign currency deposits from 11.5% to 15.5%. Meanwhile, the value of *cross-border renminbi trade settlement* in Hong Kong reached RMB310.8 billion in the first quarter of 2011, compared with RMB263.2 billion in the preceding quarter.

Table 4.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

<u>As at end of period</u>		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	<u>Interest rates on^(a)</u>		Number of authorized institutions engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
					Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
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
2011	Q1	137,454	313,965	451,419	0.46	0.66	118	310,837
% change in 2011 Q1 over 2010 Q4		16.9	59.1	43.3	N.A.	N.A.	N.A.	18.1

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.16 The Hong Kong dollar debt market grew steadily in the first quarter of 2011. The total outstanding balance of Hong Kong dollar debt increased by 6.4% over a year earlier to a record level of \$1,266.0 billion at end-March 2011⁽⁷⁾, equivalent to 32.6% of HK\$M3 or 25.3% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁸⁾. Gross issuance of Hong Kong dollar debt securities registered a growth of 4.2% over a year earlier to \$505.0 billion in the first quarter. Within the total, issuance of Exchange Fund papers, which accounted for 89.7% of all new debt issuance as the HKMA continued to increase the supply of short-term Exchange Fund Bills to meet the strong demand by banks for liquidity management, increased by another 3.5%. Meanwhile, issuance of private sector debt by AIs and local corporations soared by 48.6% and 41.8% respectively.

4.17 For the Government Bond (“GB”) Programme, tentative issuance schedule for institutional investors for March to August 2011, which includes a total worth of \$8.5 billion bonds with tenors ranging from two to ten years, was announced in January. Subsequently, the tender for a new \$3.5 billion 2-year GB was held in March and was well-received by the market with a bid-to-cover ratio of 3.89. The total size of outstanding institutional GB reached \$27.5 billion at end-March. The daily turnover averaged at \$5.86 billion in the first quarter, equivalent to a turnover ratio of 23%⁽⁹⁾.

**Table 4.5 : New issuance and outstanding value of
Hong Kong dollar debt securities (\$Bn)**

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs^(a)</u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New issuance											
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
2011	Q1	452.9	4.8	3.5	461.2	30.5	6.1	7.3	43.8	-	505.0
	% change over a year earlier	3.5	73.0	-41.7	3.3	48.6	41.8	-47.5	13.5	-	4.2
Outstanding (as at end of period)											
2010	Q1	612.5	64.9	13.0	690.4	90.7	82.6	304.9	478.2	21.1	1,189.7
	Q2	651.4	61.9	17.5	730.8	94.0	84.1	290.3	468.4	18.4	1,217.7
	Q3	652.1	60.8	21.0	733.8	105.2	85.2	290.2	480.6	15.9	1,230.3
	Q4	653.1	60.6	25.5	739.2	122.3	84.9	283.9	491.1	15.5	1,245.9
2011	Q1	653.8	58.6	29.0	741.4	140.6	86.8	282.2	509.6	15.1	1,266.0
	% change over a year earlier	6.7	-9.7	123.1	7.4	55.0	5.1	-7.4	6.6	-28.6	6.4

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

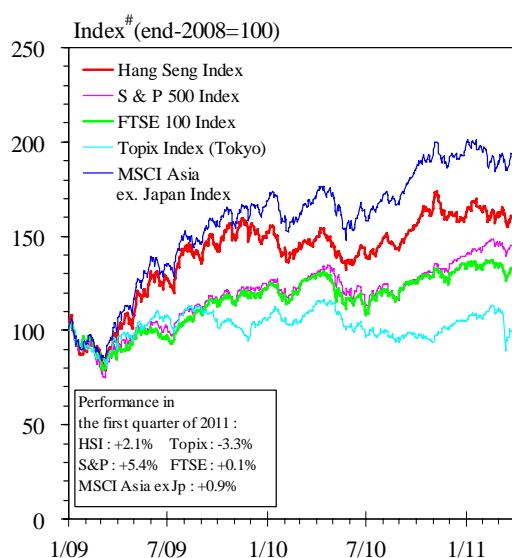
N.A. Not available.

The stock and derivatives markets

4.18 The *local stock market* showed some fluctuations in the first quarter of 2011. Stock prices gained further on entering the year, supported by optimistic outlook for corporate earnings and signs of self-sustained recovery in the major developed economies. Yet market sentiment was affected by concerns over further monetary tightening in Mainland. Later in mid-March, the market suffered a dip as the earthquake and nuclear crisis in Japan sent shock waves across major markets in the region. The *Hang Seng Index* (HSI), after rising to a high of 24 420 on 19 January and falling to a low of 22 284 on 17 March, rebounded towards the end of the quarter to close at 23 528 at end-March, only 2.1% higher than at end-2010. But this already represented a better performance than most major markets. *Market capitalisation* edged up by 1.5% to \$21.4 trillion, ranking the seventh largest globally and the third largest in Asia according to the World Federation of Exchanges⁽¹⁰⁾.

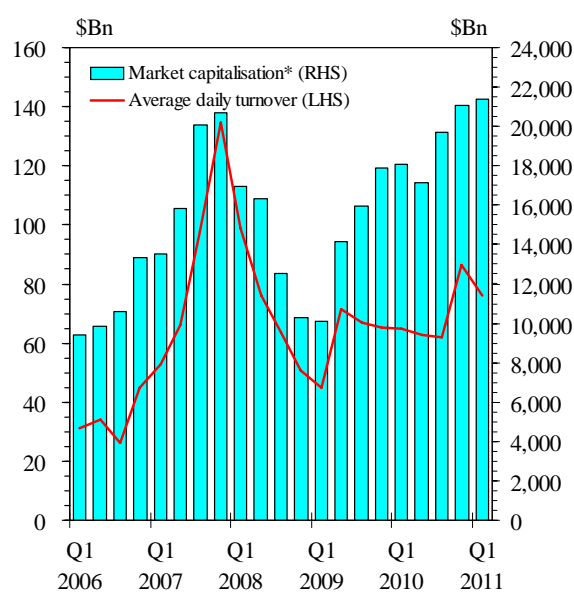
4.19 Trading remained generally active. *Average daily turnover* in the securities market rose by 17.2% over a year earlier to \$75.9 billion in the first quarter, though down by 12.2% from the high base in the preceding quarter. As to trading of *derivatives products*, average daily trading volume of futures and options leapt by 30.9% over a year earlier⁽¹¹⁾. Analysed by products, trading of HSI options and stock options soared by 46.2% and 45.7% respectively, while trading of HSI futures and H-shares index futures rose by 8.0% and 7.2% respectively. Average daily trading value of securitised derivatives products rose by another 34.0%, within which trading of derivative warrants and callable bull/bear contracts increased by 38.7% and 24.5% respectively.

Diagram 4.6 : The Hang Seng Index outperformed most major markets in the first quarter of 2011



Note : (#) Position at end of month.

Diagram 4.7 : Trading remained generally active in the securities market



Note : (*) Position at end of quarter.

Table 4.6 : Average daily turnover of derivatives products of the Hong Kong market

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options <u>traded</u> *	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn) [^]
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
2011	Q1	90 884	43 476	52 133	299 477	546 164	13,378	5,921	19,299
% change in 2011 Q1 over 2010 Q1		8.0	46.2	7.2	45.7	30.9	38.7	24.5	34.0
% change in 2011 Q1 over 2010 Q4		-1.9	0.3	1.3	-7.7	-4.4	-4.5	-26.3	-12.5

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.

4.20 Following a hectic performance in the second half of 2010, fund raising activities cooled down visibly in the first quarter of 2011. *Equity capital* raised through new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) fell by 24.7% from a year earlier or 87.2% from the preceding quarter to only \$66.7 billion in the first quarter. Within the total, \$17.8 billion was raised through initial public offerings by 17 companies, 47.6% lower than a year earlier⁽¹²⁾.

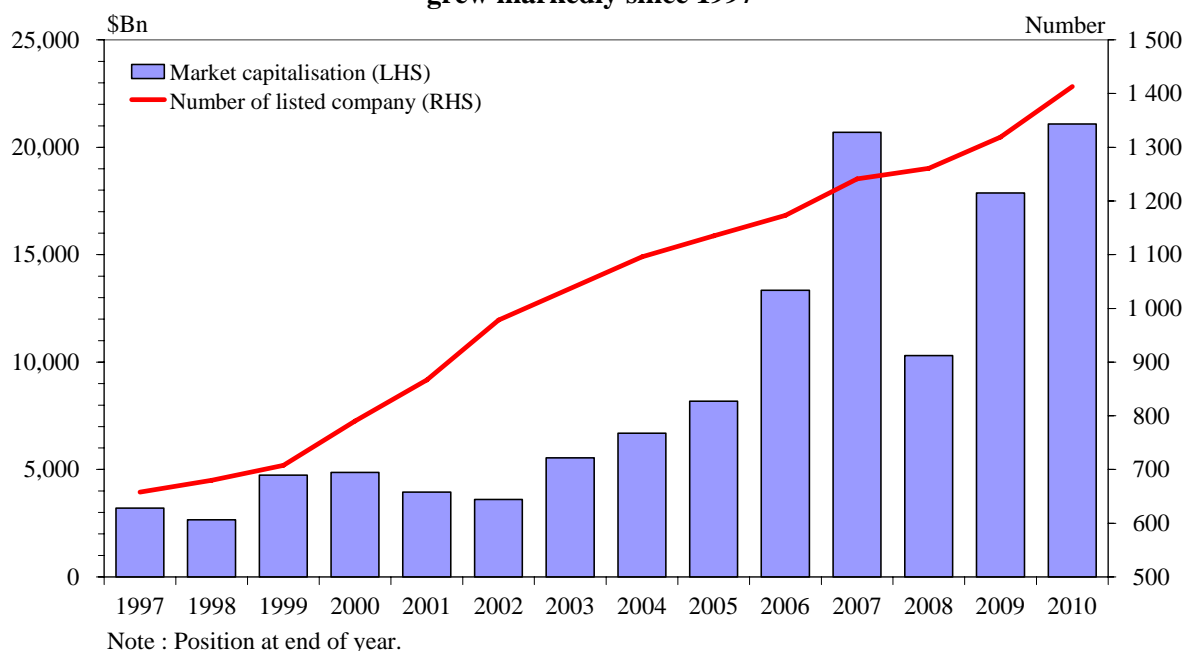
4.21 Mainland enterprises continued to play a prominent role in the local stock market. At end-March, a total of 600 Mainland enterprises (including 163 H-share companies, 103 “Red Chips” companies and 334 private enterprises) were listed on the Main Board and GEM, representing 42% of the total number of listed companies and 57% of total market capitalisation. In the first quarter, Mainland-related stocks accounted for 64% of equity turnover and 56% of total equity fund raised in the Hong Kong stock exchange (**Box 4.1**).

Box 4.1

Development of Hong Kong's stock market since 1997

As one of the pillars of the financial services industry, the stock market in Hong Kong has staged a spectacular growth since 1997. Comparing end-2010 with end-1997, the number of listed companies soared by 115% to 1 413. These listed companies included many large companies, particularly in the real estate, telecommunication, petroleum and financial services sectors. Also due to the rise in equity prices over the years, the market capitalisation of Hong Kong's stock market jumped by an even sharper 558% to \$21 trillion, advancing its global ranking from the tenth to the seventh over the period.

Both number of listed company and market capitalisation grew markedly since 1997



Hong Kong's stock market is renowned for its strong fund raising capability. The amount of equity fund raised in the market soared to \$859 billion in 2010, a sharp 247% higher than in 1997. Within the total, fund raised from initial public offerings (IPOs) soared by 450% to \$449 billion. The local trading bourse ranked the first globally in equity fund raised through IPOs in both 2009 and 2010, with the amount raised in 2010 accounting for almost one-fifth of the global IPO funds raised.

Mainland enterprises are a major contributor to Hong Kong's stock market. Underpinned by the various factors including the rule of law, free flow of capital and information, sound regulatory framework, efficient financial markets and strong pool of qualified professionals, Hong Kong has been the premier fund raising centre for Mainland enterprises. The number of listed Mainland enterprises in Hong Kong jumped by nearly 500% from 101 at end-1997 to 592 at end-2010, and their share of market capitalisation leapt from 16% to 57% over the same period. In fact, nine out of the ten largest IPOs ever in Hong Kong were by Mainland enterprises.

Box 4.1 (Cont'd)**Table : Performance of Mainland enterprises in Hong Kong's stock market**

	End-1997	End-2010	Change (%)
Number of listed companies	101	592	486%
<i>Share of total</i>	<i>15.3%</i>	<i>41.9%</i>	<i>26.5% points</i>
Market capitalisation (\$ billion)	522	11,936	2 185%
<i>Share of total</i>	<i>16.3%</i>	<i>56.6%</i>	<i>40.3% points</i>
	1997	2010	Change (%)
Annual turnover (\$ billion)	1,344	8,436	528%
<i>Share of total</i>	<i>38.3%</i>	<i>68.0%</i>	<i>29.7% points</i>

Efforts have also been made in attracting the listing of non-Hong Kong, non-Mainland enterprises. Indeed, significant progress was achieved in 2010, as many large companies with strong Mainland nexus from Canada, Russia, Brazil and France were subsequently listed in Hong Kong.

Over the years, Hong Kong's stock market has also made significant achievements in product developments :

- *Exchange traded fund (ETF)* : Since the first ETF listing in 1999, ETF has been gaining its popularity in the local stock market, especially over the past few years. At end-2010, a total of 69 ETFs, which track the performance of a wide range of asset classes and equity indices in different geographic regions, were listed in Hong Kong.
- *Renminbi (RMB)-related products* : The first RMB-denominated bond and stock were listed in October 2010 and April 2011 respectively, marking another milestone for the further development of Hong Kong's stock market.

To enhance its status as an international financial centre, the Government has been improving the regulatory regime and corporate governance in Hong Kong, particularly through the rewriting of the Company Ordinance and the legislative exercise on listed companies' disclosure of price sensitive information. Also, the local trading bourse is exploring ways to further facilitate secondary listing of overseas companies in Hong Kong. Riding on these efforts, Hong Kong is well placed to capitalise on the opportunities ahead for the further development of the stock market.

Fund management and investment funds

4.22 The fund management business expanded further. Gross retail sales of *mutual funds* jumped by another 53.1% over a year earlier to US\$9.8 billion in the first quarter⁽¹³⁾. The aggregate net asset value of the approved constituent funds under the *MPF schemes* rose by 3.5% from end-2010 to \$378 billion at end-March 2011⁽¹⁴⁾. Retail hedge funds continued to show solid performance in the quarter⁽¹⁵⁾.

4.23 In March the Government and the Mandatory Provident Fund Schemes Authority (MPFA) outlined the legislative proposals to strengthen the regulatory regime of MPF intermediaries. The proposals are part of the preparatory work for implementing the Employee Choice Arrangement, which will give over two million MPF scheme members the right to transfer the accrued benefits derived from their own mandatory contributions during current employment to an MPF scheme of their choice. The proposals include enhancing the regulation of the sales and marketing activities of MPF intermediaries and provision of an electronic platform for transfers of benefits through approved trustees. The Government and the MPFA will solicit views and comments from the stakeholders, and then introduce the relevant bill to the Legislative Council within 2011.

Insurance sector

4.24 The *insurance sector* staged a strong recovery in 2010⁽¹⁶⁾. Supported by the strong performance of both investment-linked and non-linked plans, gross premium income from long-term business soared by 26.9% in 2010. As to general business, gross premium expanded by 9.8%, while underwriting profit surged by 18.4%.

4.25 The three-month public consultation on the proposed establishment of a Policyholders' Protection Fund (PPF) commenced in March. Aiming at providing a safety net for policyholders against insurer insolvency, the proposed PPF comprises two separate and independent schemes to cover all direct life and non-life policies (except employees' compensation and motor vehicle policies which are covered by other existing compensation schemes, and wholesale retirement schemes and policies issued by captive insurers whose clients are normally large corporate) and will be funded by a levy on insurers. The PPF would be established by statute and administered by a governing body appointed by the Financial Secretary. The Government aims at establishing the PPF in 2013-14.

Table 4.7 : Insurance business in Hong Kong* (\$Mn)

		General business			Premium for long-term business [^]					
		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	Annual	31,361	21,927	2,615	38,673	20,015	92	230	59,010	90,371
	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
	Q4	6,990	4,690	903	9,181	7,343	18	56	16,598	23,588
	% change in 2010 Q4 over 2009 Q4	-0.4	-4.1	268.6	14.1	64.7	-78.6	100.0	31.6	20.2
	% change in 2010 over 2009	9.8	6.9	18.4	24.9	32.8	-67.0	11.1	26.9	20.4

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

4.26 The Financial Secretary announced a number of policy initiatives to facilitate the development of the financial services industry in the 2011-12 Budget. Aiming at further promoting the local retail bond market, a total of \$5 billion to \$10 billion worth of Hong Kong dollar inflation-linked retail bonds, or “iBond”, will be issued under the Government Bond Programme. The iBond will have a maturity of three years with interests paid to bond holders once every six months at a rate linked to the inflation of the preceding half-year period, and will hence offer an investment option to cope with inflation. Upon the finalisation of the implementation details and sales arrangement by the HKMA, iBond is expected to be launched by the third quarter of 2011.

4.27 The Financial Secretary also announced that the Hong Kong Mortgage Corporation (HKMC) will study the feasibility of establishing a sustainable microfinance scheme in Hong Kong, to provide small loans to individuals who need financial resources for business start-up but have difficulties in securing funds from traditional bank financing. Subsequently in March the HKMC formed the Microfinance Study Group with members from the banking industry, voluntary agencies and academia, to explore important aspects including the demand for microfinance and its potential in Hong Kong, critical success factors for a sustainable scheme, and business model and operational issues of the scheme. With the advice of the Study Group, the HKMC aims at submitting its recommendations to the Financial Secretary by August 2011.

4.28 Separately, having considered the comments and responses received in an earlier consultation exercise, in February the Government announced to legislate on disclosure of price sensitive information (PSI) by listed companies. Under the legislative proposals, a listed company must disclose PSI to the public as soon as reasonably practicable after the PSI has come to its knowledge. Such requirement is expected to cultivate a continuous disclosure culture among listed companies and enhance market transparency, thereby helping sustain Hong Kong's position as a premier capital formation centre in the region. The Government aims at introducing the bill into the Legislative Council in the 2010/11 legislative session. The Securities and Futures Commission will issue relevant guidelines after the bill is enacted.

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-March 2011, there were 147 licensed banks, 20 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) Basel III tightens the definition of regulatory capital and increases 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, it requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% at times of excessive credit growth, both to be met by common equity. These reinforce the higher capital requirements for banks' trading, derivatives and securitisation activities under Basel II, which Basel Committee members including Hong Kong are expected to adopt by the end of 2011. Basel III also introduces two liquidity standards i.e. the Liquidity Coverage Ratio of at least 100% to promote short term liquidity resilience and the Net Stable Funding Ratio of above 100% to encourage more stable funding structures.

(7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.

(8) 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.

(9) Turnover ratio is defined as the average daily turnover of bonds divided by the average amount of bonds outstanding.

- (10) 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 6 May 2011), covering almost all globally recognised stock exchanges.
- (11) At end-March 2011, there were 57 classes of stock options contracts and 38 classes of stock futures contracts.
- (12) At end-March 2011, there were 1 258 and 168 companies listed on the Main Board and GEM respectively.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorized funds that have responded to the survey. At end-March 2011, the survey covered a total of 1 290 active authorized funds.
- (14) At end-March 2011, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 422 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 246 000 employers, 2.27 million employees and 241 000 self-employed persons have participated in MPF schemes.
- (15) At end-March 2011, there were 11 SFC-authorized retail hedge funds with combined net asset size of US\$1,065 million. The amount of net assets under management was 11.8% higher than the end-2010 level and more than six times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-March 2011, there were 167 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 102 in general insurance business, and 19 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

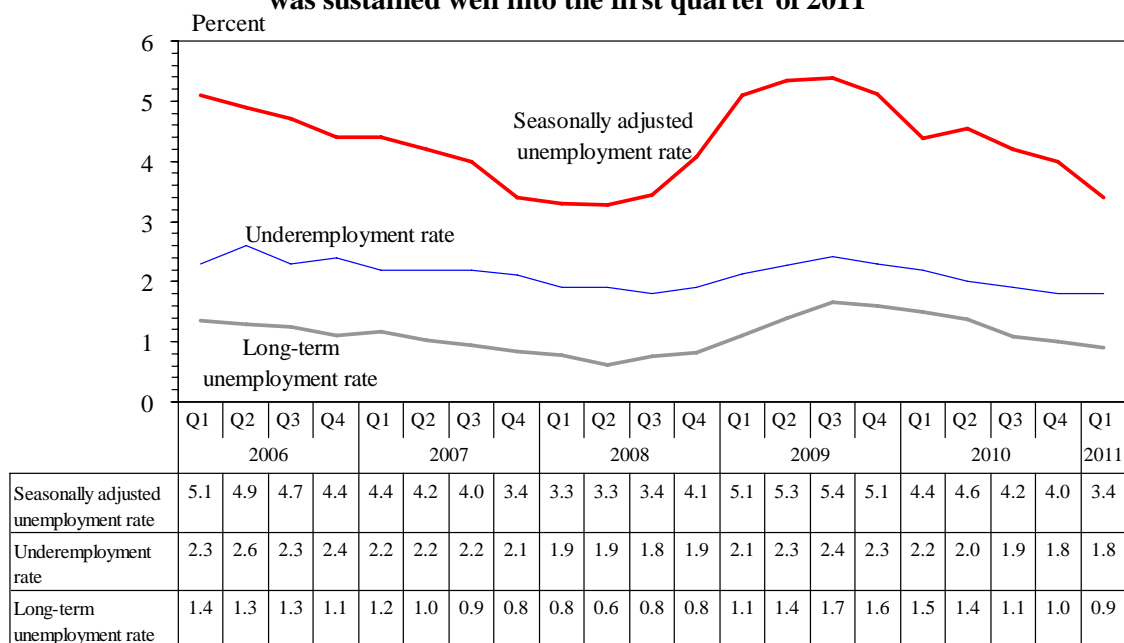
Summary

- *Continuing the momentum in 2010, the labour market showed further notable improvements on a broad front in the first quarter of 2011, benefiting substantially from the sustained vibrant economic growth since early 2010.*
- *With the economy having another quarter of distinctly above-trend growth, the pace of job creation remained impressive in the first quarter, bringing a net addition of 13 600 jobs, thereby boosting the overall size of employment to 3 577 300, the highest quarterly figure ever recorded.*
- *Unemployment thus continued on a declining trend, with the respective numbers falling to 124 500 and the seasonally adjusted rate to 3.4%. These were the lowest levels since mid-2008. Coupled with a concurrent reduction in long-term unemployment, this signified a further improvement of the unemployment situation in terms of both scale and intensity.*
- *Against such a favourable backdrop, wages and incomes generally improved. Reflecting this, labour wages and payroll picked up slightly to increases of 3.3% and 3.1% respectively at end-2010, broadly matching the inflation rate over the same period. More recent income indicators showed a more impressive increase in income of full-time employees, by 6.9% on average, and 6.2% for the lowest decile, in the first quarter of 2011 over a year earlier, equivalent to increases of 3.0% and 2.0% in real terms.*

Overall labour market situation

5.1 In the first quarter of 2011, the labour market was characterised by a continuation of the favourable trends prevalent in 2010. Specifically, job creation continued apace, on the back of a vibrant economy. The number of unemployed persons thus extended the declining trend since mid-2009, reaching a pre-crisis low of 124 500. The seasonally adjusted *unemployment rate*⁽¹⁾ trended down to 3.4%, the lowest level since June – August 2008 (i.e. just before the outbreak of the global financial tsunami). In tandem with further tightening of the labour market, wages and incomes have also improved. Both labour wages and payroll showed enlarged increases of 3.3% and 3.1% respectively in the fourth quarter of 2010 over a year earlier, broadly matching the pick-up in inflation rate over the same period.

Diagram 5.1 : The downtrend in unemployment rate, which started in mid-2009, was sustained well into the first quarter of 2011



Total employment and labour force

5.2 Thanks to the sustained strong economic performance and labour demand, *total employment*⁽²⁾ expanded further by 2.3% in the first quarter of 2011 over a year earlier, broadly maintaining the growth pace as seen in the fourth quarter of 2010 at 2.4%. In absolute terms, the total number of employed persons stood at 3 577 300 in the first quarter of this year. Though a shade below the peak of 3 582 100 in November 2010 – January 2011 reflecting mainly the seasonal dip after the Lunar New Year holidays, this was in fact the highest quarterly figure ever recorded.

5.3 On a quarter-to-quarter comparison, the employment gain was equally noticeable at 13 600. In particular, jobs of full-time nature continued to come on stream amid the entrenched economic recovery. The disaggregated data at the sectoral level indicated that whereas employment losses were found in the import and export trade, foundation and superstructure, real estate and transportation partly due to the seasonality factors around the Lunar New Year holidays, they were outweighed by job gains in most other sectors including financing, manufacturing, and food and beverage service activities. Analysed by occupation category and educational attainment, those persons engaged as associate professionals and with degree education were the ones benefiting most from the expansion in total employment during the period.

5.4 When compared with June – August 2008 (i.e. just before the outbreak of the global financial crisis), employment gains were observed for both

higher-skilled and lower-skilled workers, with the latter group registering a larger increase than the former group (at 35 100 or 1.6% as against 11 200 or 0.9%). Taking these two groups together, the overall growth amounted to 46 300 or 1.3% over the pre-crisis level. This increase was largely concentrated in the domestically-oriented sectors, including in particular retail, accommodation and food services, education, and repair, laundry, domestic and other personal service activities, which more than offset the job losses seen in the external sectors, such as manufacturing, and the import/export trade and wholesale.

5.5 On the labour supply side, the *labour force*⁽³⁾ increased by 1.2% year-on-year in the first quarter of 2011 to 3 701 800, following a 1.3% rise in the preceding quarter. On a quarter-to-quarter comparison, the labour force recorded zero growth in the first quarter, as the effect of a continued drop in labour force participation among younger persons aged 15 – 24 was neutralized by an increased entry of middle-aged women (comprising mainly housewives and homemakers) into the labour force.

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

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2010 Annual	3 653 700 (-0.6)	3 492 500 (0.4)	161 200	74 700
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
<i>Three months ending</i>				
2011 Jan	3 712 300 (1.1)	3 582 100 (2.2)	130 200	67 000
Feb	3 698 700 (0.7)	3 575 500 (1.8)	123 300	61 600
Mar	3 701 800 (1.2)	3 577 300 (2.3)	124 500	66 300
	<*>	<0.6>		

- 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 the first quarter of 2011.
 * Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Employment growth kept on outpacing the labour force growth

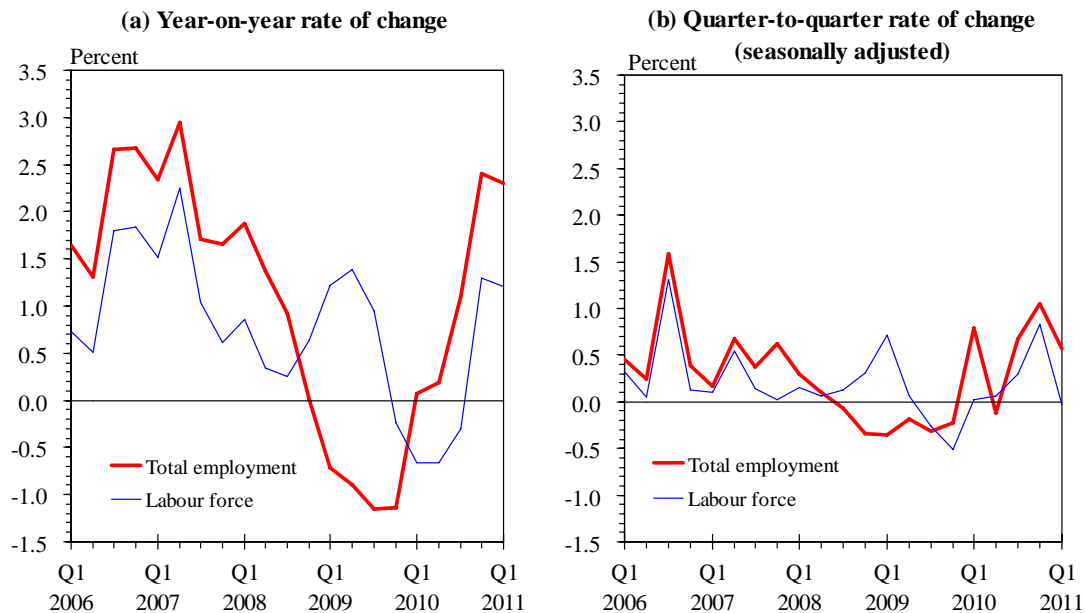


Table 5.2 : Labour force participation rates by gender (%)

		<u>Male</u>	<u>Female</u>	<u>Both genders combined</u>
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
2011	Q1	68.2	52.9	59.9

Source : General Household Survey, Census and Statistics Department.

Table 5.3 : Labour force participation rates by gender and by age group (%)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 Q1</u>
<u>Male</u>						
15-19	14.3	14.8	13.0	12.6	10.3	9.5
20-24	69.0	67.6	65.8	64.8	61.1	60.1
25-29	95.6	95.0	94.3	94.8	94.3	92.9
30-39	96.7	97.1	96.5	96.3	96.5	96.4
40-49	95.2	95.5	95.1	95.0	95.0	94.9
50-59	83.3	83.3	84.0	84.3	84.5	84.1
≥60	19.3	19.6	20.0	21.2	21.9	23.0
Overall	70.9	70.5	69.7	69.4	68.6	68.2
<u>Female</u>						
15-19	13.1	13.5	12.4	11.4	9.4	8.0
20-24	71.1	71.7	69.5	66.2	61.7	62.1
25-29	87.2	87.4	87.3	87.0	86.4	87.1
30-39	75.5	76.2	76.8	77.0	75.2	77.4
40-49	65.1	66.6	66.7	68.5	68.1	70.0
50-59	45.7	46.7	48.5	48.8	49.2	50.2
≥60	4.5	5.2	5.7	6.6	6.8	8.1
Overall	52.6	53.1	53.1	53.1	52.0	52.9
<u>Both genders combined</u>						
15-19	13.7	14.2	12.7	12.0	9.9	8.8
20-24	70.1	69.8	67.7	65.5	61.4	61.1
25-29	90.9	90.7	90.3	90.4	89.7	89.5
30-39	84.6	85.1	85.1	85.1	84.0	85.2
40-49	79.3	80.1	79.8	80.7	80.1	81.0
50-59	64.5	64.9	66.1	66.5	66.6	66.9
≥60	11.7	12.1	12.6	13.7	14.1	15.2
Overall	61.2	61.2	60.9	60.7	59.7	59.9

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.6 Reflecting the improving manpower balance, the number of unemployed persons kept shrinking from 136 300 in the fourth quarter of 2010 to 124 500 in the first quarter of 2011, which was the lowest quarterly level since April – June 2008. Whilst the latest reduction in unemployment was broadly based across many economic sectors, it was most apparent in the import and export trade, retail, and information and communications. The seasonally adjusted unemployment rate likewise remained continuously on the decline from 4.0% to 3.4%, the lowest since June – August 2008.

5.7 Analysed by skill level, the unemployment rate (not seasonally adjusted) for higher-skilled workers fell by 0.2 percentage point during the first quarter of 2011 to 1.8%, whereas that for lower-skilled workers held steady at 3.8%. This broadly tallied with the recent development on the employment front, which was characterised by more new job generation for workers at the upper segment. A further breakdown by occupation category revealed that professionals were the occupation group having the most distinct fall in unemployment rate in the first quarter of this year, followed by plant and machine operators and assemblers, service workers and shop sales workers and elementary occupations. On the other hand, craft and related workers witnessed an increase in unemployment, conceivably in part due to the seasonal lull in construction activities including decoration and maintenance after the Lunar New Year. In terms of other socio-economic attributes, people with upper secondary and post-secondary education as well as those in the age bracket of 15 – 29 were the groups with more visible improvement in the unemployment situation.

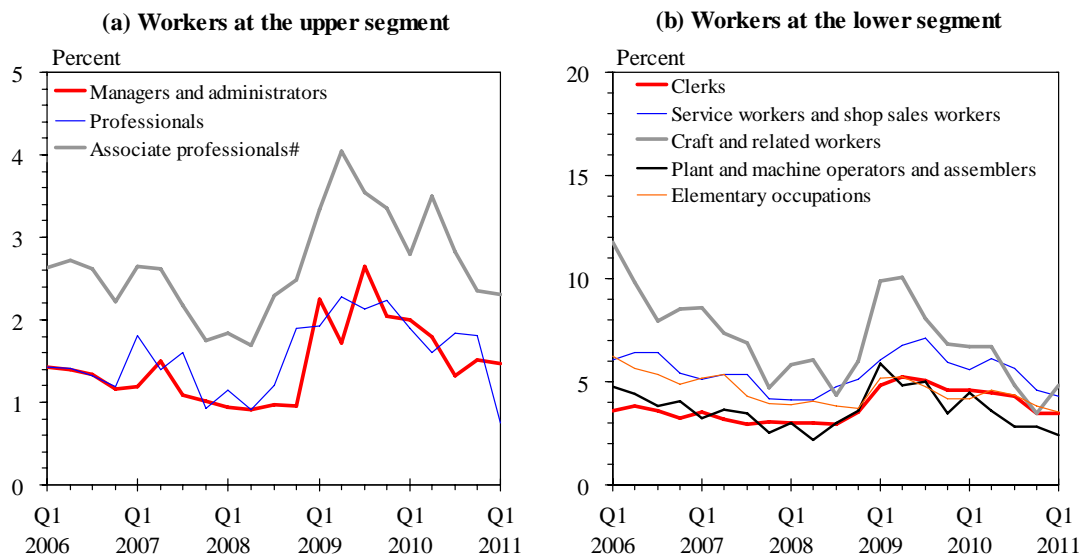
Table 5.4 : Unemployment rate by major economic sector

	<u>2010</u>				<u>2011</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	4.3	4.5	3.8	3.8	3.2
Retail	5.1	6.0	5.7	4.9	4.4
Accommodation and food services	6.8	6.6	5.9	4.8	4.6
Transportation, storage, postal and courier services	4.1	3.8	3.6	3.3	3.0
Information and communications	4.5	4.7	3.6	3.9	2.6
Financing, insurance, real estate, professional and business services	3.4	3.8	3.3	2.9	2.8
Public administration, social and personal services	1.8	1.9	1.8	1.2	1.3
Manufacturing	4.5	5.9	4.0	3.7	3.8
Construction	8.0	7.6	6.6	4.8	6.2
Overall	4.4 (4.4)	4.7 (4.6)	4.4 (4.2)	3.7 (4.0)	3.4 (3.4)

Note : () Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.3 : Unemployment rate* continued to trend downward 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 5.4 : Declines in unemployment rate* took place across almost all age groups

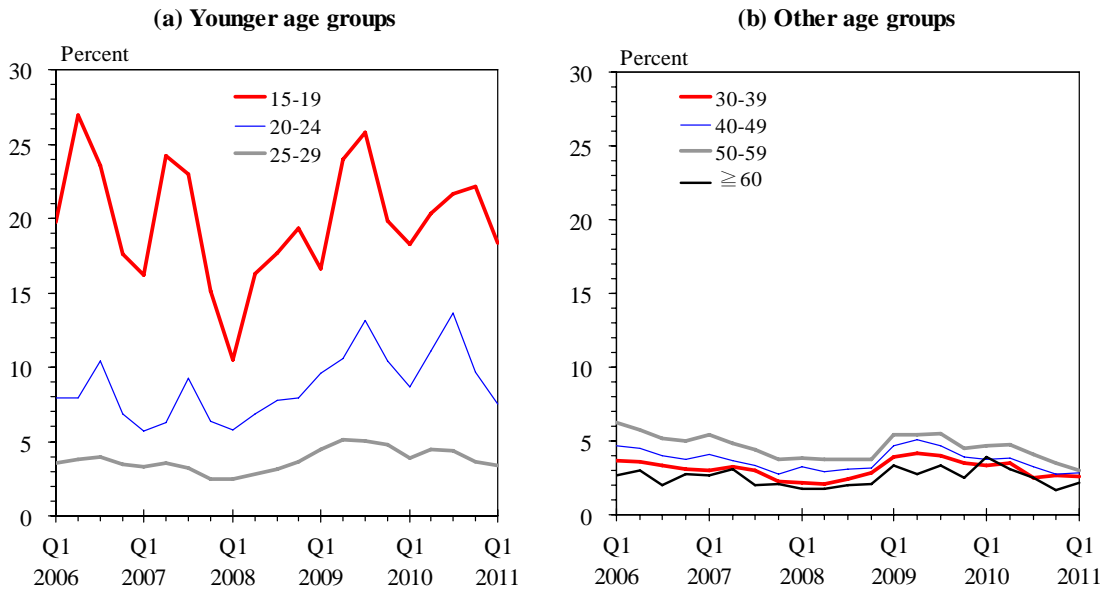
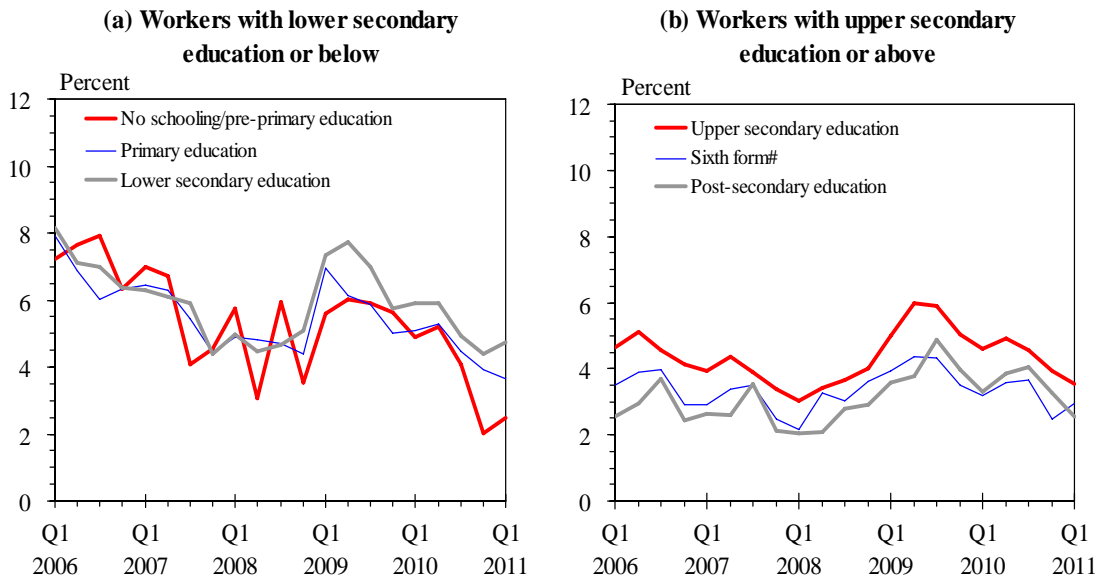


Diagram 5.5 : Unemployment rate* also edged down across a wide spectrum of educational levels



5.8 As regards long-term unemployment (i.e. a period of six months or longer), the downtrend starting in the early part of last year was sustained well into the first quarter of this year, as borne out by a further reduction in the number of long-term unemployed to 31 700 from 37 900 in the fourth quarter of 2010. Meanwhile, the long-term unemployment rate also edged lower, from 1.0% to 0.9% over the same period. All these developments indicated that the improvement in the unemployment situation became more entrenched in the first quarter of this year, not only in terms of scale but also in terms of intensity.

Profile of underemployment

5.9 The *underemployment*⁽⁴⁾ situation was likewise progressively on the mend. The numbers underemployed continued to trend downward on entering the year 2011, with a further reduction of 700 during the first quarter. Meanwhile, the underemployment rate was virtually unchanged at 1.8%. Whereas increases in underemployment rate were observed in decoration, repair and maintenance for buildings, warehousing and support activities for transportation, and postal and courier activities, they were largely offset by decreases in foundation and superstructure, professional and business services, and food and beverage service activities.

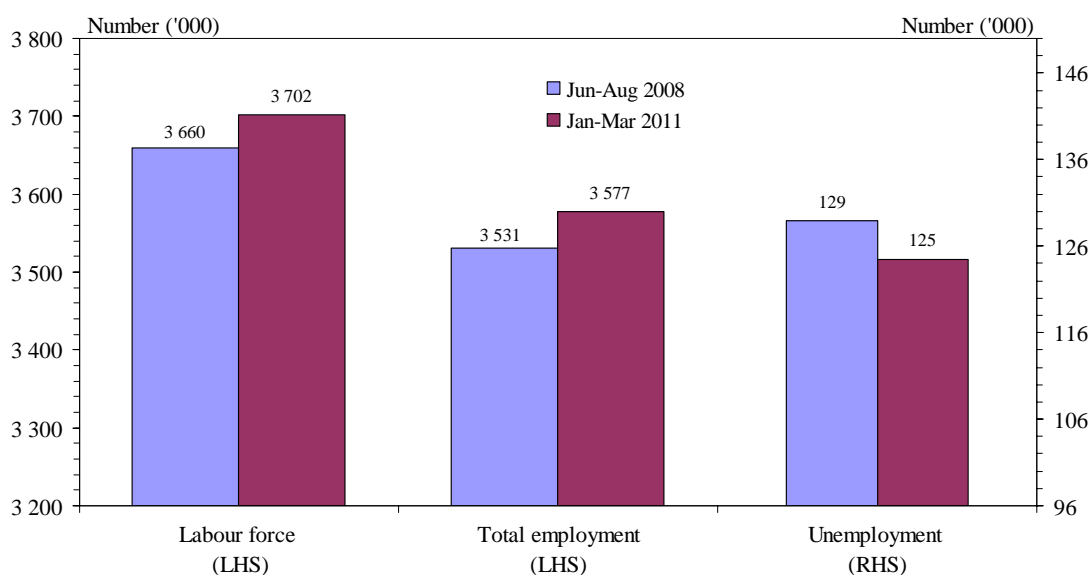
Box 5.1

How well the labour market has weathered the global financial tsunami?

The outbreak of the global financial tsunami in late 2008 has dealt a severe blow to most of the economies worldwide in 2009. Hong Kong was no exception. Reflecting this, Hong Kong's real GDP contracted visibly by 6% year-on-year in the first half of 2009, with total employment decreasing by 1%. Meanwhile, both the unemployment numbers and rate hit high levels of 217 000 and 5.5% respectively. In response to this crisis, the Government has decisively implemented a package of economic stimulus and job creation measures, which led to a subsequent revival in the economic and employment situation. This article aims to assess how well the labour market has regained its strength alongside this economic upturn.

While the recovery in labour market conditions was manifested in many ways, the first and foremost was a strong rebound in labour demand over the past year or so. As an indicator, job vacancies in private sector establishments posted an upsurge of 43.5% in 2010, reversing the reduction of 29.4% in 2009. At end-2010, the number of private sector vacancies stood at 48 100, 0.8% more than that in June – August 2008 (i.e. just before the global financial crisis). In a similar vein, total employment, which staged a rebound in the latter half of 2009, showed a notable pick-up in the recovery pace in more recent months. By March this year, the overall employment size expanded to 3 577 300, surpassing the pre-crisis level by 1.3% (or 46 300). What is more, this increase was attributable entirely to the creation of full-time jobs (at 81 500), to replace part-time jobs, which fell by 35 200 over the same period. The employment situation thus improved not only in quantity terms but also in quality terms. Also worth noting was that workers at the lower segment tended to benefit more from this employment growth, as the new jobs created were mainly found in the labour-intensive and lower-skilled sectors, including retail, construction, and repair, laundry, domestic and other personal service activities. An estimate put the number of job gains for lower-skilled workers at 35 100, with an increase of 57 800 full-time jobs more than offsetting the reduction of 22 700 part-time jobs. By comparison, the number of job gains for higher-skilled workers was smaller at 11 200, with an increase of 23 700 full-time jobs outweighing the decrease of 12 500 part-time jobs (*Chart 1*).

Chart 1 : Labour force, total employment and unemployment



Box 5.1 (Cont'd)

Thanks to the increasingly entrenched economic recovery, the seasonally adjusted unemployment rate by the first quarter of 2011 has come down to 3.4%, only a mere 0.1 percentage point higher than the pre-crisis low of 3.3% in June – August 2008. Analysed by skill level, lower-skilled workers generally fared better than their higher-skilled counterpart. The unemployment rate (not seasonally adjusted) for lower-skilled workers rose only slightly from 3.7% to 3.8% over this period, whereas that for higher-skilled workers went up more from 1.4% to 1.8%.

Along with the progressive tightening of the labour market, incomes also improved across all segments of the workforce. Comparing 2010 with 2008, labour earnings registered an increase of 3.0% in nominal terms, largely on par with the cumulative inflation over the two-year period. The pay rise, whilst occurring almost across the board, was most apparent in the financial and insurance activities, transportation, storage, postal and courier services, and professional and business services sectors.

A closer examination of the data series on employment earnings revealed that the average income of full-time employees in the workforce were likewise improving. In particular, comparing the average income of full-time employees in 2010 with that in 2008, the lowest three decile groups were higher by 5.5%, 4.4% and 3.1% respectively. After netting out inflation, the corresponding increases for the first and the second deciles were 2.4% and 1.3% in real terms, whilst that for the third decile held broadly stable. More recent figures indicated that such earnings growth in the first quarter of 2011 continued to be impressive, ranging from 3.7% to 6.2% year-on-year in nominal terms. After netting out inflation, the first two lowest decile groups had real income growth of 2.0% and 0.3%, while the third group showed a marginal income dip of 0.4% in real terms (*Table 1*).

Table 1: Rate of change in earnings for employees* in nominal and real terms#

<u>Decile group</u>	<u>2010 as compared to 2008 (%)</u>		<u>Q1 2011 as compared to Q1 2010 (%)</u>	
	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>	<u>Real</u>
Lowest decile	5.5	2.4	6.2	2.0
2nd lowest decile	4.4	1.3	4.4	0.3
3rd lowest decile	3.1	^^	3.7	-0.4
Overall employees	2.1	-0.8	6.9	3.0

Notes: (*) Average employment earnings of full-time employees, excluding foreign domestic helpers.

(#) Discounted by Consumer Price Index (A) for the lowest three decile groups and by Composite Consumer Price Index for the overall employees.

(^^) Magnitude of less than 0.05%.

Source: General Household Survey, Census and Statistics Department.

Box 5.1 (Cont'd)**Conclusion:**

The above analysis indicates that most, if not all, of the selected labour market indicators have recouped the ground lost since the global financial crisis in late 2008. Of particular note was that employees in the lowest segment are among the major beneficiaries of this improved labour market situation, in terms of both employment growth and pay rises. Looking ahead, in view of the still strong economic performance and positive hiring sentiment in the corporate sector, most of these indicators can be expected to improve further in the near term. Despite this, the Government will remain vigilant in monitoring the economic and employment implications arising from the domestic and external developments, including the implementation of the statutory minimum wage in Hong Kong, as well as the lingering sovereign debt crisis in Euro-zone and the recent earthquake and nuclear crisis in Japan.

Profile of employment in establishments

5.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll, which serve to provide additional information on labour demand and earnings growth in the corporate sector, are available only up to December 2010. In view of this limitation, attempts have been made where possible to bring the analysis more up-to-date, by making reference to supplementary data from other sources.

5.11 In December 2010, total employment in *private sector establishments* remained strongly on the increase by 2.2% over a year earlier, reaching an all-time high of 2 559 200. This employment gain, whilst widespread across many major sectors, was most distinct in financing, insurance, real estate, professional and business services (up 4.5% year-on-year), construction sites (4.3%), retail (3.6%), and accommodation and food services (3.3%). Manufacturing continued to be the only exception where further job losses were recorded (down 5.9%). Analysed by establishment size, small and medium-sized enterprises (SMEs)⁽⁵⁾ generally witnessed a slower expansion of headcounts than large ones, at 2.0% as against 2.3% in December 2010, which however reversed the pattern prevailing in September when the corresponding growth rates were 4.0% and 1.3%. For 2010 as a whole, total employment in private sector establishments went up by 2.6%, representing a distinct improvement from the 0.5% decrease in 2009. As for the civil service, employment continued to increase at a steady pace, at 0.3% in December 2010 and 0.5% for the year as a whole.

Table 5.5 : 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>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</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)	563 800 (0.9)	564 300 (0.8)	562 200 (1.4)	563 700 (1.0)	564 900 (0.4)
Retail	235 300 (-0.3)	232 000 (-0.6)	232 600 (-1.5)	236 800 (-0.4)	239 800 (1.2)	243 100 (3.3)	240 600 (3.7)	240 800 (3.5)	242 700 (2.5)	248 300 (3.6)
Accommodation and food services	241 100 (-0.2)	238 200 (*)	238 800 (-1.3)	240 200 (-2.0)	247 000 (2.6)	249 300 (3.4)	247 400 (3.8)	247 500 (3.6)	247 000 (2.8)	255 300 (3.3)
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)	160 300 (1.5)	159 400 (0.9)	160 400 (2.3)	160 000 (1.4)	161 500 (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)	88 300 (1.3)	87 400 (1.5)	88 400 (1.7)	88 400 (0.6)	88 900 (1.2)
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)	609 100 (4.6)	596 300 (4.1)	604 600 (4.7)	612 300 (4.9)	623 300 (4.5)
Social and personal services	414 600 (3.2)	407 100 (2.6)	411 600 (3.2)	417 100 (3.0)	422 700 (4.1)	429 100 (3.5)	427 700 (5.1)	426 900 (3.7)	429 200 (2.9)	432 800 (2.4)
Manufacturing	125 000 (-5.7)	125 700 (-7.0)	124 700 (-6.2)	124 700 (-5.0)	124 900 (-4.4)	119 400 (-4.5)	122 600 (-2.5)	119 800 (-3.9)	117 700 (-5.6)	117 600 (-5.9)
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)	55 300 (9.6)	53 900 (3.8)	55 500 (13.4)	56 500 (17.8)	55 400 (4.3)
<i>All establishments surveyed in the private sector^(a)</i>	2 463 600 (-0.5)	2 442 200 (-1.0)	2 442 600 (-1.5)	2 464 900 (-1.0)	2 504 700 (1.4)	2 528 800 (2.6)	2 510 300 (2.8)	2 517 000 (3.0)	2 528 700 (2.6)	2 559 200 (2.2)
		<-0.7>	<*>	<0.9>	<1.2>		<0.7>	<0.3>	<0.4>	<0.7>
<i>Civil service^(b)</i>	155 700 (1.1)	155 100 (1.1)	155 400 (1.1)	156 000 (1.1)	156 200 (1.2)	156 500 (0.5)	156 600 (0.9)	156 300 (0.6)	156 400 (0.3)	156 700 (0.3)

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

5.12 As an additional indication of improved hiring sentiment among the employers, job vacancies in private sector establishments jumped by another 39.3% year-on-year in December 2010, following an equally impressive surge of 31.7% in September. For 2010 as a whole, the increase was likewise spectacular at 43.5%, which signified a marked turnaround from the 29.4% drop in 2009.

5.13 The upsurge in December 2010 occurred extensively across a wide array of economic sectors. Accommodation and food services were the sector in which job openings grew the fastest (up 65.4% on a year-on-year basis), followed by financing, insurance, real estate, professional and business services (46.7%), information and communications (46.0%), and transportation, storage, postal and courier services (43.2%). In terms of occupation category, the increase also took place across the board. While vacancies for higher-skilled workers leapt by 47.7% year-on-year, those for lower-skilled workers also had a substantial gain of 35.2%. A closer examination at the job categories revealed that growth was more apparent among higher-skilled workers especially professionals, and managers and administrators (up 88.5% and 79.9% respectively), although sizeable increases were observed similarly for lower-skilled workers such as clerks (57.5%), and plant and machine operators and assemblers (57.0%). Analysed by establishment size, large enterprises provided more new job opportunities than SMEs, up by 52.7% as against 27.7%. This notwithstanding, nearly half (specifically 49.0%) of the vacancies still came from SMEs. As regards the civil service, job openings were 13.9% more in December 2010 than a year earlier, further to an 18.7% rise in September. For 2010 as a whole, these vacancies recorded an increase of 10.9%, clearly improved from the 10.2% reduction in 2009.

5.14 Comparing the number of job vacancies with that of unemployed persons, the ratio continued to trend upward, rising from 32 job vacancies to 35 job vacancies per 100 job-seekers between September and December 2010. Concurrently, the ratio for lower-skilled jobs climbed from 31 to 35, as did that for higher-skilled jobs from 63 to 64. When expressed as a percentage of total employment opportunities, the vacancy rate for private sector establishments also rose to 1.8%, from 1.4% a year ago.

Table 5.6 : Vacancies by major economic sector

	<u>2009</u>					<u>2010</u>					Vacancy rate in Dec 2010 (%)
	Annual average	Mar	Jun	Sep	Dec	Annual average	Mar	Jun	Sep	Dec	
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)	6 500 (54.8)	6 600 (101.0)	6 100 (41.1)	7 000 (55.9)	6 500 (34.8)	1.1
Retail	3 800 (-22.9)	2 900 (-49.6)	3 700 (-29.4)	4 200 (-22.8)	4 600 (29.7)	4 900 (28.8)	4 900 (68.4)	4 400 (20.1)	5 600 (32.0)	4 900 (7.9)	1.9
Accommodation and food services	5 400 (-2.7)	5 200 (-4.2)	4 500 (-19.2)	7 100 (31.0)	4 700 (-17.0)	7 000 (29.9)	6 100 (18.8)	6 600 (47.9)	7 300 (2.9)	7 800 (65.4)	3.0
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)	2 000 (72.7)	1 700 (70.7)	2 000 (100.5)	2 100 (87.8)	2 100 (43.2)	1.3
Information and communications	1 300 (-30.7)	900 (-57.8)	1 500 (-36.7)	1 400 (-37.1)	1 400 (70.9)	2 300 (78.4)	2 200 (155.1)	2 300 (51.9)	2 600 (92.3)	2 100 (46.0)	2.3
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)	12 400 (45.9)	11 800 (73.8)	12 200 (64.1)	12 900 (16.2)	12 700 (46.7)	2.0
Social and personal services	7 800 (-25.4)	7 100 (-42.6)	8 400 (-24.2)	8 100 (-27.5)	7 700 (5.0)	10 800 (38.1)	11 100 (55.2)	10 100 (19.3)	11 800 (45.8)	10 400 (34.6)	2.3
Manufacturing	900 (-43.7)	700 (-67.1)	700 (-67.2)	1 200 (-19.2)	1 200 (10.6)	1 500 (66.5)	1 500 (133.9)	1 400 (120.6)	1 600 (30.8)	1 600 (35.0)	1.3
Construction sites (manual workers only)	# (-54.2)	# (-92.1)	# (-86.7)	# (-56.1)	# (172.7)	100 (347.3)	# (1 466.7)	100 (1 375.0)	100 (300.0)	100 (126.7)	0.1
<i>All establishments surveyed in the private sector^(a)</i>	33 200 (-29.4)	27 800 (-50.6)	31 500 (-38.9)	38 800 (-18.8)	34 600 (7.5)	47 600 (43.5)	46 000 (65.4)	45 200 (43.4)	51 100 (31.7)	48 100 (39.3)	1.8
		<-26.8>	<19.9>	<14.7>	<6.3>		<13.5>	<3.5>	<5.3>	<12.6>	
<i>Civil service^(b)</i>	5 200 (-10.2)	5 300 (-3.8)	5 200 (-15.8)	5 000 (-9.7)	5 200 (-10.8)	5 700 (10.9)	5 300 (0.9)	5 700 (10.7)	5 900 (18.7)	5 900 (13.9)	3.6

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.

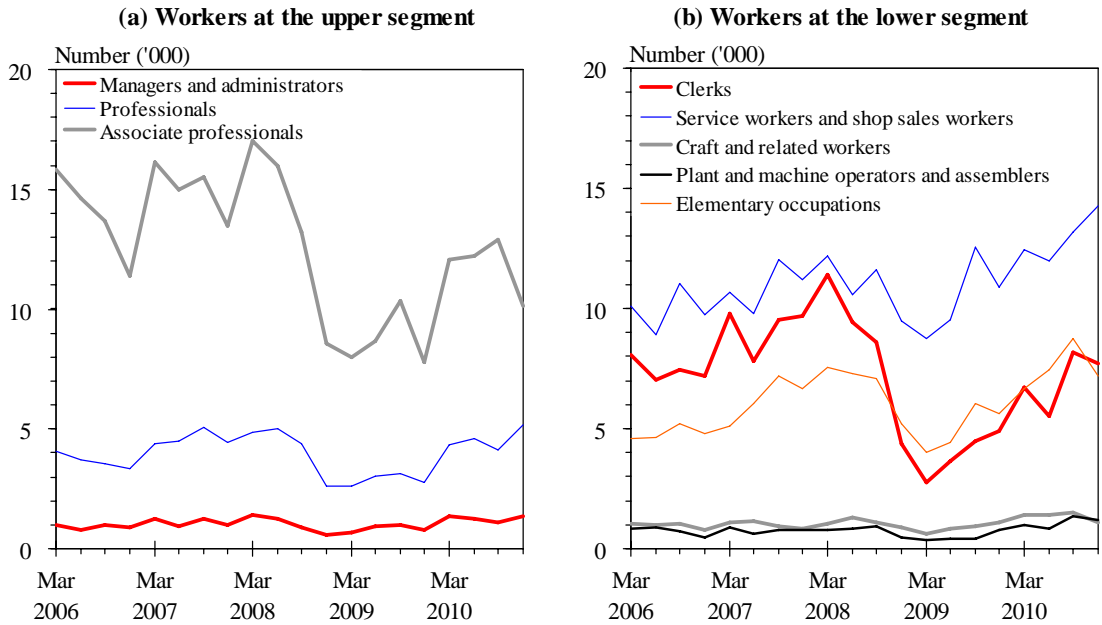
() % change over a year earlier.

< > 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 5.6 : Job vacancies surged across almost all the major occupation categories in December 2010



5.15 The vacancy figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide a more up-to-date trend in the labour market. In March 2011, the number of private sector job vacancies registered by the department amounted to 80 700, 22.3% more than a year earlier. The increase was most pronounced in the retail and education services sectors, up by 81.6% and 81.1% respectively. On a quarter-to-quarter comparison, the average number of private sector job vacancies fell by 2.1% in the first quarter of 2011, yet this was mainly due to the seasonality factors around the Lunar New Year holidays.

Wages and earnings

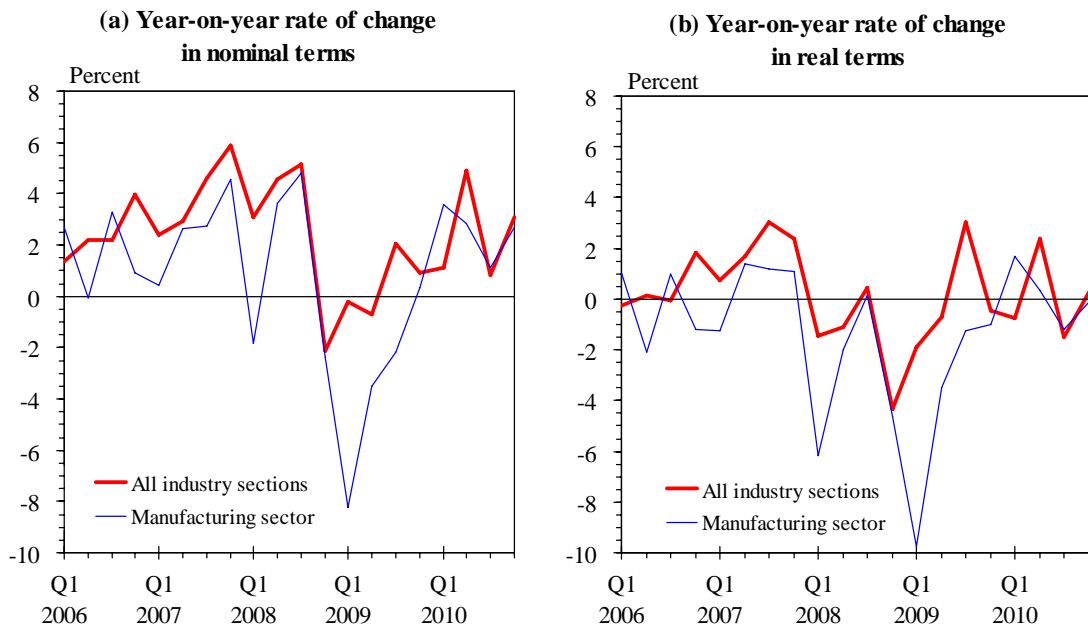
5.16 *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, rose by 3.3% in December 2010 over a year earlier, thus sustaining the uptrend evident since late 2009. This upward adjustment represented a further pick-up from that of 2.4% in September. Yet as the accelerated wage growth was matched by a concomitant pick-up in the inflation rate⁽⁶⁾, a marginal decrease of 0.3% in real terms was recorded in December 2010, albeit still somewhat better than the 0.8% decline in September. The annual figures painted a broadly similar picture, with nominal wages registering a rise of 2.4% and real wages posting a slight decline of 0.7% in 2010.

5.17 A breakdown by occupation category indicated that whereas nearly all segments of the workforce enjoyed increases in their nominal wages in December 2010, the increment was more noticeable among service workers, miscellaneous non-production workers, and supervisory and technical workers (up 4.2%, 3.5% and 3.3% respectively). Analysed by economic sector, the nominal wage hikes likewise occurred extensively across almost all the economic sectors, with the import/export, wholesale and retail trades, personal services, and professional and business services registering more visible gains of 4.4%, 4.4% and 3.6% respectively. On the other hand, manufacturing continued to be the sector deviating from this general trend, with an average wage cut of 1.0%.

5.18 In a similar vein, *labour earnings*⁽⁷⁾, as measured by payroll per person engaged in the private sector, exhibited an enlarged increase of 3.1% year-on-year in the fourth quarter of 2010, relative to the 0.8% rise in the third quarter. For 2010 as a whole, the pay hike averaged at 2.4%. After discounting for inflation, labour earnings managed to post a small real gain both in the fourth quarter of 2010 and for the whole year, at 0.3% and 0.1% respectively.

5.19 Considerable variations in nominal earnings growth were however observed among various economic sectors in the fourth quarter of 2010. Financial and insurance activities were the ones experiencing the largest jump in nominal payroll (up 12.5% year-on-year), followed by retail (8.8%), import/export and wholesale trades (4.9%), and manufacturing (2.7%).

Diagram 5.7 : The increase in nominal payroll picked up in the fourth quarter of 2010



5.20 More recent data from the General Household Survey, whilst not strictly comparable to those from the business establishment surveys, pointed to a more impressive rise in the average monthly employment earnings of full-time employees⁽⁸⁾ (excluding foreign domestic helpers), by 6.9% on average, and 6.2% for the lowest decile, in the first quarter of 2011 over a year earlier. These were larger than the 5.1% and 5.7% increases in the fourth quarter of 2010. After netting out inflation, the corresponding increases were 3.0% and 2.0% in real terms.

Recent labour-related measures

5.21 To encourage job search and sustainable employment, LD has launched a two-year Pilot Employment Navigator programme in December 2010. Under the programme, a cash incentive of up to \$5,000 will be payable to each unemployed person who has successfully found work after receiving the department's intensive employment consultation service. The programme will provide 11 000 places 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.

5.22 In a move to assist young people to find jobs, LD has set up two Youth Employment Resources Centres in 2007 and 2008 respectively, to provide one-stop advisory and support services on employment and self-employment to young persons aged 15 – 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 – 24 with educational attainment at sub-degree level or below.

5.23 Separately, the Finance Committee of the Legislative Council has given funding approval for the Work Incentive Transport Subsidy (WITS) Scheme. The Scheme aims to relieve the burden on travelling expenses commuting to and from work of low-income households with employed members and promote sustained employment. The monthly subsidy will be provided at a full rate of \$600 (or half rate of \$300) per qualified applicant. LD plans to receive applications for WITS from October 2011 onwards.

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) 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).
- (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) 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.

- (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 6 : PRICES

Summary

- *Consumer price inflation went up further amid a buoyant economy and higher imported inflation. The Composite Consumer Price Index⁽¹⁾ rose by 3.8% in the first quarter over a year earlier, by reference to the new 2009/10-based series (4.0% by reference to the old 2004/05-based series). Netting out the effects of Government's one-off relief measures to give a more accurate indicator of the inflation trend, the underlying Composite Consumer Price Index rose by 3.7% in the new 2009/10-based series (3.9% in the old 2004/05-based series).*
- *The pick-up in Hong Kong's consumer price inflation in the first quarter was the combined results of higher prices of food imports and the further feed-through of housing rentals after the surge last year. Moreover, the implications of the Japan incident have yet to unfold fully.*
- *Domestically, business cost pressures have become increasingly visible after five quarters of very strong economic growth. Externally, the pressure from import prices continued to build up across a wide range of goods, reflecting the strong demand in the emerging markets, and the global surge in commodity prices amid the liquidity glut. The surge in global food prices was particularly large. The political unrest in the Middle East and North Africa has also fuelled a further upsurge in oil prices. Indeed, inflation had picked up further across the world in the first quarter⁽²⁾, particularly so in Asian economies with vibrant growth.*

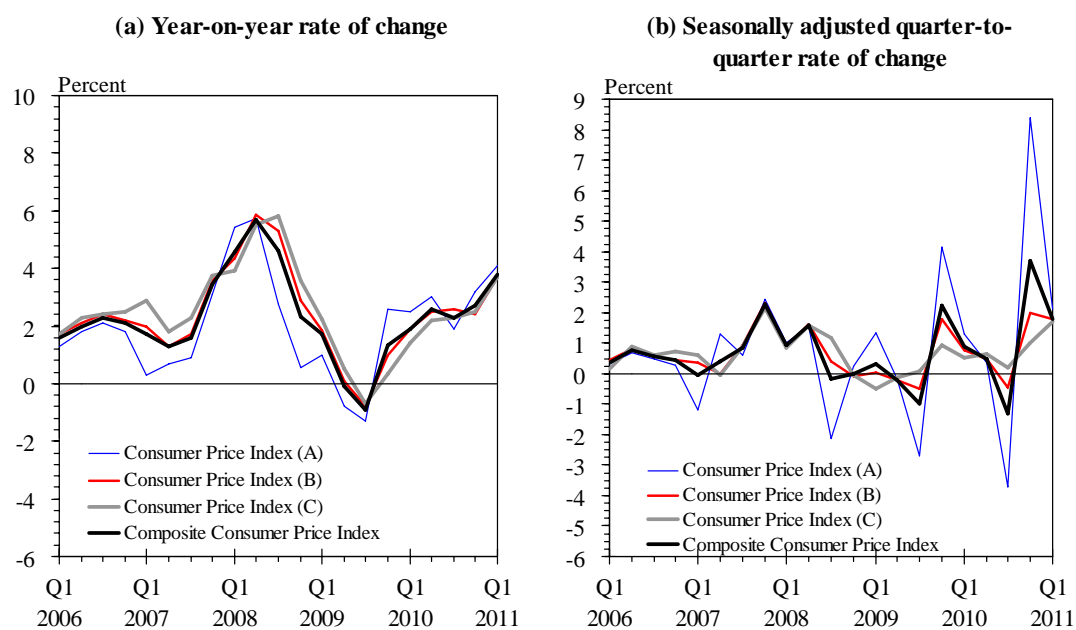
Consumer prices

6.1 Inflation went up further in the first quarter. The notable increase in import prices remained the key driving factor, as global commodity prices continued to surge on the back of a more solid global recovery, loose monetary environment and a weaker US dollar. The political unrest in the Middle East and North Africa also fuelled the increases in oil prices. The feed-through of rising private housing rentals after the surge last year was another major factor behind the increase in inflation lately. Although wage pressures were still relatively contained in early 2011, with unemployment rate trending down to a level close to its post-1997 low, wage pressures are also likely to become more evident in the coming months, more so upon the implementation of Statutory Minimum Wage in May. As such, the pressures from both external and local business costs are likely to remain elevated in the near term. Indeed, inflation

has emerged as a major concern on a region-wide basis across Asian economies where growth is robust. For the US and Europe, the pick-up in the prices of food and energy items has also pushed up consumer price inflation there.

6.2 Specifically, headline consumer price inflation, as measured by reference to the year-on-year rate of change of the new 2009/10-based Composite Consumer Price Index (Composite CPI), rose to 3.8% in the first quarter of 2011 (4.0% by reference to the old 2004/05-based series. For details of the rebasing, see **Box 6.1**). Netting out the effects of Government's one-off relief measures, the underlying consumer price inflation stood at 3.7% in the first quarter by reference to the year-on-year rate of change of the new 2009/10-based underlying Composite CPI (3.9% by reference to the old 2004/05-based series).

Diagram 6.1 : Inflationary pressure went up more visibly in the first quarter of 2011



Note : From the fourth quarter of 2010 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 2009/10-based CPI series. Before then, the year-on-year rates of change are computed from the old 2004/2005-based CPI series. Splicing has been applied to the indices to maintain continuity.

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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2010	Annual	1.7 ^(b) (1.7)	2.4 ^(b) (2.4)	2.7 ^(b) (2.7)	2.3 ^(b) (2.4)	2.1 ^(b) (2.1)
	H1	N.A. (1.2)	N.A. (2.2)	N.A. (2.8)	N.A. (2.2)	N.A. (1.8)
	H2	2.2 ^(b) (2.3)	2.5 ^(b) (2.6)	2.6 ^(b) (2.6)	2.5 ^(b) (2.7)	2.4 ^(b) (2.4)
	Q1	N.A. (0.8)	N.A. (1.9)	N.A. (2.5)	N.A. (1.9)	N.A. (1.4)
	Q2	N.A. (1.5)	N.A. (2.6)	N.A. (3.0)	N.A. (2.5)	N.A. (2.2)
	Q3	N.A. (2.0)	N.A. (2.3)	N.A. (1.9)	N.A. (2.6)	N.A. (2.3)
	Q4	2.4 (2.6)	2.7 (2.8)	3.2 (3.3)	2.4 (2.8)	2.5 (2.4)
2011	Q1	3.7 (3.9)	3.8 (4.0)	4.1 (4.3)	3.7 (3.9)	3.7 (3.6)

(seasonally adjusted quarter-to-quarter rate of change (%))

2010	Q1	N.A. (0.6)	N.A. (0.9)	N.A. (1.3)	N.A. (0.7)	N.A. (0.5)
	Q2	N.A. (0.4)	N.A. (0.5)	N.A. (0.4)	N.A. (0.5)	N.A. (0.7)
	Q3	N.A. (0.4)	N.A. (-1.3)	N.A. (-3.7)	N.A. (-0.4)	N.A. (0.2)
	Q4	1.0 (1.1)	3.7 (2.8)	8.4 (5.6)	2.0 (1.9)	1.0 (1.1)
2011	Q1	1.8 (1.9)	1.8 (1.9)	2.1 (2.2)	1.8 (1.9)	1.7 (1.6)

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.

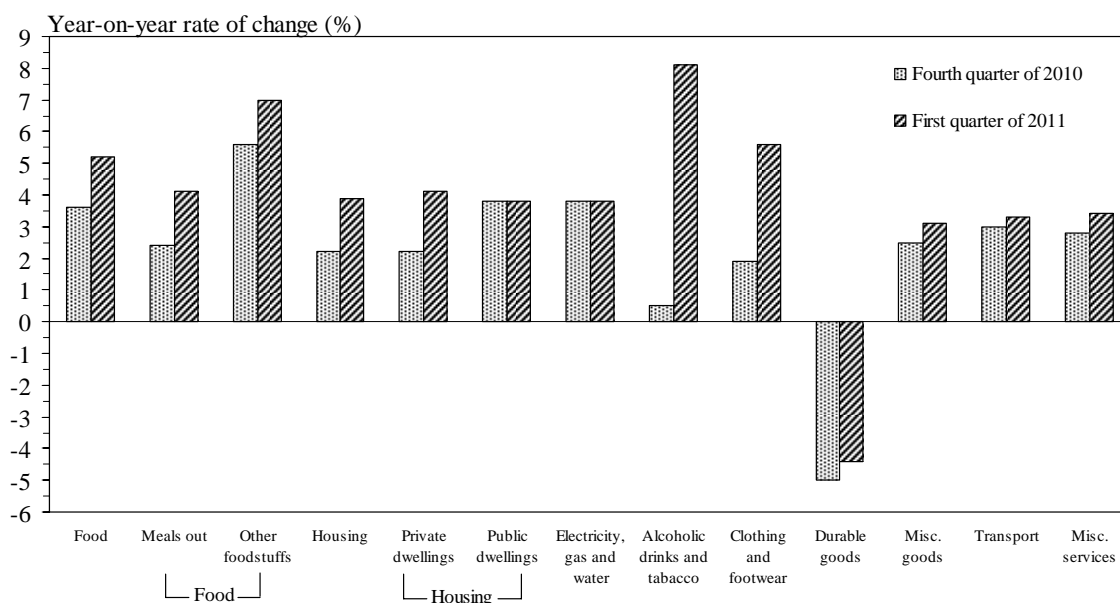
(b) Splicing has been applied to the two sets of CPI series in order to obtain better estimates of the rates of change for the year 2010 and H2 of 2010.

() Figures in parentheses denote year-on-year and seasonally adjusted quarter-to-quarter rates of change in the old series. From the fourth quarter of 2010 onwards, the respective rates of change in the Consumer Price Indices are computed from the new 2009/10-based CPI series.

(N.A.) The year-on-year and seasonally adjusted quarter-to-quarter rates of change based on the new series are available from the fourth quarter of 2010.

6.3 Several key components of the underlying Composite CPI saw larger year-on-year increases in the first quarter. The food and housing components, given their relatively large weightings in the consumption basket, were the main drivers behind the pick-up in inflation. Both meals bought away from home and other foodstuffs showed considerably faster price increases, due mainly to the further uptrend in imported food prices, but increased pricing power of the retailers and vendors amid a robust consumption demand also played a role. The acceleration in private housing cost reflected the feed-through of the strong rise-back in market rentals since early 2009. Prices of alcoholic drinks and tobacco surged upon the hike in cigarettes tax on 23 February. Prices of clothing and footwear also picked up notably, again a reflection of the strength of the consumption market. But the situation in most other categories, including miscellaneous goods and services, electricity, gas and water, and transport, were somewhat more moderate, in terms of both their year-on-year price increases and the pace of acceleration from the preceding quarter. Meanwhile, prices of durable goods continued their secular downtrend.

Diagram 6.2 : Most components of the underlying Composite CPI saw faster increases in prices



Note : Comparison between the two quarters is made on the new 2009/10-based Composite CPI series.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>		<u>2010</u>		<u>2011</u>	
			<u>Q4</u>		<u>Q1</u>	
Food	27.45	(26.94)	3.6	(3.8)	5.2	(5.5)
<i>Meals bought away from home</i>	17.07	(16.86)	2.4	(2.3)	4.1	(3.9)
<i>Other foodstuffs</i>	10.38	(10.08)	5.6	(6.1)	7.0	(7.8)
Housing ^(a)	31.66	(29.17)	2.2	(2.1)	3.8	(3.8)
			2.2 ^(b)	(2.1) ^(b)	3.9 ^(b)	(3.7) ^(b)
<i>Private dwellings</i>	27.14	(23.93)	2.2	(2.1)	4.1	(4.0)
			2.2 ^(b)	(2.1) ^(b)	4.1 ^(b)	(4.0) ^(b)
<i>Public dwellings</i>	2.05	(2.49)	4.0	(4.0)	4.0	(4.0)
			3.8 ^(b)	(3.8) ^(b)	3.8 ^(b)	(3.8) ^(b)
Electricity, gas and water	3.10	(3.59)	16.1	(15.0)	7.3	(6.9)
			3.8 ^(b)	(3.9) ^(b)	3.8 ^(b)	(3.8) ^(b)
Alcoholic drinks and tobacco	0.59	(0.87)	0.5	(0.9)	8.1	(9.0)
Clothing and footwear	3.45	(3.91)	1.9	(1.6)	5.6	(5.0)
Durable goods	5.27	(5.50)	-5.0	(-2.9)	-4.4	(-2.9)
Miscellaneous goods	4.17	(4.78)	2.5	(3.1)	3.1	(3.6)
Transport	8.44	(9.09)	3.0	(2.9)	3.3	(3.0)
Miscellaneous services	15.87	(16.15)	2.7	(2.1)	3.3	(2.6)
			2.8 ^(b)	(2.3) ^(b)	3.4 ^(b)	(2.6) ^(b)
All items	100.00	(100.00)	2.7	(2.8)	3.8	(4.0)
			2.4 ^(b)	(2.6) ^(b)	3.7 ^(b)	(3.9) ^(b)

Notes : The year-on-year rates of change in the Consumer Price Indices are computed from the new 2009/10-based CPI series. Figures in brackets refer to the corresponding year-on-year rates of change computed from the old 2004/2005-based CPI series

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

Box 6.1**Rebasing of the Consumer Price Indices**

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. On 28 April 2011, a new series of 2009/10-based CPIs was released to replace the old series of 2004/2005-based CPIs. The expenditure ranges of the households covered in these two series are shown below:

	Approximate proportion of households covered (%)	Average monthly expenditure range during Oct 2004 to Sep 2005 (\$)	Average monthly expenditure range during Oct 2009 to Sep 2010 (\$)
CPI(A)	50	4,000 to 15,499	4,500 to 18,499
CPI(B)	30	15,500 to 27,499	18,500 to 32,499
CPI(C)	10	27,500 to 59,999	32,500 to 65,999

The increases in the expenditure brackets of household covered in all the CPIs reflected the consumer price increases that took place during most of the five-year period from 2004/05 to 2009/10, as well as the rise in household incomes.

Also, the weightings of the various components are updated as follows:

<i>Expenditure component</i>	<u>Composite CPI</u>		<u>CPI(A)</u>		<u>CPI(B)</u>		<u>CPI(C)</u>	
	<u>Old series</u> (%)	<u>New series</u> (%)	<u>Old series</u> (%)	<u>New series</u> (%)	<u>Old series</u> (%)	<u>New series</u> (%)	<u>Old series</u> (%)	<u>New series</u> (%)
Food	26.94	27.45	32.10	33.68	27.32	27.16	20.41	20.87
Meals bought away from home	(16.86)	(17.07)	(18.63)	(19.23)	(17.65)	(17.90)	(13.74)	(13.55)
Food (excluding meals bought away from home)	(10.08)	(10.38)	(13.47)	(14.45)	(9.67)	(9.26)	(6.67)	(7.32)
Housing	29.17	31.66	30.54	32.19	27.70	31.43	29.66	31.36
Electricity, gas and water	3.59	3.10	4.84	4.36	3.37	2.84	2.45	2.03
Alcoholic drinks and tobacco	0.87	0.59	1.35	0.91	0.79	0.56	0.42	0.29
Clothing and footwear	3.91	3.45	2.81	2.60	4.28	3.45	4.67	4.39
Durable goods	5.50	5.27	4.01	3.73	5.67	5.73	6.99	6.39
Miscellaneous goods	4.78	4.17	4.68	3.87	4.76	4.17	4.91	4.49
Transport	9.09	8.44	8.07	7.22	9.05	8.35	10.35	9.93
Miscellaneous services	16.15	15.87	11.60	11.44	17.06	16.31	20.14	20.25
Overall	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

Box 6.1 (Cont'd)

The weightings are updated every five years to ensure that up-to-date expenditure patterns of households are adequately and accurately reflected in the compilation of the CPIs.

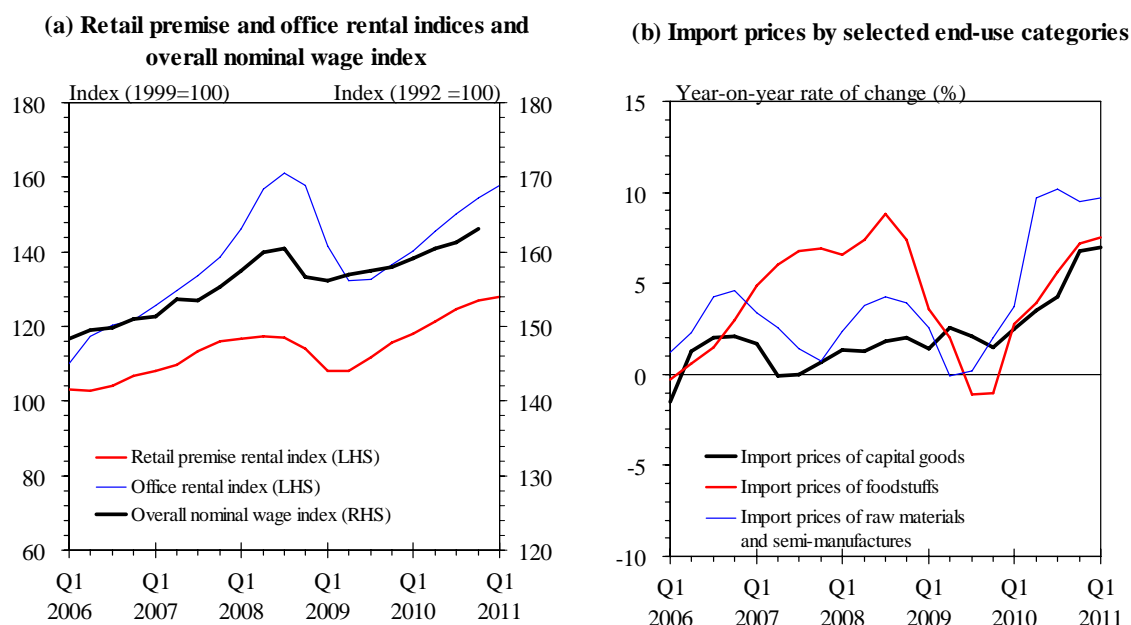
The year-on-year rates of increase in monthly CPIs from the 2009/10-based CPI series are in general smaller than those from the 2004/05-based series. This result is consistent with those in previous rounds of CPI rebasing. Such phenomenon is attributable to the fact that when the prices of various goods and services change, households tend to buy more of the goods or services with relatively smaller price increases (or relatively larger price decreases) to substitute those with larger price increases (or smaller decreases).

While the magnitudes of the year-on-year changes in the 2004/05-based and 2009/10-based CPIs are slightly different, the trend of a pick-up in consumer price inflation from the fourth quarter of 2010 to the first quarter of 2011 is observed in all the four new CPI series, as is in the old CPI series.

Costs of factor inputs and import prices

6.4 Domestic cost pressures have become more visible in overall terms, a natural consequence after five quarters of distinctly above-trend economic growth. Rental levels for retail premises and offices continued to trend upwards, though the feed-through to overall business costs was mitigated somewhat by the robust expansion in business volume. As for labour costs, with the labour market reaching almost full employment, wages and earnings have continued to rise, though the hefty growth in productivity had kept the rise of unit labour costs largely in check of late.

Diagram 6.3 : Wages and rentals rose amid the brisk economic expansion, while import prices picked up notably

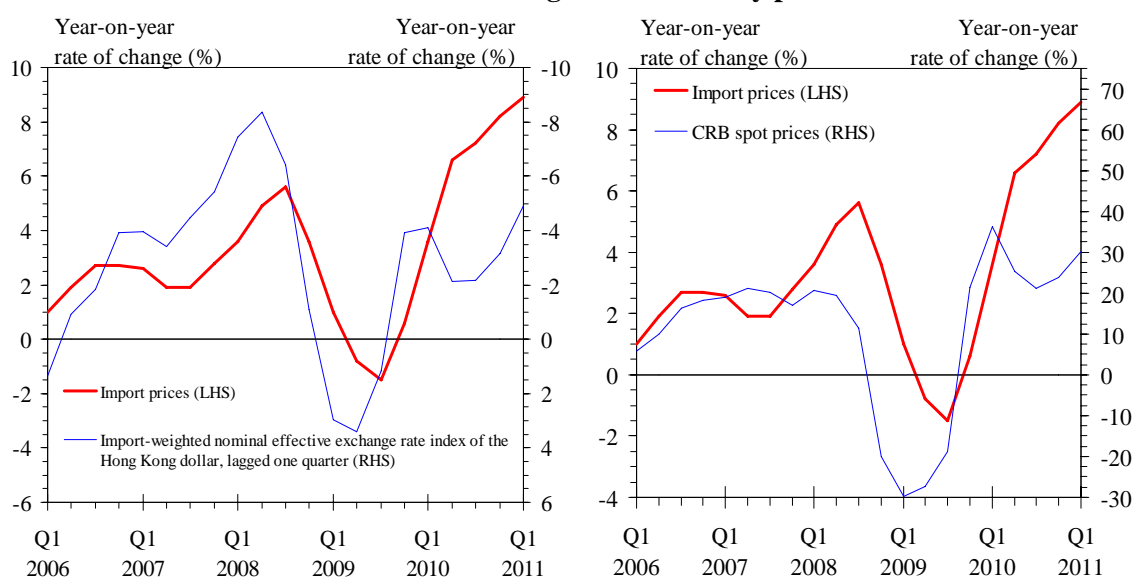


6.5 On the external front, the year-on-year increase in overall import prices stayed notable at 8.9% in the first quarter, affected by the continued surge in global food and commodity prices. According to the primary commodity indices compiled by the International Monetary Fund, global prices for food, beverages, industrial materials, agricultural raw materials and metals all surpassed their previous peaks in 2008, boosted by the sustained global economic growth, strong demand from the emerging markets, loose monetary environment in the advanced economies, and a weaker US dollar. The political unrest in the Middle East and North Africa also added fuel to the oil price surge. Meanwhile, the implications of the Japan incident for import prices, if any, have yet to unfold fully. Against this background, notable increases in import prices were observed across all major end-uses in the first quarter, ranging from 7.0% for capital goods to 24.8% for fuels.

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

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2010	Annual	5.0	4.6	8.3	20.8	4.3	6.4
	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
2011	Q1	7.5	8.0	9.7	24.8	7.0	8.9

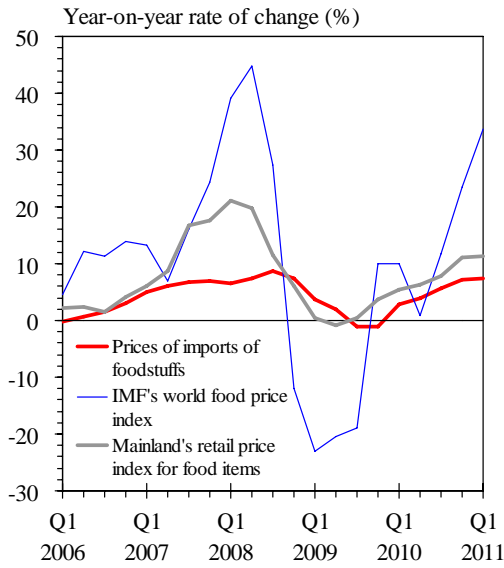
Diagram 6.4 : Stronger imported inflation mainly reflected the marked increases in global commodity prices



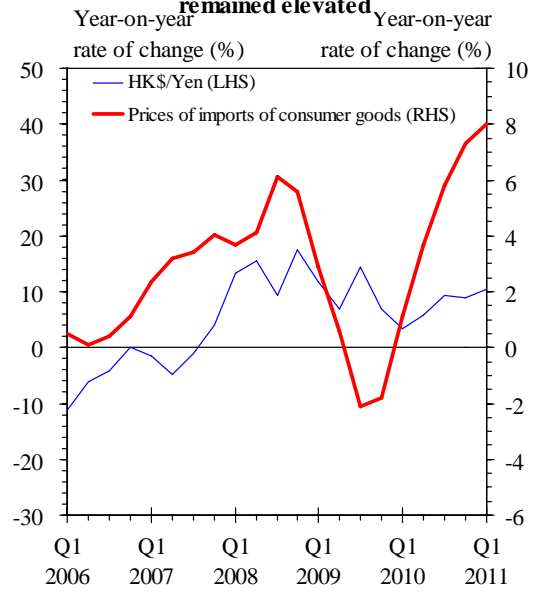
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

Diagram 6.5 : Import prices by end-use categories

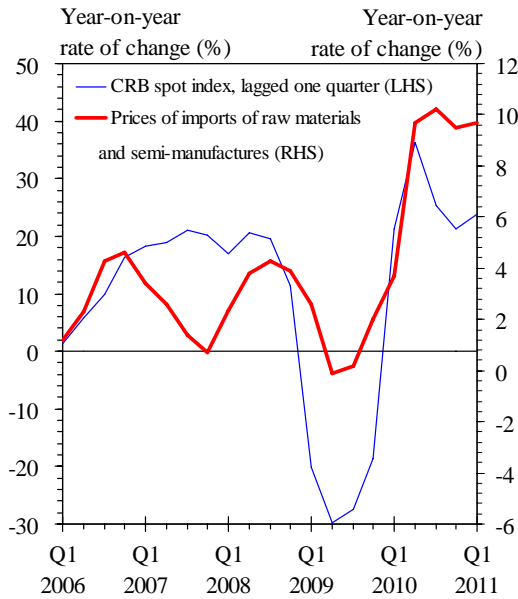
(a) Import prices of foodstuffs continued to surge



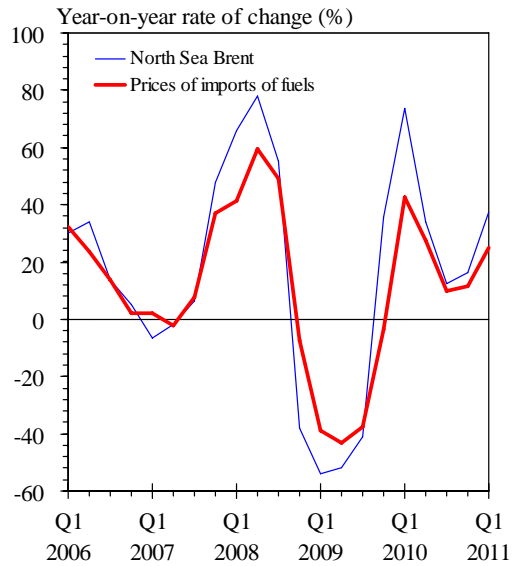
(b) Import prices of consumer goods remained elevated



(c) Import prices of raw materials sustained notable rise



(d) The unrest in the Middle East fueled oil prices further



Box 6.2

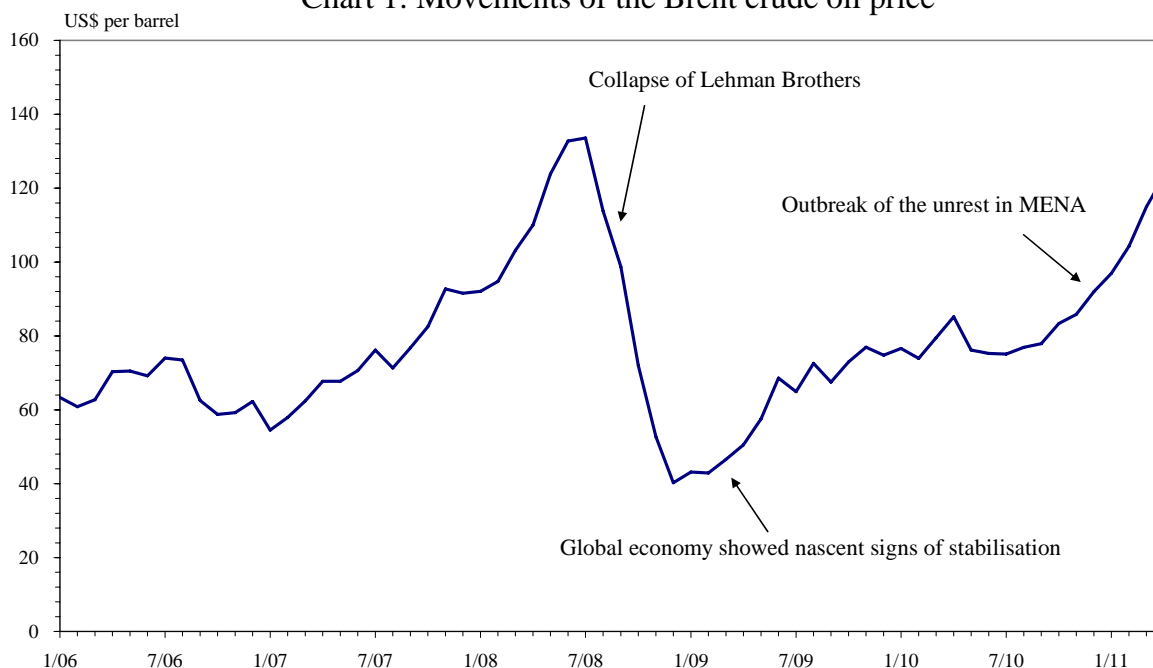
Movements of global oil prices amid the unrest in the Middle East and North Africa

Recent trend of global oil prices

International oil prices surged to a historic peak in mid-2008, before experiencing a drastic correction after the intensification of the global financial crisis and the ensuing global recession. Yet they have risen back sharply again since early 2009 amid the global economic recovery, abundant liquidity, and renewed strong demand from emerging markets. Since the beginning of the year, oil prices have been further bolstered by the political unrest in the Middle East and North Africa (MENA) region.

Using the monthly average of the spot price of North Sea Brent Oil as an indicator, it rebounded markedly from a low of US\$40.3 per barrel in December 2008 to US\$74.8 per barrel in December 2009 and further to US\$92.0 per barrel in December 2010. The outbreak of the political unrest in MENA in January 2011 added fuel to the price surge. The Brent crude oil price rose notably further to US\$114.9 per barrel in March 2011. In the first quarter of 2011, it was on average 37.6% higher than a year earlier. The uptrend has yet to show signs of abating. The Brent crude oil price climbed higher to an average of US\$123.3 per barrel in April 2011, only 7.7% lower than the record monthly peak of US\$133.6 per barrel in July 2008 (*Chart 1*).

Chart 1: Movements of the Brent crude oil price



According to the International Energy Agency (IEA), oil consumption across the world increased by 3.4% in 2010, due in large part to a spectacular growth of 7.3% in demand from the Asian economies (*Table 1*). In light of the rather tight supply situation, global oil stocks declined in the second half of 2010, thereby adding further upward pressure on global oil prices.

Box 6.2 (Cont'd)**Table 1: World Oil Supply and Demand**
(million barrels per day)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Total Demand	86.1	85.0	87.9	86.5	87.0	88.7	89.4
	(-0.6)	(-1.3)	(3.4)	(2.3)	(3.4)	(3.9)	(4.1)
North America	24.2	23.3	23.9	23.6	23.8	24.2	24.0
	(-5.2)	(-3.6)	(2.6)	(0.6)	(3.6)	(4.1)	(1.9)
Europe	16.1	15.2	15.2	14.9	14.8	15.5	15.4
	(-0.7)	(-5.3)	(-0.6)	(-5.1)	(-1.4)	(2.0)	(2.3)
Asia*	17.4	18.4	19.8	19.3	19.9	19.4	20.5
	(1.8)	(6.0)	(7.3)	(10.3)	(6.9)	(4.1)	(8.2)
Mainland China	7.7	8.4	9.4	8.9	9.4	9.2	10.0
	(2.3)	(8.0)	(12.1)	(18.9)	(10.6)	(6.1)	(13.7)
Total Supply	86.4	85.2	87.3	86.5	87.0	87.4	88.3
	(1.1)	(-1.4)	(2.5)	(2.5)	(2.8)	(2.2)	(2.4)
Total Stock Change	0.3	0.2	-0.6	0.0	0.0	-1.3	-1.2

Source: Oil Market Report (April 2011), IEA.

Notes: () Percentage change over a year earlier.

(*) Exclude OECD members.

The recent unrest in MENA has increased the uncertainty in the global economic environment. According to IMF's country groupings, the region accounts for about 3.6% of the world GDP. Though not large in terms of economic size, the region is of strategic importance to the global economy because of its oil resources. The region currently accounts for nearly 30% of the world's crude oil production. It is too early to gauge the full implications of the still-evolving situation in MENA. Apart from the dampening effect on global economic growth, the unrest in MENA, if worsens, thereby accelerating and exacerbating the oil price surge, coupled with the interaction between oil and food prices, would amplify the inflationary pressures around the globe.

Implications for inflation in Hong Kong

The run-up of international oil prices will translate into higher import prices and hence higher retail prices of oil products in Hong Kong. Nevertheless, the direct impact on inflation should not be very significant, as the Hong Kong economy is highly service-oriented and not oil dependent. For the economy as a whole, fuel cost accounts for an average of about 4% of total business cost. However, several industries which have a higher cost share in fuel, including the land and air transport, restaurants, fishery and construction are bound to be affected by a greater extent.

Box 6.2 (Cont'd)

As far as the direct impact on consumer price inflation is concerned, the oil-related products, including motor fuels and LPG, have a combined weighting of 0.77% in the Composite CPI. These items contributed only 0.08 percentage point to the underlying inflation rate of 3.7% in the first quarter of 2011.

Against the backdrop of an unfolding political unrest in the MENA region and strong oil demand from the fast-developing economies, big gyrations of international oil prices are likely to persist in the near term. Although the direct impact on inflation should be rather limited, the spill-over effects of higher oil prices on business costs in some local sectors and on higher inflation in our import sources are of greater concern. Thus rising oil prices are an area for close watch-over for their risks to the global economy and their impacts on Hong Kong's inflation.

Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, in most sectors trended up over the course of 2010 from the relapse in 2009. For the manufacturing sector, output prices picked up further in the fourth quarter of 2010, reflecting a stronger demand overseas as well as higher material costs. Among the service sectors, output prices for accommodation services likewise accelerated progressively during 2010 on account of the thriving inbound tourism. Output prices for water and air transports continued to record double-digit increases in the fourth quarter of 2010. Output prices for land transport were however more steady. Meanwhile, the perennial downtrend in output prices for telecommunications services continued under an environment of technological breakthrough and keen competition.

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

<u>Industry group</u>	<u>2009</u>		<u>2010</u>				<u>2010</u>			
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u> [®]
Manufacturing	-1.7	6.0	-1.4	-3.0	-2.0	-0.3	4.0	6.0	6.4	7.6
Selected services sector ^(a)										
Accommodation services	-8.1	8.9	-7.0	-10.8	-10.5	-4.3	4.4	6.8	9.1	15.1
Land transport	-1.0	1.3	-0.6	-1.5	-2.0	0.2	0.1	0.9	2.2	1.9
Water transport	-16.2	27.4	-12.7	-21.0	-20.8	-10.5	13.0	43.7	41.4	15.0
Air transport	-8.7	16.5	-10.3	-13.6	-15.2	4.7	13.9	17.4	23.5	12.0
Telecommunications	-2.5	-1.5	-2.5	-2.8	-2.5	-2.0	-2.3	-2.1	-1.3	-0.1
Courier services	2.0	2.2	2.1	1.9	1.9	2.1	1.6	2.3	2.3	2.4

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.

([®]) Provisional figures except manufacturing.

GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 1.4% year-on-year in the first quarter of 2011, following an increase of 0.5% in 2010. The *terms of trade*⁽⁵⁾ worsened somewhat as import prices rose faster than export prices. Taking out the external trade components, the domestic demand deflator went up by 4.5% in the quarter, as compared to the 2.3% increase in 2010.

Diagram 6.6 : GDP deflator

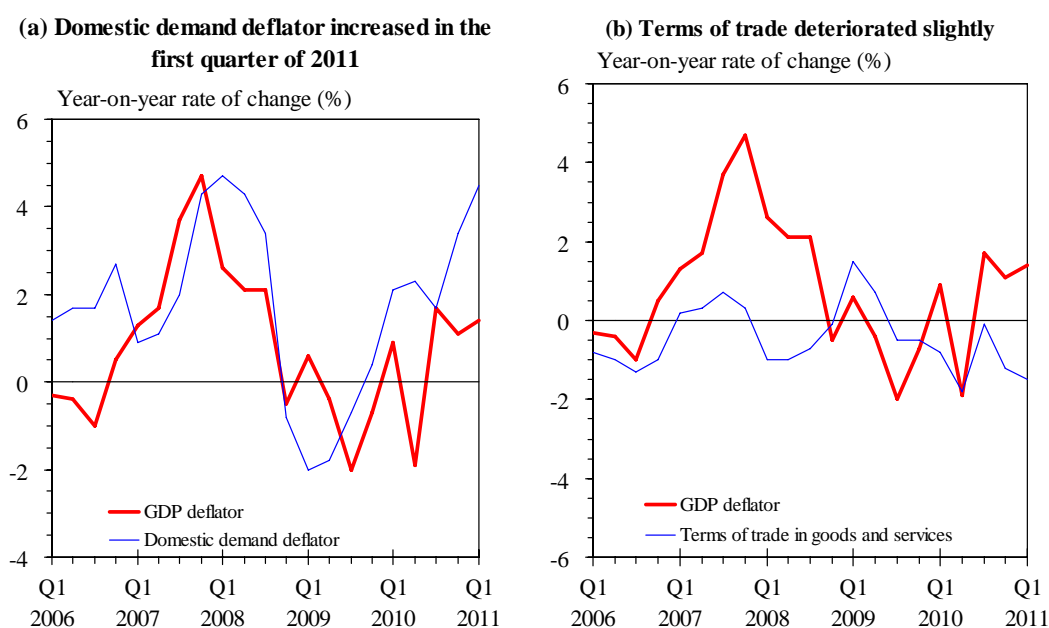


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	<u>2010</u>		<u>2010</u>			<u>2011</u>
	<u>Annual[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
Private consumption expenditure	0.9	0.4	0.2	0.6	2.2	3.2
Government consumption expenditure	0.3	-0.5	0.4	0.6	0.8	1.9
Gross domestic fixed capital formation	7.7	8.1	8.4	5.5	9.1	9.5
Total exports of goods	4.6	2.8	4.1	5.6	5.8	6.4
Imports of goods	6.3	3.8	7.2	6.4	7.8	8.5
Exports of services	7.4	4.8	10.0	7.6	7.5	7.1
Imports of services	5.1	7.4	4.8	4.0	4.9	5.6
Gross Domestic Product	0.5	0.9	-1.9	1.7	1.1	1.4
		<1.1>	<-2.4>	<-2.3>	<0.2>	<1.2>
Total final demand	4.3	3.0	4.2	4.8	5.3	6.0
Domestic demand	2.3	2.1	2.3	1.7	3.4	4.5
Terms of trade in goods and services	-0.9	-0.8	-1.8	-0.1	-1.2	-1.5

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.

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 2009/10-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2009 to Sep 2010</u> (\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 2009/10-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	27.45	33.68	27.16	20.87
<i>Meals bought away from home</i>	<i>17.07</i>	<i>19.23</i>	<i>17.90</i>	<i>13.55</i>
<i>Other foodstuffs</i>	<i>10.38</i>	<i>14.45</i>	<i>9.26</i>	<i>7.32</i>
Housing	31.66	32.19	31.43	31.36
<i>Private dwellings</i>	<i>27.14</i>	<i>24.78</i>	<i>28.13</i>	<i>28.45</i>
<i>Public dwellings</i>	<i>2.05</i>	<i>5.49</i>	<i>0.72</i>	<i>--</i>
<i>Maintenance costs and other housing charges</i>	<i>2.47</i>	<i>1.92</i>	<i>2.58</i>	<i>2.91</i>
Electricity, gas and water	3.10	4.36	2.84	2.03
Alcoholic drinks and tobacco	0.59	0.91	0.56	0.29
Clothing and footwear	3.45	2.60	3.45	4.39
Durable goods	5.27	3.73	5.73	6.39
Miscellaneous goods	4.17	3.87	4.17	4.49
Transport	8.44	7.22	8.35	9.93
Miscellaneous services	15.87	11.44	16.31	20.25
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>2009</u>	<u>2010</u>	<u>2010</u>				<u>2011</u>
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Selected developed economies							
US	-0.4	1.6	2.4	1.8	1.2	1.3	2.1
Canada	0.3	1.8	1.6	1.4	1.8	2.3	2.6
EU	1.0	2.1	1.7	2.0	2.1	2.5	2.9
Japan	-1.4	-0.7	-1.2	-0.9	-0.8	0.1	0.0
Major emerging economies							
Mainland China	-0.7	3.3	2.2	2.9	3.5	4.7	5.0
Russia	11.7	6.9	7.2	5.9	6.2	8.1	9.5
India	10.9	12.0	15.3	13.7	10.3	9.2	9.0
Brazil	4.9	5.0	4.9	5.1	4.6	5.6	6.1
Selected Asian economies							
Hong Kong	0.5	2.4	1.9	2.6	2.3	2.7	3.8
Singapore	0.6	2.8	0.9	3.1	3.4	4.0	5.2
Taiwan	-0.9	1.0	1.3	1.1	0.4	1.1	1.3
South Korea	2.8	3.0	2.7	2.6	2.9	3.6	4.5
Malaysia	0.6	1.7	1.3	1.6	1.9	2.0	2.8
Thailand	-0.8	3.3	3.7	3.2	3.3	2.9	3.0
Indonesia	4.8	5.1	3.7	4.4	6.2	6.3	6.8
Philippines	3.2	3.8	4.3	4.2	3.8	2.9	4.1
Vietnam	6.7	9.2	8.5	9.0	8.4	10.8	12.8
Macao	1.2	2.8	1.5	2.7	3.1	3.9	5.0

- (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.

Statistical Appendix

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

	(\$Mn)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
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
GDP	1,299,218	1,277,314	1,234,761	1,291,923	1,382,590	1,475,357
<i>Per capita GDP (\$)</i>	<i>193,500</i>	<i>189,397</i>	<i>183,449</i>	<i>190,451</i>	202,928	<i>215,158</i>
GNP	1,327,761	1,282,966	1,263,252	1,315,333	1,384,238	1,502,705
<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 ^(a)	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

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[#]</u>	<u>2010[#]</u>		<u>2010</u>		<u>2011</u>
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Private consumption expenditure	972,028	1,022,862	1,012,790	1,085,268	268,826	265,583	296,463	282,462
Government consumption expenditure	130,404	139,262	142,853	147,209	34,807	36,757	36,960	40,480
Gross domestic fixed capital formation	325,366	334,352	322,772	374,586	95,251	95,518	99,906	90,868
<i>of which:</i>								
Building and construction	111,776	127,312	123,798	144,118	37,825	37,017	37,447	38,618
Machinery, equipment and computer software	189,093	182,189	174,736	192,433	48,515	47,901	51,970	41,658
Changes in inventories	12,841	8,480	22,899	38,945	10,055	-5,801	8,787	9,541
Total exports of goods	2,698,850	2,843,998	2,494,746	3,061,252	773,959	838,073	808,741	795,731
Imports of goods	2,852,522	3,024,089	2,702,966	3,395,057	871,131	898,127	897,685	889,542
Exports of services	660,847	718,630	669,829	826,856	185,712	219,955	230,278	223,115
Imports of services	332,240	366,484	340,601	395,201	91,777	103,835	108,124	101,546
GDP	1,615,574	1,677,011	1,622,322	1,743,858	405,702	448,123	475,326	451,109
<i>Per capita GDP (\$)</i>	<i>233,266</i>	<i>240,339</i>	<i>231,638</i>	<i>246,733</i>	--	--	--	--
GNP	1,660,011	1,760,317	1,665,188	1,780,426	423,270	442,013	474,817	N.A.
<i>Per capita GNP (\$)</i>	<i>239,682</i>	<i>252,278</i>	<i>237,758</i>	<i>251,907</i>	--	--	--	--
Total final demand	4,800,336	5,067,584	4,665,889	5,534,116	1,368,610	1,450,085	1,481,135	1,442,197
Total final demand excluding re-exports ^(a)	2,660,146	2,805,196	2,656,255	3,058,515	744,743	770,138	827,308	796,273
Domestic demand	1,440,639	1,504,956	1,501,314	1,646,008	408,939	392,057	442,116	423,351
Private	1,278,479	1,329,853	1,317,516	1,441,256	361,687	341,154	388,696	362,335
Public	162,160	175,103	183,798	204,752	47,252	50,903	53,420	61,016
External demand	3,359,697	3,562,628	3,164,575	3,888,108	959,671	1,058,028	1,039,019	1,018,846

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
GDP	0.5	1.8	3.0	8.5	7.1	7.0
<i>Per capita GDP</i>	<i>-0.2</i>	<i>1.4</i>	<i>3.2</i>	<i>7.6</i>	<i>6.6</i>	<i>6.3</i>
GNP	2.0	0.1	4.9	7.9	5.3	8.8
<i>Per capita GNP</i>	<i>1.3</i>	<i>-0.3</i>	<i>5.1</i>	<i>7.0</i>	<i>4.8</i>	<i>8.1</i>
Total final demand	-0.7	5.0	7.9	11.8	7.7	8.4
Total final demand excluding re-exports ^(a)	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.

(--) Not applicable.

N.A. Not yet available.

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

(%)

	<u>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>			<u>2011</u>	Average annual rate of change:	
					Q2 [#]	Q3 [#]	Q4 [#]		Q1 [#]	10 years 2000 to 2010 [#]
Private consumption expenditure	8.5	2.4	0.7	6.2	4.1	5.3	8.1	7.6	3.3	4.7
Government consumption expenditure	3.0	1.8	2.3	2.7	2.7	3.2	1.6	2.7	1.8	2.0
Gross domestic fixed capital formation	3.4	1.0	-3.9	7.8	15.8	-0.3	8.6	-1.1	2.0	3.0
<i>of which:</i>										
Building and construction	-0.3	6.8	-5.5	6.6	13.2	9.6	11.3	13.4	-2.7	-0.1
Machinery, equipment and computer software	3.0	-0.7	-3.0	5.9	15.9	-7.3	6.4	-11.8	5.0	4.6
Total exports of goods	7.0	1.9	-12.7	17.3	20.2	20.8	8.2	16.8	6.4	4.1
Imports of goods	8.8	1.8	-9.5	18.1	23.4	16.7	7.5	12.6	6.6	5.3
Exports of services	14.1	5.2	0.3	15.0	17.5	15.8	9.3	9.1	9.8	8.8
Imports of services	12.1	6.3	-4.9	10.4	11.9	10.8	7.7	5.1	5.6	6.2
GDP	6.4	2.3	-2.7	7.0	6.7	6.9	6.4	7.2	4.0	3.9
<i>Per capita GDP</i>	<i>5.3</i>	<i>1.5</i>	<i>-3.0</i>	<i>6.0</i>	--	--	--	--	<i>3.4</i>	<i>3.2</i>
GNP	7.4	4.5	-4.8	6.4	5.0	5.3	5.3	N.A.	4.2	4.3
<i>Per capita GNP</i>	<i>6.3</i>	<i>3.7</i>	<i>-5.1</i>	<i>5.4</i>	--	--	--	--	<i>3.6</i>	<i>3.6</i>
Total final demand	8.2	2.3	-6.9	13.7	16.9	13.0	7.2	10.2	5.6	4.9
Total final demand excluding re-exports ^(a)	7.9	1.8	-2.6	10.6	13.9	6.5	6.1	5.1	4.4	4.9
Domestic demand	7.9	1.6	0.8	7.2	10.6	-1.6	4.4	0.5	3.0	4.6
Private	9.0	1.5	0.3	6.7	10.6	-3.3	3.4	-1.2	3.2	4.9
Public	0.2	2.6	4.3	10.2	10.6	11.6	11.9	12.0	1.1	2.6
External demand	8.3	2.6	-10.1	16.8	19.8	19.7	8.4	15.1	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[#]</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
GDP at basic prices	1,359,245	100.0	1,452,803	100.0	1,580,148	100.0	1,592,897	100.0	1,550,851	100.0
Taxes on products	35,305	--	40,348	--	64,634	--	59,919	--	55,967	--
Statistical discrepancy (%)	-0.9	--	-1.2	--	-1.8	--	1.4	--	1.0	--
GDP at current market prices	1,382,590	--	1,475,357	--	1,615,574	--	1,677,011	--	1,622,322	--

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

The above statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 and the series has been 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>			
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Agriculture, fishing, mining and quarrying	-0.2	-3.3	-4.3	-17.0	-4.6	-4.8	-4.8	-0.6	-7.8	-6.5
Manufacturing	1.7	2.2	-1.4	-6.7	-8.3	3.5	0.4	2.2	5.4	5.7
Electricity, gas and water supply, and waste management	2.3	0.8	1.3	0.7	1.5	-0.1	2.9	0.3	-2.7	0.1
Construction	-7.9	-9.4	-1.0	8.9	-7.6	15.8	2.7	21.3	20.2	19.8
Services	7.4	7.0	6.9	2.5	-1.6	7.0	8.4	6.1	7.3	6.4
<i>Import/export, wholesale and retail trades</i>	<i>14.7</i>	<i>8.6</i>	<i>6.1</i>	<i>6.8</i>	<i>-9.4</i>	<i>15.6</i>	<i>22.4</i>	<i>17.9</i>	<i>15.9</i>	<i>9.1</i>
<i>Accommodation and food services</i>	<i>6.2</i>	<i>9.7</i>	<i>10.7</i>	<i>1.7</i>	<i>-11.3</i>	<i>7.3</i>	<i>8.8</i>	<i>10.0</i>	<i>6.8</i>	<i>4.1</i>
<i>Transportation, storage, postal and courier services</i>	<i>7.0</i>	<i>6.5</i>	<i>5.2</i>	<i>2.5</i>	<i>-5.5</i>	<i>8.8</i>	<i>6.7</i>	<i>12.6</i>	<i>9.6</i>	<i>6.6</i>
<i>Information and communications</i>	<i>2.6</i>	<i>8.0</i>	<i>6.5</i>	<i>-1.5</i>	<i>0.9</i>	<i>1.6</i>	<i>1.9</i>	<i>1.7</i>	<i>2.1</i>	<i>0.8</i>
<i>Financing and insurance</i>	<i>11.8</i>	<i>19.6</i>	<i>17.7</i>	<i>-0.8</i>	<i>4.3</i>	<i>7.9</i>	<i>9.1</i>	<i>1.3</i>	<i>7.0</i>	<i>13.8</i>
<i>Real estate, professional and business services</i>	<i>4.6</i>	<i>2.3</i>	<i>6.5</i>	<i>1.7</i>	<i>1.7</i>	<i>2.7</i>	<i>3.0</i>	<i>2.0</i>	<i>1.3</i>	<i>4.5</i>
<i>Public administration, social and personal services</i>	<i>0.2</i>	<i>0.6</i>	<i>1.5</i>	<i>2.2</i>	<i>2.8</i>	<i>2.5</i>	<i>3.1</i>	<i>2.1</i>	<i>3.1</i>	<i>1.8</i>
<i>Ownership of premises</i>	<i>3.0</i>	<i>2.6</i>	<i>2.8</i>	<i>1.8</i>	<i>1.3</i>	<i>0.1</i>	<i>*</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>
Taxes on products	-1.5	7.7	24.9	-1.7	-4.6	6.2	15.6	-1.3	2.4	9.6
GDP in chained (2009) dollars	7.1	7.0	6.4	2.3	-2.7	7.0	8.0	6.7	6.9	6.4

Notes : The above statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 and the series has been 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010[#]</u>	<u>2010</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Current account ^(a)	178,166	199,279	229,506	139,249	108,244	30,888	8,119	43,253	25,984
Goods	-108,983	-153,672	-180,091	-208,220	-333,805	-87,635	-97,172	-60,054	-88,944
Services	277,154	328,607	352,146	329,228	431,655	99,446	93,935	116,120	122,154
Income	27,348	44,437	83,306	42,866	36,568	25,619	17,568	-6,110	-509
Current transfers	-17,353	-20,093	-25,855	-24,625	-26,174	-6,542	-6,212	-6,703	-6,717
Capital and financial account ^(a)	-209,935	-259,247	-231,162	-155,371	-137,410	-36,921	7,152	-57,147	-50,493
Capital and financial non-reserve assets (net change)	-163,199	-144,749	32,707	393,891	-66,324	-16,746	12,650	-41,795	-20,432
Capital transfers	-2,900	10,338	16,393	36,210	40,647	11,834	6,652	11,790	10,372
Financial non-reserve assets (net change)	-160,300	-155,086	16,314	357,680	-106,971	-28,580	5,998	-53,585	-30,804
<i>Direct investment</i>	635	-52,577	70,393	-89,900	-55,730	-12,409	12,905	-30,102	-26,124
<i>Portfolio investment</i>	-207,879	-21,452	-295,148	-332,417	-472,875	-85,587	-101,069	-105,652	-180,566
<i>Financial derivatives</i>	25,925	43,534	63,338	24,560	29,156	7,728	10,777	6,314	4,336
<i>Other investment</i>	21,019	-124,592	177,732	755,438	392,478	61,688	83,384	75,854	171,550
Reserve assets (net change)	-46,735	-114,498	-263,869	-549,262	-71,086	-20,175	-5,498	-15,352	-30,061
Net errors and omissions	31,769	59,968	1,656	16,122	29,166	6,033	-15,271	13,895	24,509
Overall balance of payments	46,735	114,498	263,869	549,262	71,086	20,175	5,498	15,352	30,061

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[#]</u>	<u>2010[#]</u>		<u>2010</u>		<u>2011</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	3,061,252	773,959	838,073	808,741	795,731
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057	871,131	898,127	897,685	889,542
Visible trade balance	-108,983	-153,672	-180,091	-208,220	-333,805	-97,172	-60,054	-88,944	-93,811
	(-4.2)	(-5.4)	(-6.0)	(-7.7)	(-9.8)	(-11.2)	(-6.7)	(-9.9)	(-10.5)
Exports of services	565,054	660,847	718,630	669,829	826,856	185,712	219,955	230,278	223,115
Imports of services	287,900	332,240	366,484	340,601	395,201	91,777	103,835	108,124	101,546
Invisible trade balance	277,154	328,607	352,146	329,228	431,655	93,935	116,120	122,154	121,569
	(96.3)	(98.9)	(96.1)	(96.7)	(109.2)	(102.4)	(111.8)	(113.0)	(119.7)
Exports of goods and services	3,032,411	3,359,697	3,562,628	3,164,575	3,888,108	959,671	1,058,028	1,039,019	1,018,846
Imports of goods and services	2,864,240	3,184,762	3,390,573	3,043,567	3,790,258	962,908	1,001,962	1,005,809	991,088
Visible and invisible trade balance	168,171	174,935	172,055	121,008	97,850	-3,237	56,066	33,210	27,758
	<5.9>	<5.5>	<5.1>	<4.0>	<2.6>	<-0.3>	<5.6>	<3.3>	<2.8>

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>			<u>2011</u>
	(% change)		(% change)		(\$Mn)		Q2	Q3	Q4	Q1
						(% change over a year earlier)				
All markets	9.4	9.2	5.1	-12.6	22.8	3,031,019	24.3	27.8	14.4	24.6
Mainland of China	14.2	13.2	4.7	-7.8	26.5	1,598,222	25.9	31.1	13.7	27.6
United States	2.9	-0.8	-2.4	-20.6	16.4	332,089	21.1	23.4	14.9	13.3
Japan	1.6	-0.7	1.2	-10.0	17.2	127,647	26.5	18.4	12.8	11.3
Germany	4.0	7.2	15.8	-15.5	1.6	80,637	2.1	11.2	3.3	16.6
United Kingdom	6.3	1.7	0.7	-20.8	1.9	60,780	2.1	7.1	-0.3	-1.2
Singapore	4.4	3.8	9.6	-23.6	20.7	50,978	21.4	26.0	16.9	23.8
Taiwan	3.3	1.6	3.8	-0.4	25.4	68,604	29.3	18.1	3.5	21.9
Republic of Korea	7.5	2.0	-6.4	-13.0	24.4	53,668	27.3	17.5	19.2	23.0
Rest of the world	8.5	13.2	11.3	-17.3	23.6	658,394	26.8	30.8	19.9	29.3

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>			<u>2011</u>
					(% change)	(\$Mn)	Q2	Q3	Q4	Q1
	(% change)						(% change over a year earlier)			
All sources	11.6	10.3	5.5	-11.0	25.0	3,364,840	29.9	24.1	15.1	20.6
Mainland of China	13.7	11.5	6.1	-11.4	22.4	1,529,751	26.6	22.9	16.1	21.3
Japan	4.5	7.2	3.6	-20.6	30.4	308,161	37.9	25.2	12.9	15.3
Singapore	21.9	18.2	0.1	-10.4	35.9	237,407	48.0	37.0	16.3	23.3
Taiwan	15.9	5.2	-6.4	-8.5	28.0	224,761	39.5	20.3	4.8	13.6
United States	3.6	12.3	8.6	-5.7	26.0	179,160	25.2	31.8	22.7	19.4
Republic of Korea	16.1	-0.2	-1.1	-12.7	29.8	133,714	52.3	22.9	6.1	29.0
Rest of the world	7.6	10.7	11.5	-7.6	23.0	751,885	23.2	22.2	16.5	21.6

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>			<u>2011</u>
					(% change)	(\$Mn)	Q2	Q3	Q4	Q1
	(% change)						(% change over a year earlier)			
Overall	14.3	9.4	5.3	-10.8	31.3	902,377	47.2	13.7	17.2	10.0
Foodstuffs	4.3	12.9	19.7	9.9	17.7	92,546	9.3	9.6	21.9	3.5
Consumer goods	3.1	11.4	9.0	-14.0	41.4	194,607	56.8	18.4	29.5	31.0
Raw materials and semi-manufactures	8.8	17.7	-4.5	-6.4	34.4	332,133	55.3	17.2	7.2	1.4
Fuels	22.8	20.1	26.6	-18.4	33.8	116,162	73.6	26.2	12.6	28.6
Capital goods	33.2	-8.3	2.5	-18.7	15.9	158,846	26.7	-5.8	23.5	-9.9

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[#]</u>	<u>2010[#]</u>		<u>2010</u>		<u>2011</u>	
	(% change)				(% change)	(\$Mn)	Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	14.1	17.0	8.7	-6.8	23.4	826,856	29.4	24.7	17.5	16.9
Transportation	10.2	14.6	12.7	-18.4	28.0	235,047	33.5	26.3	20.9	12.0
Travel	12.9	18.7	11.1	6.7	35.4	172,271	48.4	50.7	22.9	20.0
Trade-related	9.9	11.6	8.5	-4.3	19.8	247,773	22.8	20.0	15.3	19.9
Other services	28.4	26.8	2.3	-4.0	12.8	171,765	16.6	9.4	12.0	16.3
Imports of services	9.0	15.4	10.3	-7.1	16.0	395,201	17.3	15.3	13.0	11.0
Transportation	10.9	20.4	13.5	-23.0	19.2	113,168	22.5	17.8	15.5	10.0
Travel	5.4	7.6	6.8	-3.1	11.7	135,661	10.0	13.8	10.1	8.2
Trade-related	12.6	15.9	10.6	0.5	23.5	33,362	27.6	24.0	18.9	23.1
Other services	11.2	21.2	11.0	6.8	16.3	113,010	19.2	11.9	12.2	12.2
Net exports of services	19.9	18.6	7.2	-6.5	31.1	431,655	43.8	34.5	21.9	22.2

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>		<u>2011</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
All sources	25 251.1	28 169.3	29 506.6	29 590.7	36 030.3	8 231.3	9 319.9	9 854.4	9 708.0
Mainland of China	13 591.3	15 485.8	16 862.0	17 956.7	22 684.4	4 938.3	6 008.2	6 189.0	6 520.5
South and Southeast Asia	2 659.7	2 888.1	2 936.2	2 885.2	3 500.9	954.1	820.7	1 010.9	776.4
Taiwan	2 177.2	2 238.7	2 240.5	2 009.6	2 164.8	519.1	582.8	525.8	507.4
Europe	1 548.2	1 772.2	1 711.4	1 610.5	1 757.8	408.4	399.2	511.9	441.9
Japan	1 311.1	1 324.3	1 324.8	1 204.5	1 316.6	309.2	339.5	333.7	326.9
United States	1 159.0	1 230.9	1 146.4	1 070.1	1 171.4	300.4	280.4	325.4	279.4
Others	2 804.5	3 229.2	3 285.3	2 854.0	3 434.5	801.8	889.1	957.7	855.6
<u>(% change over a year earlier)</u>									
All sources	8.1	11.6	4.7	0.3	21.8	30.8	24.9	16.9	12.6
Mainland of China	8.4	13.9	8.9	6.5	26.3	37.7	30.2	21.8	17.5
South and Southeast Asia	10.2	8.6	1.7	-1.7	21.3	36.2	26.0	11.7	8.6
Taiwan	2.2	2.8	0.1	-10.3	7.7	13.4	7.1	0.5	-5.5
Europe	10.7	14.5	-3.4	-5.9	9.1	6.9	8.0	9.3	0.8
Japan	8.3	1.0	*	-9.1	9.3	34.1	2.2	2.4	-2.2
United States	1.4	6.2	-6.9	-6.7	9.5	11.9	8.8	8.2	5.3
Others	11.2	15.1	1.7	-13.1	20.3	20.1	28.2	15.8	8.9

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>
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (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 ^(b)	132	138	118	91	111	183	48
Industrial property ^(c)	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 ^(d)	0	27	0	0	13	27	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	47 590	20 154	13 705	20 614	24 691	4 430	4 795
Subsidized sales flats ^(e)	25 702	1 072	320	0	0	0	2 010
Building plans with consent to commence work in the private sector							
<i>('000 m² 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 ^(f)	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
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	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 ^(h)							
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>		<u>2011</u>
				Q2	Q3	Q4	Q1
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	8 776	7 157	13 405	2 151	4 042	2 333	3 259
Commercial property	390	235	189	33	52	29	111
<i>of which :</i>							
Office space	341	151	124	0	34	24	87
Other commercial premises ^(b)	49	84	65	33	18	5	23
Industrial property ^(c)	78	3	21	0	21	0	30
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	0	0	0	0
Conventional flatted factory space	70	3	21	0	21	0	30
Storage premises ^(d)	4	0	0	0	0	0	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	22 759	19 021	6 385	0	0	0	13 672
Subsidized sales flats ^(e)	2 200	370	1 110	1 110	0	0	0
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	530.0	546.8	586.5	84.7	239.3	111.9	163.1
Commercial property	147.7	178.3	156.3	32.2	28.5	0.6	44.8
Industrial property ^(f)	106.6	97.1	34.3	6.7	9.3	0.8	22.4
Other properties	212.8	253.2	459.2	146.3	193.4	79.8	67.4
Total	997.1	1 075.4	1 236.3	269.9	470.5	193.2	297.6
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	95 931	115 092	135 778	32 380	38 080	32 069	28 848
Primary market	11 046	16 161	13 646	3 978	3 224	2 877	1 905
Secondary market	84 885	98 931	122 132	28 402	34 856	29 192	26 943
Selected types of non-residential properties ^(h)							
Office space	2 845	2 521	3 589	845	909	1 023	1 076
Other commercial premises	4 149	5 359	7 626	1 727	2 168	1 976	1 869
Flatted factory space	5 741	5 554	8 210	1 900	2 150	2 475	2 596

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 ^(a)	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 ^(b) :							
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 ^(a)	-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 ^(b) :							
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>		<u>2011</u>
				Q2	Q3	Q4 [#]	Q1 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	120.5	121.3	150.9	146.4	154.1	162.3	173.9
Office space	199.0	179.8	230.1	222.9	231.4	252.5	270.1
Shopping space	192.2	193.1	257.1	248.0	262.8	283.8	303.6
Flatted factory space	235.9	216.3	284.1	272.8	289.9	315.3	348.4
Property rental indices ^(b) :							
Residential flats	115.7	100.4	119.7	117.8	121.9	127.0	127.2
Office space	155.5	135.7	147.7	145.7	150.3	154.6	157.6
Shopping space	116.2	110.9	122.8	121.5	124.6	127.0	128.0
Flatted factory space	109.3	99.4	108.8	108.5	110.3	112.1	113.4
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	16.4	0.7	24.4	25.0	21.2	22.1	23.5
Office space	20.2	-9.6	28.0	31.0	20.8	24.4	26.5
Shopping space	11.4	0.5	33.1	36.5	27.6	28.6	29.9
Flatted factory space	18.2	-8.3	31.3	33.0	30.3	30.7	34.9
Property rental indices ^(b) :							
Residential flats	13.7	-13.2	19.2	22.6	19.2	16.7	13.6
Office space	17.9	-12.7	8.8	10.3	13.3	13.2	12.4
Shopping space	3.9	-4.6	10.7	12.3	11.6	9.9	8.4
Flatted factory space	8.8	-9.1	9.5	11.1	11.2	9.9	8.7

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 ^(a)	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017
M3 ^(a)	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) ^{(b)(c)}							
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 ^(a)	0.5	-0.7	6.2	4.8	5.5	19.2	18.1
M3 ^(a)	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 ^{(b)(c)}							
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>		<u>2011</u>
				Q2	Q3	Q4	Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	491,115	671,241	730,093	671,558	831,730	730,093	745,847
M2 ^(a)	3,239,857	3,587,717	3,866,791	3,596,605	3,919,053	3,866,791	3,868,555
M3 ^(a)	3,261,306	3,604,843	3,878,195	3,610,315	3,932,327	3,878,195	3,882,405
Total money supply (\$Mn)							
M1	645,833	901,819	1,017,227	903,577	1,075,764	1,017,227	1,047,045
M2	6,268,058	6,602,310	7,136,275	6,578,945	6,989,183	7,136,275	7,371,742
M3	6,300,751	6,626,843	7,156,264	6,599,942	7,010,353	7,156,264	7,396,158
Deposit (\$Mn)							
HK\$	3,033,980	3,373,595	3,617,183	3,370,815	3,680,087	3,617,183	3,606,133
Foreign currency	3,024,004	3,007,445	3,245,081	2,981,399	3,056,000	3,245,081	3,467,356
Total	6,057,984	6,381,040	6,862,265	6,352,214	6,736,087	6,862,265	7,073,489
Loans and advances (\$Mn)							
HK\$	2,354,755	2,401,323	2,824,445	2,620,076	2,856,271	2,824,445	2,945,461
Foreign currency	930,883	887,160	1,403,281	1,152,454	1,269,836	1,403,281	1,593,552
Total	3,285,638	3,288,483	4,227,726	3,772,531	4,126,107	4,227,726	4,539,013
Nominal Effective Exchange Rate Indices (Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	87.1	88.2	86.2	87.6	86.4	84.4	83.3
Import-weighted	87.1	87.9	85.3	86.7	85.4	83.2	82.0
Export-weighted	87.2	88.5	87.2	88.5	87.5	85.7	84.7
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	8.1	36.7	8.8	15.4	19.8	8.8	4.6
M2 ^(a)	-1.3	10.7	7.8	3.3	8.9	7.8	7.4
M3 ^(a)	-1.2	10.5	7.6	3.1	8.7	7.6	7.2
Total money supply :							
M1	4.7	39.6	12.8	18.9	18.5	12.8	10.9
M2	2.6	5.3	8.1	1.4	5.3	8.1	11.7
M3	2.6	5.2	8.0	1.3	5.2	8.0	11.7
Deposit							
HK\$	-1.3	11.2	7.2	2.7	8.5	7.2	6.7
Foreign currency	8.2	-0.5	7.9	-0.4	0.8	7.9	15.9
Total	3.2	5.3	7.5	1.2	4.9	7.5	11.0
Loans and advances							
HK\$	7.8	2.0	17.6	10.7	20.0	17.6	18.8
Foreign currency	19.8	-4.7	58.2	37.6	41.6	58.2	61.0
Total	10.9	0.1	28.6	17.8	25.9	28.6	30.9
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	-5.2	1.3	-2.3	-1.5	-1.4	-2.2	-4.0
Import-weighted	-5.8	0.9	-3.0	-2.1	-2.2	-3.1	-4.9
Export-weighted	-4.5	1.5	-1.5	-0.8	-0.5	-1.3	-3.2

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>			
					Q1	Q2	Q3	Q4
Service Industry								
Import and export trade	8.1	7.4	-13.7	19.7	23.5	21.2	20.3	15.0
Wholesale	10.4	6.3	-12.6	25.0	32.6	28.6	24.8	16.8
Retail	12.8	10.6	0.6	18.3	18.8	16.9	17.9	19.4
Transportation	10.5	4.4	-19.9	24.5	17.3	34.6	32.4	15.0
<i>within which :</i>								
Land transport	3.7	2.2	-2.6	6.0	2.6	8.7	7.6	4.9
Water transport	16.8	6.1	-24.1	20.5	11.0	27.4	26.5	16.7
Air transport	7.3	3.5	-21.0	33.7	28.1	50.1	46.2	16.4
Warehousing and storage	15.9	6.6	1.4	9.5	16.3	11.1	5.4	6.4
Courier	5.5	2.1	-6.1	28.3	34.4	35.4	29.1	18.1
Accommodation	15.2	3.8	-17.4	25.3	18.1	32.3	25.2	26.5
Food services	13.4	13.1	0.6	5.1	5.1	4.4	5.2	5.6
Information and communications	8.4	6.0	-3.2	4.9	0.9	2.6	6.2	9.4
<i>within which :</i>								
Telecommunications	11.0	9.8	1.4	3.0	-2.9	-1.1	5.3	10.9
Film entertainment	6.1	-0.7	-12.6	-6.4	5.7	-16.0	-3.8	-11.7
Banking	38.3	-16.9	1.5	8.8	6.3	-0.3	9.3	20.0
Financing (except banking)	68.8	-19.4	-10.3	16.7	54.4	-2.7	-1.8	28.5
<i>within which :</i>								
Financial markets and asset management	71.7	-20.0	-11.7	15.3	60.2	-6.6	-5.5	28.4
<i>within which : Asset management</i>	56.8	-5.2	-12.1	28.4	62.5	26.5	17.1	19.8
Insurance	28.8	*	0.7	8.3	10.0	11.9	4.8	6.8
Real estate	39.5	-3.7	9.7	11.4	20.5	3.6	8.6	15.2
Professional, scientific and technical services	12.3	6.8	-0.5	13.9	16.4	15.1	11.2	13.4
Administrative and support services	11.5	9.4	-12.4	12.3	6.4	14.9	15.4	12.3
Service Domain								
Tourism, convention and exhibition services	18.9	10.1	3.5	35.7	23.2	44.8 ⁺	46.6 ⁺	31.4 ⁺
Computer and information technology services	6.8	5.3	-15.0	32.5	23.9	34.0	42.6	28.2

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⁺</u>		<u>2010</u>		<u>2011</u>
						Q2 ⁺	Q3 ⁺	Q4 ⁺	Q1 ⁺
<u>(%)</u>									
Labour force participation rate	61.2	61.2	60.9	60.7	59.7	59.9	59.9	60.1	59.9
Seasonally adjusted unemployment rate	4.8	4.0	3.6	5.4	4.4	4.6	4.2	4.0	3.4
Underemployment rate	2.4	2.2	1.9	2.3	2.0	2.0	1.9	1.8	1.8
<u>('000)</u>									
Population of working age	5 832.2	5 928.4	5 993.9	6 056.6	6 122.9	6 116.7	6 145.4	6 156.4	6 174.9
Labour force	3 571.8	3 629.6	3 648.9	3 676.6	3 653.7	3 664.0	3 682.5	3 700.0	3 701.8
Persons employed	3 400.8	3 483.8	3 518.8	3 479.8	3 492.5	3 492.1	3 520.6	3 563.7	3 577.3
Persons unemployed	171.1	145.7	130.1	196.7	161.2	171.8	161.8	136.3	124.5
Persons underemployed	86.3	79.2	69.0	86.4	74.7	73.7	71.0	67.0	66.3
<u>(% change over a year earlier)</u>									
Population of working age	0.5	1.6	1.1	1.0	1.1	1.3	1.4	1.2	1.2
Labour force	1.1	1.6	0.5	0.8	-0.6	-0.7	-0.3	1.3	1.2
Persons employed	1.9	2.4	1.0	-1.1	0.4	0.2	1.1	2.4	2.3
Persons unemployed	-13.4	-14.8	-10.7	51.2	-18.1	-15.3	-22.7	-21.0	-22.5
Persons underemployed	-10.4	-8.2	-12.9	25.2	-13.5	-12.2	-20.4	-20.1	-17.2

Note : (+) Provisional figures.

Table 17 : Employment in selected major industries

Selected major industries	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>				No.
	(% change)					Mar	Jun	Sep	Dec	
Manufacturing	-3.2	-2.9	-3.5	-5.7	-4.5	-2.5	-3.9	-5.6	-5.9	117 590
Construction sites (manual workers only)	-10.8	-5.1	-1.5	2.2	9.6	3.8	13.4	17.8	4.3	55 425
Import and export trade	1.0	0.8	-0.3	-4.4	0.9	0.7	1.5	0.9	0.5	500 817
Wholesale	-4.2	-0.3	-2.7	-2.0	1.2	1.9	1.1	1.7	0.1	64 064
Retail	3.1	2.1	2.8	-0.3	3.3	3.7	3.5	2.5	3.6	248 349
Food and beverage services	5.0	3.3	1.8	*	3.7	4.7	4.0	3.0	3.1	221 902
Accommodation services	8.0	5.4	3.1	-1.0	1.5	-1.9	1.4	1.8	4.8	33 386
Transportation, storage, postal and courier services	1.6	2.5	3.5	1.1	1.5	0.9	2.3	1.4	1.4	161 544
Information and communications	1.4	2.2	3.6	-1.6	1.3	1.5	1.7	0.6	1.2	88 894
Financing and insurance	4.6	7.3	5.6	-0.5	4.8	2.6	4.7	6.0	5.8	196 413
Real estate	5.3	4.4	2.7	0.5	4.1	5.1	4.7	2.9	3.8	112 542
Professional and business services (excluding cleaning and similar services)	4.9	4.8	3.4	0.9	2.2	2.3	2.4	2.0	2.1	241 741
Cleaning and similar services	2.5	0.6	-1.7	6.7	13.7	14.3	13.9	16.1	10.6	72 603
Education	5.0	3.3	4.8	5.3	3.4	5.5	5.4	2.1	0.6	165 601
Human health services	3.7	5.5	5.1	3.8	3.0	4.1	2.2	2.7	2.9	94 226
Residential care and social work services	1.5	1.4	1.3	1.5	1.8	2.0	1.3	1.5	2.3	57 414
Arts, entertainment, recreation and other services	3.3	1.5	1.9	0.8	5.0	6.8	3.8	4.9	4.7	115 571
Civil Service ^(a)	-1.3	-0.4	0.1	1.1	0.5	0.9	0.6	0.3	0.3	156 709
Others ^(b)	-0.3	0.9	7.0	-1.0	3.1	1.2	2.2	7.4	1.8	11 158

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		
						Mar	Jun	Sep	Dec
<u>(number)</u>									
Building sites									
Private sector	30 993	29 240	28 899	28 776	28 620	28 429	30 154	29 571	26 327
Public sector ^(a)	7 643	7 767	8 136	10 277	11 463	11 532	10 325	10 943	13 052
Sub-total	38 636	37 007	37 034	39 053	40 083	39 961	40 479	40 514	39 379
Civil engineering sites									
Private sector	1 569	1 674	1 686	1 618	1 544	1 635	1 665	1 873	1 002
Public sector ^(a)	12 661	11 504	10 703	9 831	13 714	12 317	13 379	14 115	15 044
Sub-total	14 230	13 178	12 388	11 449	15 258	13 952	15 044	15 988	16 046
Total	52 865	50 185	49 422	50 501	55 341	53 913	55 523	56 502	55 425
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.8	-5.7	-1.2	-0.4	-0.5	-4.2	6.3	8.3	-11.6
Public sector ^(a)	-24.6	1.6	4.7	26.3	11.5	3.8	11.1	14.7	16.9
Sub-total	-7.3	-4.2	0.1	5.5	2.6	-2.0	7.5	10.0	-3.8
Civil engineering sites									
Private sector	-28.6	6.7	0.7	-4.0	-4.6	12.5	3.4	8.1	-40.2
Public sector ^(a)	-17.7	-9.1	-7.0	-8.1	39.5	26.7	38.3	50.3	42.8
Sub-total	-19.0	-7.4	-6.0	-7.6	33.3	24.9	33.3	43.7	31.4
Total	-10.8	-5.1	-1.5	2.2	9.6	3.8	13.4	17.8	4.3

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**

(%)

Selected industry section	2006	2007	2008	2009	2010	2010			
						Q1	Q2	Q3	Q4
(in nominal terms)									
Manufacturing	1.7	2.5	0.9	-3.5	2.6	3.6	2.8	1.1	2.7
Sewerage, waste management and remediation activities	10.4	17.0	-8.6	2.1	-0.1	-4.3	2.1	1.6	0.7
Import/export and wholesale trade	3.9	1.8	6.3	-1.6	2.6	2.2	2.7	0.5	4.9
Retail trade	2.1	2.6	8.1	-1.5	3.9	1.2	3.6	2.4	8.8
Transportation, storage, postal and courier services	3.0	3.9	-0.6	-0.2	3.4	2.4	6.6	3.6	1.7
Accommodation and food service activities	2.6	3.9	2.6	-0.6	3.3	4.4	3.8	3.0	2.0
Information and communications	0.6	-2.9	6.6	0.2	2.6	5.2	4.6	1.2	-0.5
Financial and insurance activities	10.0	9.8	9.0	-3.3	7.2	4.7	6.8	5.2	12.5
Real estate activities	-2.5	-0.4	8.0	-2.4	1.3	3.7	0.5	1.3	-0.1
Professional and business services	3.3	4.8	3.5	0.6	2.4	4.6	2.7	0.2	2.2
Social and personal services	1.0	1.5	3.1	1.7	-2.4	-3.0	-2.9	-2.4	-1.2
All industries surveyed	2.4	4.0	2.6	0.5	2.4	1.1	4.9	0.8	3.1
(in real terms)									
Manufacturing	-0.3	0.5	-3.3	-4.0	0.2	1.7	0.3	-1.2	-0.1
Sewerage, waste management and remediation activities	8.2	14.8	-12.3	1.5	-2.4	-6.1	-0.4	-0.7	-2.0
Import/export and wholesale trade	1.8	-0.2	1.9	-2.2	0.2	0.3	0.2	-1.8	2.0
Retail trade	0.1	0.6	3.6	-2.1	1.5	-0.7	1.1	0.1	5.8
Transportation, storage, postal and courier services	0.9	1.9	-4.7	-0.7	1.1	0.5	4.0	1.3	-1.1
Accommodation and food service activities	0.6	1.8	-1.7	-1.2	0.9	2.5	1.3	0.7	-0.8
Information and communications	-1.4	-4.7	2.2	-0.4	0.3	3.3	2.1	-1.1	-3.2
Financial and insurance activities	7.9	7.7	4.6	-3.9	4.7	2.7	4.2	2.8	9.5
Real estate activities	-4.4	-2.3	3.5	-3.0	-1.0	1.8	-2.0	-1.0	-2.8
Professional and business services	1.3	2.8	-0.7	*	0.1	2.6	0.2	-2.1	-0.5
Social and personal services	-1.0	-0.5	-1.2	1.2	-4.6	-4.8	-5.2	-4.6	-3.9
All industries surveyed	0.4	1.9	-1.7	*	0.1	-0.7	2.4	-1.5	0.3

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>			
Selected industry section						Mar	Jun	Sep	Dec
(in nominal terms)									
Manufacturing	0.2	4.3	2.6	-1.2	-1.0	-1.6	-1.0	-0.3	-1.0
Import/export, wholesale and retail trades ^(a) <i>within which :</i>	1.1	2.3	3.6	-1.1	2.6	1.5	1.8	2.6	4.4
Import/export and wholesale trades:	1.0	2.8	3.1	-1.2	2.7	1.7	--	2.7	--
Retail trade	0.8	-1.7	4.9	-0.2	1.1	-0.8	--	1.6	--
Transportation	0.1	1.5	1.8	*	1.1	1.1	0.8	1.0	1.5
Accommodation and food service activities	1.0	1.4	3.1	-2.3	2.5	1.6	2.6	2.3	3.4
Financial and insurance activities ^(b)	2.1	2.4	2.8	-0.5	3.0	3.9	2.8	3.0	2.2
Real estate leasing and maintenance management	2.3	1.4	2.7	-0.4	2.6	3.0	3.3	2.3	1.9
Professional and business services	2.4	4.8	4.9	0.8	3.4	3.1	3.7	3.1	3.6
Personal services	3.4	8.5	0.5	-0.7	3.4	3.4	3.1	2.8	4.4
All industries surveyed	1.7	2.6	3.4	-0.9	2.4	1.9	2.2	2.4	3.3
(in real terms)									
Manufacturing	-1.5	2.4	-0.1	-1.6	-4.0	-4.0	-4.1	-3.3	-4.4
Import/export, wholesale and retail trades ^(a) <i>within which :</i>	-0.6	0.4	0.9	-1.4	-0.5	-1.0	-1.4	-0.6	0.8
Import/export and wholesale trades:	-0.7	0.9	0.4	-1.5	-0.4	-0.8	--	-0.5	--
Retail trade	-0.9	-3.5	2.2	-0.5	-1.9	-3.2	--	-1.6	--
Transportation	-1.7	-0.4	-0.8	-0.3	-2.0	-1.4	-2.4	-2.1	-2.0
Accommodation and food service activities	-0.8	-0.4	0.4	-2.6	-0.6	-0.9	-0.6	-0.9	-0.2
Financial and insurance activities ^(b)	0.3	0.6	0.2	-0.8	-0.1	1.3	-0.4	-0.2	-1.3
Real estate leasing and maintenance management	0.6	-0.5	0.1	-0.7	-0.5	0.5	0.1	-0.9	-1.6
Professional and business services	0.7	2.9	2.2	0.5	0.2	0.6	0.5	-0.1	*
Personal services	1.6	6.5	-2.1	-1.0	0.3	0.9	-0.2	-0.4	0.9
All industries surveyed	*	0.7	0.7	-1.3	-0.7	-0.6	-1.0	-0.8	-0.3

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 ^(a) :								
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 ^(b)	-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) The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same 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>2011</u>	<u>Average annual rate of change:</u>	
			Q2	Q3	Q4	Q1	10 years 2000 to 2010	5 years 2005 to 2010
GDP deflator	-0.6 #	0.5 #	-1.9 #	1.7 #	1.1 #	1.4 #	-1.1 #	0.8 #
Domestic demand deflator	-1.0 #	2.3 #	2.3 #	1.7 #	3.4 #	4.5 #	-0.2 #	1.6 #
Consumer Price Indices ^(a) :								
Composite CPI	0.5	2.4	2.6	2.3	2.7	3.8	0.4	2.2
CPI(A)	0.4	2.7	3.0	1.9	3.2	4.1	0.3	1.9
CPI(B)	0.5	2.3	2.5	2.6	2.4	3.7	0.5	2.3
CPI(C)	0.6	2.1	2.2	2.3	2.5	3.7	0.5	2.5
Unit Value Indices :								
Domestic exports	-0.2	5.5	6.1	5.7	6.7	6.7	0.4	1.8
Re-exports	1.2	4.6	3.9	5.2	6.5	7.6	0.9	2.6
Total exports of goods	1.1	4.7	4.0	5.2	6.5	7.6	0.9	2.6
Imports of goods	-0.1	6.4	6.6	7.2	8.2	8.9	1.3	3.0
Terms of Trade Index	1.3	-1.7	-2.4	-1.9	-1.6	-1.2	-0.4	-0.4
Producer Price Index ^(b) for all manufacturing industries	-1.7	6.0	6.0	6.4	7.6	N.A.	--	3.0
Tender Price Indices :								
Public sector building projects	-15.9	12.5	18.1	12.4	14.4	N.A.	3.1	11.1
Public housing projects	-6.8	N.A.	5.5	7.5	N.A.	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>
All items	100.0	-1.6 (--)	-3.0 (--)	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)	2.0 (2.8)
Food	27.45	-0.8	-2.1	-1.5	1.0	1.8	1.7	4.3
<i>Meals bought away from home</i>	17.07	-0.3	-1.5	-1.5	0.2	0.9	1.3	2.5
<i>Food, excluding meals bought away from home</i>	10.38	-1.7	-3.1	-1.7	2.5	3.2	2.5	7.1
Housing ^(a)	31.66	-3.1	-5.7	-4.8	-5.2	0.1	4.7	2.0
<i>Private housing rent</i>	27.14	-2.9	-6.5	-6.3	-6.6	-0.1	5.6	4.0
<i>Public housing rent</i>	2.05	-8.3	-2.7	9.1	2.5	0.2	0.1	-17.7
Electricity, gas and water	3.10	-1.9	-7.0	1.4	11.4	4.1	2.1	-0.7
Alcoholic drinks and tobacco	0.59	3.3	2.4	0.1	*	0.4	-3.7	-1.2
Clothing and footwear	3.45	-4.6	0.7	-2.7	6.4	2.0	1.0	4.1
Durable goods	5.27	-7.1	-6.3	-6.4	-2.2	-3.2	-6.4	-4.7
Miscellaneous goods	4.17	1.3	1.7	2.3	3.6	1.5	1.7	2.5
Transport	8.44	0.4	-0.6	-0.4	0.4	1.4	0.7	-0.1
Miscellaneous services	15.87	0.5	-2.3	-3.2	-0.2	1.0	1.9	1.7

Notes : The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2009/10-based index 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>			<u>2011</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 2000 to 2010	5 years 2005 to 2010
All items	100.0	4.3 (5.6)	0.5 (1.0)	2.4 (1.7)	2.6 (1.5)	2.3 (2.0)	2.7 (2.4)	3.8 (3.7)	0.4 (--)	2.2 (--)
Food	27.45	10.1	1.3	2.4	2.0	2.8	3.6	5.2	1.8	3.9
<i>Meals bought away from</i>	<i>17.07</i>	<i>5.9</i>	<i>1.6</i>	<i>1.7</i>	<i>1.4</i>	<i>1.9</i>	<i>2.4</i>	<i>4.1</i>	<i>1.1</i>	<i>2.6</i>
<i>Food, excluding meals bought away from home</i>	<i>10.38</i>	<i>16.8</i>	<i>0.9</i>	<i>3.5</i>	<i>2.8</i>	<i>4.1</i>	<i>5.6</i>	<i>7.0</i>	<i>2.9</i>	<i>6.0</i>
Housing ^(a)	31.66	4.1	3.7	0.4	0.3	-0.7	2.2	3.8	-0.5	3.0
<i>Private housing rent</i>	<i>27.14</i>	<i>6.8</i>	<i>3.6</i>	<i>0.9</i>	<i>0.4</i>	<i>1.2</i>	<i>2.2</i>	<i>4.1</i>	<i>-0.3</i>	<i>4.2</i>
<i>Public housing rent</i>	<i>2.05</i>	<i>-27.2</i>	<i>9.5</i>	<i>-7.8</i>	<i>-0.3</i>	<i>-85.7</i>	<i>4.0</i>	<i>4.0</i>	<i>-4.9</i>	<i>-9.5</i>
Electricity, gas and water	3.10	-6.5	-25.3	43.3	64.0	43.1	16.1	7.3	0.8	0.3
Alcoholic drinks and tobacco	0.59	0.1	18.7	3.4	0.8	0.3	0.5	8.1	2.2	3.2
Clothing and footwear	3.45	0.8	2.7	1.8	2.0	1.7	1.9	5.6	1.2	2.1
Durable goods	5.27	-2.0	-3.0	-2.7	-1.6	-2.5	-5.0	-4.4	-4.4	-3.8
Miscellaneous goods	4.17	5.0	2.3	2.4	2.3	2.7	2.5	3.1	2.4	2.8
Transport	8.44	2.5	-0.9	2.0	1.7	2.1	3.0	3.3	0.5	0.8
Miscellaneous services	15.87	0.8	-2.1	2.0	2.1	2.5	2.7	3.3	*	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
Gross Domestic Product	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3	2.9
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[#]</u>	<u>2010[#]</u>	<u>2010</u>			<u>2011</u>	Average annual <u>rate of change:</u>	
				Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 2000 to 2010 [#]	5 years 2005 to 2010 [#]
Private consumption expenditure	2.8	-1.6	0.9	0.2	0.6	2.2	3.2	0.1	1.4
Government consumption expenditure	4.9	0.2	0.3	0.4	0.6	0.8	1.9	0.3	1.9
Gross domestic fixed capital formation	1.7	0.5	7.7	8.4	5.5	9.1	9.5	-1.2	2.2
Total exports of goods	3.4	0.5	4.6	4.1	5.6	5.8	6.4	0.5	2.2
Imports of goods	4.1	-1.3	6.3	7.2	6.4	7.8	8.5	0.9	2.6
Exports of services	3.4	-7.0	7.4	10.0	7.6	7.5	7.1	0.3	1.9
Imports of services	3.8	-2.3	5.1	4.8	4.0	4.9	5.6	1.7	2.0
Gross Domestic Product	1.5	-0.6	0.5	-1.9	1.7	1.1	1.4	-1.1	0.8
Total final demand	3.2	-1.1	4.3	4.2	4.8	5.3	6.0	0.2	1.9
Domestic demand	2.8	-1.0	2.3	2.3	1.7	3.4	4.5	-0.2	1.6

