



# Third Quarter Economic Report 2011

Government of the Hong Kong  
Special Administrative Region

# ***THIRD QUARTER ECONOMIC REPORT 2011***

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HONG KONG SPECIAL ADMINISTRATIVE REGION

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# CONTENTS

## *Paragraphs*

### CHAPTER 1: OVERVIEW OF ECONOMIC PERFORMANCE

Overall situation	1.1 - 1.2
The external sector	1.3 - 1.4
The domestic sector	1.5 - 1.6
The labour sector	1.7
The asset markets	1.8 - 1.9
Inflation	1.10 - 1.11
GDP by major economic sector	1.12
Some highlights of economic policy	1.13 - 1.15
Box 1.1 Diffusion indices on small and medium-sized enterprises (an update)	

### CHAPTER 2: THE EXTERNAL SECTOR

Visible trade	
Total exports of goods	2.1 - 2.5
Imports of goods	2.6
Invisible trade	
Exports of services	2.7
Imports of services	2.8
Visible and invisible trade balance	2.9
Other developments	2.10 - 2.11

### CHAPTER 3: DEVELOPMENTS IN SELECTED SECTORS

Property	3.1 - 3.11
Land	3.12
Tourism	3.13 - 3.14
Logistics	3.15 - 3.16
Transport	3.17
Creativity and innovation	3.18
Environment	3.19 - 3.20
Box 3.1 Latest Government housing measures (October 2011)	

### CHAPTER 4: THE FINANCIAL SECTOR

Interest rates and exchange rates	4.1 - 4.5
Money supply and banking sector	4.6 - 4.14
The debt market	4.15 - 4.16
The stock and derivatives markets	4.17 - 4.20
Fund management and investment funds	4.21 - 4.22
Insurance sector	4.23

## CHAPTER 5: THE LABOUR SECTOR

Overall labour market situation	5.1
Total employment and labour force	5.2 - 5.6
Profile of unemployment	5.7 - 5.9
Profile of underemployment	5.10
Profile of employment in establishments	5.11 - 5.12
Vacancies	5.13 - 5.16
Wages and earnings	5.17 - 5.22
Recent labour-related measures	5.23 - 5.25
Box 5.1 Latest labour market conditions after the implementation of statutory minimum wage	

## CHAPTER 6: PRICES

Consumer prices	6.1 - 6.4
Costs of factor inputs and import prices	6.5 - 6.6
Output prices	6.7
GDP deflator	6.8
Box 6.1 Difference between the headline and underlying Composite CPIs	

## STATISTICAL APPENDIX

## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The growth momentum of the Hong Kong economy tapered further in the third quarter of 2011, amid increasing headwinds on the external front caused by the deepening eurozone sovereign debt crisis and faltering recovery in the US. The domestic sector nevertheless stayed robust throughout the quarter, thereby rendering a strong support to overall economic performance.*
- *GDP grew by 4.3% in the third quarter over a year earlier. Though broadly on par with the trend growth over the past ten years, this represented a further moderation from the 5.3% year-on-year growth in the second quarter. The slowdown was evident also from the meagre growth of 0.1% on a quarter-to-quarter basis.*
- *Total exports of goods suffered a further setback and relapsed to a modest year-on-year decline in the third quarter. While the performance of the US and EU markets slackened further, the dampening effects of sluggish final demand from the advanced economies were also increasingly evident across many Asian markets. The ensuing deceleration in industrial production in the region had resulted in a notable fall-off in Hong Kong's raw material exports to Asia, thereby exacerbating further the weakness in overall export performance.*
- *Exports of services fared relatively better, still expanding at a solid pace. Exports of travel services continued to thrive with the strong influx of incoming visitors. Exports of financial and business services continued to see appreciable growth, despite heightened volatilities in the global financial markets. Exports of transportation and trade-related services were however more significantly affected by the regional trade slowdown.*
- *Domestic demand held up remarkably well and was the key growth driver in the third quarter. Private consumption expenditure grew robustly further, thanks to rising incomes and job growth. Overall investment spending picked up to a double-digit growth, with strong machinery and equipment acquisition and infrastructure construction offsetting the continued slack in private construction activities.*
- *The labour market showed broad-based, notable improvements during the quarter. Total employment rose successively to new record highs, pushing the seasonally adjusted unemployment rate down to 3.2% in the third quarter, the lowest in 13 years. With the labour market in a state of*

*virtually full employment, employment earnings continued to show notable growth across many sectors and occupation categories.*

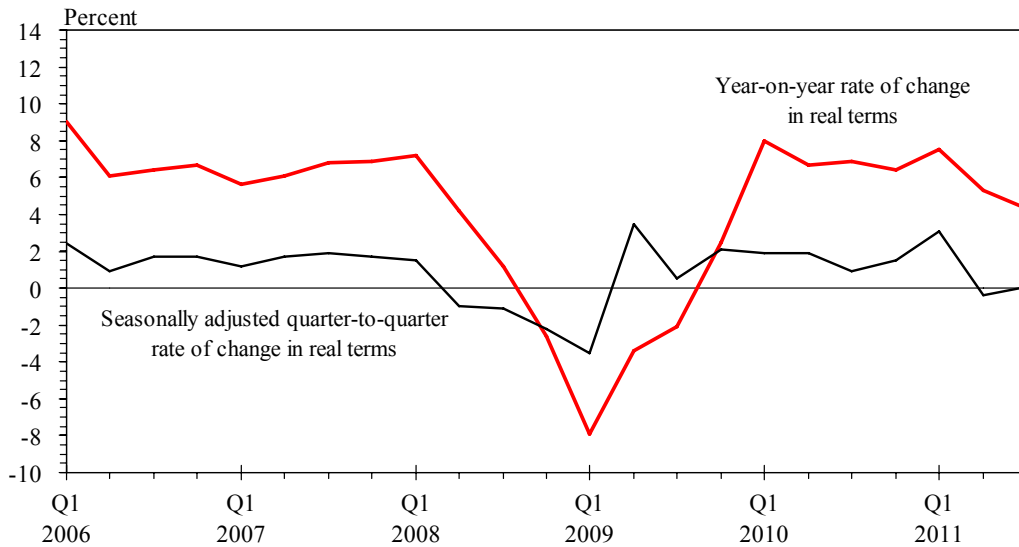
- *The local stock market underwent a sharp correction during the quarter, as global sentiment was significantly hit by the deepening eurozone debt crisis and mounting concern over the increasingly shaky global economic recovery. Local property market also showed some consolidation amid more cautious market sentiments, with residential flat prices and transaction volume both recording declines.*
- *Inflation climbed up further in the third quarter, with underlying consumer price inflation rising to 6.1%, as both domestic and external cost pressures continued to filter through. The pace of rising inflation nevertheless displayed some initial signs of moderation towards the end of the quarter, thanks to the slight ease-back of food inflation after its almost uninterrupted rise over the past year.*

## **Overall situation**

1.1 The economy grew at a less rapid pace in the third quarter of 2011, mainly due to the further slackening in the external sector. The external environment deteriorated rapidly during the quarter, as the sovereign debt crisis in the eurozone escalated and US economic recovery lost momentum. With the dire situation in the advanced economies, the export-dependent Asian region has likewise seen a general deceleration in production and export activities during the quarter. These negative developments had led to a distinct slackening in Hong Kong's exports of goods towards the end of the quarter. Exports of services were more resilient, thanks mostly to vibrant inbound tourism. But more importantly is the strength of domestic demand throughout the quarter, underpinned by a virtually full-employment situation, rising household incomes and further pick-up in business investment. The strength of the local segment has been instrumental in cushioning the overall economy against the negative impacts from the external environment in the quarter.

1.2 In the third quarter of 2011, the *Gross Domestic Product (GDP)*<sup>(1)</sup> grew by 4.3% in real terms over a year earlier, somewhat less rapid than the 5.3% growth in the second quarter (revised from the earlier estimate of 5.1%). Taking the first three quarters of 2011 together, real GDP expanded by 5.6% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP showed a slight increase of 0.1% in the third quarter, after a marginal contraction of 0.4% in the second quarter.

**Diagram 1.1 : The economy showed less rapid growth, dragged by the further slackening in the external sector**



## The external sector

1.3 Exports of goods slackened further in the third quarter. Exports to the US saw another quarter of noticeable decline, curtailed by the sluggish demand there. The decline in exports to the EU enlarged further, reflecting the sluggishness and weak sentiment in many EU member economies. Exports to a number of Asian markets, including the Mainland, also slowed, due to the fall-off in intra-regional exports and raw material intake which were closely tied to demand in the developed markets. Exports to Japan however showed some relative improvement, as the post-earthquake recovery proceeded. Exports to Taiwan and India maintained very strong growth. In general, exports of consumer and capital goods to Asia held up relatively better, though not sufficient to make up for the lull in the developed markets. In the third quarter, *total exports of goods* dipped by 2.2% in real terms over a year earlier, down further from virtually zero growth in the second quarter.

1.4 *Exports of services* were more resilient, maintaining a solid growth of 6.6% in real terms in the third quarter, following a 7.7% growth in the second quarter. Exports of travel services provided the main growth impetus, thanks to vibrant inbound tourism. Exports of financial and business services had further appreciable growth, despite heightened global financial market volatilities during the quarter. Exports of transportation and trade-related services (comprising mainly offshore trade activities) were however more significantly hit by the slowdown in global trade flows in the quarter.

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

	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>				<u>2011</u>		
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
<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)	8.0 (1.0)	9.7 (2.8)	8.8 (1.1)
Government consumption expenditure	2.3	2.7	3.3 (0.9)	2.7 (0.8)	3.2 (0.9)	1.6 (-0.8)	2.6 (1.8)	1.2 (-0.7)	1.7 (1.3)
Gross domestic fixed capital formation	-3.9	7.8	8.2	15.8	-0.3	8.6	-0.3	7.0	10.2
<i>of which :</i>									
Building and construction	-5.5	6.6	-7.1	13.2	9.6	11.3	16.0	-5.4	*
Machinery, equipment and computer software	-3.0	5.9	11.5	15.9	-7.3	6.4	-12.1	17.5	26.4
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)	0.3 (-11.1)	-2.2 (*)
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)	2.6 (-5.9)	1.4 (-1.0)
Exports of services	0.3	15.0	18.4 (4.1)	17.5 (2.2)	15.8 (2.2)	9.3 (0.3)	9.3 (4.1)	7.7 (0.9)	6.6 (1.1)
Imports of services	-4.9	10.4	11.2 (2.2)	11.9 (2.4)	10.8 (1.0)	7.7 (1.7)	5.8 (0.6)	3.2 (-0.1)	2.1 (-0.1)
<b>Gross Domestic Product</b>	<b>-2.7</b>	<b>7.0</b>	<b>8.0 (1.9)</b>	<b>6.7 (1.9)</b>	<b>6.9 (0.9)</b>	<b>6.4 (1.5)</b>	<b>7.5 (3.1)</b>	<b>5.3 (-0.4)</b>	<b>4.3 (0.1)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>-0.6</b>	<b>0.5</b>	<b>0.9 (1.1)</b>	<b>-1.9 (-2.4)</b>	<b>1.7 (2.3)</b>	<b>1.1 (0.2)</b>	<b>1.2 (1.0)</b>	<b>5.0 (1.5)</b>	<b>4.3 (1.4)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>0.5</b>	<b>2.4<sup>@</sup></b>	<b>1.9 (0.8)<sup>@</sup></b>	<b>2.6 (0.5)<sup>@</sup></b>	<b>2.3 (-2.2)<sup>@</sup></b>	<b>2.7<sup>@</sup> (3.7)<sup>@</sup></b>	<b>3.8<sup>@</sup> (1.8)<sup>@</sup></b>	<b>5.2<sup>@</sup> (1.8)<sup>@</sup></b>	<b>6.4<sup>@</sup> (-0.9)<sup>@</sup></b>
<b>Underlying<sup>^</sup></b>	<b>1.0</b>	<b>1.7<sup>@</sup></b>	<b>0.8 (0.5)<sup>@</sup></b>	<b>1.5 (0.5)<sup>@</sup></b>	<b>2.0 (0.4)<sup>@</sup></b>	<b>2.4<sup>@</sup> (1.0)<sup>@</sup></b>	<b>3.7<sup>@</sup> (1.8)<sup>@</sup></b>	<b>5.0<sup>@</sup> (1.8)<sup>@</sup></b>	<b>6.1<sup>@</sup> (1.5)<sup>@</sup></b>
<b>Change in nominal GDP (%)</b>	<b>-3.3</b>	<b>7.5</b>	<b>8.9</b>	<b>4.7</b>	<b>8.7</b>	<b>7.6</b>	<b>8.7</b>	<b>10.5</b>	<b>8.8</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

(@) 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 Contrary to the weak performance in the external sector, the domestic sector displayed remarkable strength throughout the third quarter, thereby rendering the key support to overall economic performance. Local consumer sentiment held firm, thanks to the further improvement in job and income conditions. *Private consumption expenditure* grew robustly further by 8.8% in real terms in the third quarter over a year earlier, following the 9.7% growth in the second quarter. *Government consumption expenditure* maintained modest growth at 1.7% in real terms over a year earlier.

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

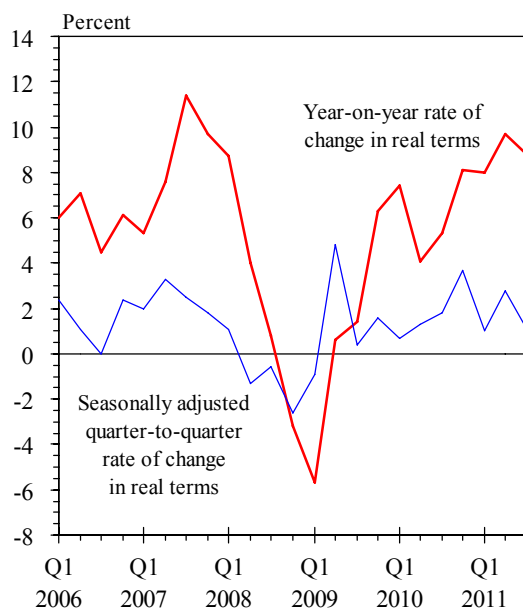
*Of which :*

		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
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	H1	10.0	1.1	34.1	22.2	3.6	2.7	13.1	8.9
	Q1	8.9	3.6	24.2	19.2	3.5	2.2	10.8	8.0
	Q2	11.1	-0.9	45.5	25.2	3.7	3.1	15.7	9.7
	Q3	10.9	0.4	38.3	21.8	3.9	-0.3	16.5	8.8

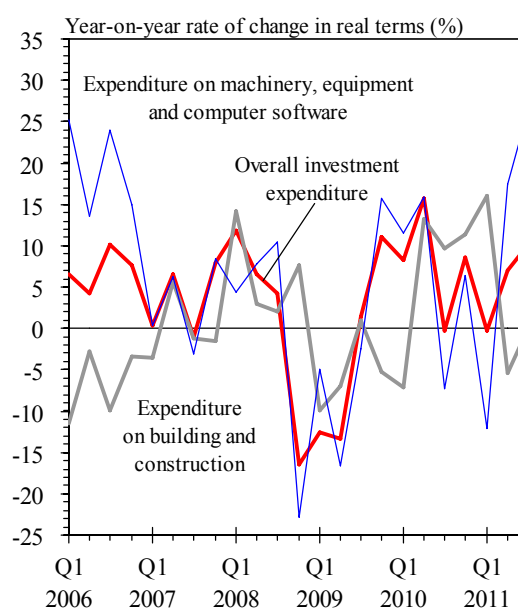
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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 grew robustly further amid improved job and income conditions**



**Diagram 1.3 : Investment spending also picked up to double-digit growth**



1.6 Overall investment expenditure in terms of *gross domestic fixed capital formation* picked up to a strong growth of 10.2% in real terms in the third quarter over a year earlier, further to the 7.0% growth in the second quarter. Growth in the third quarter was underpinned by a hectic expansion of private machinery and equipment investment, by 28.0% year-on-year. Overall building and construction expenditure, as another component in overall investment, was virtually unchanged from a year earlier in real terms in the third quarter, after the 5.4% decline in the second quarter. Public sector works continued apace, thereby offsetting the continued shrinkage in private sector construction activity in the quarter. Yet, in view of growing uncertainties in the external environment, business sentiments among large enterprises have turned less sanguine of late, as indicated by the latest Quarterly Business Tendency Survey conducted in September and early October. The views of small and medium-sized enterprises (SMEs) were also more downbeat (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 current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.1* in the *Half-yearly Economic Report 2011*.

From June 2011 onwards, the industry coverage and questionnaire design for the exercise have been modified. Specifically, three sectors (viz. travel agents, financing institutions, and insurance agents and brokers) are dropped from the exercise, whilst questions on access to credit have been modified to gauge SMEs' views as to whether the current and expected credit access situation are "easy", "fair" or "tight", rather than in respect of a comparison with the normal times. The sample size of the panel is consequently reduced to around 410.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts and employment versus the preceding month. Given the changes in questions and sample, the results regarding their views on business receipts and employment since the June 2011 round onwards are not strictly comparable with those in the preceding rounds. The findings should also 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 deteriorated quite visibly in recent months (*Table 1*). In September and October 2011, a larger proportion of SMEs in almost all of the seven sectors surveyed reported some deterioration in business receipts, in face of a more difficult external environment. Among them, more notable declines were seen in the real estate sector, due to a quieter property market, as well as the logistics and import/export trade sectors, due to the rapidly slowing global economy. In addition, the feedback from SMEs indicated some marginal deterioration in overall employment situation in recent months (*Table 2*).

Specifically for import and export trading firms, their views on new export orders were sought separately to gauge the export performance. The diffusion index on new export orders came down to 45.7 in both September and October 2011, the lowest since the series was launched in June 2010. This reflects a bleaker export outlook due to increased headwinds stemming from the weaknesses in the US and Europe.

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

**Box 1.1 (Cont'd)**

Credit access situation remained good in recent months, with only 1.2% of SMEs reporting tight current access to credit in October 2011 and a similar proportion of SMEs expecting tight credit access in the coming month, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

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

	2011									
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>										
Restaurants	50.0	50.0	49.1	50.0	50.0	48.3	50.0	48.3	45.6	47.4
Travel	48.3	48.3	48.3	50.0	51.7	--	--	--	--	--
Real estate	60.6	52.9	48.5	45.6	41.2	33.8	42.9	45.7	35.7	41.4
Retail trade	50.0	48.3	50.4	50.0	49.5	45.1	49.1	48.7	46.9	49.1
Wholesale trade	50.0	50.0	52.8	50.0	50.0	50.0	45.0	47.5	50.0	42.5
Insurance	60.5	57.9	57.9	50.0	52.8	--	--	--	--	--
Business services	51.6	48.5	47.0	48.5	50.0	46.8	43.3	45.5	47.0	50.0
<i>External segments</i>										
Import/export trades	49.2	50.0	50.0	50.0	49.1	46.1	47.9	49.6	45.3	45.7
Logistics	50.0	52.8	50.0	50.0	50.0	47.4	47.5	45.0	42.5	45.0
Financing institutions	50.0	48.7	52.6	52.6	47.4	--	--	--	--	--
<b>All the above sectors*</b>	<b>50.4</b>	<b>49.8</b>	<b>50.0</b>	<b>49.7</b>	<b>49.1</b>	<b>45.7</b>	<b>47.4</b>	<b>48.3</b>	<b>45.6</b>	<b>46.6</b>

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

(--) Not applicable.

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

**Table 2 : Diffusion indices on employment situation**

	2011									
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>										
Restaurants	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.1	50.0	50.0
Travel	50.0	50.0	50.0	50.0	51.7	--	--	--	--	--
Real estate	50.0	50.0	50.0	48.5	50.0	50.0	54.3	51.4	50.0	50.0
Retail trade	50.0	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
Insurance	55.3	52.6	52.6	50.0	50.0	--	--	--	--	--
Business services	50.0	50.0	50.0	51.5	51.5	50.0	50.0	51.5	48.5	50.0
<i>External segments</i>										
Import/export trades	50.0	50.0	50.0	50.0	50.0	49.6	49.6	50.0	49.6	49.6
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Financing institutions	52.6	53.8	52.6	51.3	50.0	--	--	--	--	--
<b>All the above sectors*</b>	<b>50.1</b>	<b>50.1</b>	<b>50.1</b>	<b>50.1</b>	<b>50.1</b>	<b>49.8</b>	<b>50.1</b>	<b>50.2</b>	<b>49.7</b>	<b>49.8</b>

Notes: (--) Not applicable.

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

## Box 1.1 (Cont'd)

**Table 3 : Diffusion index on current new export orders**

	<u>2011</u>									
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Import and export trades	49.2	50.0	50.0	50.0	49.1	47.8	48.7	49.2	45.7	45.7

**Table 4 : Percentage of SMEs reporting tight current access to credit**

	<u>2011</u>									
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u> <sup>#</sup>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
All selected sectors*	2.8	2.8	3.2	3.2	3.2	1.6	1.6	1.6	1.6	1.2

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

(#) Prior to June 2011, the question posed to the SMEs was framed in relation to the normal situation.

## The labour sector

1.7 The labour market showed broad-based and notable improvements, marked by hectic job creation following a period of above-trend economic growth over the past year or so. Total employment rose to successive record highs during the quarter, pushing the *seasonally adjusted unemployment rate* down to 3.2% in the third quarter, the lowest in 13 years. The *underemployment rate* also inched down to 1.7% in the third quarter from 1.8% in the preceding quarter. Corporate hiring activity was still at a high level, with job vacancies sustaining a rapid pace of increase. In tandem with a relatively tight labour market, wages and earnings rose visibly further across all major sectors and occupation categories. Average employment earnings of full-time employees went up markedly by 8.1% in the third quarter over a year earlier. Those in the lower decile group enjoyed an even higher income growth of 13.1%, thanks to the additional boost from the implementation of the statutory minimum wage.

## The asset markets

1.8 The *local stock market* experienced much volatility and underwent a sharp sell-off along with many major overseas markets during the third quarter. Global financial markets were in turmoil over the slackening global economic recovery and the escalating European debt crisis, and the consequential return of risk aversion and flight to safer assets pushed worldwide stock markets lower.

The Hang Seng Index (HSI) shed 21.5% from end-June to close at 17 592 points at end-September, 23.6% lower than the level at end-2010. Amid heightened uncertainties and gyrations in the global financial markets, fund-raising activity contracted notably during the third quarter. Average daily turnover of the stock market however held up with a modest increase in the third quarter over the preceding quarter.

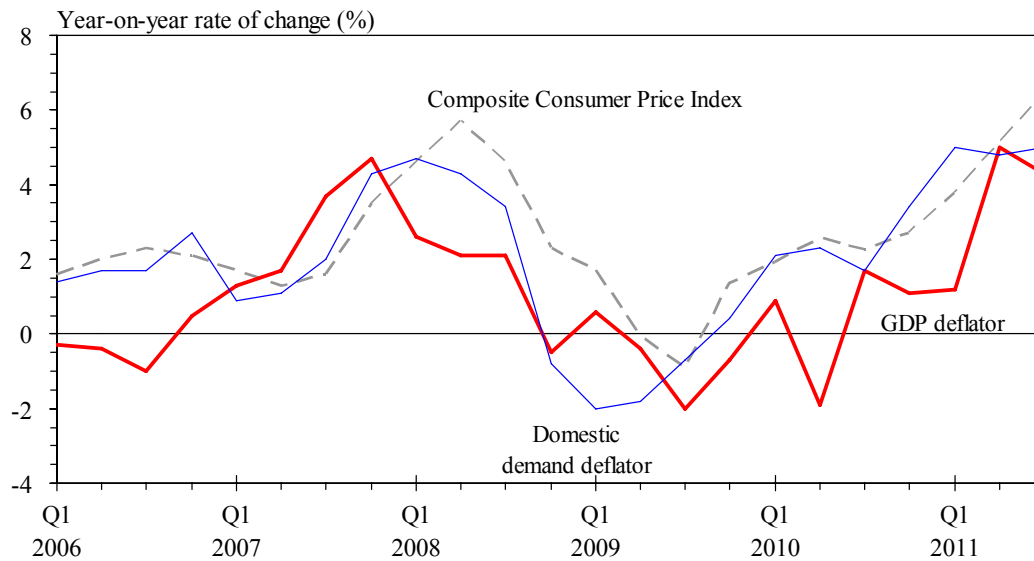
1.9 The *residential property market* showed some consolidation in the third quarter, amid increased headwinds in the external environment and more stringent mortgage loan terms offered by local banks. Overall flat prices fell by 2% between June and September 2011, the first quarterly decline since end-2008. Transactions in the third quarter plunged by 41% over the preceding quarter, reflecting the more cautious market sentiment. Yet with the price rally over the past two years or so, 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) still reached 46% in the third quarter, compared with the long-term average of 51% over 1990-2009. Over the period, flat rentals notched up by a slower rate of 2%, while office and shop rentals rose by 6% and 2% respectively.

## **Inflation**

1.10 Consumer price inflation went up further in the third quarter under the influences of both local and external factors, although the pace of rising inflation showed some initial signs of slowing towards the end of the quarter amid a slight ease-back of food inflation. Domestically, the lagged effects from earlier surge in private housing rentals continued to filter through, while wages also picked up visibly on the back of a tight labour market. On the external front, increase in import prices remained elevated owing to the earlier surge in global food and commodity prices. *Headline consumer price inflation* rose from 5.2% in the second quarter to 6.4% in the third quarter. Netting out the effect of the Government's relief measures, *underlying consumer price inflation* went up from 5.0% to 6.1%.

1.11 The *GDP deflator* rose by 4.3% in the third quarter over a year earlier, in tandem with the further increase in domestic prices.

**Diagram 1.4 : Inflation went up further as a combined result of both local and external factors**



### **GDP by major economic sector**

1.12 The economy expanded further in the second quarter of 2011, albeit tapering in momentum when compared to the exceptionally strong growth in the first quarter. In the second quarter of 2011, the net output of the services sector as a whole grew by 5.2% in real terms over a year earlier, further to the 7.1% growth in the first quarter. Among the major services sectors, growth accelerated in wholesale and retail trades, financing and insurance, and professional services, reflecting vibrant consumption demand and inbound tourism, as well as buoyant financial and commercial activities. But the performance in trade-related sectors fared far less well. In particular, growth moderated notably in import/export trade, and in transportation and storage. Real estate activity, mainly reflecting the net output of private sector developers, continued to decline. As for the secondary sector, manufacturing output expanded modestly further. Construction output however decelerated sharply to a year-on-year decline upon the slackening in private sector activities.

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

	<u>2010</u>	<u>2010</u>				<u>2011</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	3.5	0.4	2.2	5.4	5.7	3.5	2.0
Construction	15.8	2.7	21.3	20.2	19.8	22.2	-1.4
Services <sup>(b)</sup>	7.0	8.4	6.1	7.3	6.4	7.1	5.2
Import/export, wholesale and retail trades	15.6	22.4	17.9	15.9	9.1	14.0	7.0
Import and export trade	15.4	23.3	18.3	15.7	7.7	13.7	4.9
Wholesale and retail trades	16.5	18.3	15.8	16.6	15.7	15.9	17.7
Accommodation and food services	7.3	8.8	10.0	6.8	4.1	2.6	2.2
Transportation, storage, postal and courier services	8.8	6.7	12.6	9.6	6.6	9.2	4.2
Transportation and storage	7.8	5.3	11.4	8.5	6.2	9.0	3.7
Postal and courier services	27.0	34.9	35.0	31.3	11.7	12.4	12.0
Information and communications	1.6	1.9	1.7	2.1	0.8	1.8	1.4
Financing and insurance	7.9	9.1	1.3	7.0	13.8	12.8	13.2
Real estate, professional and business services	2.7	3.0	2.0	1.3	4.5	1.3	1.1
Real estate	-1.7	-1.9	-2.7	-3.1	0.9	-1.3	-3.6
Professional and business services	7.2	8.6	6.9	5.7	7.5	3.8	5.4
Public administration, social and personal services	2.5	3.1	2.1	3.1	1.8	2.2	2.5

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

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

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

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 During his visit in August, Vice-Premier Li Keqiang unveiled a package of measures to boost Hong Kong's economic and trade development as well as further its role as a renminbi (RMB) offshore centre and global financial centre. These include, among others, further liberalisation of trade in services via the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) within the year, launching exchange-traded funds for Mainlanders to invest in Hong Kong stocks, and allowing the repatriation of yuan via RMB qualified foreign institutional investors (RQFIIs) and foreign direct investment (FDI). These measures will broaden the scope of the offshore RMB market in Hong Kong and also help expand the channels for the flow and circulation of RMB funds between Hong Kong and the Mainland, thus lending further impetus to the development of Hong Kong's offshore RMB business.

1.14 The Chief Executive delivered the 2011-12 Policy Address on 12 October 2011 and pledged to enhance social development with a view to improving people's livelihood. The principal issues of concern include housing, the wealth gap and the ageing population. Specific measures, among others, are introduced with an aim to helping the underprivileged and improving social harmony:

- On housing policy, the Government pledged long-term commitment to provide public rental housing scheme, and to launch the new Home Ownership Scheme and enhance the "My Home Purchase Plan", in addition to ensuring sufficient land supply to provide for a variety and mix of residential units (see **Box 3.1** for details).
- On ageing population, the Government outlined measures to enhance the long-term services and improve the mode of elderly care, as well as to expand fare concessions and allowances for the elderly.
- On alleviating the wealth gap, the Government pledged to support the needy through enhancing training and employment support, upgrading welfare and healthcare services, and through various short-term relief measures.

1.15 The Policy Address also outlined strategies for promoting a quality life and strengthening the economy through industry, market and regional developments. Specific measures include improving air quality and water and waste management; promoting nature conservation and the arts and culture; offering more avenues for education and youth development; complementing

the National 12th Five-Year Plan in reinforcing and enhancing our position as an international centre for financial services, trade and shipping; and broadening our trade and investment ties with emerging markets and strengthening regional cooperation. Specifically, the Government will strive to develop the six new industries where we enjoy clear advantages<sup>(3)</sup>, while also consolidating the strengths of the traditional four pillars. It is through achieving long-term economic development that will enable our people to share the fruits of prosperity, improve living conditions and build a stable home.

**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 its main components.
- (3) The four traditional pillar industries refer to financial services, tourism, trading and logistics, and producer and professional services. The six industries where Hong Kong enjoys clear advantages refer to medical services, education services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *External trade performance worsened further in the third quarter of 2011, amid an increasingly austere global economic situation. The combined effects of the deepening European sovereign debt crisis and stalling recovery in US have dented global economic sentiment significantly, leading to a region-wide deceleration in growth momentum in Asia and consequently, a notable slowdown in intraregional trade towards the end of the quarter.*
- *Merchandise exports were already weak in July and August, and went down sharply in September, resulting in a 4.0% decline in real terms in the third quarter<sup>(1)</sup>. The main drag came from the distinct slackening in the US and EU markets, and notable fall-off in raw material intake by Asia which were in turn closely linked to the final demand in the advanced economies. Exports of consumer goods to Asia held up relatively better, though not sufficient to make up for the lull in the developed markets.*
- *Exports of services nevertheless fared somewhat better with a 6.6% year-on-year growth in the third quarter, thanks to thriving inbound tourism and continued appreciable growth in exports of financial and other business services. But exports of trade-related services and transportation services slowed more visibly in tandem with the lacklustre merchandise trade performance.*
- *The Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong will be further enhanced by Supplement VIII, following the announcement by Vice-Premier Li Keqiang during his visit to Hong Kong in August. The Central Government has clearly indicated that the Mainland market for Hong Kong services industries will be further opened up during the 12<sup>th</sup> Five-Year Plan period. The Central Government has also been actively exploring the possibility of including Hong Kong into some of the Mainland's existing Free Trade Agreements.*

## Visible trade

### *Total exports of goods*

2.1 Hong Kong's merchandise exports continued to slow during the third quarter of 2011, especially so towards the end of the quarter. Specifically, the value of *merchandise exports* (comprising re-exports and domestic exports) relapsed to a year-on-year decline of 3.0% in September, the first time since October 2009. The fall-off in real terms in September was even more distinct, at 10.9%. For the third quarter as a whole, merchandise exports shrank by 4.0% in real terms over a year earlier, further to the mild decline of 0.4% in the second quarter. The slackening demand in the US and the EU had not only affected Hong Kong's exports to these markets, but also exports of raw materials to the Mainland and other Asian markets which were closely linked to the consumption demand in the advanced economies. On a seasonally adjusted basis, merchandise exports fell further by 1.1% in the third quarter from the preceding quarter, even against the very low base of comparison in the second quarter caused by the temporary disruptions to regional supply chains after the Japan incident.

2.2 The global trading environment turned increasingly difficult in the third quarter. In the US, the weak fundamentals such as the persistently high unemployment, ongoing de-leveraging and lacklustre housing market continued to take their toll on the pace of economic recovery. On top of this, fiscal vulnerability of the US Government, as exposed by the political impasse on raising the national debt limit and the unprecedented downgrading of US sovereign credit rating by Standard & Poor's in late July/early August, dealt further blow to economic sentiment and limited the scope of fiscal manoeuvre. On the other side of the Atlantic, the sovereign debt crisis in the eurozone intensified further and emerged as the biggest threat to macroeconomic and financial stability in Europe and beyond. In Asia, the negative drags from weakening demand in the advanced economies were increasingly evident from the region-wide deceleration in industrial activity and export growth during the quarter. The International Monetary Fund (IMF) in its September *World Economic Outlook* cut its projected global economic growth for 2011 as a whole to 4.0%<sup>(2)</sup>, from its previous forecast of 4.3%, citing slowing growth and rising risks in the global economy.

2.3 *Re-exports*<sup>(3)</sup>, the mainstay of overall merchandise exports and accounting for 98.2% of total exports by value, decreased by 3.5% in real terms from a year earlier in the third quarter, after staying nearly unchanged in the second quarter. *Domestic exports*, which constitute only 1.8% of total exports, declined by 30.0% over a year earlier in the third quarter, further to the 16.0% decline in the second quarter.

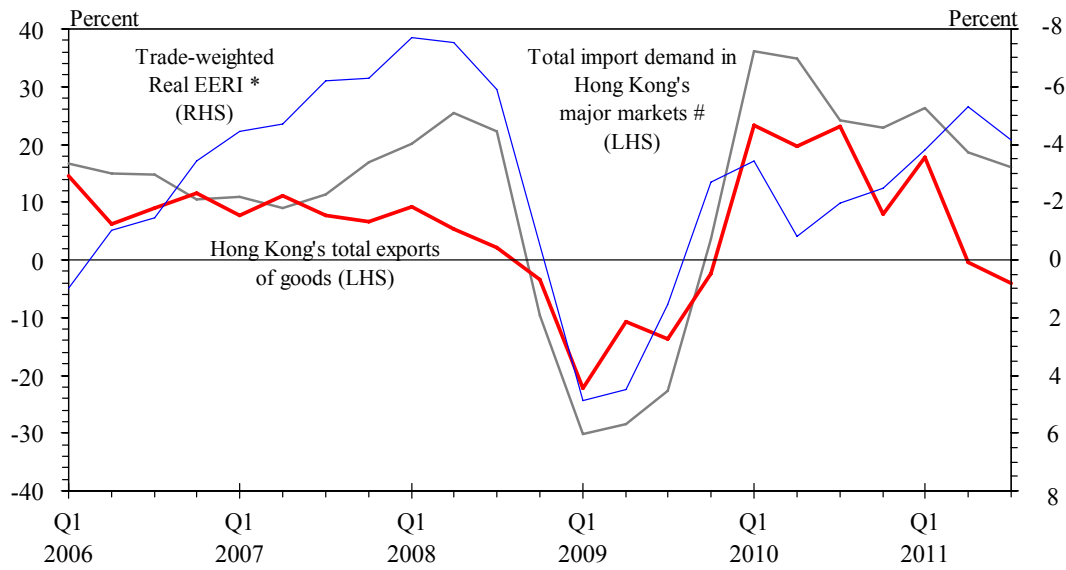
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>					
	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>			
2010 Annual	22.8	18.1	4.7	22.8	18.1	4.6	20.4	15.5	5.5			
H1	25.1	21.4	3.4	25.1	21.4	3.4	22.7	18.5	4.7			
H2	20.8	15.3	5.8	20.9	15.4	5.8	18.4	13.0	6.2			
Q1	26.0	23.4	(6.7)	2.8	26.1	23.5	(6.5)	2.8	23.1	20.2	(17.0)	3.2
Q2	24.3	19.7	(3.6)	4.0	24.4	19.7	(3.7)	3.9	22.4	17.0	(-3.3)	6.1
Q3	27.8	23.2	(1.9)	5.2	27.9	23.4	(2.0)	5.2	20.2	14.9	(-4.4)	5.7
Q4	14.4	7.9	(-4.1)	6.5	14.3	7.9	(-4.3)	6.5	16.7	11.1	(3.2)	6.7
2011 H1	15.4	7.8	8.1	15.6	8.3	8.1	6.2	-10.4				6.5
Q1	24.6	17.7	(16.3)	7.6	24.9	18.2	(16.6)	7.6	11.9	-4.1	(0.4)	6.7
Q2	7.7	-0.4	(-12.6)	8.6	7.9	*	(-12.6)	8.7	1.2	-16.0	(-14.7)	6.4
Q3	4.2	-4.0	(-1.1)	8.6	4.6	-3.5	(-0.8)	8.6	-12.3	-30.0	(-20.2)	7.6

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

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

**Diagram 2.1 : Merchandise exports decelerated further in the third quarter  
(year-on-year rate of change)**

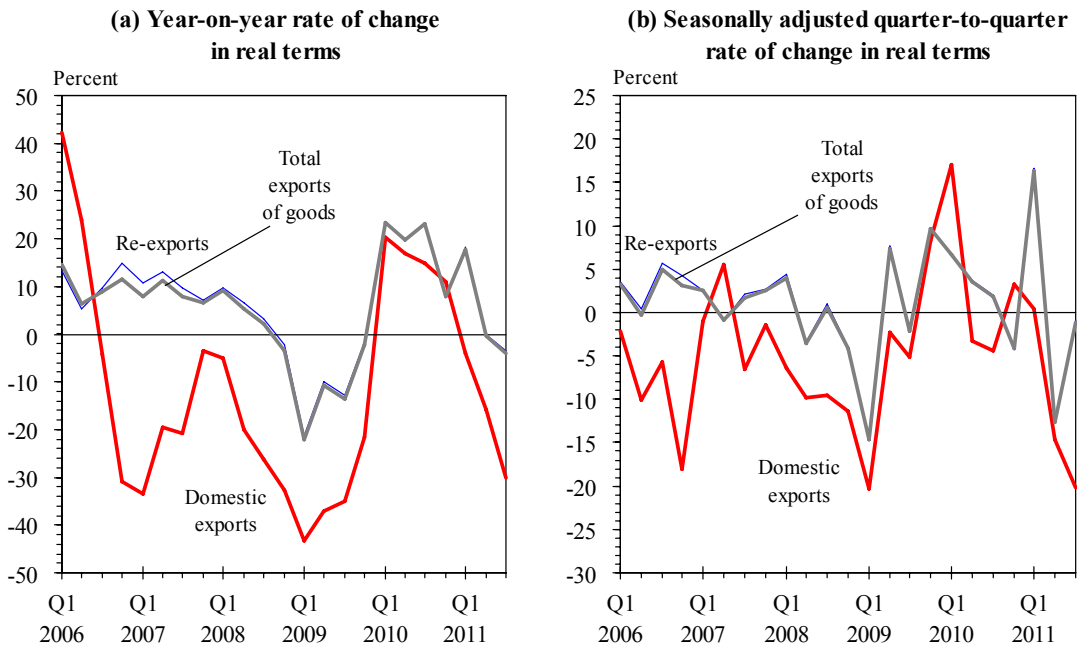


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

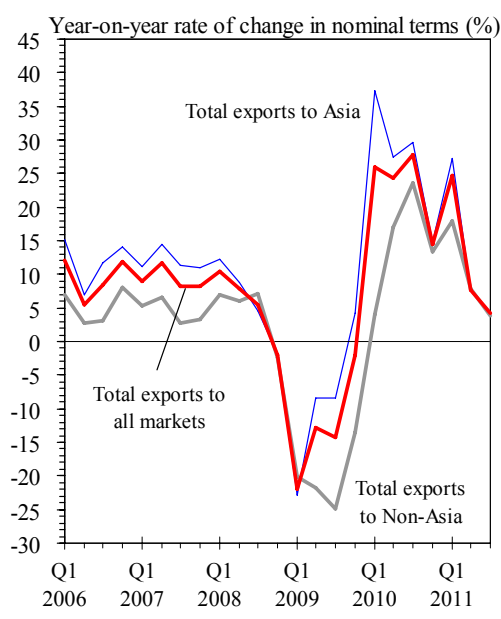
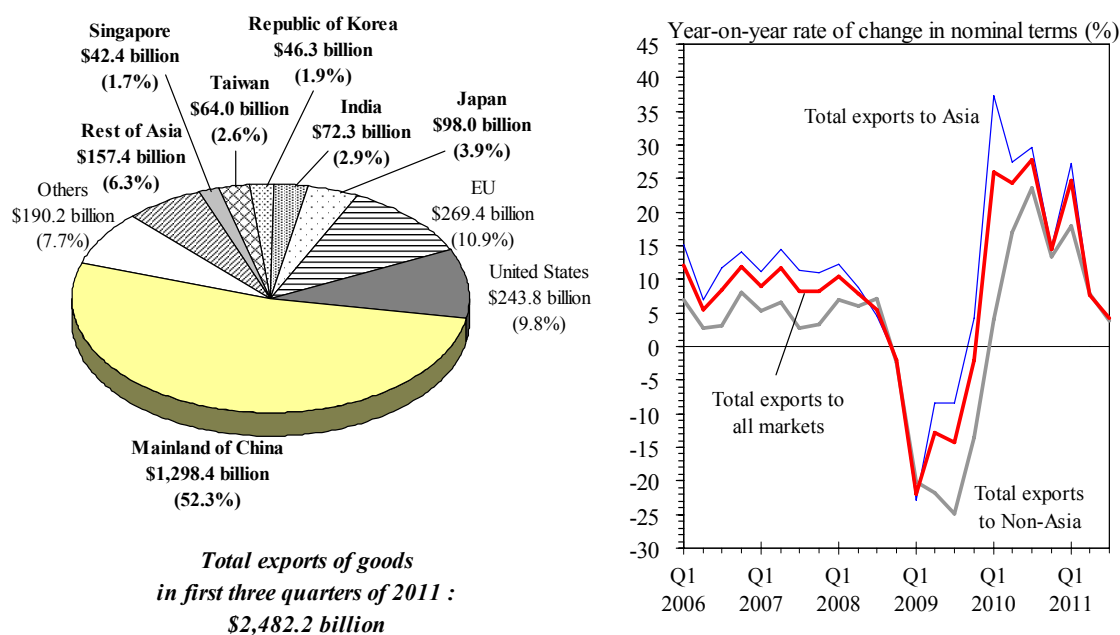
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the third quarter of 2011 is based on statistics for July and August 2011.

**Diagram 2.2 : Both re-exports and domestic exports fell in the third quarter**



**Diagram 2.3: Asian markets continued to feature prominently in Hong Kong's exports**



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

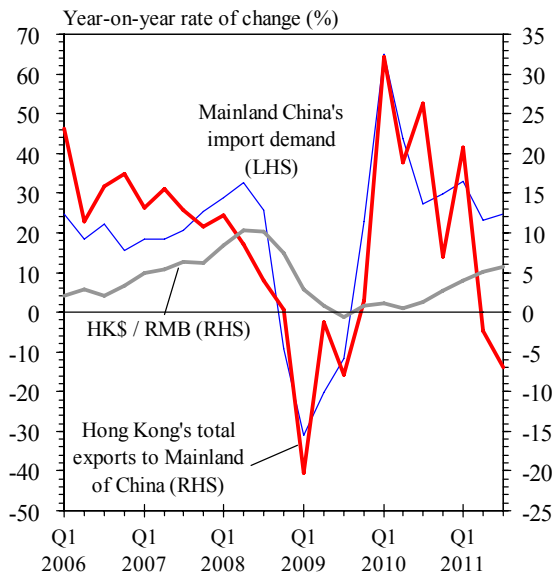
	2010		2010				2011	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Mainland of China	20.0	32.1	18.8	26.3	7.0	20.8	-2.3	-6.9
United States	14.5	6.7	19.9	19.7	10.4	7.0	-12.4	-16.0
European Union	6.6	-0.6	10.4	15.8	1.0	6.4	-0.9	-3.1
Japan	15.5	15.1	26.2	15.4	7.4	3.2	-5.7	-2.4
India <sup>(4)</sup>	37.4	36.0	48.7	45.8	21.4	38.4	14.8	9.3
Taiwan	23.0	59.8	28.1	17.6	2.8	20.5	18.2	19.9
Republic of Korea	21.1	37.9	24.9	13.1	13.4	14.8	9.4	2.2
Singapore	18.1	16.9	18.6	22.2	14.7	21.7	9.0	0.1

2.4 Exports to the Asian markets, while still outperforming exports to the developed markets, generally slowed in the third quarter, likewise affected by the worsening global environment. Total exports to the Mainland slackened further, while those to Singapore and Korea also moderated visibly, due to the fall-off in raw material intake, conceivably hit by the slack demand in the developed economies. Exports to Japan, after the distinct setback in the second quarter caused by the earthquake, showed some relative improvement in the third quarter. But total exports to Taiwan and India still held up well, with appreciable growth in the third quarter, the former benefiting from the surge in trade flows after the Economic Cooperation Framework Agreement, and the latter well underpinned by vibrant demand.

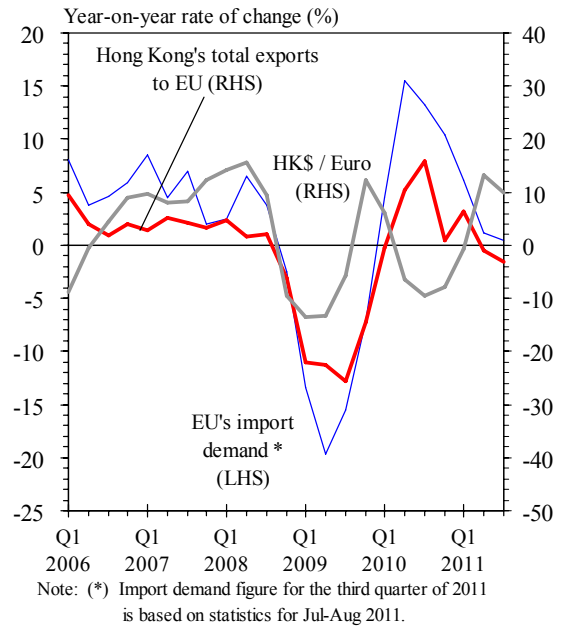
2.5 The anaemic economic recovery and weak consumer confidence in the US continued to weigh on Hong Kong's total exports, resulting in a 16.0% plunge in the third quarter over a year earlier. Exports to EU went down further in face of the sluggish demand there. As a result, exports to the US and Europe dipped further below their 2008 pre-crisis levels in the third quarter. The lack of private demand in the US economy and the deepening sovereign debt crisis in the eurozone would continue to take their toll on Hong Kong's export performance in the period ahead, directly through the trade channels and also indirectly through their spillovers on Asia's growth momentum and intra-regional trade.



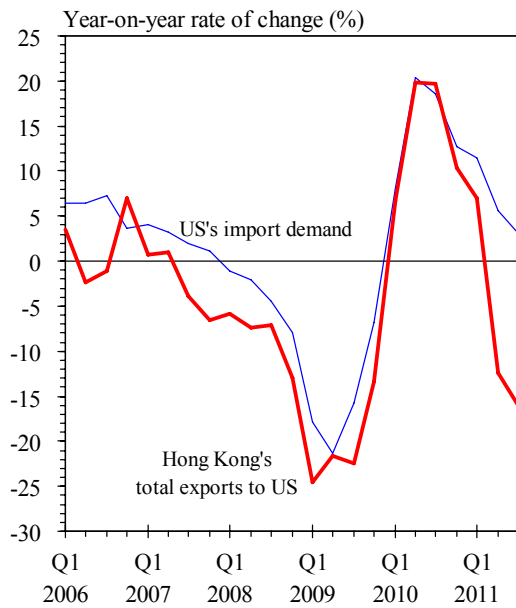
**Diagram 2.4 : Exports to the Mainland weakened further in the third quarter**



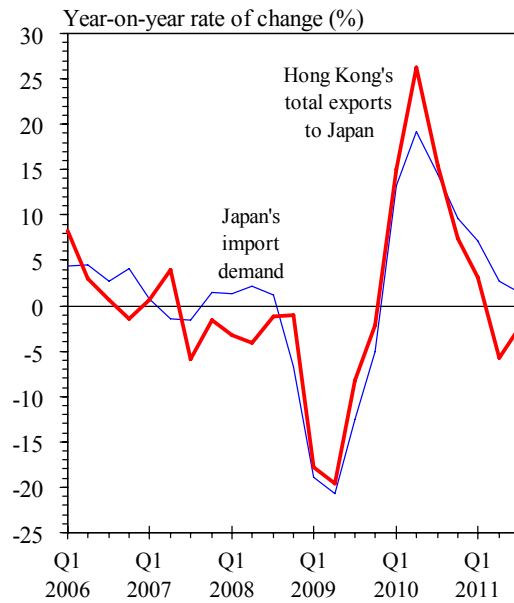
**Diagram 2.5 : Exports to the EU continued to dip**



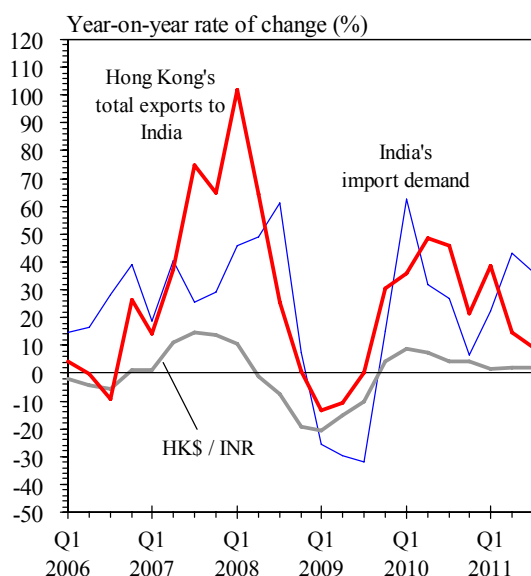
**Diagram 2.6 : Exports to the US plunged**



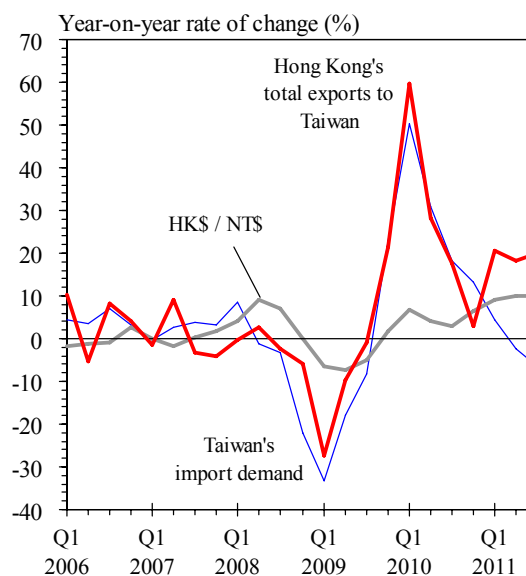
**Diagram 2.7 : Exports to Japan recovering gradually**



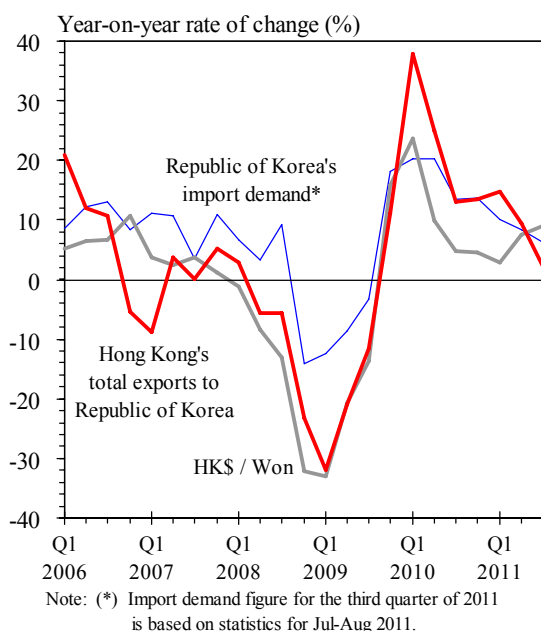
**Diagram 2.8 : Exports to India still had appreciable growth**



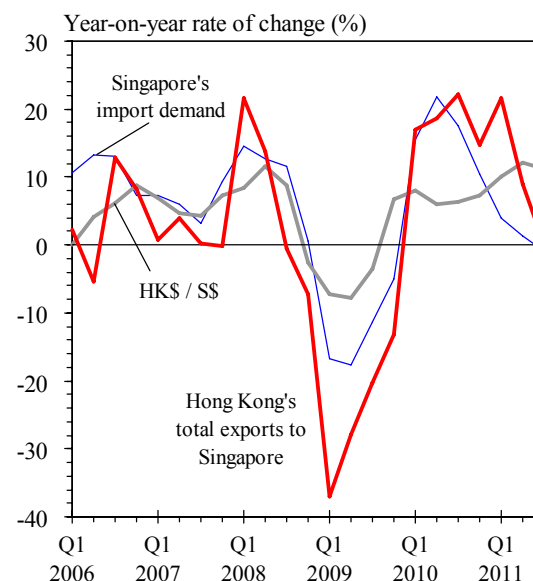
**Diagram 2.9 : Exports to Taiwan accelerated further**



**Diagram 2.10 : Exports to the Republic of Korea also decelerated**



**Diagram 2.11 : Exports to Singapore moderated along with its import demand**



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

2.6 *Imports of goods* recorded a moderate growth of 1.7% year-on-year in real terms in the third quarter, following a 3.6% increase in the second quarter. This was mainly caused by the slowdown in re-export trade, and hence the flows of goods from the import side which were related to these re-export activities. *Retained imports*, which accounted for over one-fourth of total imports, nevertheless leaped notably further by 17.0% in real terms in the third quarter, after the 13.4% growth in the second quarter. After seasonal

adjustment, retained imports increased by 1.6% in the third quarter over the preceding quarter. Analysed by end-use, retained imports of consumer goods maintained very strong growth of over 30% in the third quarter, thanks to the buoyant local consumption and tourist spending. Retained imports of capital goods likewise showed further robust growth, thanks to sanguine business sentiment during most of the quarter. Retained imports of foodstuffs were also strong and in line with the vibrancy of the local consumption market. The growth in import intake of raw materials was however less significant, conceivably dented by the weak export outlook ahead. Those of fuels declined for another quarter. Such divergent trends in import intakes of different end-use categories clearly showed a sharp contrast between the weakness in external trade and the strength of domestic demand in the quarter.

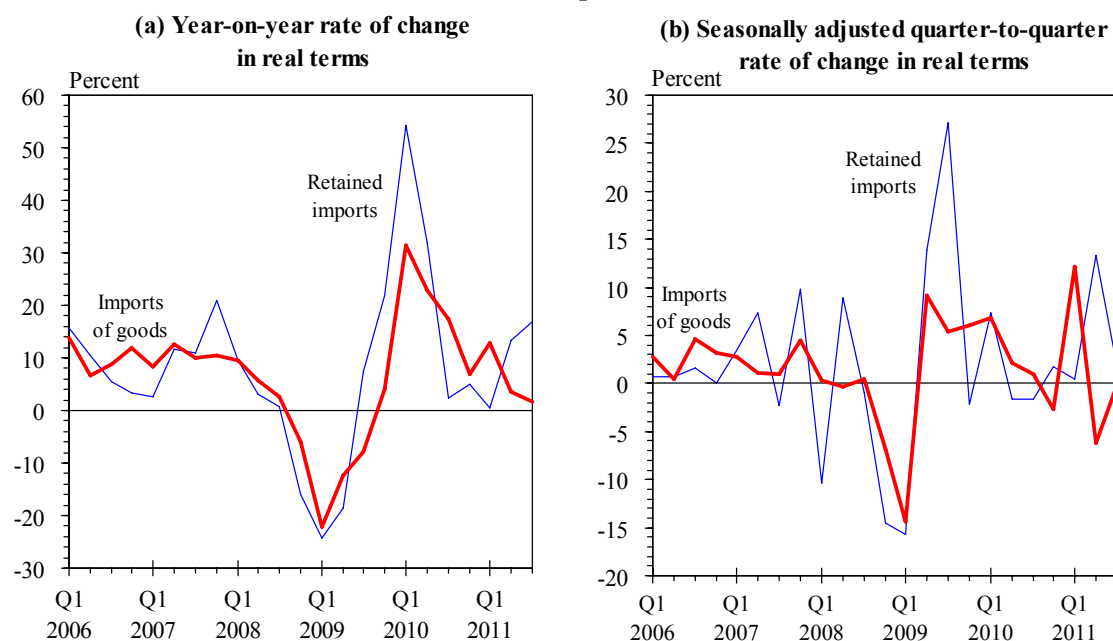
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports<sup>(a)</sup></u>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2010	Annual	25.0	18.6	6.4	27.3	19.7	8.2		
	H1	31.9	26.7	5.2	48.7	42.1	7.3		
	H2	19.4	12.0	7.7	11.7	3.8	9.5		
	Q1	34.3	31.4	(6.8)	3.6	56.0	54.2	(7.4)	3.1
	Q2	29.9	22.8	(2.2)	6.6	42.8	32.0	(-1.6)	11.4
	Q3	24.1	17.3	(1.0)	7.2	9.8	2.5	(-1.6)	9.4
	Q4	15.1	7.0	(-2.7)	8.2	13.6	5.0	(1.7)	9.6
2011	H1	15.0	7.9	8.4	13.4	7.1	9.4		
	Q1	20.6	12.9	(12.1)	8.9	9.5	0.5	(0.4)	12.6
	Q2	10.3	3.6	(-6.1)	8.1	16.8	13.4	(13.3)	6.5
	Q3	8.9	1.7	(-0.1)	8.6	22.7	17.0	(1.6)	8.2

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 2.12 : Imports moderated along with the slowdown in re-exports, but retained imports still resilient**



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

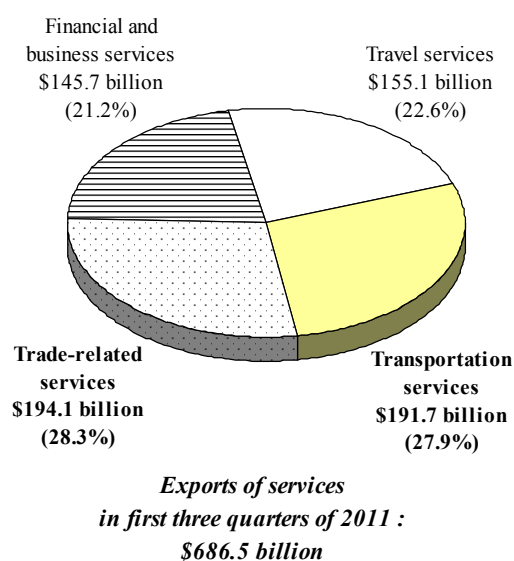
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2010	Annual	22.5	11.6	15.5	31.3	13.9
	H1	40.1	17.9	22.8	160.1	20.5
	H2	10.0	5.9	9.6	-16.0	7.8
	Q1	48.7	28.6	21.2	344.4	-0.2
	Q2	32.9	8.5	24.2	70.8	42.6
	Q3	7.2	2.8	7.2	-18.1	14.6
	Q4	12.6	8.6	12.1	-13.9	1.4
2011	H1	27.7	-1.2	9.5	-8.6	-12.3
	Q1	20.4	-6.1	2.3	-22.6	4.6
	Q2	34.6	3.8	16.3	9.0	-25.0
	Q3	33.3	12.8	21.9	6.2	-12.6

## Invisible trade

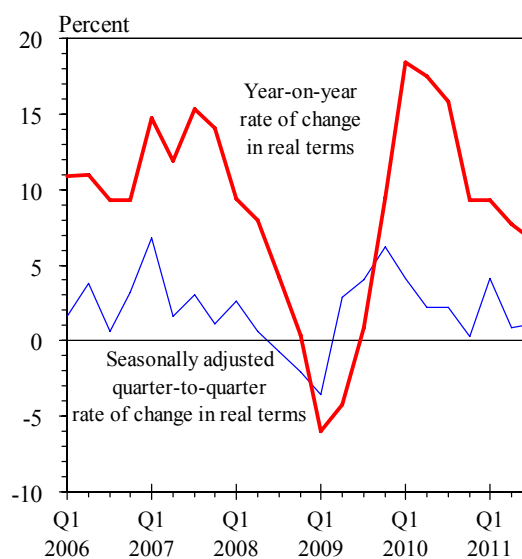
### *Exports of services*

2.7 *Exports of services* held up relatively better in the third quarter, up 6.6% in real terms over a year earlier, after the 7.7% increase in the second quarter. Thanks to the vibrant inbound tourism, exports of travel services expanded spectacularly further in the third quarter. Exports of financial and business services had further appreciable growth, despite heightened global financial market volatilities during the quarter. Exports of trade-related services, comprising mainly offshore trade activities, were however more significantly affected by slackening trade and cargo flows, and so were exports of transportation services.

**Diagram 2.13 : Trade-related and transportation services accounted for over half of service exports, reflecting Hong Kong's position as a trading hub**



**Diagram 2.14 : Exports of services held up better in the third quarter**



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

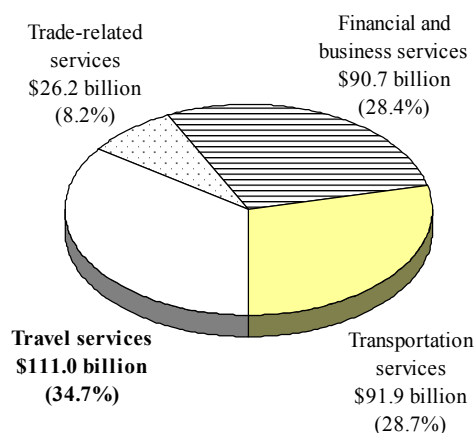
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services</u>
2010	Annual	15.0	14.3	10.0	25.7	12.8
	H1	18.0	19.4	14.1	26.9	16.0
	H2	12.5	11.0	6.4	24.7	9.9
	Q1	18.4 (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	H1	8.5	7.4	2.9	13.1	12.4
	Q1	9.3 (4.1)	11.4	0.8	10.8	14.1
	Q2	7.7 (0.9)	3.4	4.7	15.8	10.1
	Q3	6.6 (1.1)	2.4	1.8	16.6	9.1

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

### ***Imports of services***

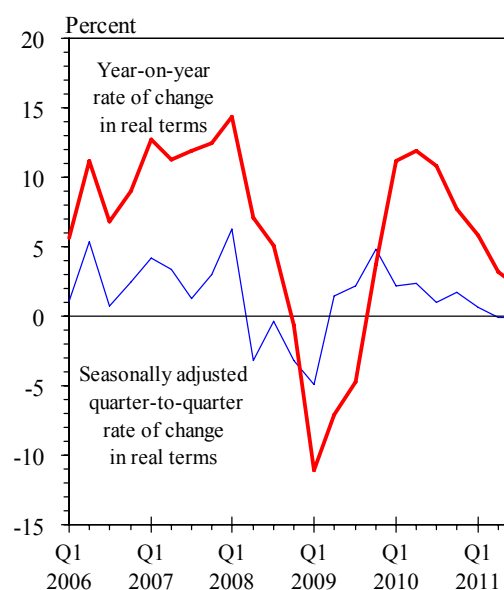
2.8 *Imports of services* grew by 2.1% in real terms in the third quarter, following a 3.2% increase in the second quarter. Imports of financial and other business services posted only a modest increase, apparently affected by increased financial market volatilities. Imports of transportation and trade-related services also slowed further, amid the slowdown in regional trade flows during the quarter. Imports of travel services showed only small growth over the period.

**Diagram 2.15 : Travel services had the largest share in imports of services**



*Imports of services  
in first three quarters of 2011 :  
\$319.7 billion*

**Diagram 2.16 : Imports of services grew modestly**



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

*Of which :*

		Imports of services	Travel services <sup>(+)</sup>	Transportation services	Trade-related services	Financial and business services	
2010	Annual	10.4	6.5	12.1	15.8	11.9	
	H1	11.6	4.9	14.3	21.0	15.6	
	H2	9.3	8.1	10.0	12.5	8.7	
	Q1	11.2	(2.2)	4.5	12.8	22.3	15.4
	Q2	11.9	(2.4)	5.3	15.6	19.7	15.8
	Q3	10.8	(1.0)	10.3	11.4	15.7	9.5
	Q4	7.7	(1.7)	5.9	8.5	9.9	8.1
	2011	H1	4.5	3.8	2.4	9.7	6.0
Q1		5.8	(0.6)	3.8	3.9	13.0	7.9
Q2		3.2	(-0.1)	3.8	1.2	6.4	3.8
Q3		2.1	(-0.1)	1.6	0.4	1.4	4.9

Notes : (+) Comprising mainly outbound travel spending.

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

## Visible and invisible trade balance

2.9 After posting a deficit in the second quarter, the combined visible and invisible balance reverted to a surplus of \$36.0 billion, or 3.3% of the total value of imports of goods and services. This was nevertheless much smaller than the surplus of \$56.1 billion or 5.6% of the total value of imports of goods and services in the same quarter of last year, largely reflecting the headwinds faced by the external sector during the quarter.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of imports
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2010	Annual	3,061	827	3,395	395	-334	432	98	2.6
	H1	1,414	377	1,599	183	-185	193	9	0.5
	H2	1,647	450	1,796	212	-149	238	89	4.4
	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	H1	1,631	436	1,850	205	-219	231	12	0.6
	Q1	796	221	890	103	-94	118	24	2.5
	Q2	835	215	960	103	-126	113	-13	-1.2
	Q3	891	250	991	114	-100	136	36	3.3

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

## Other developments

2.10 The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) would be strengthened further following the announcement by Vice-Premier Li Keqiang during his visit in August. On top of the current zero-tariff arrangement on all imported goods of Hong Kong origin, the forthcoming Supplement VIII would intensify the liberalisation towards Hong Kong services trade to further enhance the breadth and depth of CEPA. The Mainland would take further steps to broaden market access for both traditional as well as emerging service sectors in Hong Kong, including medical, construction, legal, testing and certification services, and tourism. Furthermore, the Central Government's target to lift the share of service sector in the Mainland economy by four percentage points in five years' time would



entail huge development potentials for Hong Kong's service providers given their competitive strength. In terms of merchandise trade, the Vice-Premier revealed that the Central Government has been actively exploring the possibility of including Hong Kong into some of the Mainland's existing Free Trade Agreements.

2.11 As regards financial market development, new measures to foster Hong Kong's role as an offshore renminbi centre were introduced. Among these measures, management of foreign investment projects will be revised to encourage Hong Kong enterprises to use the renminbi for direct investment on the Mainland; investments on the Mainland equity market will be allowed by means of the renminbi Qualified Foreign Institutional Investor scheme (RQFII); and the scale of renminbi-denominated bond issuance in Hong Kong will be expanded gradually. Moreover, the Central Government will also implement an exchange-traded fund consisting of Hong Kong stocks on the Mainland.

#### **Notes :**

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) In September, the IMF cut its projected global economic growth to 4.0% in both 2011 and 2012 . Growth projections for the advanced economies were revised downwards across the board. Specifically, growth forecasts for the US in 2011 and 2012 were lowered to 1.5% and 1.8% respectively, while that for the eurozone were also trimmed to 1.6% for 2011 and 1.1% for 2012. Meanwhile, the Japanese economy was projected to contract by 0.5% in 2011, before resuming a positive growth of 2.3% in 2012. On the other hand, developing Asia as a whole was projected to grow by 8.2% and 8.0% in 2011 and 2012 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.
- (4) The volume of total exports to India was crudely estimated by deflating the value of total exports to India with the closest Unit Value Index as the Unit Value Index for India is not available.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *The residential property market showed some consolidation in the third quarter of 2011, as market confidence was hit by moderating economic growth in the advanced economies, deterioration of the European debt problems and successive hikes in mortgage rates by the local banks. Trading activities contracted further, and flat prices retreated in parallel.*
- *The sustained Government efforts to ensure a healthy and stable property market are gradually yielding results. In October the Chief Executive introduced in the 2011-12 Policy Address new housing measures.*
- *Inbound tourism maintained its solid momentum in overall terms, though different market segments showed diverse performance. The total number of incoming visitor arrivals in the third quarter grew by 19.0% over a year earlier to 11.1 million.*
- *Performance of the logistics sector remained modest, broadly in line with the tapering growth in external trade. Container throughput continued to register a mild growth while air freight throughput declined.*

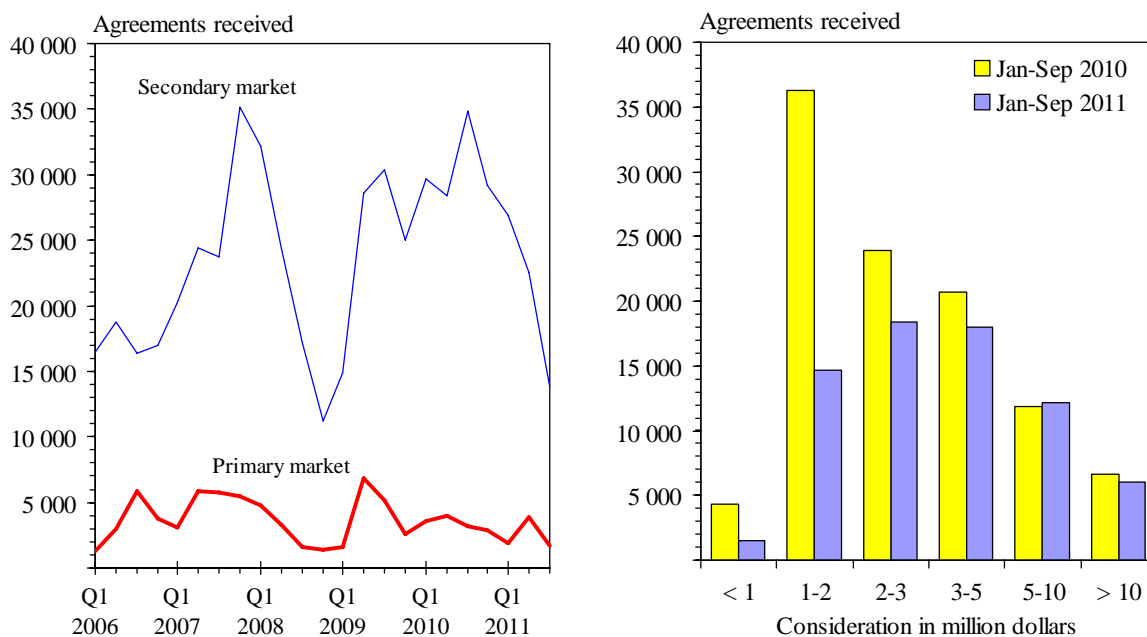
### **Property**

3.1 The *residential property market* showed some consolidation in the third quarter of 2011, following an almost uninterrupted boom over the past two years or so. Moderating economic growth in the advanced economies, deterioration of the European debt problems and the consequential financial market gyrations, coupled with the successive hikes in mortgage rates by the local banks since mid-March, have hit market confidence. The sustained efforts of the Government to ensure a healthy and stable property market are also gradually yielding results.

3.2 Trading activities contracted further as more buyers stayed on the sidelines amid an uncertain market outlook. The number of sale and purchase agreements for residential property received by the Land Registry plunged by 41% over the preceding quarter or 59% over a year earlier to 15 516 in the third quarter, the lowest level since the fourth quarter of 2008. Primary and secondary market transactions plummeted by 55% and 39% respectively over the preceding quarter. In parallel, total consideration dropped by 39% over the

preceding quarter or 47% over a year earlier to \$86.5 billion.

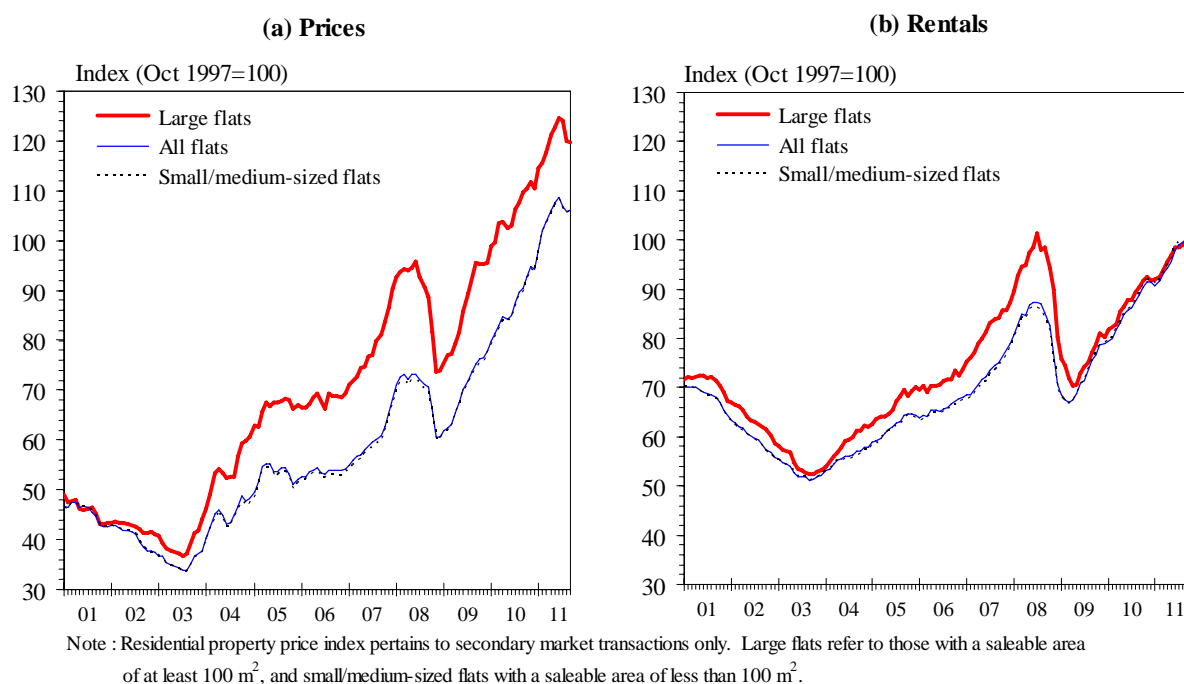
**Diagram 3.1 : Trading in the residential property market contracted further**



3.3 In parallel to the plunge in transaction, overall flat prices retreated by 2% between June and September. Yet there was still a cumulative gain of 13% in the first nine months of the year. Prices of small/medium-sized flats and large flats declined by 2% and 4% respectively between June and September. Following the surge in the past two years or so, overall flat prices were already 6% above the 1997 peak, with prices of large flats exceeding the peak by a sharp 20%.

3.4 By comparison, the leasing market remained generally buoyant. Comparing September with June, overall flat rentals rose further, though at a decelerated rate of 2%. Rentals of large flats and small/medium-sized flats both registered gains of 2%. After the rally since mid-2009, overall flat rentals in September were on par with the peak in 1997. As a result of the rise in rentals but fall in prices, the average rental yield for residential property rebounded slightly from 3.3% in June to 3.4% in September.

**Diagram 3.2 : Flat prices retreated while rentals continued to rise**

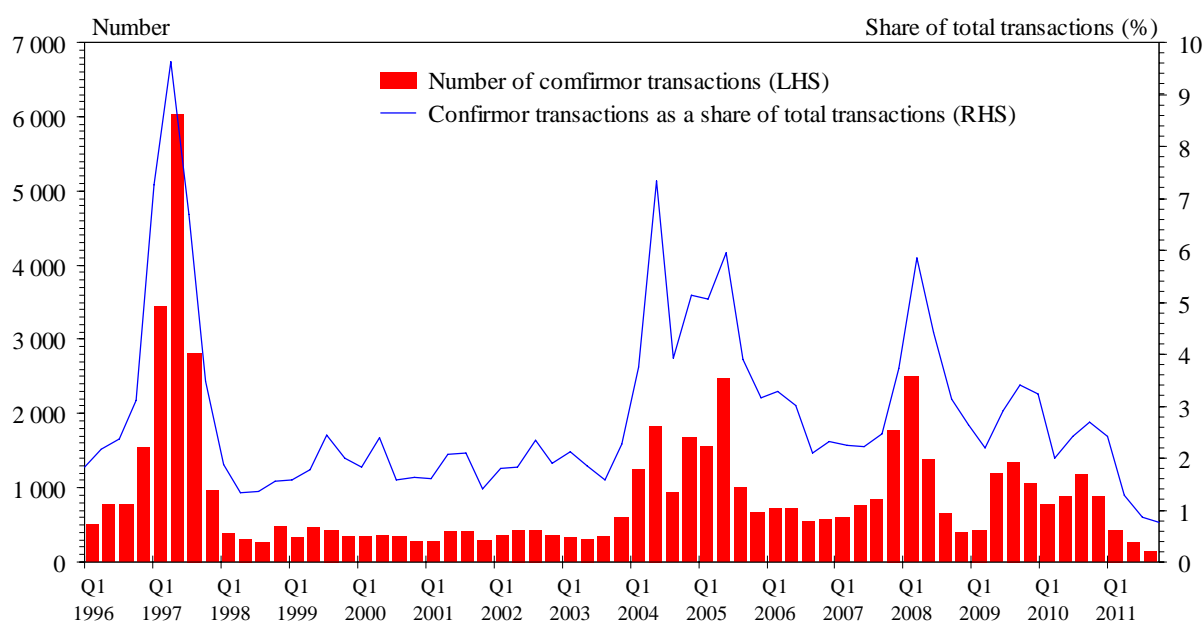


3.5 In order to ensure the healthy and stable development of the property market, the Government has introduced a series of measures since early 2010 along four directions, viz. raise flat supply through increasing the land supply, curb speculative activities, prevent excessive growth of mortgage lending and increase transparency of the property market<sup>(1)</sup>. In October, the Chief Executive introduced in the 2011-12 Policy Address new housing measures. In addition to further strengthening the Government's efforts along the four directions, the Government put forward two buffering measures, namely resuming the Home Ownership Scheme and enhancing the My Home Purchase Plan, to help low and middle-income families buy their own homes (**Box 3.1**).

3.6 The various Government measures have achieved some positive results. Regarding *land supply*, the total supply of flats in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) rose noticeably from 56 000 units as estimated at end-June to 63 000 units as estimated at end-September, the highest level since late 2008. In addition, another 9 300 units could be added to the supply through the conversion of a number of residential sites into "disposed sites" and the completions of auction/tendering of some sites in the months ahead.

3.7 *Speculative activities* almost vanished after the announcement of the introduction of Special Stamp Duty last November. Confirmor transactions plunged by 89% over a year earlier to 130 cases in the third quarter of 2011, and its share in total transactions shrank further to a meagre 0.8%. As regards *mortgage lending*, following the tightening of lending standards by the Hong Kong Monetary Authority, the average loan-to-value ratio of new mortgages fell from 60.2% in 2010 to 53.2% in the third quarter of 2011. With a view to better managing credit risks, the major banks have tightened their mortgage lending terms and raised the margin for the HIBOR-based mortgage loans up to five times since March 2011. Regarding *market transparency*, the Steering Committee on the Regulation of the Sale of First-hand Residential Properties by Legislation submitted its recommendations in October 2011<sup>(2)</sup>. The Transport and Housing Bureau will launch a public consultation exercise in the form of a White Bill in November with a view to enacting the legislation in 2012.

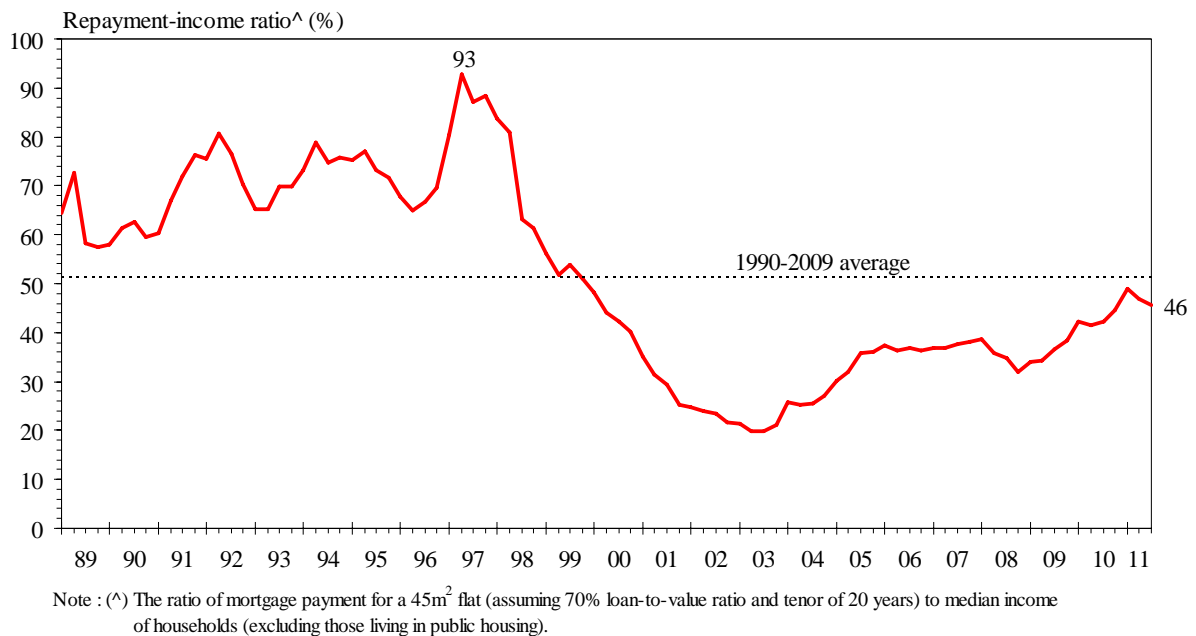
**Diagram 3.3 : Speculative activities almost vanished**



Note : Confirmor transactions refer to resale before assignment.

3.8 Notwithstanding the recent consolidation of the property market, the Government remains mindful of the risks of a property market bubble. The major advanced economies are likely to maintain an ultra-loose monetary policy for a prolonged period, with the possible impacts on global asset prices still uncertain at this juncture. Following the surge in flat prices over the past two years or so, 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) reached 46% in the third quarter, and would have exceeded the long-term average of 51% over 1990-2009 should interest rates return to a more normal level.

**Diagram 3.4 : The mortgage payment to income ratio remained high**



**Box 3.1****Latest Government housing measures (October 2011)**

In order to ensure a healthy and stable development of the property market and help low and middle-income families buy their own homes, in the 2011-12 Policy Address the Chief Executive put forward a new policy of resumption of the Home Ownership Scheme, the enhanced My Home Purchase Plan and another package of measures to expand land resources. The major measures are summarised below :

**(1) New Home Ownership Scheme (HOS)**

- The new HOS will target households with monthly income below \$30,000.
- Prices of flats with a saleable floor area of 400-500 square feet will be set with reference to the mortgage repayment ability of eligible households, with mortgage repayment not more than 40% of the household income.
- More than 17 000 flats would be provided over four years from 2016-17 onwards, with an annual production of 2 500-6 500 flats. 2 500 flats will be made available in 2016/17, and will be ready for pre-sale in 2014 or 2015.
- The Government will set the planning target at 5 000 flats a year on average as more sites become available. Depending on the market conditions, the Government may adjust the number of subsidised flats to be built and sold for the year, or even stop building and selling such flats.
- Regarding resale restrictions, within the first five years from the date of purchase, owners may only sell their flats to green form applicants or the Housing Authority (HA). After five years, owners may sell their flats on the open market after paying a premium to the HA. When calculating the premium to be paid, the HA may take the subsidised portion of a unit's purchase price as a loan to the owner, the amount of which will not be adjusted even if the market value of the unit increases in future, and require the owner to repay this loan to the HA before selling the unit on the open market.
- The HA, responsible for producing the flats under the new HOS, will work out the implementation details, including the allocation ratio between green form and non-green form applicants, income and asset criteria for non-green form applicants, price benchmarks based on affordability and premium payment arrangements.

**(2) Enhancing My Home Purchase Plan (MHPP)**

- Eligible households under the MHPP may rent first and buy later. The tenancy period will be up to five years, within which the rent will not be adjusted. MHPP tenants who purchase a MHPP flat or a flat in the private market within a specified time frame will receive a Purchase Subsidy equivalent to half of the net rental they have paid during the tenancy period, and may use it for part of the down payment.

### **Box 3.1 (Cont'd)**

- Apart from the proposed “rent-and-buy” mode, the Government would offer a “buy-or-rent” option which allows participants to buy their MHPP flats direct at market price without going through a rental period.
- The initial market selling price will serve as the ceiling price of that flat under the MHPP. A participant choosing the “rent-and-buy” option will be guaranteed the “ceiling price” regardless of any rise in property prices if he buys a MHPP flat within a prescribed period. Should prices fall, he can buy a MHPP flat at the prevailing market price.
- The Government has earmarked a number of sites for about 5 000 MHPP flats. The first development project at Tsing Yi will provide around 1 000 “no frills” small and medium flats. These are expected to be completed in 2014 and pre-letting will take place in 2012.

### **(3) Land Development and Accumulation**

To expand the land resources in Hong Kong, the Government would adopt an innovative, multi-pronged approach :

- To release about 60 hectares of industrial land for non-industrial uses, half of which will be made available for housing.
- To explore the option of reclamation on an appropriate scale outside Victoria Harbour.
- To actively explore the use of rock caverns to re-provision existing public facilities and release such sites for housing and other uses. Tentative projects include the relocation of the Sha Tin Sewage Treatment Works and Mount Davis and Kennedy Town Fresh Water Service Reservoirs.
- To look into the use of green belt areas in the New Territories that are devegetated, deserted or formed, thus no longer performing their original functions, and convert them into housing sites. The first phase will cover an area of 50 hectares, mainly consisting of government land.
- To examine “Government, Institution or Community” sites to avoid the under-utilisation of sites long reserved but without specific development plans; and study ways to reduce the restrictions posed by government utilities to the development of adjacent areas.
- To explore the possibility of converting into housing land some 150 hectares of agricultural land in North District and Yuen Long currently used mainly for industrial purposes or temporary storage, or which is deserted.

The Government’s aim is to ensure an annual supply of land for an average of about 40 000 residential units of various types. Also, land development will continue even in times of declining demand, so that sufficient land for more than 40 000 units each year could be made available when demand rises again.

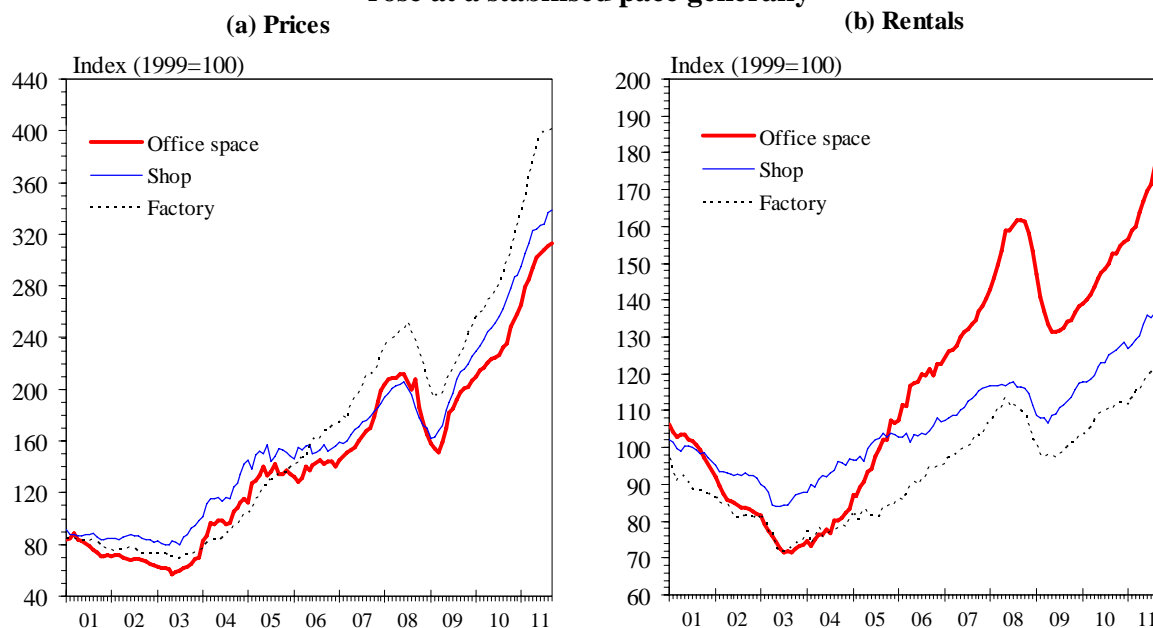


3.9 The *commercial and industrial property markets* also showed signs of cooling off in the third quarter, with transactions falling and prices and rentals generally recording stabilised increases. Transactions for *office space* tumbled by 40% over the preceding quarter or 33% over a year earlier to 609 cases in the third quarter. Overall prices in September rose by a decelerated 3% over June, with prices of Grade A, B and C office space up by 3%, 2% and 3% respectively. Office rentals gained by 6%, with Grade A, B and C office space registering increases of 6%, 5% and 5% respectively. In September, prices of office space have exceeded the 2008 peak by a sharp 48% while rentals were 11% higher. The average rental yields for Grade A, B and C office space edged up from 3.1%, 3.2% and 3.3% in June to 3.2%, 3.3% and 3.4% respectively in September.

3.10 For *retail shop space*, trading plunged to 1 244 cases in the third quarter, 40% lower than the preceding quarter or 43% lower than a year earlier<sup>(3)</sup>. Both prices and rentals of retail shop space continued to rise between June and September, but by a slower 4% and 2% respectively. As a result of the rally starting early 2009, prices in September have exceeded the 2008 peak by a rampant 65%, and rentals by 18%. The average rental yield for retail shop space edged down from 3.0% in June to 2.9% in September.

3.11 For *flatted factory space*, transactions slumped by 34% over the preceding quarter or 26% over a year earlier to 1 601 cases in the third quarter. Prices and rentals in September rose by 1% and 5% over June respectively. In September, prices of flatted factory space were higher than the 2008 peak by a sharp 59%, and rentals by a lesser 11%. The average rental yield for flatted factory space edged up from 3.8% in June to 3.9% in September.

**Diagram 3.5 : Prices and rentals of non-residential properties rose at a stabilised pace generally**



## Land

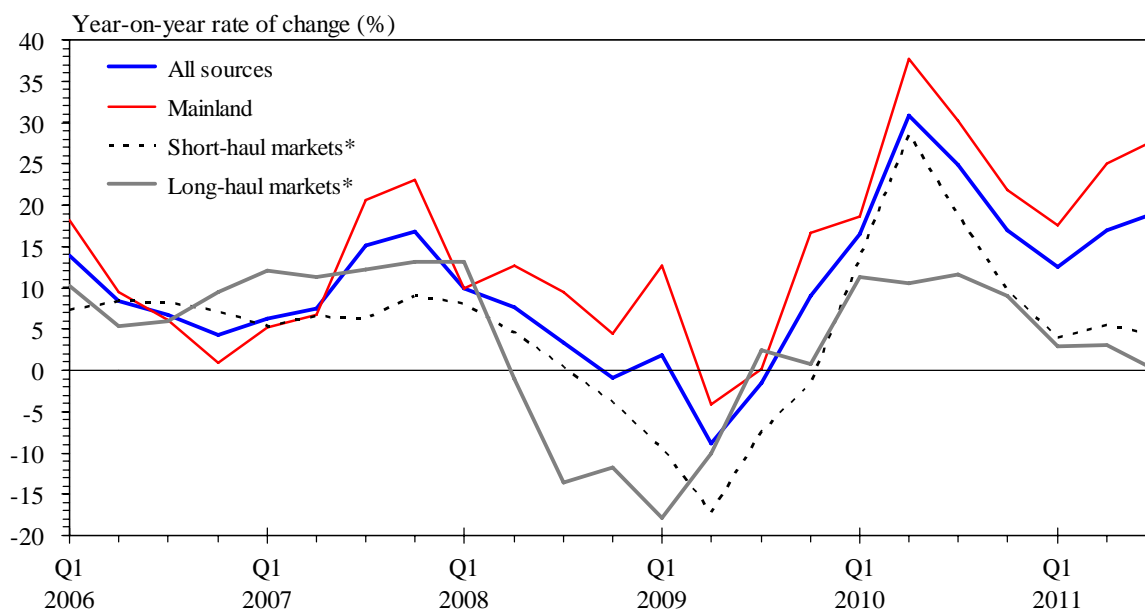
3.12 Reflecting the Government's efforts to increase land supply, the land sales market remained active in the third quarter. A total of five residential sites, three commercial sites, one business site, one hotel site and one hotel cum residential/commercial site were sold. Among the five residential sites, four were sold by auction and one by public tender. The other six sites were all sold by public tender. These 11 sites had a total area of about 11.3 hectares and fetched a total premium of about \$31 billion. In September, the tender exercises for two residential sites ended, and those for another residential site in South Bay Road, one hotel site in Sai Kung and one business site in Sha Tin commenced. In the third quarter, two land exchange cases and 11 lease modification cases were approved.

## Tourism

3.13 Inbound tourism maintained its solid momentum in overall terms, though different market segments showed diverse performance. The total number of *incoming visitor arrivals* grew by 19.0% over a year earlier to 11.1 million in the third quarter. Visitors from the Mainland surged by 27.9% to 7.7 million, accounting for 69% of the total. Visitors from short-haul markets also increased, though by a modest 4.3%. Yet visitors from long-haul markets edged down by 0.1%<sup>(4)</sup>. Analysed by length of stay, the number of same-day visitors rose by 24.4% and that of overnight visitors by 14.8%. As a

result, the share of same-day visitors in total arrivals rose from 43.8% a year earlier to 45.8%, while the share of overnight visitors declined from 56.2% to 54.2%.

**Diagram 3.6 : Inbound tourism maintained its solid momentum in overall terms**



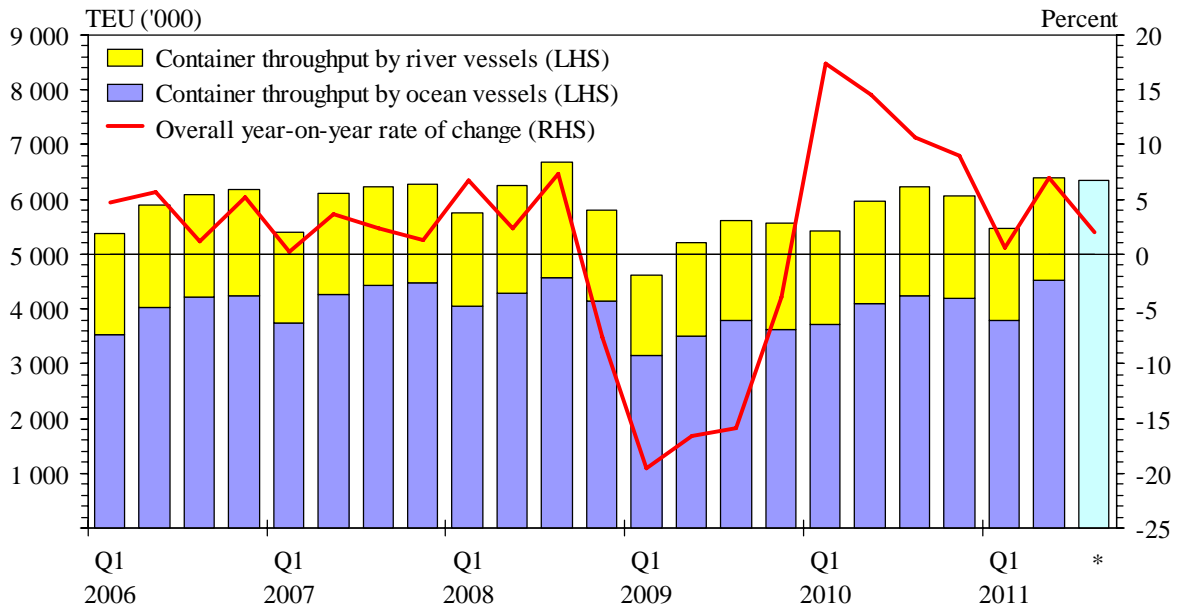
Note : (\*) See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

3.14 In tandem, the average hotel room occupancy rate increased further from 86% a year earlier to 89% in the third quarter, and the average achieved hotel room rate by 17.4% over a year earlier to \$1,279<sup>(5)</sup>.

## Logistics

3.15 Performance of the logistics sector remained modest, broadly in line with the tapering growth in external trade. *Total container throughput* grew by a mild 2.0% over a year earlier to 6.3 million TEUs in the third quarter. Over the period, the value of trade handled at the Hong Kong Port expanded notably by 8.2% and its share in Hong Kong’s total trade value rose from 26.7% to 27.1%.

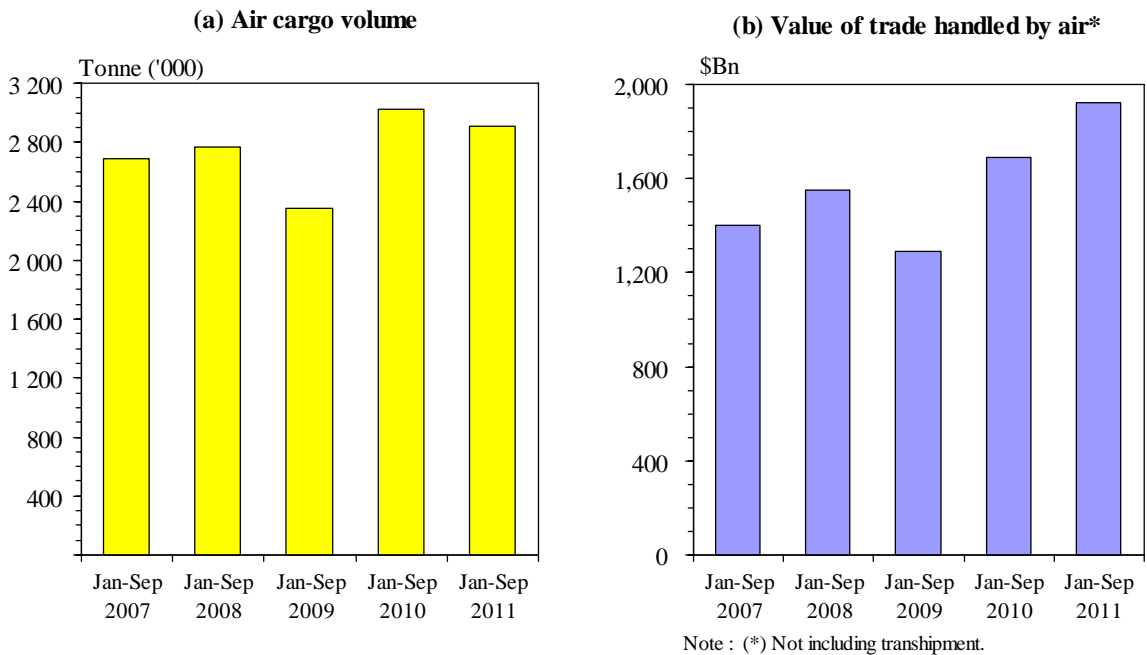
**Diagram 3.7 : Port container traffic continued to register a mild growth**



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.

3.16 Meanwhile, *air freight throughput* fell further by 6.7% from the high base a year earlier to 0.98 million tonnes in the third quarter. Yet the total value of trade by air still rose by 7.8%, and its share in overall trade value climbed further from 35.6% to 36.0%.

**Diagram 3.8 : Air cargo fell but the value of trade by air rose further**



Note : (\*) Not including transshipment.

## **Transport**

3.17 Traffic flows for most major modes of transport continued to grow steadily. Air passenger traffic grew by 5.9% over a year earlier to 14.3 million in the third quarter, and water-borne passenger trips by 7.9% to 7.2 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 4.6% to 526 100 but average daily vehicular movements edged down by 1.9% to 43 900.

## **Creativity and innovation**

3.18 To ensure that the patent system in Hong Kong continues to meet present-day circumstances and that its future positioning is in alignment with the Government's vision of developing Hong Kong into a regional innovation and technology hub, the Government has embarked on a comprehensive review of the system. Specifically, in early October the Government published a consultation paper and established an advisory committee to gauge the views of the public and stakeholders on the future positioning of the system. Having regard to these views, the Government intends to publish the proposed way forward in the first half of 2012.

## **Environment**

3.19 In August the Government launched a three-month public consultation on the restriction of sale of energy-inefficient incandescent light bulbs (ILB). Taking into account overseas experience and the supply of replacement options for ILB, the Government proposes to progressively phase out ILB through legislation in order to conserve energy, reduce carbon emissions and alleviate the impact of climate change.

3.20 To improve air quality, in October the Chief Executive proposed in the 2011-12 Policy Address to earmark \$180 million for franchised bus companies to purchase 36 electric buses for trial runs on a number of routes to assess their performance in different conditions. If the test results are satisfactory, the Government will encourage franchised bus companies to use electric buses on a much larger scale, taking into account the affordability of the bus companies and passengers. The Government will also introduce remote sensing equipment and advanced emission tests to control emissions from petrol and liquefied petroleum gas vehicles, and has also set aside \$150 million to provide a one-off subsidy to owners of liquefied petroleum gas taxis and light buses for

replacing catalytic converters in their vehicles.

**Notes :**

- (1) See Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010, note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects, and note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 for details of the measures.
- (2) On 10 October, the Steering Committee on the Regulation of the Sale of First-hand Residential Properties by Legislation submitted its recommendations on how to regulate the sale of first-hand residential properties by legislation, including the scope of the legislation, requirements on the sales brochure, price lists, sales arrangements, sales order and show flats, prohibition of misrepresentation, the nature and levels of penalties and the proposed set up of an enforcement agency.
- (3) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (4) 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. In the third quarter of 2011, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 69%, 21% and 10% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

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

### *Summary*

- *The low interest rate environment in Hong Kong generally continued in the third quarter of 2011. Yet interest rates at the retail level gradually crawled up, with the major banks continuing to raise the margin for the HIBOR-based mortgage loans.*
- *The Hong Kong dollar spot exchange rate softened slightly against the US dollar, conceivably due to the increased demand for US dollar liquidity amid the increasingly volatile external environment. Meanwhile, after declining in the earlier part of the quarter, the Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rebounded in September alongside the strengthening of the US dollar.*
- *Total loans and advances registered a more moderate growth after a period of solid increase. While the demand for loans for use outside Hong Kong remained strong, growth momentum of loans to many domestic economic sectors showed signs of tapering.*
- *The local stock market underwent a sharp correction in the third quarter, as sluggish recovery in the advanced economies and deterioration of the European debt problems weighed heavily on investor confidence. Fund raising activities, especially initial public offerings, also quietened down.*

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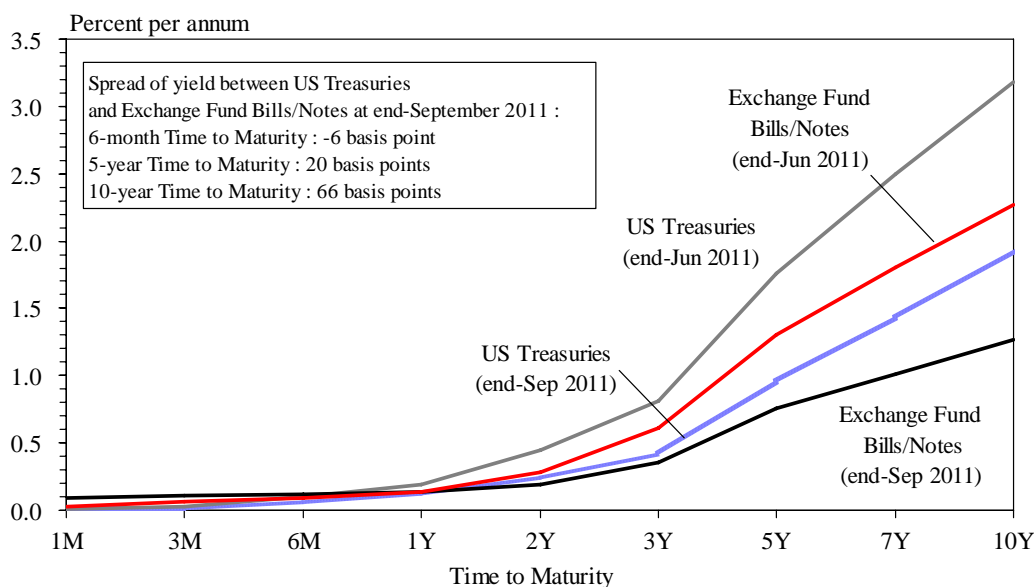
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong generally continued in the third quarter of 2011 amid the ongoing accommodative monetary policy in the United States. The *Base Rate* under the Discount Window operated by the HKMA stayed at 0.5% throughout the quarter, as the US Federal Funds Target Rate was kept unchanged at 0-0.25%<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* also stayed low, with the overnight and three-month HIBORs hovering at 0.13% and 0.33% respectively.

4.2 Meanwhile, *US dollar yields* declined visibly at the long end, as a result of the strong flow of funds into the US dollar searching for a safe-haven in face of the deterioration of the European debt problems. Also relevant was the announcement of the maturity extension program by the Federal Open Market Committee in September<sup>(2)</sup>. The *Hong Kong dollar yield curve* flattened in tandem, but by a lesser extent. As a result, the yield spread between 6-month Exchange Funds Bills and 6-month US Treasury Bills changed from a discount of one basis point at end-June to a premium of six basis points at end-September, and the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes narrowed from 91 basis points to 66 basis points.

**Diagram 4.1 : Both the Hong Kong dollar and US dollar yield curves flattened**

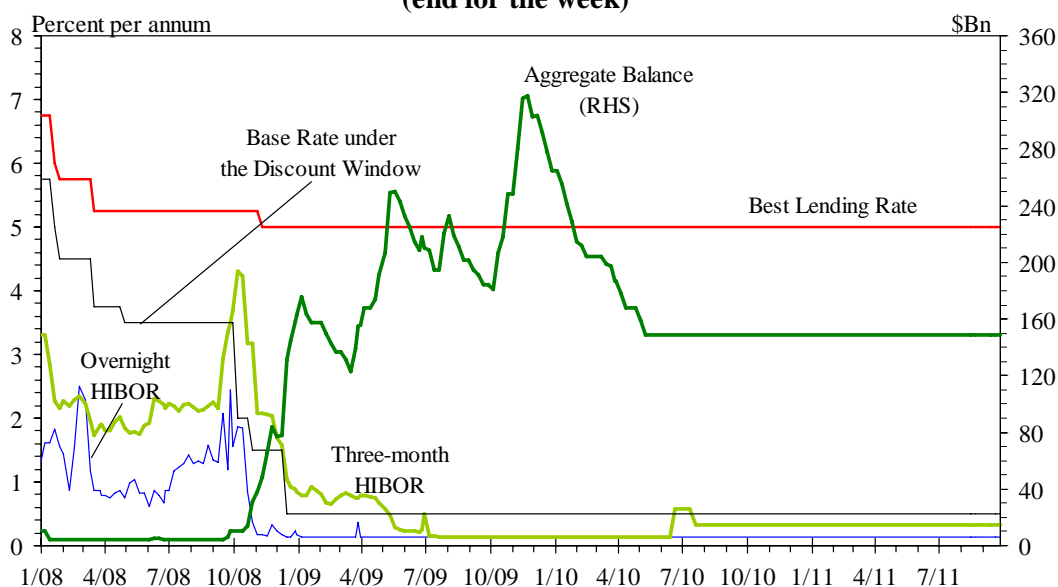


4.3 Yet interest rates at the retail level gradually crawled up. While the *Best Lending Rates* stayed at 5.00% or 5.25% throughout the third quarter, the



major banks continued to raise the margin for the HIBOR-based mortgage loans, to 2.0-2.85 percentage points in September, compared with 0.6-0.9 percentage points in early 2011. The *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks (which are for deposits of less than \$100,000) held steady at 0.01% and 0.15% respectively. However, reportedly some banks have raised their deposit interest rates for large deposits with longer maturities in order to strengthen their deposit bases. As a result, the *composite interest rate*, which reflects the average cost of funds for banks, picked up further from 0.31% at end-June to 0.36% at end-September, though still a low level by historical standards<sup>(3)</sup>.

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

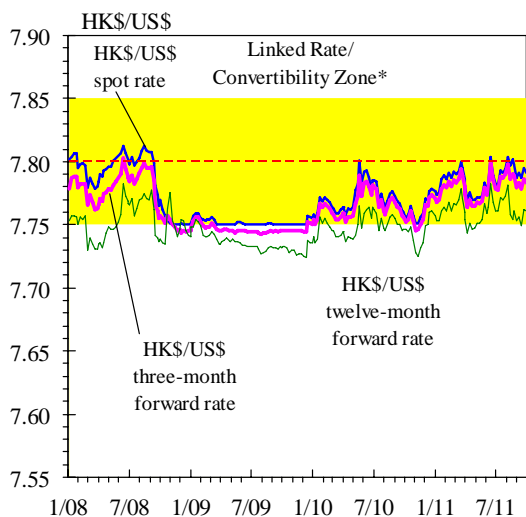


4.4 The Hong Kong dollar spot exchange rate softened slightly against the US dollar, from 7.782 at end-June to 7.792 at end-September, conceivably due to the increased demand for US dollar liquidity. In consequence, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* widened from 46 and 218 pips (each pip equivalent to HK\$0.0001) at end-June to 81 and 308 pips respectively at end-September.

4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. The US dollar depreciated further against most major currencies in the early part of the third quarter, but recouped part of the loss in September amid heightened concerns over the European debt problems. Reflecting these movements, the *trade-weighted Hong Kong dollar Nominal* and *Real Effective*

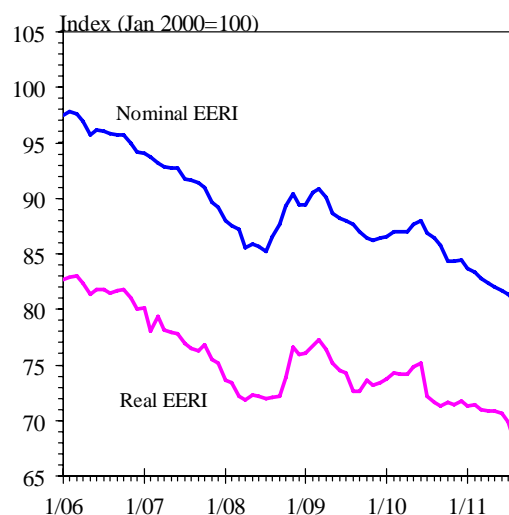
Exchange Rate Indices declined by 0.4% and 3.0% respectively during the quarter<sup>(4)</sup>.

**Diagram 4.3 : Hong Kong dollar softened 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.

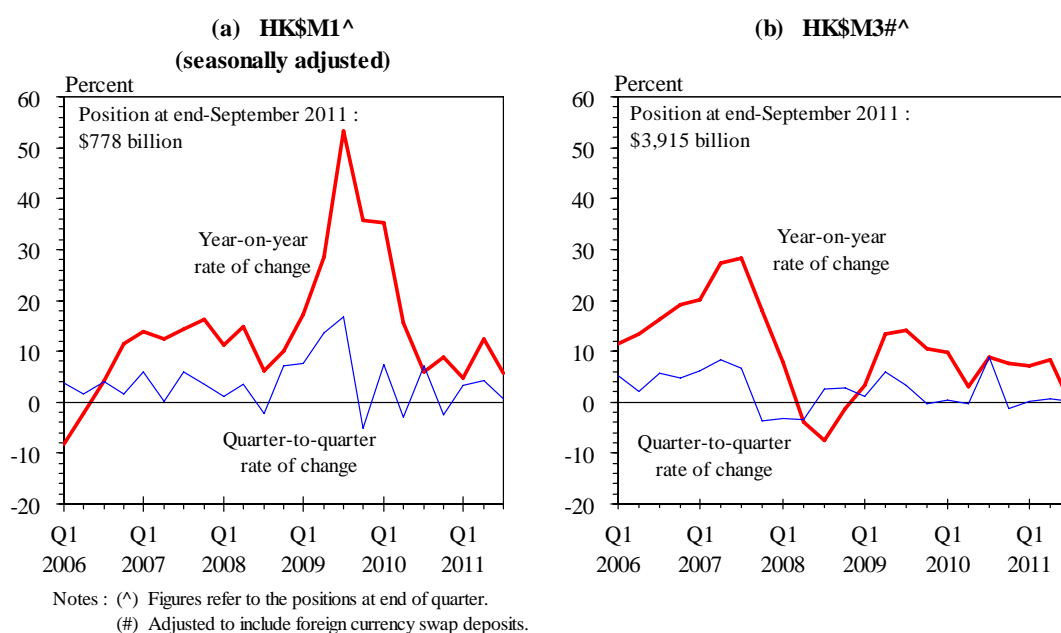
**Diagram 4.4 : Trade-weighted EERIs declined (average for the month)**



## Money supply and banking sector

4.6 Hong Kong dollar monetary aggregates showed decelerated growth in the third quarter of 2011. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by 0.6% over end-June to \$778 billion at end-September, while the broad money supply (HK\$M3) edged up by 0.1% to \$3,915 billion<sup>(5)</sup>. Meanwhile, *total deposits* with authorized institutions (AIs) expanded by a mild 1.2% to \$7,324 billion, with foreign currency deposits growing by 2.7% but Hong Kong dollar deposits declining by 0.2%<sup>(6)</sup>.

**Diagram 4.5 : The monetary aggregates showed decelerated growth**



**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>	
		HK\$ <sup>^</sup>	Total	HK\$ <sup>(a)</sup>	Total	HK\$ <sup>(a)</sup>	Total
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	0.1	3.3	0.1	3.4
	Q2	4.3	4.4	0.8	3.4	0.7	3.4
	Q3	0.6	2.3	0.1	1.9	0.1	1.8
Total amount at end-September 2011 (\$Bn)		778	1,119	3,906	7,770	3,915	7,789
% change over a year earlier		5.7	4.0	-0.3	11.2	-0.4	11.1

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

(\*) Change of less than 0.05%.

4.7 *Total loans and advances* registered a more moderate growth during the third quarter, by 4.4% over end-June to \$5,030 billion at end-September. Within the total, Hong Kong dollar loans expanded by 2.7% to \$3,126 billion and foreign currency loans by a noticeable 7.4% to \$1,904 billion. Loans for

use in Hong Kong grew by 1.8% to \$3,731 billion at end-September while loans for use outside Hong Kong jumped by 12.8% to \$1,299 billion. The strong growth in foreign currency loans and loans for use outside Hong Kong was a reflection of sustained robust foreign loan demand.

4.8 Within the loans for use in Hong Kong, loans to almost all economic sectors recorded a slower expansion. In line with the weakening external trade, growth in loans to wholesale and retail trade decelerated to 2.9% and that in trade finance to 3.4%. Loans for purchases of residential property grew by only 1.2% amid the property market consolidation and another round of prudential measures on mortgage lending introduced by the HKMA in June. Lending to stock brokers fell by 20.1%, due mainly to the stock market correction. With loans increasing amid a decline in deposits, the Hong Kong dollar loan-to-deposit ratio rose further from 84.2% at end-June to 86.6% at end-September, the highest level since late 2005.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong											
Loans to :									All loans and advances for use outside Hong Kong <sup>(c)</sup>		Total loans and advances
% change during the quarter	Trade finance	Manu- facturing	Wholesale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock- brokers	Total <sup>(b)</sup>			
2010 Q1	12.2	2.0	9.3	6.0	2.5	6.1	17.1	4.6	9.0		5.5
Q2	19.8	9.7	15.2	5.7	2.6	13.0	87.9	7.3	14.4		8.8
Q3	9.1	8.2	13.8	6.2	5.4	3.8	316.3	9.4	9.3		9.4
Q4	6.8	7.8	7.7	2.6	3.0	1.6	-83.1	1.0	8.0		2.5
2011 Q1	13.0	7.3	17.1	4.3	2.4	12.9	25.7	7.1	8.5		7.4
Q2	11.7	6.4	15.6	2.2	3.1	-1.4	9.5	4.3	12.3		6.1
Q3	3.4	1.8	2.9	1.6	1.2	10.5	-20.1	1.8	12.8		4.4
Total amount at end-September 2011 (\$Bn)	357	192	324	907	850	289	20	3,731	1,299		5,030
% change over a year earlier	39.4	25.2	50.1	11.1	10.0	24.9	-81.4	14.8	48.4		21.9

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.

4.9 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II"), the capital adequacy ratio (CAR) of these institutions stayed high at an average of 15.9% at end-June. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.10 Following the release of the Basel III rules text by the Basel Committee 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<sup>(7)</sup>. 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 commenced consultation with the industry on its proposed amendments to the Banking Ordinance in October 2011. The HKMA anticipates enactment of the Banking (Amendment) Bill in the Legislative Council's 2011-2012 session, followed by the amendments of the Banking (Capital) Rules and the Banking (Disclosure) Rules, for implementation of Basel III in phases at the beginning of 2013.

4.11 Based on the results of the Quantitative Impact Study (QIS) 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. In order to inform its policy decisions on implementation, the HKMA will conduct another round of QIS to assess the impact of the new Basel III requirements on AIs.

4.12 Asset quality of the local banking sector stayed at a high level. The ratio of classified loans to total loans declined further from 0.66% at end-March to a record-low of 0.61% at end-June. Meanwhile, the delinquency ratio for credit card lending remained at a low level, though edging up from 0.19% to 0.20%. The delinquency ratio for residential mortgage loans stayed low at 0.01% at end-September.

**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)
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
2011 Q1	98.17	1.17	0.66
Q2	98.20	1.19	0.61

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”.

4.13 Renminbi business in Hong Kong continued to expand in the third quarter. In August the Central Government announced a series of measures to support the development of Hong Kong as an offshore renminbi business centre, including the further expansion of the renminbi trade settlement scheme from 20 provinces and cities to the entire Mainland, support for the use of renminbi for foreign direct investments on the Mainland, introduction of a renminbi Qualified Foreign Institutional Investors scheme for investing in the Mainland’s securities markets, pilot arrangement for foreign banks to increase capital of their Mainland subsidiaries using renminbi, and expansion of issuance of renminbi bonds in Hong Kong by Mainland entities (including financial institutions and corporates). These measures will not only deepen the development of the offshore renminbi market in Hong Kong, but also further expand the channels for the flow and circulation of renminbi funds between Hong Kong and the Mainland.

4.14 The value of *cross-border renminbi trade settlement* in Hong Kong rose further by 6.6% over the preceding quarter to RMB\$525.4 billion in the third quarter. Partly driven by the rise in renminbi receipts by corporate customers through trade settlement, *total renminbi deposits* grew by another 12.4% over end-June to RMB622.2 billion at end-September, and the share of renminbi deposits in total foreign currency deposits rose from 18.4% to 20.5%. As to *renminbi bond*, alongside a diversified base of investors and issuers, total issuance of renminbi bonds reached RMB85 billion in the first nine months, already exceeding the total of last year.

**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<sup>(a)</sup></u>		Number of authorized institutions engaged in RMB business	Amount of cross-border RMB trade settlement <sup>(c)</sup> (RMB Mn)
					Savings deposits <sup>(b)</sup> (%)	Three-month time deposits <sup>(b)</sup> (%)		
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	311,279
	Q2	180,346	373,256	553,602	0.30	0.52	128	492,727
	Q3	191,528	430,708	622,236	0.29	0.52	131	525,425
% change over the preceding quarter		6.2	15.4	12.4	N.A.	N.A.	N.A.	6.6
% change over a year earlier		166.2	456.6	316.7	N.A.	N.A.	N.A.	566.3

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

4.15 The Hong Kong dollar debt market grew further in the third quarter due mainly to the expansion in public sector debts. The gross issuance of Hong Kong dollar debt securities rose by 4.6% over a year earlier to \$526.3 billion, within which Exchange Fund papers accounted for 87.8%. Debt issued by statutory bodies/government-owned corporations and government jumped by 445.8% and 357.1% respectively. Also, debt issued by AIs registered a noticeable growth of 55.5%. At end-September, the total outstanding balance of Hong Kong dollar debt expanded by another 3.9% to a record high of \$1,277.7 billion<sup>(8)</sup>, equivalent to 32.6% of HK\$M3 or 25.3% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(9)</sup>.

4.16 For the Government Bond (“GB”) Programme, tentative issuance schedule for institutional investors for September 2011 to February 2012, which includes a total worth of \$11.5 billion bonds with tenors ranging from two to ten years, was announced in July. Two institutional bond tenders were held in the third quarter, namely, tender for a new \$2.5 billion 10-year GB in August and

tender for a new \$3.5 billion 2-year GB in September. The tenders were well-received by the market, registering bid-to-cover ratios of 2.48 and 3.19 respectively. The outstanding institutional GB amounted to \$32.5 billion at end-September and the daily turnover averaged at \$6.41 billion for the first three quarters, equivalent to a turnover ratio of 22%<sup>(10)</sup>.

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

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New Issuance</b>											
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
	Q2	459.4	4.4	2.5	466.4	37.1	9.0	5.6	51.7	2.6	520.7
	Q3	462.0	6.5	16.0	484.5	33.2	3.6	2.8	39.6	2.3	526.3
	% change over a year earlier	0.7	445.8	357.1	4.6	55.5	29.3	-82.3	-0.7	-	4.6
<b>Outstanding (as at end of period)</b>											
2010	Q1	612.5	64.9	13.0	690.4	90.5	82.6	304.9	478.0	21.1	1,189.5
	Q2	651.4	61.9	17.5	730.8	93.8	84.1	290.3	468.2	18.4	1,217.4
	Q3	652.1	60.8	21.0	733.8	105.0	85.2	290.1	480.3	15.9	1,230.1
	Q4	653.1	60.6	25.5	739.2	122.1	84.9	283.9	490.9	15.5	1,245.7
2011	Q1	653.8	58.6	29.0	741.4	140.4	86.8	282.2	509.4	15.1	1,265.8
	Q2	654.4	52.6	31.5	738.5	153.3	93.0	267.5	513.8	17.4	1,269.7
	Q3	654.8	53.0	44.0	751.8	155.7	94.1	256.7	506.4	19.5	1,277.7
	% change over a year earlier	0.4	-12.8	109.5	2.4	48.3	10.4	-11.5	5.4	22.7	3.9

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.

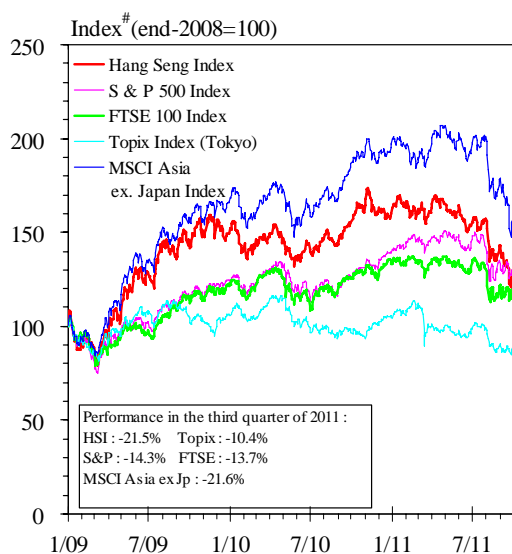


## The stock and derivatives markets

4.17 *The local stock market* underwent a sharp correction in the third quarter amid significant gyrations in the global financial markets. As sluggish recovery in the advanced economies and the escalating European debt problems weighed heavily on investor confidence, the *Hang Seng Index* (HSI) plummeted to a two-year low of 17 408 on September 26. It closed the quarter at 17 592 at end-September, 21.5% down from end-June. In tandem, *market capitalisation* shrank by 23.1% to \$16.2 trillion at end-September, but the Hong Kong stock market remained the seventh largest globally and the third largest in Asia<sup>(11)</sup>.

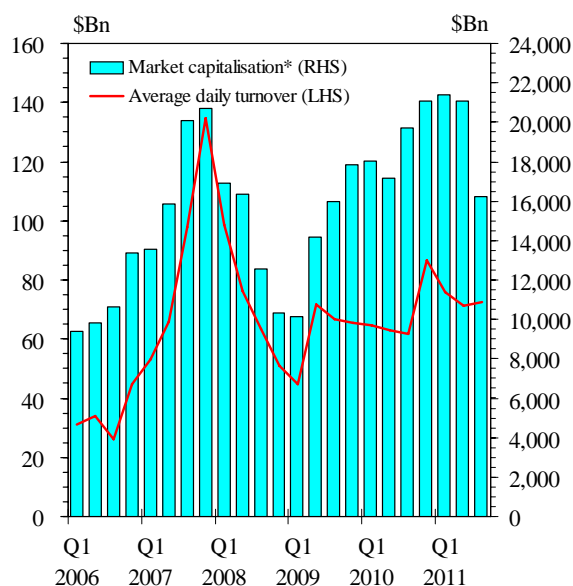
4.18 Yet trading activities stayed firm. *Average daily turnover* in the securities market rose by 17.5% over a year earlier or 2.0% over the preceding quarter to \$72.6 billion in the third quarter. As regards *derivatives products*, average daily trading volume of futures and options jumped by 55.1% over a year earlier<sup>(12)</sup>. Within the total, trading of stock options and HSI options soared by 60.8% and 54.6% respectively, while trading of H-shares Index futures and HSI futures increased sharply by 47.7% and 33.6%. Average daily trading value of securitised derivatives products rose by 16.7% over the same period. Within the total, trading of callable bull/bear contracts leapt by 49.9% while trading of derivative warrants edged down by 0.7%.

**Diagram 4.6 : The Hang Seng Index underwent a sharp correction in the quarter in tandem with gyrations in overseas markets**



Note : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation shrank but trading activities held up**



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
	Q2	87 592	43 806	57 151	276 966	531 141	10,786	5,523	16,308
	Q3	104 945	49 166	69 187	348 598	652 827	10,383	8,225	18,608
% change over a year earlier		33.6	54.6	47.7	60.8	55.1	-0.7	49.9	16.7
% change over the preceding quarter		19.8	12.2	21.1	25.9	22.9	-3.7	48.9	14.1

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.

4.19 Fund raising activities turned much quieter in the third quarter, with a number of planned launches deferred or even withdrawn amid the sharp fall in the stock market. *Total equity capital raised*, including new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(13)</sup>, plummeted by 65.2% over a year earlier to \$58.5 billion. The amount of funds raised through IPOs recorded an even sharper plunge of 82.1% to \$19.7 billion.

4.20 Mainland enterprises continued to play a dominant role in the local stock market. At end-September, a total of 620 Mainland enterprises (including 164 H-share companies, 103 “Red Chips” companies and 353 private enterprises) were listed on the Main Board and GEM, representing 42% of the total number of listed companies and 55% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 67% of equity turnover and 48% of total equity fund raised in the Hong Kong stock exchange.

## **Fund management and investment funds**

4.21 In parallel to the setback in financial asset prices, the fund management business also quietened down. While gross retail sales of *mutual funds* still managed to grow by 46.6% over a year earlier to US\$10.4 billion for the third quarter as a whole, there was in fact a decline in September<sup>(14)</sup>. Aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* shrank by 12.4% over end-June to \$337 billion at end-September<sup>(15)</sup>, conceivably due to the decline in equity prices. The amount of net assets managed by retail hedge funds also retreated<sup>(16)</sup>.

4.22 In July the Government and the Mandatory Provident Fund Schemes Authority (MPFA) announced the detailed legislative proposals to enhance the regulatory regime of MPF intermediaries. The proposals are part of the preparatory work for implementing the Employee Choice Arrangement (ECA), 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, provision of an electronic platform for transfers of benefits through approved trustees and strengthening the deterrent against default contributions by employers. The Government and the MPFA target to introduce the relevant bill into the Legislative Council in the fourth quarter of 2011, with the aim of implementing the ECA in the second half of 2012.

## **Insurance sector**

4.23 Growth in the *insurance sector* gathered further strength in the second quarter<sup>(17)</sup>. Gross premium income from long-term business leapt by another 38.3% over a year earlier, underpinned by strong growth in both linked and non-linked plans. As to general business, gross premium income rose by 14.5% and net premium by 12.1%.

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

	General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general 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	
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
2011 Q1	10,263	7,003	482	11,231	5,619	14	69	16,933	27,196
Q2	8,456	5,919	970	15,320	6,281	17	53	21,671	30,127
% change in 2011Q2 over 2010Q2	14.5	12.1	35.9	38.3	39.1	-43.3	-3.6	38.3	30.7

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

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

### 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) On 21 September 2011, the Federal Open Market Committee announced that it would extend the average maturity of its holdings of securities. Specifically, the Committee intends to purchase, by the end of June 2012, \$400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less. This program should put downward pressure on longer-term interest rates and help make broader financial conditions more accommodative. This maturity extension program is also commonly called "Operation Twist".
- (3) 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.

- (4) 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.

- (5) 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.

- (6) Authorized institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2011, there were 151 licensed banks, 19 restricted licence banks and 26 deposit-taking companies in Hong Kong. Altogether, 196 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (7) 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 introduced by the Basel Committee in July 2009 as enhancements to 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.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments

other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.

- (10) Turnover ratio is defined as the average daily turnover of bonds divided by the average amount of bonds outstanding.
- (11) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 54 securities exchanges (as of 4 November 2011), covering almost all globally recognised stock exchanges.
- (12) At end-September 2011, there were 57 classes of stock options contracts and 38 classes of stock futures contracts.
- (13) At end-September 2011, there were 1 301 and 166 companies listed on the Main Board and GEM respectively.
- (14) 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-September 2011, the survey covered a total of 1 221 active authorized funds.
- (15) At end-September 2011, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 438 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 252 000 employers, 2.33 million employees and 241 000 self-employed persons have participated in MPF schemes.
- (16) At end-September 2011, there were 6 SFC-authorized retail hedge funds with combined net asset size of US\$742 million. The amount of net assets under management was 22.0% below the end-2010 level, though it was still more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (17) At end-September 2011, there were 164 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 98 in general insurance business, and 20 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

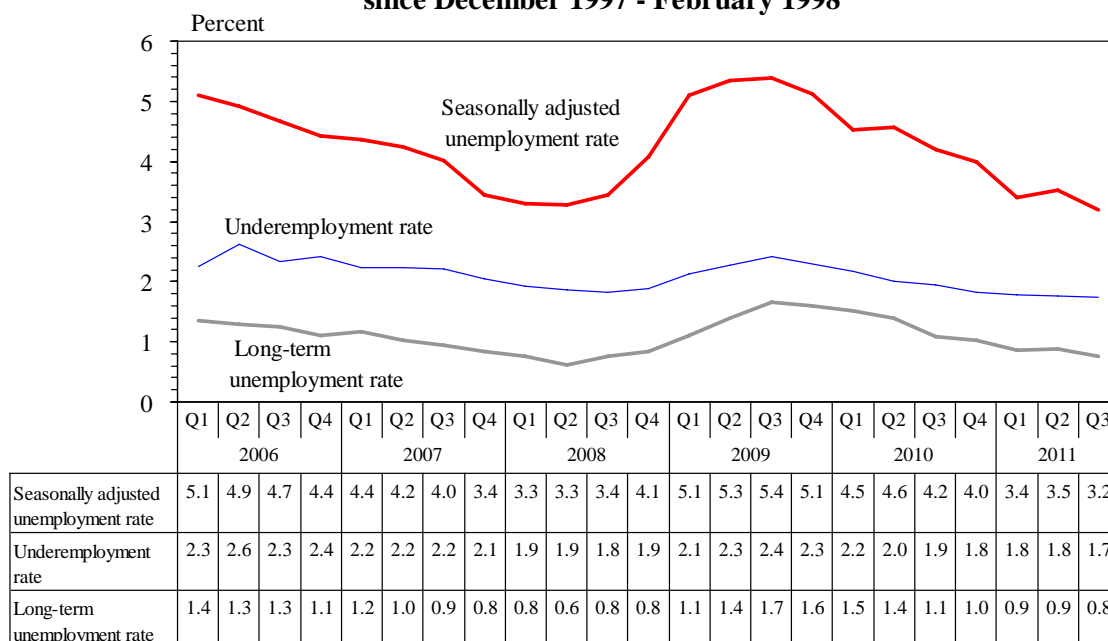
### *Summary*

- *The labour market tightened up further in the third quarter of 2011, thanks to the buoyant labour demand following a period of above-trend economic growth.*
- *Total employment rose for the fifth consecutive quarter, reaching a record high of 3 642 400. The strength of labour demand was evident from the persistently strong growth in employment outstripping that of labour supply, thereby absorbing many job-seekers including in particular fresh graduates and school leavers entering the labour market this summer.*
- *The seasonally adjusted unemployment rate dropped by 0.3 percentage point over the preceding quarter to 3.2%, the lowest since December 1997 – February 1998. Concurrently, the number of unemployed persons fell by 9 700 to 127 100, the lowest level for the third quarter since 1997. These figures signified virtually full employment for the local workforce.*
- *Wages and earnings posted a further distinct pick-up, with broad-based increases across almost all the major economic sectors and occupation categories. Workers at the lower segment generally enjoyed even higher income growth on top of an improving labour market, thanks to the additional boost from the implementation of statutory minimum wage (SMW).*

### **Overall labour market situation**

5.1 In the third quarter of 2011, the labour market tightened further amidst sustained strength in labour demand. Total employment kept surging for the fifth quarter in a row, hitting a new high of 3 642 400. While job gains were seen in many economic sectors, they were more notable in construction, professional and business services, and information and communications. These new jobs helped to absorb many new entrants, comprising mainly fresh graduates and school leavers joining the labour force in the summer months. Consequently, the seasonally adjusted *unemployment rate*<sup>(1)</sup> fell to a 13-year low of 3.2%. Meanwhile, the *underemployment rate*<sup>(2)</sup> also edged down to 1.7%. Against this backdrop of tight labour market conditions, wages and earnings went up almost across the board in both nominal and real terms.

**Diagram 5.1 : Unemployment rate dropped to its lowest level since December 1997 - February 1998**



## Total employment and labour force

5.2 *Total employment*<sup>(3)</sup> rose visibly by 4.0% year-on-year and by 0.6% on a seasonally adjusted quarter-to-quarter basis in the third quarter of 2011. In absolute terms, the number of employed persons surged by 31 800 over the quarter, reaching a new record high of 3 642 400. Of particular note was the significant increase in full-time jobs amounting to 63 700, which when viewed in conjunction with the reductions in self-employment and part-time employment at 20 100 and 6 900 respectively, signified a distinct pick-up in labour demand in the business sector. With the economy now in its third year of recovery, employers apparently had become more positive in hiring permanent staff, especially in the early part of the quarter when business sentiment was still very sanguine.

5.3 Analysed by major economic sector, employment gains were observed on a broad front during the quarter, with construction, professional and business services, and information and communications recording more pronounced increases. For the construction sector more specifically, many of the new jobs were apparently related to the intensification of infrastructure projects and other public works by the Government.



5.4 Disaggregated data at the occupation level revealed that workers at both the upper and lower ends witnessed employment growth during the third quarter of 2011, at 27 800 and 3 900 respectively. Within the workforce, professionals and workers in elementary occupations were the groups experiencing relatively larger gains. In terms of other socio-economic attributes, persons aged 20 - 24 and 50 - 59 as well as those with secondary and tertiary education were also the ones benefiting more from the new job generation.

5.5 When compared to June – August 2008 (i.e. just before the outbreak of the global financial tsunami), the employment gains were even more visible and widespread, up by 87 100 (6.7%) for higher-skilled workers and 24 300 (1.1%) for lower-skilled workers. Taking these two groups together, the total number of new jobs created was 111 400 (3.2%). Much of these increases were concentrated in those sectors with a strong domestic content such as repair, laundry, domestic and miscellaneous personal services; retail, accommodation and food services; financing, insurance, real estate, professional and business services; and construction. This more than offset the losses seen in the external sectors, including manufacturing, and import/export trade and wholesale, which tended to be harder hit by the financial crisis.

5.6 On the supply side, the *labour force*<sup>(4)</sup> expanded by 2.8% in the third quarter of 2011 over a year earlier, broadly similar to the 2.6% growth in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the growth was 0.3% in the third quarter, slower than the 1.3% rise in the second quarter. This slowdown was partly due to reduced entry of school leavers into the labour market upon the new Secondary School System, under which all secondary five students (mostly within the age bracket of 15 - 19) were required to further their studies in secondary six. Also relevant was the exceptionally high base in the second quarter, as the implementation of SMW has apparently induced more women aged 50 or above to join the labour force.

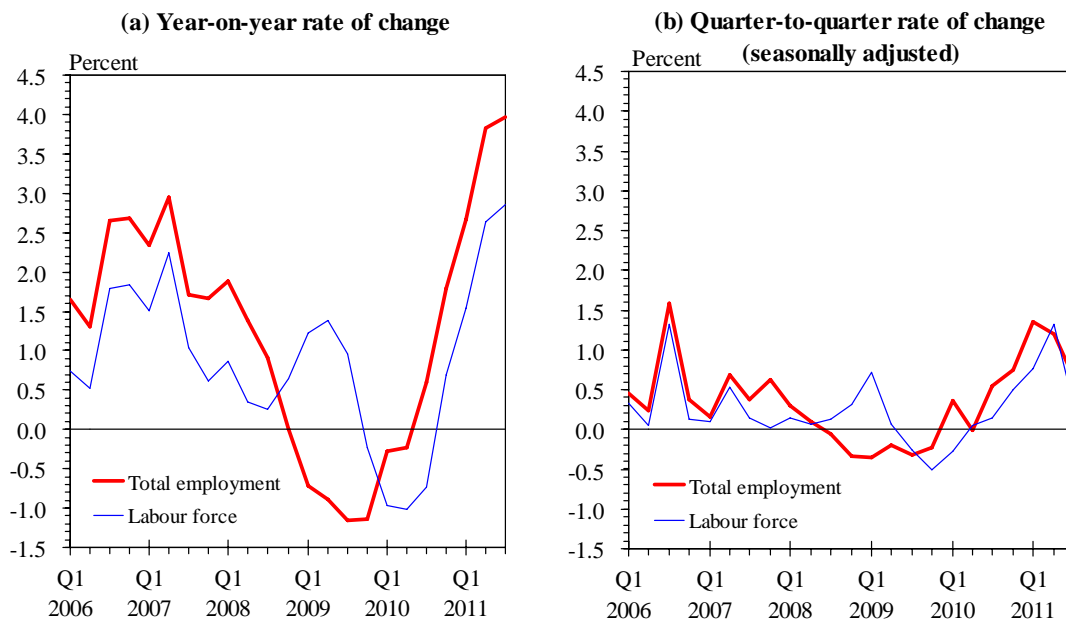
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2010 Annual	3 653 700 (-0.6)	3 492 500 (0.4)	161 200	74 700
Q1	3 645 800 (-1.0)	3 484 200 (-0.3)	161 600	79 000
Q2	3 651 100 (-1.0)	3 477 800 (-0.2)	173 300	73 000
Q3	3 665 100 (-0.7)	3 503 600 (0.6)	161 400	71 100
Q4	3 678 600 (0.7)	3 542 800 (1.8)	135 800	66 700
2011 Q1	3 701 800 (1.5)	3 577 300 (2.7)	124 500	66 300
Q2	3 747 400 (2.6)	3 610 600 (3.8)	136 800	66 200
<i>Three months ending</i>				
Jul	3 763 000 (3.0)	3 625 800 (4.0)	137 300	65 800
Aug	3 766 600 (2.8)	3 636 600 (4.0)	130 100	68 000
Sep	3 769 400 (2.8)	3 642 400 (4.0)	127 100	65 800
	<0.3>	<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 third quarter of 2011.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total employment continued to grow faster than the labour force in the third quarter of 2011**



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

		<u>Male</u>	<u>Female</u>	<u>Both genders combined</u>
2010	Q1	68.6	52.2	59.8
	Q2	68.4	52.2	59.7
	Q3	68.8	51.9	59.7
	Q4	68.6	52.1	59.7
2011	Q1	68.2	52.9	59.9
	Q2	68.9	53.3	60.5
	Q3	69.0	53.6	60.7

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 Q3</u>
<u>Male</u>						
15-19	14.3	14.8	13.0	12.6	10.3	10.0
20-24	69.0	67.6	65.8	64.8	61.1	63.5
25-29	95.6	95.0	94.3	94.8	94.3	93.9
30-39	96.7	97.1	96.5	96.3	96.5	96.3
40-49	95.2	95.5	95.1	95.0	95.0	95.4
50-59	83.3	83.3	84.0	84.3	84.5	85.6
≥60	19.3	19.6	20.0	21.2	21.9	24.0
Overall	70.9	70.5	69.7	69.4	68.6	69.0
<u>Female</u>						
15-19	13.1	13.5	12.4	11.4	9.4	10.7
20-24	71.1	71.7	69.5	66.2	61.7	65.7
25-29	87.2	87.4	87.3	87.0	86.4	87.3
30-39	75.5	76.2	76.8	77.0	75.2	77.8
40-49	65.1	66.6	66.7	68.5	68.1	69.7
50-59	45.7	46.7	48.5	48.8	49.2	52.3
≥60	4.5	5.2	5.7	6.6	6.8	8.1
Overall	52.6	53.1	53.1	53.1	52.0	53.6
<u>Both genders combined</u>						
15-19	13.7	14.2	12.7	12.0	9.9	10.4
20-24	70.1	69.8	67.7	65.5	61.4	64.6
25-29	90.9	90.7	90.3	90.4	89.7	90.1
30-39	84.6	85.1	85.1	85.1	84.0	85.3
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	68.7
≥60	11.7	12.1	12.6	13.7	14.1	15.7
Overall	61.2	61.2	60.9	60.7	59.7	60.7

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

5.7 Led by the increased labour demand, the unemployment situation staged a distinct and broad-based improvement in the third quarter of 2011. The seasonally adjusted unemployment rate dropped by 0.3 percentage point to 3.2%, signifying virtually full-employment for the local workforce. This was also the lowest level since December 1997 – February 1998. Likewise, the numbers unemployed (not seasonally adjusted) fell by 9 700 to 127 100, the lowest figure recorded for the same quarter since 1997. The improvements in unemployment rate were however not uniform across various economic sectors. Warehousing and support activities for transportation, construction, and professional and business services were the sectors having more pronounced declines over the period. The unemployment rate of *low-paying sectors*<sup>(5)</sup> as a whole, having risen initially after the implementation of SMW, fell back slightly during the third quarter. The improvement was particularly visible in restaurants and security services, though the unemployment situation in retail deteriorated over the same period (**Box 5.1**).

5.8 A breakdown by work skill level indicated that the unemployment rate for higher-skilled workers went down by 0.1 percentage point to 1.6%, and that for lower-skilled workers much more by 0.5 percentage point to 3.7%. The latter decrease was mainly concentrated among craft and related workers, plant and machine operators and assemblers, and clerks. This was consistent with the sectoral pattern, whereby the catering and distributive trades, and construction sectors in which most of the low skilled workers were engaged also saw notable reductions in unemployment at the same time. Analysed in terms of other socio-economic attributes, persons aged 15 - 19 and 50 - 59 as well as those with secondary and tertiary non-degree education experienced more noticeable declines in unemployment rate.

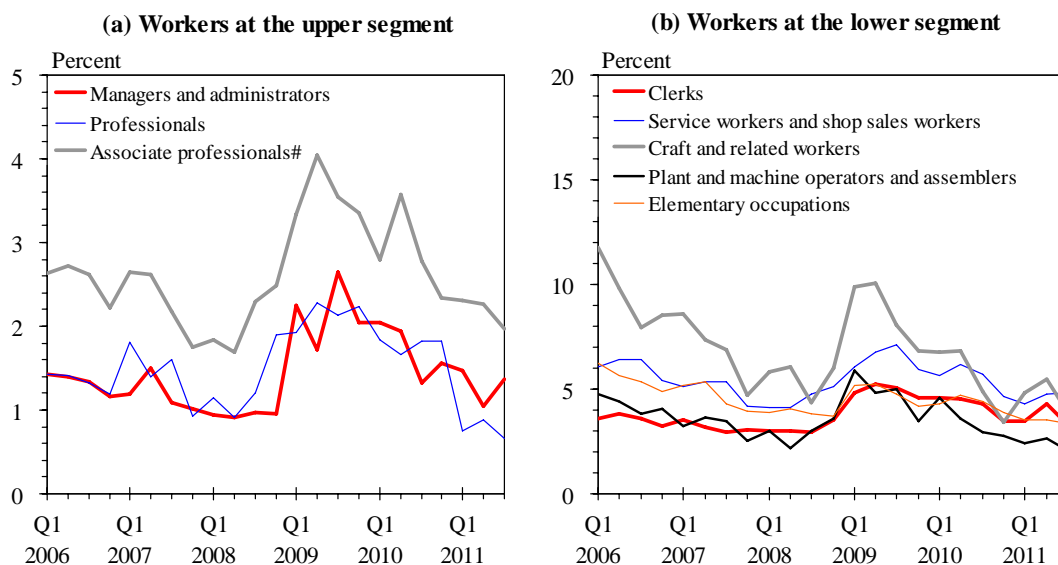
**Table 5.4 : Unemployment rate by major economic sector**

	2010				2011		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Import/export trade and wholesale	4.3	4.5	3.7	3.7	3.2	3.4	2.8
Retail	5.2	6.1	5.8	4.9	4.4	4.3	4.7
Accommodation and food services	6.9	6.7	6.0	4.9	4.6	6.0	5.0
Transportation, storage, postal and courier services	4.1	3.7	3.6	3.3	3.0	3.4	2.8
Information and communications	4.5	4.9	3.5	4.0	2.6	2.9	2.5
Financing, insurance, real estate, professional and business services	3.4	3.9	3.3	2.9	2.8	2.9	2.4
Public administration, social and personal services	1.8	1.9	1.9	1.2	1.3	1.6	1.3
Manufacturing	4.6	6.1	4.2	3.8	3.8	3.2	4.8
Construction	8.1	7.7	6.6	4.9	6.2	5.6	4.4
Overall	4.4 (4.5)	4.7 (4.6)	4.4 (4.2)	3.7 (4.0)	3.4 (3.4)	3.6 (3.5)	3.4 (3.2)

Note : ( ) Seasonally adjusted unemployment figures.

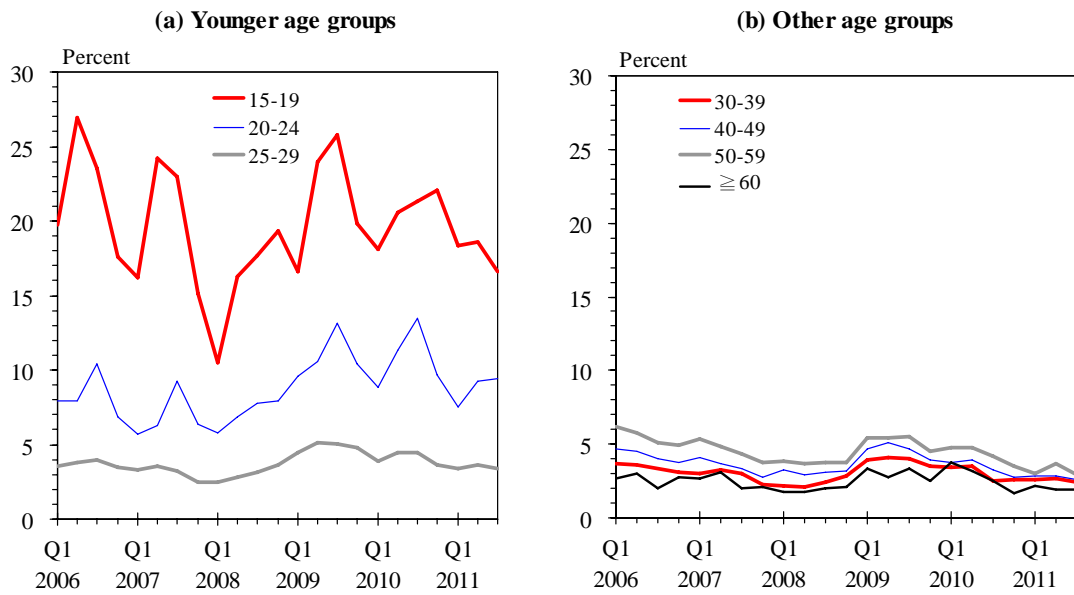
Source : General Household Survey, Census and Statistics Department.

**Diagram 5.3 : The latest fall in unemployment rate\* occurred mainly among workers at the lower segment**



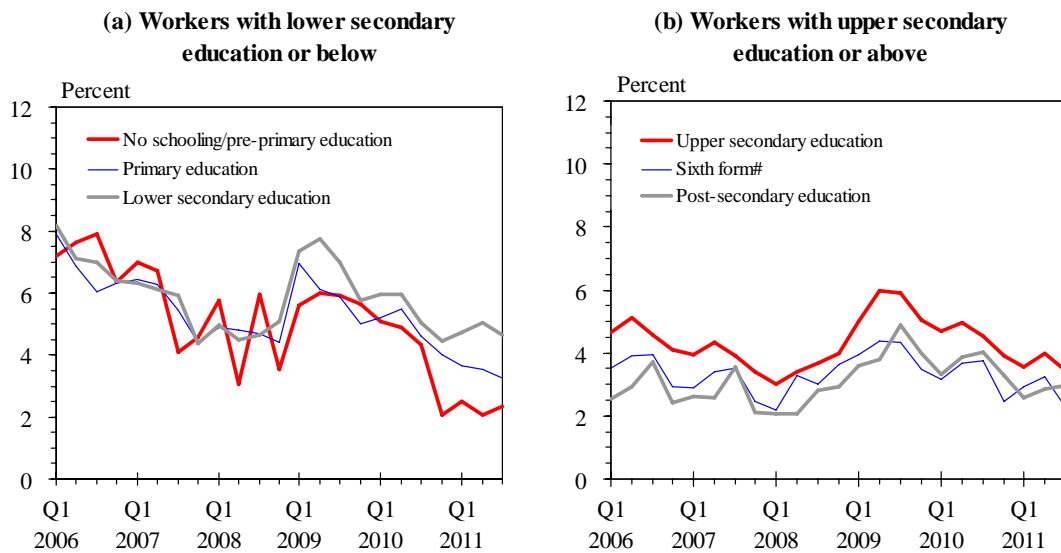
Notes : (\*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.  
 (#) Including technicians and supervisors.

**Diagram 5.4 : Unemployment rate\* declined across almost all the age groups**



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

**Diagram 5.5 : Broad-based improvement in the unemployment\* situation was observed for most educational levels**



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

(#) Including craft courses.

5.9 Other measures of unemployment also exhibited different extents of improvement. The number of long-term unemployed (i.e. unemployed for six months or longer) declined substantially from 33 300 in the second quarter to 28 700 in the third quarter, while the respective unemployment rate fell from 0.9% to 0.8%. Concurrently, the median duration of unemployment shortened visibly from 78 days to 71 days, the lowest quarterly figure since the fourth quarter of 2008. Furthermore, the proportion of dismissal or laid-off among the unemployed persons shrank to 47.9% in the third quarter, both from 50.0% in the preceding quarter and 53.4% a year earlier. Hence, the unemployment situation has kept on improving not only in terms of scale, but also in terms of intensity of the problem.

### **Profile of underemployment**

5.10 The underemployment situation likewise turned better in the third quarter of 2011. The underemployment rate edged lower to 1.7% from 1.8%, with the number of underemployed persons down to 65 800 from 66 200. Analysed by major economic sector, the decline was most apparent in arts, entertainment and recreation, hotels, and transportation.

## Box 5.1

### Latest labour market conditions after the implementation of statutory minimum wage

The implementation of statutory minimum wage (SMW) on 1 May this year signifies a major milestone in the development of Hong Kong's labour policy. At the same time, there are also concerns about whether it would cause significant job losses among those lower-skilled and low-paid workers who may stand to benefit. In this article, we analyse the dynamics of the employment and unemployment situations of these workers after the implementation of SMW, focusing on the sectors and groups that are most likely to be affected.

Thanks to the sustained robust economic growth, the labour market remained tight with total employment growing apace so far this year. In the third quarter, employment increased further over the previous quarter by 31 800 (0.6% on a seasonally adjusted basis) to 3 642 400. Analysed by skill segment, almost 90% of the expansion was attributable to the higher-skilled occupations. As for the lower-skilled segment, job gains went up modestly by 3 900 (0.2%), not enough to cover the loss of some 14 700 jobs in the second quarter. After netting out government employees and live-in domestic workers who are not covered by the SMW regime, the job losses between the first quarter and the third quarter were higher at 15 300 (loss of 21 600 jobs during the second quarter followed by a gain of 6 200 jobs during the third quarter) in this segment. The resumption of job creation in the third quarter therefore had only partially offset this previous loss. Amongst the major sectors, the restaurants sector was notably more vulnerable than the others to job cuts at the time of SMW implementation given its relatively high wage bill and low profit margin. As many as 17 700 (7.6%) job losses were seen in this sector during the second quarter of 2011, as against 4 600 (2.1%) job losses registered in the same period a year earlier (*Table 1*).

**Table 1 : Recent employment gains were mainly from the higher-skilled segment**

	Q3 2011 (No.)	Quarter-to-quarter change				Change in Q3 over Q1 2011			
		Q1 2011 (No.)	(%)	Q2 2011 (No.)	(%)	Q3 2011 (No.)	(%)	(No.)	(%)
<b>Total employment</b>	<b>3 642 400</b>	<b>34 400</b>	<b>1.3</b>	<b>33 300</b>	<b>1.2</b>	<b>31 800</b>	<b>0.6</b>	<b>65 100</b>	<b>1.8</b>
<b>Occupation</b>									
Higher-skilled	1 384 000	25 000	1.9	48 100	3.7	27 800	2.1	75 900	5.8
Lower-skilled	2 258 300	9 500	0.4	-14 700	-0.6	3 900	0.2	-10 800	-0.5
<i>Lower-skilled (excl. government employees and live-in domestic workers)</i>	<i>1 881 800</i>	<i>-10 400</i>	<i>-0.5</i>	<i>-21 600</i>	<i>-1.1</i>	<i>6 200</i>	<i>0.3</i>	<i>-15 300</i>	<i>-0.8</i>
<b>Sector</b>									
Low-paying sectors (LPS)	1 192 700	29 700	2.6	-8 800	-0.7	17 800	1.5	9 000	0.8
<i>Retail</i>	<i>316 800</i>	<i>1 000</i>	<i>0.3</i>	<i>8 500</i>	<i>2.8</i>	<i>5 200</i>	<i>1.7</i>	<i>13 700</i>	<i>4.5</i>
<i>Restaurants</i>	<i>224 500</i>	<i>10 400</i>	<i>4.7</i>	<i>-17 700</i>	<i>-7.6</i>	<i>8 100</i>	<i>3.7</i>	<i>-9 600</i>	<i>-4.1</i>
<i>Estate management, security and cleaning services</i>	<i>237 600</i>	<i>4 900</i>	<i>2.1</i>	<i>-1 300</i>	<i>-0.5</i>	<i>600</i>	<i>0.3</i>	<i>-700</i>	<i>-0.3</i>
<i>Other low-paying sectors</i>	<i>413 900</i>	<i>13 400</i>	<i>3.4</i>	<i>1 800</i>	<i>0.4</i>	<i>3 800</i>	<i>0.9</i>	<i>5 600</i>	<i>1.4</i>
Non-low-paying sectors (Non-LPS)	2 449 600	4 800	0.2	42 100	1.8	14 000	0.6	56 100	2.3

Note: Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total.

Source: General Household Survey, Census and Statistics Department.



### Box 5.1 (Cont'd)

Sectoral analysis of job creation in the lower-skilled segment suggests a mixed performance amongst individual LPS and non-LPS, with these two broad sectors both registering some lower-skilled job loss in the second quarter of 2011 over the preceding quarter (i.e. before SMW implementation). Among LPS, restaurants, estate management, security and cleaning services, and other LPS appeared to be more affected by SMW. In aggregate terms, there were 22 400 lower-skilled jobs lost in these sectors. This however was partially offset by the job gains in retail by 8 600 amidst the buoyant local consumption (*Chart 1*).

**Chart 1 : Some lower-skilled job losses were seen at the time SMW first launched, but job creation recently resumed, mostly in LPS**



Note: Numbers in brackets represent the number of employed persons ('000) in the third quarter of 2011. Government employees and live-in domestic workers are excluded.

Source: General Household Survey, Census and Statistics Department.

More recent indications nevertheless suggest that job creation has resumed moderately in the lower-skilled segment, with job gains amounting to 6 200 between the second and the third quarters of 2011. This was particularly notable in restaurants where job creation regained the momentum, thereby narrowing the earlier loss. In contrast, lower-skilled employment in retail fell back somewhat, and recent job gains were mainly found in the higher-skilled segment. For LPS as a whole, 5 800 lower-skilled jobs were gained during the third quarter.

On the supply side, labour force continued to grow strongly by 67 600 (1.8%) in the third quarter over the first quarter, attributable partly to an increased number of job-seekers induced by more employment opportunities alongside the economic growth, and better income prospects following SMW implementation. This phenomenon was also evident from the rise in labour force participation rate, most notably amongst those aged 20-24 and 50-59 (*Table 2*).

**Box 5.1 (Cont'd)**
**Table 2 : Labour force participation rates of selected groups**

	Q1 2011	Q2 2011	Q3 2011	Change in Q3 over Q1 2011
	(%)	(%)	(%)	(% point)
<b>Overall</b>	<b>59.9</b>	<b>60.5</b>	<b>60.7</b>	<b>0.8</b>
<b><u>Age</u></b>				
15-19	8.8	9.5	10.4	1.6
20-24	61.1	60.4	64.6	3.5
50-59	66.9	68.4	68.7	1.8
60 or above	15.2	15.5	15.7	0.5
<b><u>Gender</u></b>				
Men	68.2	68.9	69.0	0.8
Women	52.9	53.3	53.6	0.7

Source: General Household Survey, Census and Statistics Department.

Analysed by sector, the movements of unemployment rate during the first three quarters of 2011 largely mirrored the dynamics of the employment situation across sectors. Specifically, with the resumption of job creation in the latest period, the unemployment situations of the groups that were expected to be more affected by SMW improved somewhat in the third quarter over the second quarter, again thanks to the vibrant consumption and general business upturn. Even so, the unemployment rate for LPS as a whole in the third quarter remained slightly higher than the level before SMW implementation (*Table 3*).

**Table 3 : Unemployment rates<sup>(1)</sup> of selected groups**

	Q1 2011	Q2 2011	Q3 2011	Change in Q3 over Q1 2011
	(%)	(%)	(%)	(% point)
<b>Overall (seasonally adjusted)</b>	<b>3.4</b>	<b>3.5</b>	<b>3.2</b>	<b>-0.2</b>
<b><u>Age</u></b>				
15-19	18.3	18.6	16.6	-1.7
20-24	7.5	9.2	9.4	1.9
50-59	3.0	3.6	2.9	-0.1
60 or above	2.2	1.9	1.9	-0.3
<b><u>Occupation</u></b>				
Higher-skilled	1.8	1.7	1.6	-0.2
Lower-skilled	3.8	4.2	3.7	-0.1
<b><u>Sector</u></b>				
Non-LPS	3.0	3.1	2.6	-0.4
LPS	3.2	3.5	3.4	0.2
<i>Retail</i>	4.4	4.3	4.7	0.3
<i>Restaurants</i>	5.0	6.6	5.3	0.3
<i>Estate management, security     and cleaning services</i>	2.8	3.1	3.0	0.2
<i>Other LPS</i>	1.4	1.5	1.4	0.0

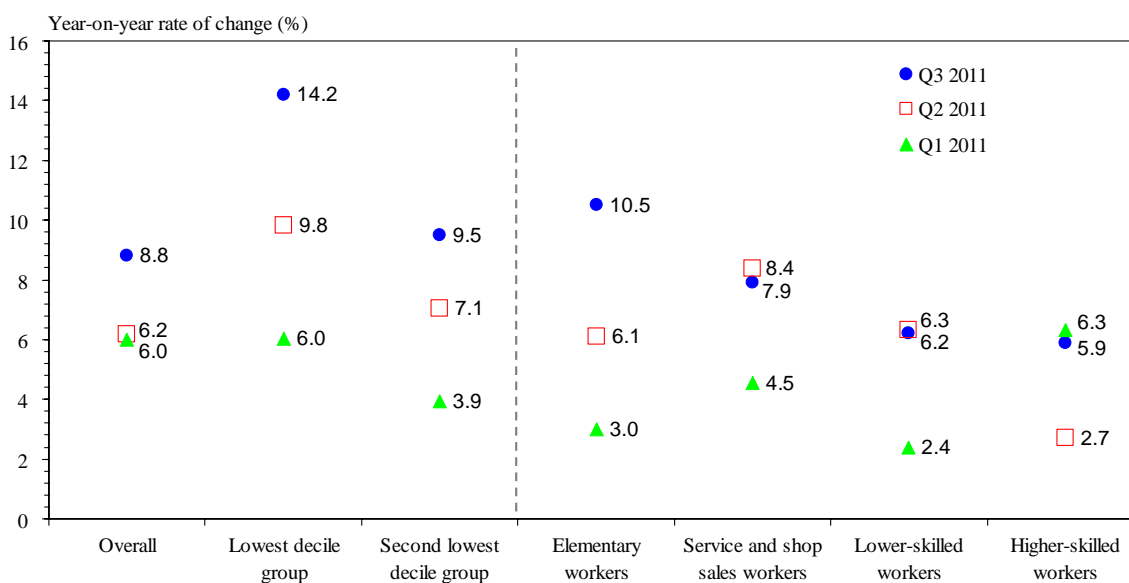
Note: (1) Not seasonally adjusted unless otherwise specified.

Source: General Household Survey, Census and Statistics Department.

## Box 5.1 (Cont'd)

Given the relatively tight labour market and with the additional boost from the implementation of SMW, pay hikes of low-paid workers continued to accelerate in the third quarter. After excluding government employees and live-in domestic workers, monthly employment earnings of full-time employees in the lowest decile group surged by 14.2% year-on-year in the third quarter of 2011, well above the overall average growth of 8.8% (*Chart 2*).

**Chart 2 : Average monthly employment earnings of full-time employees<sup>(\*)</sup>**



Note: (\*) Full-time employees include employees having worked 35 hours or longer and those worked less than 35 hours due to vacation, excluding government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.

In summary, the potential negative impact on the labour market brought about by SMW implementation has been largely cushioned by the sustained economic growth so far. The overall labour market has fared well, with employment growing, unemployment falling and participation in the labour market increasing. Although some labour market adjustments were observed at the time of SMW implementation, job creation has resumed in some LPS recently. Amidst the economic upturn over the past year or so, SMW also appeared to have brought positive impact on work incentive. As a result, most of the low-paid workers enjoyed quite a handsome rise of earnings under these positive developments.

Looking ahead, the dynamics of the labour market will continue to hinge on the macroeconomic outlook. Whether the employment situation for the lower-skilled workers can continue to hold up depends on the pace of job creation going forward, and on whether the response of the corporate sector in coping with the increase in staff costs will change when the economy slows. We will continue to be vigilant and closely monitor how the rapidly evolving global economic environment will impact on Hong Kong and hence the employment in related sectors.

## **Profile of employment in establishments**

5.11 Statistics on employment, vacancies, wages and payroll collected from private sector establishments are available only after some time lag, with the latest figures referring to June or the second quarter of 2011. To cope with this limitation, attempts have been made to bring the analysis more up-to-date, based on information from supplementary sources.

5.12 The latest business establishment statistics likewise presented a picture of sustained strong job creation in the corporate sector. Specifically, the number of persons engaged in business establishments went up by 3.2% in June 2011 over a year earlier, following a 3.0% rise in March. In absolute terms, the size of employment expanded to a new record high of 2 597 600. While job gains were seen virtually across the board, they were more distinct in the domestically-oriented sectors such as accommodation and food services (up by 7.5% year-on-year), financing, insurance, real estate, professional and business services (6.2%), construction (5.6%), and retail (4.7%). On the other hand, those sectors with higher degree of external orientation like import/export trade and wholesale suffered a marginal job loss of 0.2%. Employment in manufacturing remained on a secular downtrend. Analysed by size of establishment, small and medium-sized enterprises (SMEs)<sup>(6)</sup> saw a pick-up in the pace of job creation, from 2.1% year-on-year in March to 3.3% in June. Meanwhile, employment growth in large enterprises remained notable at 3.1% in June, though not as hectic as that of 3.7% in March. On the civil service establishment, it registered a moderate growth of 0.2% and 0.7% in March and June respectively over a year earlier.

**Table 5.5 : Employment by major economic sector**

	<u>2010</u>					<u>2011</u>	
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Import/export trade and wholesale	563 800 (0.9)	564 300 (0.8)	562 200 (1.4)	563 700 (1.0)	564 900 (0.4)	565 000 (0.1)	560 800 (-0.2)
Retail	243 100 (3.3)	240 600 (3.7)	240 800 (3.5)	242 700 (2.5)	248 300 (3.6)	251 300 (4.5)	252 000 (4.7)
Accommodation and food services	249 300 (3.4)	247 400 (3.8)	247 500 (3.6)	247 000 (2.8)	255 300 (3.3)	263 000 (6.3)	266 100 (7.5)
Transportation, storage, postal and courier services	160 300 (1.5)	159 400 (0.9)	160 400 (2.3)	160 000 (1.4)	161 500 (1.4)	162 100 (1.6)	163 100 (1.7)
Information and communications	88 300 (1.3)	87 400 (1.5)	88 400 (1.7)	88 400 (0.6)	88 900 (1.2)	89 300 (2.1)	91 100 (3.0)
Financing, insurance, real estate, professional and business services	609 100 (4.6)	596 300 (4.1)	604 600 (4.7)	612 300 (4.9)	623 300 (4.5)	632 900 (6.1)	642 300 (6.2)
Social and personal services	429 100 (3.5)	427 700 (5.1)	426 900 (3.7)	429 200 (2.9)	432 800 (2.4)	436 200 (2.0)	438 700 (2.8)
Manufacturing	119 400 (-4.5)	122 600 (-2.5)	119 800 (-3.9)	117 700 (-5.6)	117 600 (-5.9)	115 100 (-6.1)	113 800 (-5.0)
Construction sites (manual workers only)	55 300 (9.6)	53 900 (3.8)	55 500 (13.4)	56 500 (17.8)	55 400 (4.3)	58 800 (9.1)	58 600 (5.6)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	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)	2 584 700 (3.0)	2 597 600 (3.2)
		<0.5>	<0.3>	<0.5>	<0.9>	<1.2>	<0.6>
<i>Civil service<sup>(b)</sup></i>	156 500 (0.5)	156 600 (0.9)	156 300 (0.6)	156 400 (0.3)	156 700 (0.3)	156 900 (0.2)	157 300 (0.7)

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in sectoral coverage : While the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

(a) The total figures on private sector employment cover also employment in mining and quarrying and in electricity and gas supply, 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 the 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.

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

## Vacancies

5.13 Private sector job vacancies continued to grow apace, by 25.3% in June 2011 over a year earlier. This was akin to the surge of 24.4% in March. The latest increase in vacancies was widespread across many economic sectors, with more pronounced gains occurring in transportation, storage, postal and courier services (up by 51.8% year-on-year), manufacturing (49.8%), import/export trade and wholesale (35.7%), and social and personal services (26.5%). On a seasonally adjusted quarter-to-quarter basis, overall job vacancies rose by 3.5% in June, as against a 3.4% increase in March.

5.14 Analysed by occupation category, new job openings were seen at nearly all levels of the job hierarchy. Comparing June 2011 with a year earlier, vacancies for higher-skilled workers went up notably by 26.4%, as did those for lower-skilled workers by 24.5%. These were roughly comparable to the growth rates of 26.7% and 23.0% in March. Among all the job categories, those posting more notable increases in vacancies were plant and machine operators and assemblers, associate professionals, craft and related workers, and clerks (up by 151.1%, 34.9%, 32.0% and 27.0% respectively). In terms of establishment size, job vacancies at SMEs in June 2011 were 25.0% more than a year earlier. Those at large enterprises were 25.5% more. These followed equally impressive gains of 25.5% and 23.5% in March, indicating continued strong recruitment drive launched by business operators throughout the first half of the year.

5.15 As regards the ratio of job vacancies per 100 job-seekers, the figure remained high at 46 and 41 in March and June respectively, basically sustaining the uptrend established since mid-2010. Yet variations existed among workers with different skill levels. Whereas lower-skilled workers faced a reduction of the ratio from 39 to 34, their higher-skilled counterparts witnessed a rise from 93 to 97. Concurrently, the vacancy rate for private sector establishments, measuring the number of job vacancies as against total employment opportunities, stood at 2.1% in June 2011, higher than 1.8% a year earlier. As to the civil service, the number of vacancies posted a year-on-year increase of 8.5%.

**Table 5.6 : Vacancies by major economic sector**

	<u>Number of vacancies</u>							<u>Vacancy rate in Jun 2011 (%)</u>
	<u>2010</u>				<u>2011</u>			
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	
Import/export trade and wholesale	6 500 (54.8)	6 600 (101.0)	6 100 (41.1)	7 000 (55.9)	6 500 (34.8)	8 300 (26.5)	8 300 (35.7)	1.5
Retail	4 900 (28.8)	4 900 (68.4)	4 400 (20.1)	5 600 (32.0)	4 900 (7.9)	6 000 (23.9)	5 200 (18.2)	2.0
Accommodation and food services	7 000 (29.9)	6 100 (18.8)	6 600 (47.9)	7 300 (2.9)	7 800 (65.4)	7 700 (26.0)	8 100 (22.4)	3.0
Transportation, storage, postal and courier services	2 000 (72.7)	1 700 (70.7)	2 000 (100.5)	2 100 (87.8)	2 100 (43.2)	2 500 (52.4)	3 000 (51.8)	1.8
Information and communications	2 300 (78.4)	2 200 (155.1)	2 300 (51.9)	2 600 (92.3)	2 100 (46.0)	2 700 (19.1)	2 200 (-4.8)	2.4
Financing, insurance, real estate, professional and business services	12 400 (45.9)	11 800 (73.8)	12 200 (64.1)	12 900 (16.2)	12 700 (46.7)	14 100 (19.5)	14 600 (19.6)	2.2
Social and personal services	10 800 (38.1)	11 100 (55.2)	10 100 (19.3)	11 800 (45.8)	10 400 (34.6)	13 200 (19.9)	12 700 (26.5)	2.8
Manufacturing	1 500 (66.5)	1 500 (133.9)	1 400 (120.6)	1 600 (30.8)	1 600 (35.0)	2 400 (52.7)	2 200 (49.8)	1.9
Construction sites (manual workers only)	100 (347.3)	# (1 466.7)	100 (1 375.0)	100 (300.0)	100 (126.7)	100 (217.0)	300 (411.9)	0.5
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>47 600 (43.5)</i>	<i>46 000 (65.4)</i>	<i>45 200 (43.4)</i>	<i>51 100 (31.7)</i>	<i>48 100 (39.3)</i>	<i>57 200 (24.4)</i>	<i>56 600 (25.3)</i>	<i>2.1</i>
		<i>&lt;15.3&gt;</i>	<i>&lt;3.2&gt;</i>	<i>&lt;5.1&gt;</i>	<i>&lt;11.3&gt;</i>	<i>&lt;3.4&gt;</i>	<i>&lt;3.5&gt;</i>	
<i>Civil service<sup>(b)</sup></i>	<i>5 700 (10.9)</i>	<i>5 300 (0.9)</i>	<i>5 700 (10.7)</i>	<i>5 900 (18.7)</i>	<i>5 900 (13.9)</i>	<i>6 000 (13.2)</i>	<i>6 200 (8.5)</i>	<i>3.8</i>

Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).

(a) The total figures on private sector vacancies cover also vacancies in mining and quarrying and in electricity and gas supply, 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.

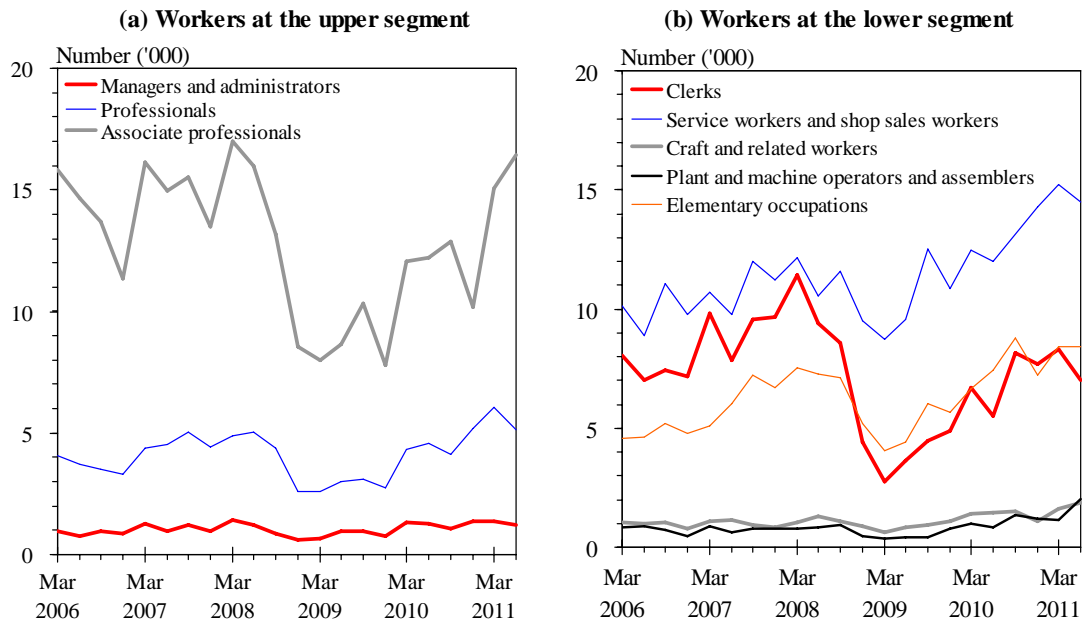
( ) % change over a year earlier.

< > 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 stayed at relatively high levels**



5.16 The latest vacancies statistics by the Labour Department (LD) revealed that some 73 200 job vacancies in the private sector were posted by the department in September 2011, up by 2.3% over a year earlier. On a quarter-to-quarter comparison, there was a sizeable jump of 17.5% in the average number of vacancies for the third quarter of 2011 as a whole. These figures suggest that employers generally continued to adopt a positive attitude towards staff recruitment up to September this year, essentially extending the trend evident since 2010.



## Wages and earnings

5.17 *Labour wages*, as a measure of regular payments to employees at the supervisory level or below, were 8.0% higher in June 2011 than a year earlier, far exceeding the 4.9% rise in March. After adjusting for the changes in price<sup>(7)</sup>, wages posted a year-on-year gain of 2.0% in real terms in June, again surpassing distinctly the 0.2% increase in March. The accelerated pay hikes went in tandem with the strength of labour demand as evidenced by the strong growth in both employment and job vacancies in the third quarter. Also partly contributed was SMW implemented since May 2011, which helped boost the wages for employees at the lower segment.

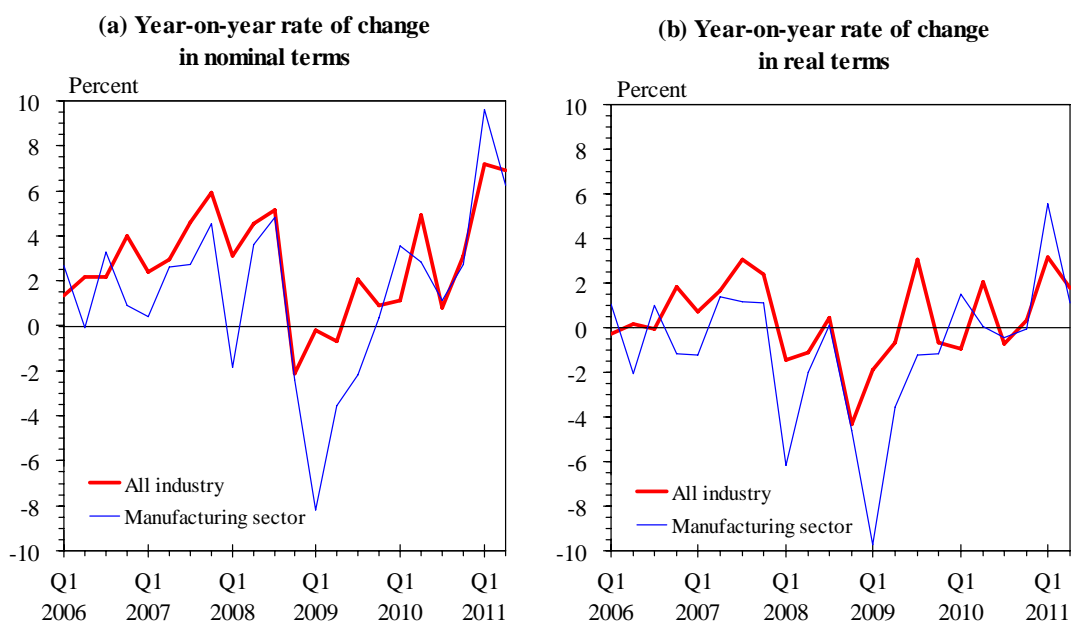
5.18 While wage increments were seen extensively across different occupation categories, they were more pronounced among miscellaneous non-production workers (up by 13.6% year-on-year), service workers (11.7%), and supervisory and technical workers (7.0%). In terms of economic sector, professional and business services, real estate leasing and maintenance management, accommodation and food service activities, and personal services were the ones where more notable pay adjustments (up by 14.1%, 10.3%, 9.2% and 8.6% respectively) were made.

5.19 The Salary Index for Managerial and Professional Employees also pointed to an impressive improvement in compensation among workers at the upper end. This index moved up by 7.5% in nominal terms and 2.1% in real terms in June 2011 over a year earlier, in respect of those workers staying in the same occupation and the same company. Taking into account the newly recruited and promoted employees, the broader-based index registered increases of 5.9% and 0.5% respectively.

5.20 *Labour earnings*<sup>(8)</sup>, as measured by payroll per person engaged in the private sector (including overtime and other irregular payments), moved up by 6.9% in nominal terms and 1.8% in real terms in the second quarter of 2011 over a year earlier. After netting out seasonal factors, the respective gains were 1.8% and 0.6% over the preceding quarter.

5.21 While nominal earnings were adjusted upwards extensively in various economic sectors, more distinct increases took place in the import/export and wholesale trades (up by 16.4%), retail trade (15.9%), financial and insurance activities (14.1%), accommodation and food service activities (12.1%), and real estate activities (10.4%). Social and personal services were the only notable exception where a slight reduction of 0.2% was found.

**Diagram 5.7 : Labour earnings continued to rise in both nominal and real terms**



5.22 More up-to-date data from the General Household Survey, albeit not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings of full-time employees<sup>(9)</sup> (excluding foreign domestic helpers) went up by 8.1% in the third quarter of 2011 over a year earlier, following a 5.7% increase in the preceding quarter. Regarding employees at the lower segment, employment earnings for the lowest decile group enjoyed distinctly larger increments, picking up further from 9.7% in the second quarter to 13.1% in the third quarter. On an inflation adjusted basis, the monthly employment earnings of full-time employees posted a gain of 1.6% in real terms in the third quarter, after a 0.6% rise in the preceding quarter. As for workers in the lowest decile group, their earnings again showed relatively larger increases, at 5.0% and 4.0% respectively in the two periods.

### Recent labour-related measures

5.23 To encourage job search and sustainable employment, LD 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.

5.24 In a move to assist young people to find jobs, LD 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 school leavers aged 15 - 24 with educational attainment at sub-degree level or below.

5.25 With SMW taking effect from 1 May 2011, LD has continued to organise publicity activities and conducted proactive workplace inspections to enforce the statutory requirement. In addition, the department has enhanced its employment support services to assist job-seekers to find jobs. Implementation of SMW has generally been stable and smooth, and the state of law-compliance has been satisfactory. Thanks to the buoyant economy, the labour market has held remarkably firm so far, with job creation having picked up further, and across-the-board improvement in incomes. In particular, workers in the lowest-paid group have enjoyed above-average increase in real employment earnings.

## Notes :

- (1) For a person aged 15 or above to be classified as unemployed, he or she should:  
(a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

The seasonally adjusted series is compiled using the X-12 ARIMA method, which is a standard method applied in compiling seasonally adjusted statistical data series.

- (2) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

- (3) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) The low-paying sectors as identified by the Provisional Minimum Wage Commission include:
  - (i) retail;
  - (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong-style tea cafes. However, beverage serving places, event catering and other food service activities are not included.);
  - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);

- (iv) other low-paying sectors, namely
  - elderly homes;
  - laundry and dry cleaning services;
  - hairdressing and other personal services;
  - local courier services; and
  - food processing and production.
  
- (6) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
  
- (7) 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 relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
  
- (8) In addition to wages, which include all regular and guaranteed 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.
  
- (9) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

## CHAPTER 6 : PRICES

### *Summary*

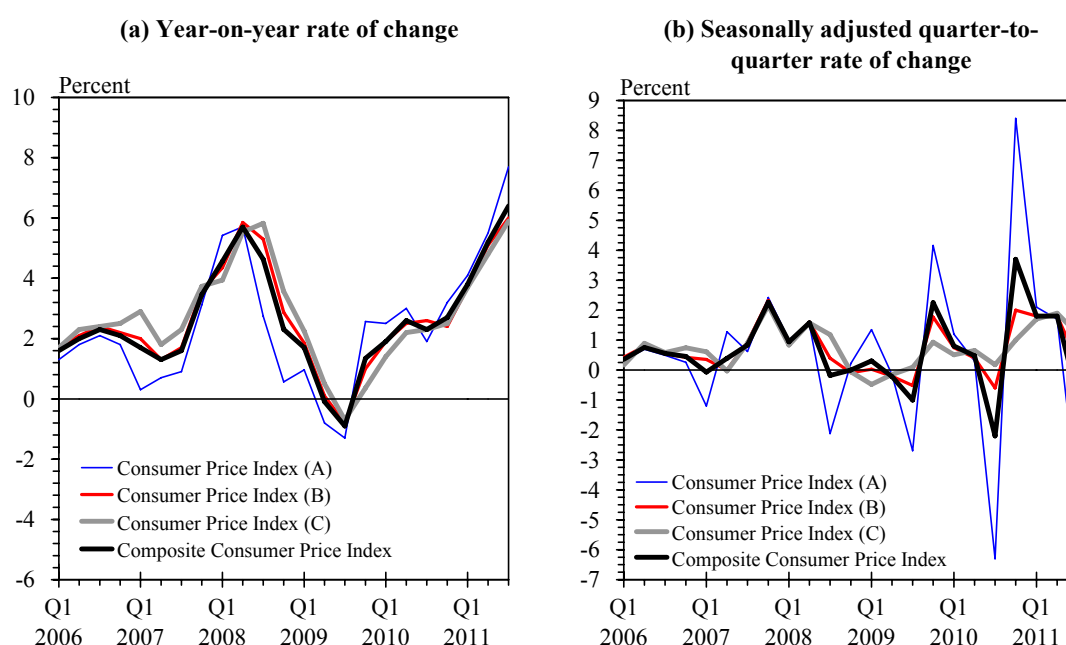
- *Inflation climbed up further in the third quarter of 2011 under the influences of both domestic and external factors. The Composite Consumer Price Index<sup>(1)</sup> rose by 6.4% in the third quarter over a year earlier, up from 5.2% in the second quarter. Netting out the effects of Government's one-off relief measures to more accurately reflect the underlying trend of inflation, the year-on-year increase in the underlying Composite CPI went up from 5.0% to 6.1% over the period.*
- *The pace of rising inflation nevertheless showed initial signs of moderation towards the end of the quarter, thanks to the slight ease-back of food inflation after its almost uninterrupted increase over the past year. On a seasonally adjusted quarter-to-quarter comparison, the increase in the underlying Composite CPI also slowed slightly to 1.5% in the third quarter, from 1.8% in the preceding two quarters.*
- *Domestic cost pressures remained apparent on the back of a tight labour market and a buoyant domestic sector. Externally, import prices continued to show notable increases, due in large part to the lagged effects from the earlier US dollar weakness and the surge in international food and commodity prices. Indeed, inflationary pressures picked up further in many other regional economies in the third quarter, despite slowing growth momentum around the globe.*

### **Consumer prices**

6.1 Inflationary pressures remained notable during the third quarter, though the pace of rising inflation showed some initial signs of slowing towards the end of the quarter. Sustained and notable increases in import prices, especially those of foodstuffs and fuels, continued to post upward price pressures in the local economy. Domestically, on the whole, the upward pressures on local business costs were also visible, given the tightness of the labour market, the further feed-through of the earlier surge in fresh-letting private residential rentals, and the one-off effect from the implementation of statutory minimum wage.

6.2 Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite Consumer Price Index (Composite CPI), went up further from 5.2% in the second quarter to 6.4% in the third quarter. Underlying consumer price inflation, which nets out the effects of Government's one-off relief measures and is more indicative of the underlying inflation trend, went up from 5.0% to 6.1% in the third quarter. Taking the first three quarters of 2011 together, headline and underlying consumer price inflation averaged at 5.1% and 4.9% respectively, up notably from the averages of 2.4% and 1.7% for 2010 as a whole. Indeed, inflation stayed elevated in many emerging economies and even so in the advanced economies, despite the latter's rather subdued growth<sup>(2)</sup>.

**Diagram 6.1 : Inflation rose further during the third quarter of 2011**



Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based 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<sup>(a)</sup></u>	<u>Headline</u>			
2010	Annual	1.7 <sup>(b)</sup>	2.4 <sup>(b)</sup>	2.7 <sup>(b)</sup>	2.3 <sup>(b)</sup>	2.1 <sup>(b)</sup>
	H1	1.2	2.2	2.8	2.2	1.8
	H2	2.2 <sup>(b)</sup>	2.5 <sup>(b)</sup>	2.6 <sup>(b)</sup>	2.5 <sup>(b)</sup>	2.4 <sup>(b)</sup>
	Q1	0.8	1.9	2.5	1.9	1.4
	Q2	1.5	2.6	3.0	2.5	2.2
	Q3	2.0	2.3	1.9	2.6	2.3
	Q4	2.4	2.7	3.2	2.4	2.5
2011	H1	4.4	4.5	4.8	4.4	4.3
	Q1	3.7	3.8	4.1	3.7	3.7
	Q2	5.0	5.2	5.5	5.1	4.8
	Q3	6.1	6.4	7.7	6.0	5.9

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

2010	Q1	0.5	0.8	1.2	0.7	0.5
	Q2	0.5	0.5	0.3	0.4	0.7
	Q3	0.4	-2.2	-6.3	-0.6	0.2
	Q4	1.0	3.7	8.4	2.0	1.0
2011	Q1	1.8	1.8	2.1	1.8	1.7
	Q2	1.8	1.8	1.7	1.8	1.9
	Q3	1.5	-0.9	-4.3	0.3	1.2

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.

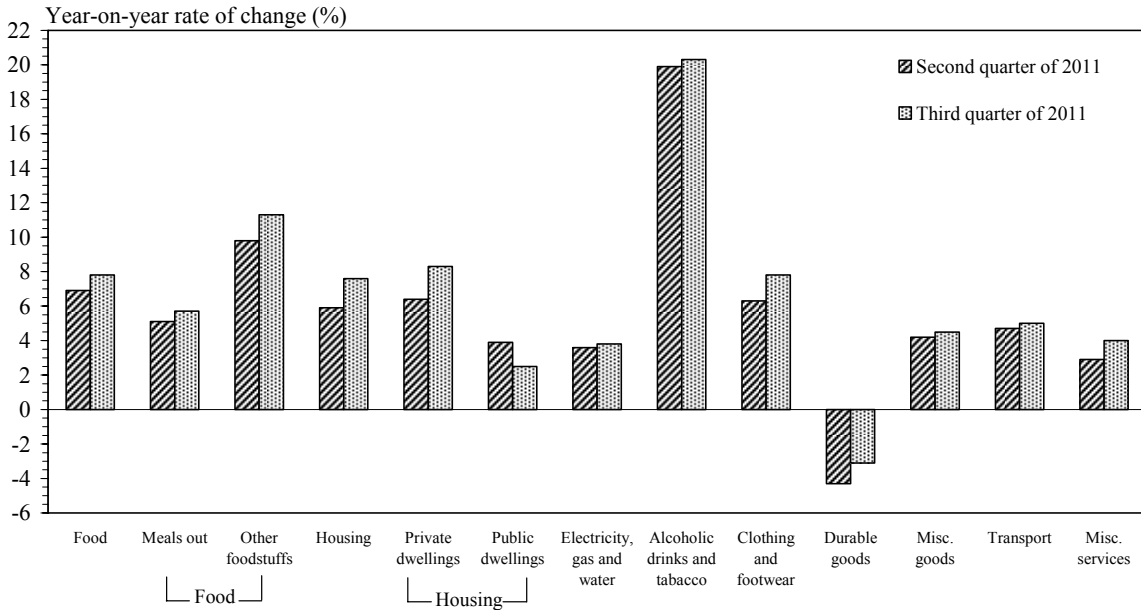
(b) The year-on-year rates of change of the CPIs from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the two sets of CPI series in order to obtain better estimates of the rates of change for the year 2010 and H2 of 2010.



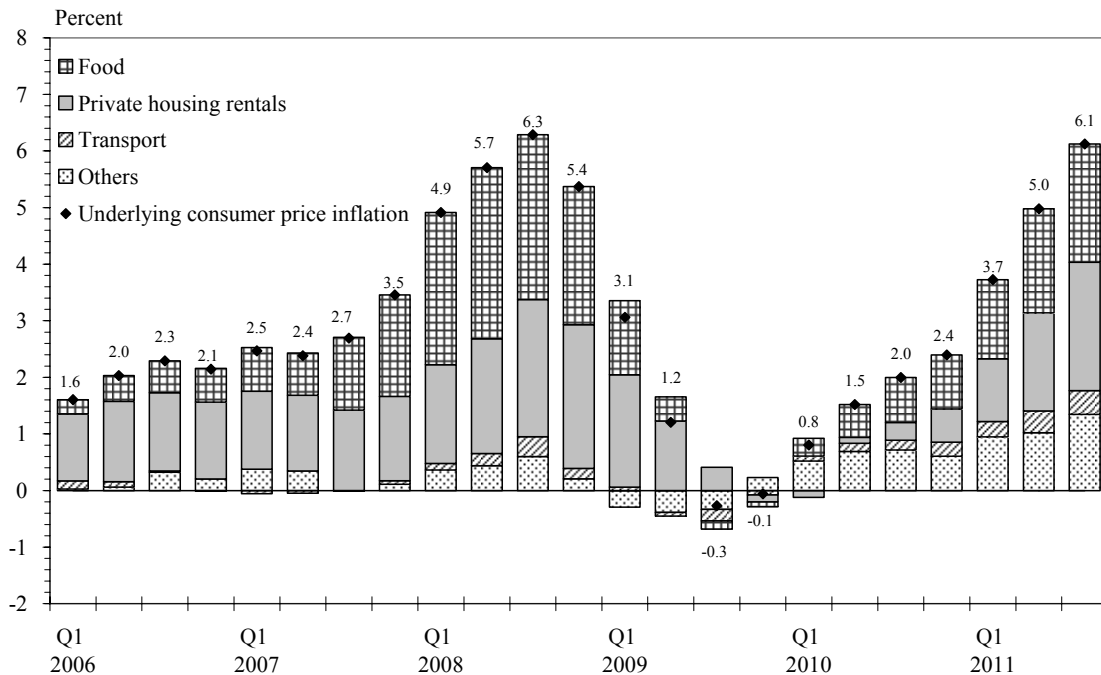
6.3 Analysed by major components and on a year-on-year comparison, food and housing remained the key drivers behind the rising inflation in the third quarter. Food prices (including costs of dining out) and private housing rentals taken together accounted for 71% of the 6.1% increase in the underlying Composite CPI in the third quarter. Prices of both meals bought away from home and basic foodstuffs saw enlarged increases, reflecting higher imported food prices and the further pass-through of rising food costs onto consumers by local restaurants. The earlier surge in market rentals likewise continued to show up in the private housing rental component in the CPI. Prices of clothing and footwear also saw faster increase. But price increases of other components picked up in a relatively more moderate manner, while prices of durable goods continued their secular downtrend.

6.4 Notwithstanding the further increase in underlying inflation, some moderation in upward price pressures was seen in the most recent period. In particular, food inflation eased somewhat towards the end of the third quarter after an almost uninterrupted rise over the past year. Of the increase of 1.1 percentage points in underlying inflation between the second and the third quarters, food prices contributed less than 0.3 of a percentage point, while private housing rentals and other components combined contributed around 0.5 and 0.4 of a percentage point respectively. Indeed, on a seasonally adjusted quarter-to-quarter comparison, the underlying Composite CPI rose by 1.5% in the third quarter, slower than the 1.8% increase recorded in both the first and the second quarters.

**Diagram 6.2 (a) : Except durable goods, prices of all major components of the underlying Composite CPI showed enlarged increases in the third quarter of 2011**



**Diagram 6.2 (b) : Contribution to underlying consumer price inflation by major components**



Note : The year-on-year rates of change of the Composite CPI from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based 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>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	27.45	1.1	2.0	2.8	3.6	5.2	6.9	7.8
<i>Meals bought away from home</i>	17.07	0.8	1.4	1.9	2.4	4.1	5.1	5.7
<i>Other foodstuffs</i>	10.38	1.5	2.8	4.1	5.6	7.0	9.8	11.3
Housing <sup>(a)</sup>	31.66	-0.1 (-0.4)	0.3 (0.2)	-0.7 (1.1)	2.2 (2.2)	3.8 (3.9)	5.9 (5.9)	11.0 (7.6)
<i>Private dwellings</i>	27.14	0.0 (-0.4)	0.4 (0.4)	1.2 (1.2)	2.2 (2.2)	4.1 (4.1)	6.5 (6.4)	8.4 (8.3)
<i>Public dwellings</i>	2.05	0.6 (0.0)	-0.3 (-0.2)	-85.7 (1.2)	4.0 (3.8)	4.0 (3.8)	2.7 (3.9)	676.7 (2.5)
Electricity, gas and water	3.10	61.1 (5.3)	64.0 (6.4)	43.1 (4.8)	16.1 (3.8)	7.3 (3.8)	8.0 (3.6)	-16.1 (3.8)
Alcoholic drinks and tobacco	0.59	13.1	0.8	0.3	0.5	8.1	19.9	20.3
Clothing and footwear	3.45	1.4	2.0	1.7	1.9	5.6	6.3	7.8
Durable goods	5.27	-1.7	-1.6	-2.5	-5.0	-4.4	-4.3	-3.1
Miscellaneous goods	4.17	2.0	2.3	2.7	2.5	3.1	4.2	4.5
Transport	8.44	1.1	1.7	2.1	3.0	3.3	4.7	5.0
Miscellaneous services	15.87	0.5 (1.1)	2.1 (2.5)	2.5 (2.8)	2.7 (2.8)	3.3 (3.4)	2.9 (2.9)	4.0 (4.0)
All items	100.00	1.9 (0.8)	2.6 (1.5)	2.3 (2.0)	2.7 (2.4)	3.8 (3.7)	5.2 (5.0)	6.4 (6.1)

Notes : The year-on-year rates of change in the Consumer Price Indices are computed from the 2009/10-based CPI series.

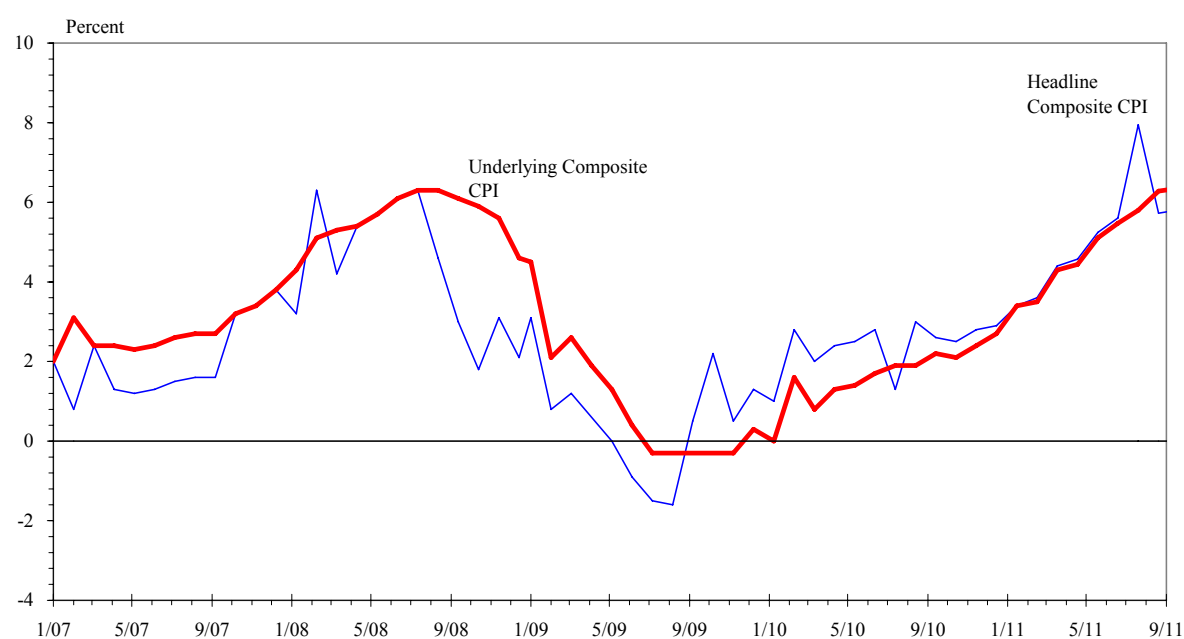
- (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.
- (b) Figures in bracket represent the underlying rates of change after netting out the effect of Government's one-off relief measures.

## Box 6.1

### Difference between the headline and underlying Composite CPIs

Over the years, the Government has implemented a number of one-off relief measures, primarily with a view to easing the burden of inflation on people's livelihood, particularly so for the lower-income group. As the relief measures reduced the final costs people paid for various goods and services, these measures would lower the level of various CPI series in the months of implementation, thereby enlarging fluctuations in the rates of change of these series. Owing to the nature and the purpose of these one-off measures, such distortions are particularly notable for CPI(A) which reflects the price movements faced by households with relatively lower monthly expenditure. To provide an alternative measure of inflation which is not affected by one-off relief measures and hence more indicative of the inflation underlying the macro-economy, the Census and Statistics Department (C&SD) has compiled the underlying CPI series since the reference year 2007, by excluding the effects of all relevant Government's one-off relief measures, as listed in *Table 1*.

**Chart 1: Year-on-year rates of change in the headline and underlying Composite CPIs**



*Chart 1* illustrates the year-on-year rate of change of the headline Composite CPI (headline inflation rate) and that of the underlying Composite CPI (underlying inflation rate). The gap between the two inflation rates could sometimes be significant. For instance, the headline inflation rate was 4.1 percentage points lower than the underlying rate (at 1.8% and 5.9% respectively) in October 2008 due to the combined impact of various one-off relief measures (mainly the Government's payment of public housing rentals, electricity charge subsidy and rates concession). Another case in point was July 2011 when the headline inflation rate was 2.1 percentage points higher than the underlying rate (at 7.9% and 5.8% respectively), this time due to the difference in timing of the waiving of public housing rentals, which took place in July to September in 2010 but in August to September this year.

**Box 6.1 (Cont'd)****Table 1 : A summary of one-off relief measures since 2007**

Feb 2007	Public housing rental waiver by the Hong Kong Housing Authority and the Hong Kong Housing Society
Apr 2007 – Sep 2007	Rates concession of up to \$5,000 per quarter for each rateable tenement
Jan 2008 – Mar 2009	Rates concession of up to \$5,000 per quarter for each rateable tenement
Feb 2008	Public housing rental waiver by the Hong Kong Housing Society
Aug 2008 – Oct 2008	Government's payment of public housing rentals
Aug 2008 – Jul 2013	Five years' suspension of Employees Retraining Levy
Sep 2008 – Aug 2009	Provision of electricity charge subsidy at \$3,600 cumulatively
Apr 2009 – Mar 2012	Rates concession of up to \$1,500 per quarter for each rateable tenement
Aug 2009 – Sep 2009	Government's payment of public housing rentals
Jul 2010 – Aug 2010	Government's payment of public housing rentals
Sep 2010	Public housing rental waiver by the Hong Kong Housing Authority
Jul 2011 – Jun 2012	Provision of electricity charge subsidy at \$1,800 cumulatively
Aug 2011 – Sep 2011	Government's payment of public housing rentals

**Table 2** summarises the contributions of various one-off relief measures to the difference between the annual rates of change in the headline and underlying Composite CPIs, from 2007 to 2011. In the first three years, all one-off relief measures taken together slashed the annual headline inflation rate by 0.8, 1.3 and 0.5 percentage points respectively. On the contrary, the headline inflation rate was 0.7 percentage point higher than the underlying inflation rate in 2010, mainly due to the dissipation of the electricity charge subsidy from September 2009 onwards. In 2011, the headline inflation rate is expected to be slightly lower than the underlying inflation rate, due to the further measures in the 2011-12 Budget which were targeted to ease the impact of rising prices on people's livelihood. The Government will continue to closely monitor the local inflation situation, particularly its impact on the lower-income people.

**Table 2 : Deviations of headline CCPI inflation from underlying CCPI inflation  
(In percentage points)**

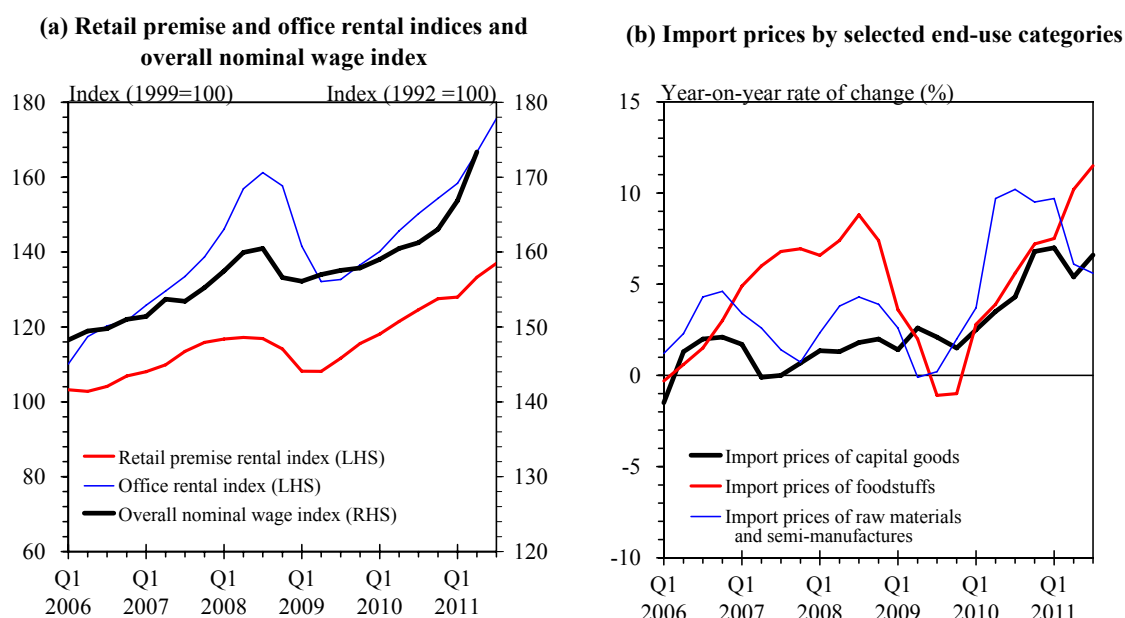
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u> (Forecast)
Public housing rental waivers	-0.2	-0.2	+0.1	-0.1	+0.2
Electricity charge subsidy	--	-0.4	-0.6	+0.8	-0.3
Rates concession	-0.5	-0.6	+0.1	*	*
Other measures	--	*	-0.1	*	*
Total <sup>(a)</sup>	-0.8	-1.3	-0.5	+0.7	-0.1

Notes: (\*) Changes of less than 0.05 percentage point.  
 (--) Not applicable.  
 (a) Individual figures may not add up exactly to the total due to rounding.

## Costs of factor inputs and import prices

6.5 Domestic cost pressures remained notable on the back of a tight labour market and a buoyant domestic sector. Rentals for retail premises and offices moved further higher, reflecting the still-robust local consumption market and keen business demand for office space. As regards labour costs, with the economy in a state virtually of full employment, coupled with the one-off effect from the implementation of statutory minimum wage, upward pressures in unit labour cost had been increasingly felt of late.

**Diagram 6.3 : Wages and rentals continued to rise amid fairly buoyant local economic conditions, while import prices went up notably further**

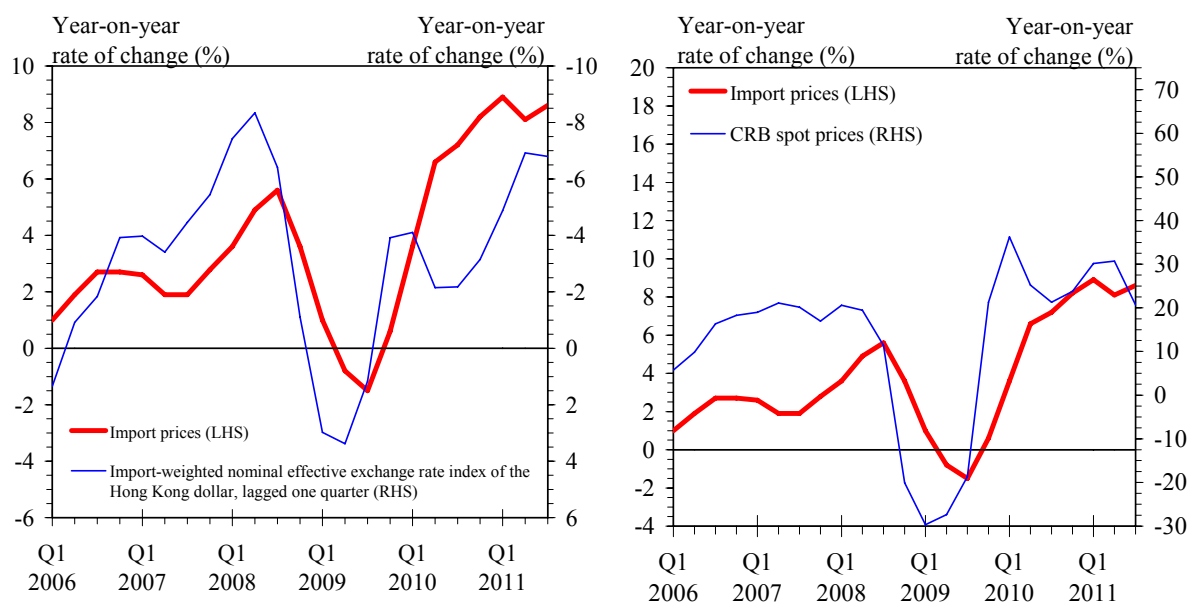


6.6 Upward price pressures stemming from the external front remained significant, as a combined result of the lagged effects from earlier US dollar weakness and surges in international food and commodity prices. On a year-on-year comparison, overall import prices rose by 8.6% in the third quarter, slightly faster than the 8.1% increase in the second quarter. According to the primary commodity indices compiled by the International Monetary Fund, global prices for food, beverages, industrial materials, agricultural raw materials and metals, though eased back somewhat in the third quarter, stayed elevated compared to the year-ago levels. Meanwhile, international oil prices were range-bound in the third quarter, and despite some retreat from the second quarter, remained visibly higher than a year earlier. Against this background, notable increases in import prices were observed across all major end-uses in the third quarter, ranging from 5.6% for raw materials to 42.8% 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	H1	8.9	8.9	7.6	33.1	6.1
Q1	7.5	8.0	9.7	24.8	7.0	8.9	
Q2	10.2	9.7	6.1	41.0	5.4	8.1	
Q3	11.5	10.4	5.6	42.8	6.6	8.6	

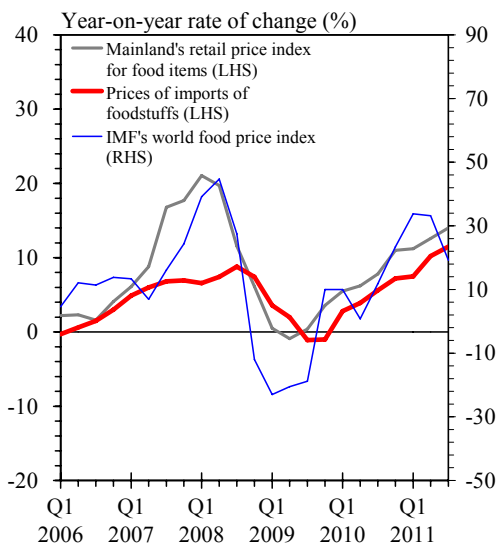
**Diagram 6.4 : Imported inflation remained notable, reflecting the lagged effects from earlier weakening of the US dollar and surges in global food and commodity prices**



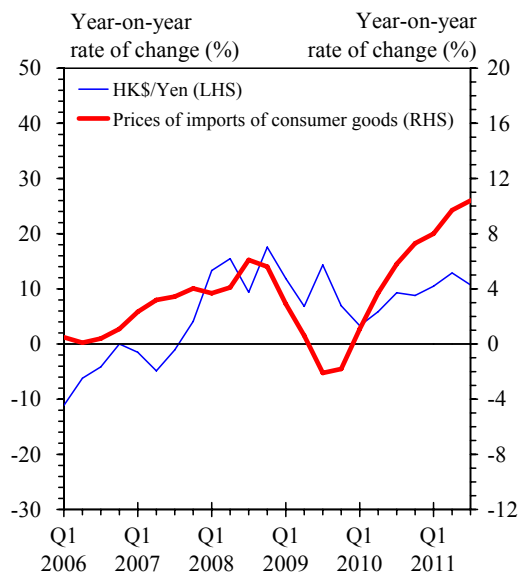
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**Diagram 6.5 : Import prices by end-use categories**

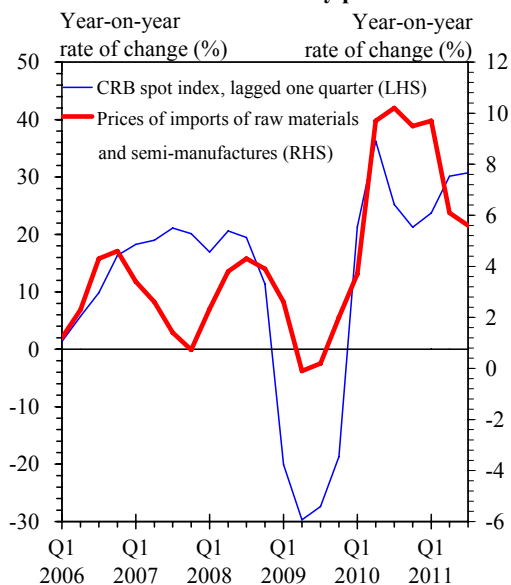
**(a) Import prices of foodstuffs rose appreciably further**



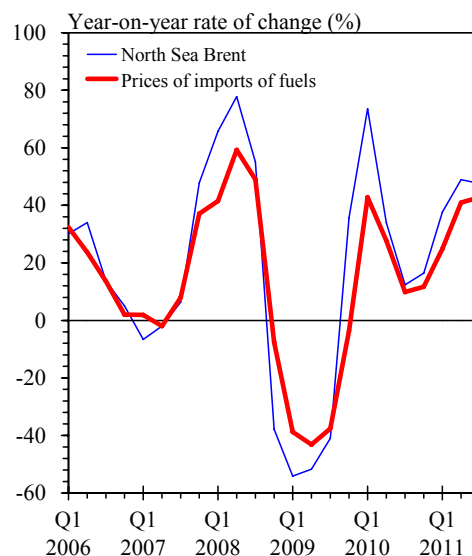
**(b) Import prices of consumer goods saw faster increase**



**(c) Increase in import prices of raw materials continued to taper off in tandem with the trend in world commodity prices**



**(d) Oil prices stayed elevated amid persistent geopolitical tensions in the Middle East and North Africa**





## Output prices

6.7 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, moved higher in most sectors in the second quarter of 2011. Output prices for the manufacturing sector picked up further, reflecting the pass-through of higher material costs. Among the service sectors, output prices for accommodation services posted a notable increase. Increases in output prices for air transport, courier services and land transport were however more moderate. On the other hand, output prices for water transport saw a relatively steep year-on-year decline in the second quarter, conceivably due to the very high base of comparison a year earlier. Meanwhile, the perennial downtrend in output prices for telecommunications services continued under an environment of technological advancement and keen competition.

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

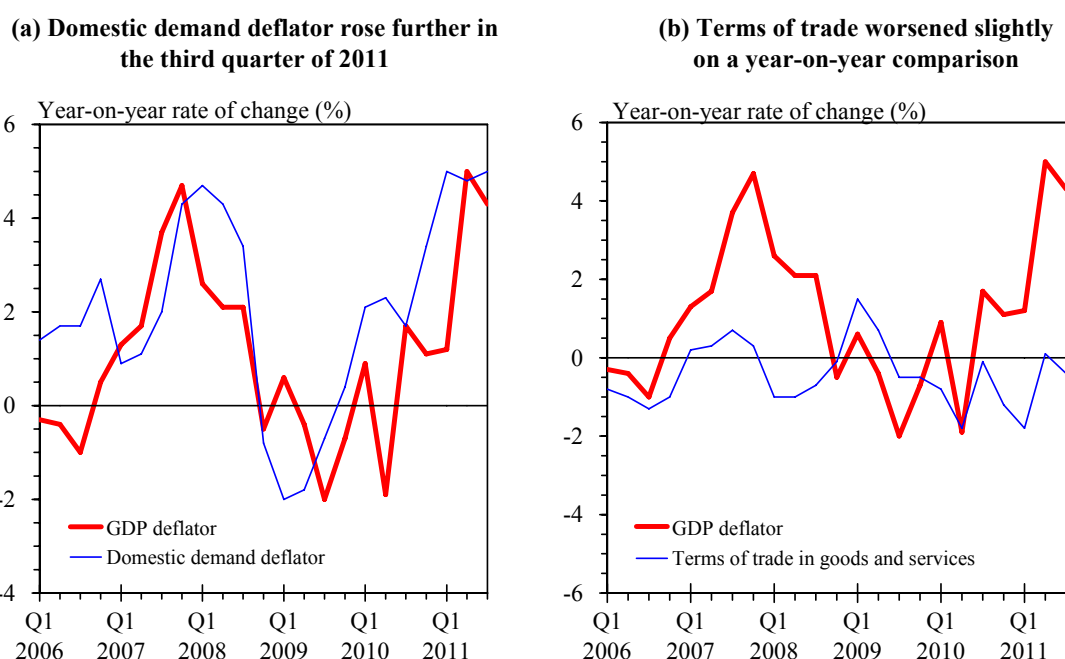
<u>Industry group</u>	<u>2010</u>	<u>2010</u>				<u>2011</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	6.0	4.0	6.0	6.4	7.6	8.2	9.0
Selected services sector <sup>(a)</sup>							
Accommodation services	8.9	4.4	6.8	9.1	15.0	12.7	13.3
Land transport	1.3	0.1	0.9	2.2	1.9	1.6	2.0
Water transport	27.4	13.0	43.7	41.4	15.0	-2.3	-12.6
Air transport	16.5	13.9	17.4	23.5	12.0	8.8	5.5
Telecommunications	-1.5	-2.3	-2.1	-1.3	-0.1	-0.6	-2.9
Courier services	2.2	1.6	2.3	2.3	2.4	2.2	2.6

Note : (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.

## GDP deflator

6.8 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 4.3% year-on-year in the third quarter of 2011, following an increase of 5.0% in the second quarter. The *terms of trade*<sup>(5)</sup> saw a mild deterioration from a year earlier, since import prices rose slightly faster than export prices. Taking out the external components, the domestic demand deflator went up by 5.0% in the third quarter, slightly larger than the 4.8% increase in the preceding quarter.

**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>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>	
Private consumption expenditure	0.9	0.4	0.2	0.6	2.2	3.6	5.1	5.5	
Government consumption expenditure	0.3	-0.5	0.4	0.6	0.8	1.8	5.7	5.9	
Gross domestic fixed capital formation	7.7	8.1	8.4	5.5	9.1	9.9	4.2	3.1	
Total exports of goods	4.6	2.8	4.1	5.6	5.8	6.4	7.6	8.7	
Imports of goods	6.3	3.8	7.2	6.4	7.8	8.5	7.5	8.8	
Exports of services	7.4	4.8	10.0	7.6	7.5	5.9	7.7	6.8	
Imports of services	5.1	7.4	4.8	4.0	4.9	6.0	8.5	7.9	
<b>Gross Domestic Product</b>	<b>0.5</b>	<b>0.9</b>	<b>-1.9</b>	<b>1.7</b>	<b>1.1</b>	<b>1.2</b>	<b>5.0</b>	<b>4.3</b>	
		<1.1>	<-2.4>	<2.3>	<0.2>	<1.0>	<1.5>	<1.4>	
Total final demand	4.3	3.0	4.2	4.8	5.3	5.9	6.8	7.3	
Domestic demand	2.3	2.1	2.3	1.7	3.4	5.0	4.8	5.0	
Terms of trade in goods and services	-0.9	-0.8	-1.8	-0.1	-1.2	-1.8	0.1	-0.4	

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>2010</u>			<u>2011</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q1 - Q3</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
Selected developed economies								
US	1.6	2.1	3.4	3.8	3.1	3.6	3.8	3.9
Canada	1.8	2.6	3.4	3.0	3.0	2.7	3.1	3.2
EU	2.1	2.9	3.2	3.0	3.1	2.9	2.9	3.3
Japan	-0.7	-0.5	-0.4	0.1	-0.3	0.2	0.2	0.0
Major emerging economies								
Mainland China	3.3	5.0	5.7	6.3	5.7	6.5	6.2	6.1
Russia	6.9	9.5	9.5	8.1	9.0	9.0	8.1	7.2
India	12.0	9.0	8.9	9.2	9.0	8.4	9.0	10.1
Brazil	5.0	6.1	6.6	7.1	6.6	6.9	7.2	7.3
Selected Asian economies								
Hong Kong	2.4	3.8	5.2	6.4	5.1	7.9	5.7	5.8
Singapore	2.8	5.2	4.7	5.5	5.1	5.4	5.7	5.5
Taiwan	1.0	1.3	1.6	1.3	1.4	1.3	1.3	1.4
South Korea	3.0	4.5	4.2	4.8	4.5	4.7	5.3	4.3
Malaysia	1.7	2.8	3.3	3.4	3.2	3.4	3.3	3.4
Thailand	3.3	3.0	4.1	4.1	3.8	4.1	4.3	4.0
Indonesia	5.1	6.8	5.9	4.7	5.8	4.6	4.8	4.6
Philippines	3.8	4.5	5.0	4.9	4.8	5.1	4.7	4.8
Vietnam	9.2	12.8	19.4	22.5	18.3	22.2	23.0	22.4
Macao	2.8	5.0	5.2	6.2	5.5	6.0	6.1	6.5

- (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

	<u>Table</u>	<u>Page</u>
1.	Gross Domestic Product by expenditure component (at current market prices)	100-101
2.	Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms)	102-103
3.	Gross Domestic Product by economic activity (at current prices)	104
4.	Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)	105
5.	Balance of payments account by major component (at current prices)	106
6.	Visible and invisible trade (at current market prices)	107
7.	Total exports of goods by market (in value terms)	108
8.	Imports of goods by source (in value terms)	109
9.	Retained imports of goods by end-use category (in value terms)	109
10.	Exports and imports of services by component (at current market prices)	110
11.	Incoming visitors by source	111
12.	Property market	112-113
13.	Property prices and rentals	114-115
14.	Monetary aggregates	116-117
15.	Rates of change in business receipts indices for service industries/domains	118
16.	Labour force characteristics	119
17.	Employment in selected major industries	120
18.	Number of workers engaged at building and construction sites	121
19.	Rates of change in indices of payroll per person engaged by selected industry section	122
20.	Rates of change in wage indices by selected industry section	123
21.	Rates of change in prices	124-125
22.	Rates of change in Composite Consumer Price Index	126-127
23.	Rates of change in implicit price deflators of GDP and its main expenditure components	128-129

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

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

Total final demand = private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services

Private sector domestic demand = private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories

Public sector domestic demand = government consumption expenditure + gross domestic fixed capital formation by the public sector

Domestic demand = private sector domestic demand + public sector domestic demand

External demand = total exports of goods + exports of services

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

	(\$Mn)							
	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u> Q4 <sup>#</sup>	Q1 <sup>#</sup>	<u>2011</u> Q2 <sup>#</sup>	Q3 <sup>#</sup>
Private consumption expenditure	972,028	1,022,862	1,012,790	1,085,268	296,463	284,426	310,119	304,800
Government consumption expenditure	130,404	139,262	142,853	147,209	36,960	40,440	37,242	39,581
Gross domestic fixed capital formation	325,366	334,352	322,772	374,586	99,906	91,957	106,148	108,561
<i>of which:</i>								
Building and construction	111,776	127,312	123,798	144,118	37,447	39,709	40,232	40,638
Machinery, equipment and computer software	189,093	182,189	174,736	192,433	51,970	41,656	55,042	59,869
Changes in inventories	12,841	8,480	22,899	38,945	8,787	9,695	7,806	-1,542
Total exports of goods	2,698,850	2,843,998	2,494,746	3,061,252	808,741	795,731	834,799	891,033
Imports of goods	2,852,522	3,024,089	2,702,966	3,395,057	897,685	889,542	960,405	990,906
Exports of services	660,847	718,630	669,829	826,856	230,278	220,832	215,443	250,274
Imports of services	332,240	366,484	340,601	395,201	108,124	102,577	102,711	114,411
<b>GDP</b>	<b>1,615,574</b>	<b>1,677,011</b>	<b>1,622,322</b>	<b>1,743,858</b>	<b>475,326</b>	<b>450,962</b>	<b>448,441</b>	<b>487,390</b>
<i>Per capita GDP (\$)</i>	<i>233,266</i>	<i>240,339</i>	<i>231,638</i>	<i>246,733</i>	--	--	--	--
<b>GNP</b>	<b>1,660,011</b>	<b>1,760,317</b>	<b>1,665,188</b>	<b>1,780,426</b>	<b>474,817</b>	<b>471,099</b>	<b>472,751</b>	<b>N.A.</b>
<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	1,481,135	1,443,081	1,511,557	1,592,707
Total final demand excluding re-exports <sup>(a)</sup>	2,660,146	2,805,196	2,656,255	3,028,725	819,440	789,384	829,323	862,394
Domestic demand	1,440,639	1,504,956	1,501,314	1,646,008	442,116	426,518	461,315	451,400
Private	1,278,479	1,329,853	1,317,516	1,441,256	388,696	365,774	409,813	396,112
Public	162,160	175,103	183,798	204,752	53,420	60,744	51,502	55,288
External demand	3,359,697	3,562,628	3,164,575	3,888,108	1,039,019	1,016,563	1,050,242	1,141,307

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

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

(--) Not applicable.

N.A. Not yet available.



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

(%)

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

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

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

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

(--) Not applicable.

N.A. Not yet available.

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

(%)

	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>	<u>2011</u>			Average annual rate of change:	
					Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2000 to 2010 <sup>#</sup>	5 years 2005 to 2010 <sup>#</sup>
Private consumption expenditure	8.5	2.4	0.7	6.2	8.1	8.0	9.7	8.8	3.3	4.7
Government consumption expenditure	3.0	1.8	2.3	2.7	1.6	2.6	1.2	1.7	1.8	2.0
Gross domestic fixed capital formation	3.4	1.0	-3.9	7.8	8.6	-0.3	7.0	10.2	2.0	3.0
<i>of which:</i>										
Building and construction	-0.3	6.8	-5.5	6.6	11.3	16.0	-5.4	*	-2.7	-0.1
Machinery, equipment and computer software	3.0	-0.7	-3.0	5.9	6.4	-12.1	17.5	26.4	5.0	4.6
Total exports of goods	7.0	1.9	-12.7	17.3	8.2	16.8	0.3	-2.2	6.4	4.1
Imports of goods	8.8	1.8	-9.5	18.1	7.5	12.6	2.6	1.4	6.6	5.3
Exports of services	14.1	5.2	0.3	15.0	9.3	9.3	7.7	6.6	9.8	8.8
Imports of services	12.1	6.3	-4.9	10.4	7.7	5.8	3.2	2.1	5.6	6.2
<b>GDP</b>	<b>6.4</b>	<b>2.3</b>	<b>-2.7</b>	<b>7.0</b>	<b>6.4</b>	<b>7.5</b>	<b>5.3</b>	<b>4.3</b>	<b>4.0</b>	<b>3.9</b>
<i>Per capita GDP</i>	<i>5.3</i>	<i>1.5</i>	<i>-3.0</i>	<i>6.0</i>	--	--	--	--	<i>3.4</i>	<i>3.2</i>
<b>GNP</b>	<b>7.4</b>	<b>4.5</b>	<b>-4.8</b>	<b>6.4</b>	<b>5.3</b>	<b>5.6</b>	<b>6.4</b>	<b>N.A.</b>	<b>4.2</b>	<b>4.3</b>
<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	7.2	10.4	3.5	2.4	5.6	4.9
Total final demand excluding re-exports <sup>(a)</sup>	7.9	1.8	-2.6	10.6	6.1	5.4	6.0	6.3	4.4	4.9
Domestic demand	7.9	1.6	0.8	7.2	4.4	0.9	7.6	9.6	3.0	4.6
Private	9.0	1.5	0.3	6.7	3.4	-0.8	8.1	10.6	3.2	4.9
Public	0.2	2.6	4.3	10.2	11.9	11.4	3.7	3.3	1.1	2.6
External demand	8.3	2.6	-10.1	16.8	8.4	15.1	1.7	-0.4	7.0	5.0

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

	<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009<sup>#</sup></u>		<u>2010<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	947	0.1	1,015	0.1	925	0.1	1,090	0.1	948	0.1
Manufacturing	39,303	2.7	31,729	2.0	30,993	1.9	28,227	1.8	29,813	1.8
Electricity, gas and water supply, and waste management	41,239	2.8	40,685	2.6	39,585	2.5	34,961	2.3	34,643	2.0
Construction	39,124	2.7	40,611	2.6	48,357	3.0	50,146	3.2	55,842	3.3
Services	1,332,191	91.7	1,466,109	92.8	1,473,037	92.5	1,436,427	92.6	1,578,238	92.9
<i>Import/export, wholesale and retail trades</i>	361,169	24.9	374,614	23.7	393,914	24.7	365,880	23.6	405,673	23.9
<i>Accommodation and food services</i>	42,697	2.9	48,827	3.1	53,596	3.4	48,787	3.1	56,231	3.3
<i>Transportation, storage, postal and courier services</i>	116,104	8.0	119,728	7.6	98,245	6.2	99,048	6.4	133,572	7.9
<i>Information and communications</i>	48,243	3.3	50,873	3.2	48,258	3.0	46,808	3.0	54,030	3.2
<i>Financing and insurance</i>	228,178	15.7	304,764	19.3	255,586	16.0	235,581	15.2	262,476	15.4
<i>Real estate, professional and business services</i>	128,111	8.8	146,562	9.3	165,594	10.4	173,583	11.2	190,879	11.2
<i>Public administration, social and personal services</i>	245,295	16.9	254,391	16.1	269,601	16.9	279,453	18.0	287,052	16.9
<i>Ownership of premises</i>	162,393	11.2	166,352	10.5	188,244	11.8	187,286	12.1	188,325	11.1
<b>GDP at basic prices</b>	<b>1,452,803</b>	<b>100.0</b>	<b>1,580,148</b>	<b>100.0</b>	<b>1,592,897</b>	<b>100.0</b>	<b>1,550,851</b>	<b>100.0</b>	<b>1,699,485</b>	<b>100.0</b>
Taxes on products	40,348	--	64,634	--	59,919	--	55,967	--	69,906	--
Statistical discrepancy (%)	-1.2	--	-1.8	--	1.4	--	1.0	--	-1.5	--
<b>GDP at current market prices</b>	<b>1,475,357</b>	<b>--</b>	<b>1,615,574</b>	<b>--</b>	<b>1,677,011</b>	<b>--</b>	<b>1,622,322</b>	<b>--</b>	<b>1,743,858</b>	<b>--</b>

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<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>		<u>2011</u>	
							Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Agriculture, fishing, mining and quarrying	-0.2	-3.3	-4.3	-17.0	-4.6	-4.8	-7.8	-6.5	-13.2	-3.5
Manufacturing	1.7	2.2	-1.4	-6.7	-8.3	3.5	5.4	5.7	3.5	2.0
Electricity, gas and water supply, and waste management	2.3	0.8	1.3	0.7	1.5	-0.1	-2.7	0.1	-3.0	3.2
Construction	-7.9	-9.4	-1.0	8.9	-7.6	15.8	20.2	19.8	22.2	-1.4
Services	7.4	7.0	6.9	2.5	-1.6	7.0	7.3	6.4	7.1	5.2
<i>Import/export, wholesale and retail trades</i>	14.7	8.6	6.1	6.8	-9.4	15.6	15.9	9.1	14.0	7.0
<i>Accommodation and food services</i>	6.2	9.7	10.7	1.7	-11.3	7.3	6.8	4.1	2.6	2.2
<i>Transportation, storage, postal and courier services</i>	7.0	6.5	5.2	2.5	-5.5	8.8	9.6	6.6	9.2	4.2
<i>Information and communications</i>	2.6	8.0	6.5	-1.5	0.9	1.6	2.1	0.8	1.8	1.4
<i>Financing and insurance</i>	11.8	19.6	17.7	-0.8	4.3	7.9	7.0	13.8	12.8	13.2
<i>Real estate, professional and business services</i>	4.6	2.3	6.5	1.7	1.7	2.7	1.3	4.5	1.3	1.1
<i>Public administration, social and personal services</i>	0.2	0.6	1.5	2.2	2.8	2.5	3.1	1.8	2.2	2.5
<i>Ownership of premises</i>	3.0	2.6	2.8	1.8	1.3	0.1	0.1	0.2	0.2	0.8
Taxes on products	-1.5	7.7	24.9	-1.7	-4.6	6.2	2.4	9.6	7.8	-3.5
<b>GDP in chained (2009) dollars</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>2.3</b>	<b>-2.7</b>	<b>7.0</b>	<b>6.9</b>	<b>6.4</b>	<b>7.5</b>	<b>5.3</b>

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.

**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<sup>#</sup></u>	<u>2010</u>		<u>2011</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Current account <sup>(a)</sup>	178,166	199,279	229,506	139,249	108,244	43,253	25,984	37,323	4,577
Goods	-108,983	-153,672	-180,091	-208,220	-333,805	-60,054	-88,944	-93,811	-125,606
Services	277,154	328,607	352,146	329,228	431,655	116,120	122,154	118,255	112,732
Income	27,348	44,437	83,306	42,866	36,568	-6,110	-509	20,137	24,310
Current transfers	-17,353	-20,093	-25,855	-24,625	-26,174	-6,703	-6,717	-7,258	-6,860
Capital and financial account <sup>(a)</sup>	-209,935	-259,247	-231,162	-155,371	-137,410	-57,147	-50,493	-21,254	-20,897
Capital and financial non-reserve assets (net change)	-163,199	-144,749	32,707	393,891	-66,324	-41,795	-20,432	-2,561	-1,293
Capital transfers	-2,900	10,338	16,393	36,210	40,647	11,790	10,372	12,966	12,392
Financial non-reserve assets (net change)	-160,300	-155,086	16,314	357,680	-106,971	-53,585	-30,804	-15,527	-13,685
<i>Direct investment</i>	635	-52,577	70,393	-89,900	-55,730	-30,102	-26,124	58,767	-2,171
<i>Portfolio investment</i>	-207,879	-21,452	-295,148	-332,417	-472,875	-105,652	-180,566	17,598	-62,784
<i>Financial derivatives</i>	25,925	43,534	63,338	24,560	29,156	6,314	4,336	5,199	-4,059
<i>Other investment</i>	21,019	-124,592	177,732	755,438	392,478	75,854	171,550	-97,091	55,329
Reserve assets (net change)	-46,735	-114,498	-263,869	-549,262	-71,086	-15,352	-30,061	-18,694	-19,604
Net errors and omissions	31,769	59,968	1,656	16,122	29,166	13,895	24,509	-16,069	16,321
<b>Overall balance of payments</b>	<b>46,735</b>	<b>114,498</b>	<b>263,869</b>	<b>549,262</b>	<b>71,086</b>	<b>15,352</b>	<b>30,061</b>	<b>18,694</b>	<b>19,604</b>

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

(a) In accordance with the Balance of Payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. For the capital and financial account, a positive value indicates a net capital and financial inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the net change in reserve assets represents a net increase and a positive value represents a net decrease.

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

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

	(\$Mn)								
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>		<u>2011</u>	
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	3,061,252	808,741	795,731	834,799	891,033
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057	897,685	889,542	960,405	990,906
<b>Visible trade balance</b>	<b>-108,983</b>	<b>-153,672</b>	<b>-180,091</b>	<b>-208,220</b>	<b>-333,805</b>	<b>-88,944</b>	<b>-93,811</b>	<b>-125,606</b>	<b>-99,873</b>
	<b>(-4.2)</b>	<b>(-5.4)</b>	<b>(-6.0)</b>	<b>(-7.7)</b>	<b>(-9.8)</b>	<b>(-9.9)</b>	<b>(-10.5)</b>	<b>(-13.1)</b>	<b>(-10.1)</b>
Exports of services	565,054	660,847	718,630	669,829	826,856	230,278	220,832	215,443	250,274
Imports of services	287,900	332,240	366,484	340,601	395,201	108,124	102,577	102,711	114,411
<b>Invisible trade balance</b>	<b>277,154</b>	<b>328,607</b>	<b>352,146</b>	<b>329,228</b>	<b>431,655</b>	<b>122,154</b>	<b>118,255</b>	<b>112,732</b>	<b>135,863</b>
	<b>(96.3)</b>	<b>(98.9)</b>	<b>(96.1)</b>	<b>(96.7)</b>	<b>(109.2)</b>	<b>(113.0)</b>	<b>(115.3)</b>	<b>(109.8)</b>	<b>(118.7)</b>
Exports of goods and services	3,032,411	3,359,697	3,562,628	3,164,575	3,888,108	1,039,019	1,016,563	1,050,242	1,141,307
Imports of goods and services	2,864,240	3,184,762	3,390,573	3,043,567	3,790,258	1,005,809	992,119	1,063,116	1,105,317
<b>Visible and invisible trade balance</b>	<b>168,171</b>	<b>174,935</b>	<b>172,055</b>	<b>121,008</b>	<b>97,850</b>	<b>33,210</b>	<b>24,444</b>	<b>-12,874</b>	<b>35,990</b>
	<b>&lt;5.9&gt;</b>	<b>&lt;5.5&gt;</b>	<b>&lt;5.1&gt;</b>	<b>&lt;4.0&gt;</b>	<b>&lt;2.6&gt;</b>	<b>&lt;3.3&gt;</b>	<b>&lt;2.5&gt;</b>	<b>&lt;-1.2&gt;</b>	<b>&lt;3.3&gt;</b>

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

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

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

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

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		<u>2011</u>	
	(% change)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All markets</b>	<b>9.4</b>	<b>9.2</b>	<b>5.1</b>	<b>-12.6</b>	<b>22.8</b>	<b>3,031,019</b>	<b>14.4</b>	<b>24.6</b>	<b>7.7</b>	<b>4.2</b>
Mainland of China	14.2	13.2	4.7	-7.8	26.5	1,598,222	13.7	27.6	4.3	0.2
United States	2.9	-0.8	-2.4	-20.6	16.4	332,089	14.9	13.3	-3.1	-5.7
Japan	1.6	-0.7	1.2	-10.0	17.2	127,647	12.8	11.3	2.0	5.6
Germany	4.0	7.2	15.8	-15.5	1.6	80,637	3.3	16.6	19.7	7.1
India	5.8	51.2	50.0	0.2	42.4	74,451	29.5	48.1	26.6	20.8
Taiwan	3.3	1.6	3.8	-0.4	25.4	68,604	3.5	21.9	28.3	29.9
United Kingdom	6.3	1.7	0.7	-20.8	1.9	60,780	-0.3	-1.2	-1.9	3.9
Republic of Korea	7.5	2.0	-6.4	-13.0	24.4	53,668	19.2	23.0	18.9	13.1
Singapore	4.4	3.8	9.6	-23.6	20.7	50,978	16.9	23.8	13.8	5.6
Netherlands	-3.7	8.2	2.0	-17.8	18.4	44,121	-1.4	-0.7	-11.1	1.2
Rest of the world	10.0	11.8	9.4	-19.0	21.8	539,822	20.7	29.1	20.5	16.3

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)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All sources</b>	<b>11.6</b>	<b>10.3</b>	<b>5.5</b>	<b>-11.0</b>	<b>25.0</b>	<b>3,364,840</b>	<b>15.1</b>	<b>20.6</b>	<b>10.3</b>	<b>8.9</b>
Mainland of China	13.7	11.5	6.1	-11.4	22.4	1,529,751	16.1	21.3	10.3	7.4
Japan	4.5	7.2	3.6	-20.6	30.4	308,161	12.9	15.3	-5.2	3.4
Singapore	21.9	18.2	0.1	-10.4	35.9	237,407	16.3	23.3	-0.1	-4.2
Taiwan	15.9	5.2	-6.4	-8.5	28.0	224,761	4.8	13.6	-2.4	4.3
United States	3.6	12.3	8.6	-5.7	26.0	179,160	22.7	19.4	19.2	11.7
Republic of Korea	16.1	-0.2	-1.1	-12.7	29.8	133,714	6.1	29.0	6.6	5.1
Malaysia	5.6	4.1	5.3	2.8	24.5	84,705	14.5	15.9	8.5	-3.3
Thailand	14.3	8.1	11.1	-9.7	32.5	76,304	18.6	25.3	-6.1	11.8
India	3.2	29.7	21.5	-9.3	36.5	71,794	30.6	23.3	33.3	20.4
Germany	8.2	8.1	11.2	-6.2	15.1	57,660	-1.4	15.7	25.8	16.9
Rest of the world	7.4	10.5	11.4	-8.8	20.5	461,422	17.3	22.6	29.3	26.1

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)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>Overall</b>	<b>14.3</b>	<b>9.4</b>	<b>5.3</b>	<b>-10.8</b>	<b>27.3</b>	<b>874,716</b>	<b>13.6</b>	<b>9.5</b>	<b>16.8</b>	<b>22.7</b>
Foodstuffs	4.3	12.9	19.7	9.9	17.0	92,003	21.2	3.4	19.7	34.4
Consumer goods	3.1	11.4	9.0	-14.0	33.8	184,107	23.0	31.9	56.2	61.0
Raw materials and semi-manufactures	8.8	17.7	-4.5	-6.4	32.3	326,936	5.5	1.1	-2.4	-3.6
Fuels	22.8	20.1	26.6	-18.4	33.8	116,156	12.6	28.6	12.4	24.6
Capital goods	33.2	-8.3	2.5	-18.7	12.9	154,753	20.2	-11.0	16.6	28.5

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



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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>		<u>2010</u>	<u>2011</u>		
	(% change)				(% change)	(\$Mn)	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>14.1</b>	<b>17.0</b>	<b>8.7</b>	<b>-6.8</b>	<b>23.4</b>	<b>826,856</b>	<b>17.5</b>	<b>15.7</b>	<b>16.0</b>	<b>13.8</b>
Transportation	10.2	14.6	12.7	-18.4	28.0	235,047	20.9	8.2	13.0	5.4
Travel	12.9	18.7	11.1	6.7	35.4	172,271	22.9	18.8	25.6	29.2
Trade-related	9.9	11.6	8.5	-4.3	19.8	247,773	15.3	19.9	12.3	11.2
Other services	28.4	26.8	2.3	-4.0	12.8	171,765	12.0	16.9	16.2	14.0
<b>Imports of services</b>	<b>9.0</b>	<b>15.4</b>	<b>10.3</b>	<b>-7.1</b>	<b>16.0</b>	<b>395,201</b>	<b>13.0</b>	<b>12.1</b>	<b>11.9</b>	<b>10.2</b>
Transportation	10.9	20.4	13.5	-23.0	19.2	113,168	15.5	9.9	9.1	8.0
Travel	5.4	7.6	6.8	-3.1	11.7	135,661	10.1	9.7	13.3	9.1
Trade-related	12.6	15.9	10.6	0.5	23.5	33,362	18.9	23.1	15.0	10.1
Other services	11.2	21.2	11.0	6.8	16.3	113,010	12.2	14.3	12.5	14.0
<b>Net exports of services</b>	<b>19.9</b>	<b>18.6</b>	<b>7.2</b>	<b>-6.5</b>	<b>31.1</b>	<b>431,655</b>	<b>21.9</b>	<b>18.9</b>	<b>20.0</b>	<b>17.0</b>

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

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

**Table 11 : Incoming visitors by source**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Q4	Q1	<u>2011</u> Q2	Q3
<u>('000)</u>									
<b>All sources</b>	<b>25 251.1</b>	<b>28 169.3</b>	<b>29 506.6</b>	<b>29 590.7</b>	<b>36 030.3</b>	<b>9 854.4</b>	<b>9 708.0</b>	<b>9 623.2</b>	<b>11 092.2</b>
Mainland of China	13 591.3	15 485.8	16 862.0	17 956.7	22 684.4	6 189.0	6 520.5	6 176.9	7 686.6
South and Southeast Asia	2 659.7	2 888.1	2 936.2	2 885.2	3 500.9	1 010.9	776.4	1 011.3	887.3
Taiwan	2 177.2	2 238.7	2 240.5	2 009.6	2 164.8	525.8	507.4	546.3	585.9
Europe	1 548.2	1 772.2	1 711.4	1 610.5	1 757.8	511.9	441.9	425.2	412.6
Japan	1 311.1	1 324.3	1 324.8	1 204.5	1 316.6	333.7	326.9	272.0	331.2
United States	1 159.0	1 230.9	1 146.4	1 070.1	1 171.4	325.4	279.4	311.5	279.8
Others	2 804.5	3 229.2	3 285.3	2 854.0	3 434.5	957.7	855.6	880.1	909.0
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>8.1</b>	<b>11.6</b>	<b>4.7</b>	<b>0.3</b>	<b>21.8</b>	<b>16.9</b>	<b>12.6</b>	<b>16.9</b>	<b>19.0</b>
Mainland of China	8.4	13.9	8.9	6.5	26.3	21.8	17.5	25.1	27.9
South and Southeast Asia	10.2	8.6	1.7	-1.7	21.3	11.7	8.6	6.0	8.1
Taiwan	2.2	2.8	0.1	-10.3	7.7	0.5	-5.5	5.2	0.5
Europe	10.7	14.5	-3.4	-5.9	9.1	9.3	0.8	4.1	3.4
Japan	8.3	1.0	*	-9.1	9.3	2.4	-2.2	-12.0	-2.5
United States	1.4	6.2	-6.9	-6.7	9.5	8.2	5.3	3.7	-0.2
Others	11.2	15.1	1.7	-13.1	20.3	15.8	8.9	9.8	2.2

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

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

**Table 12 : Property market**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	26 262	31 052	26 397	26 036	17 321	16 579	10 471
Commercial property	208	304	417	371	145	291	368
<i>of which :</i>							
Office space	76	166	299	280	34	108	320
Other commercial premises <sup>(b)</sup>	132	138	118	91	111	183	48
Industrial property <sup>(c)</sup>	45	29	15	1	17	27	16
<i>of which :</i>							
Industrial-cum-office premises	14	0	15	0	4	0	0
Conventional flatted factory space	30	3	0	1	0	0	16
Storage premises <sup>(d)</sup>	0	27	0	0	13	27	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	47 590	20 154	13 705	20 614	24 691	4 430	4 795
Subsidized sales flats <sup>(e)</sup>	25 702	1 072	320	0	0	0	2 010
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	1 002.5	790.0	1 038.4	530.0	550.7	706.7	956.1
Commercial property	265.0	365.3	200.0	161.3	481.9	468.4	327.5
Industrial property <sup>(f)</sup>	45.7	107.1	0.8	16.4	35.1	23.9	103.5
Other properties	75.0	109.3	444.2	407.1	408.0	199.2	207.7
Total	1 388.1	1 371.8	1 683.3	1 114.8	1 475.8	1 398.2	1 594.8
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	69 667	72 974	71 576	100 630	103 362	82 472	123 575
Primary market	18 366	23 088	26 498	25 694	15 994	13 986	20 123
Secondary market	51 301	49 886	45 078	74 936	87 368	68 486	103 452
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 774	1 639	1 817	3 213	3 431	2 874	4 129
Other commercial premises	2 989	3 167	4 142	7 833	7 143	4 402	5 490
Flatted factory space	3 493	3 756	3 813	5 889	6 560	7 409	9 072

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

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

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

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

**Table 12 : Property market (Cont'd)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Q4	Q1	<u>2011</u> Q2	Q3
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	8 776	7 157	13 405	2 333	3 259	1 227	2 189
Commercial property	390	235	189	29	112	61	8
<i>of which :</i>							
Office space	341	151	124	24	89	57	0
Other commercial premises <sup>(b)</sup>	49	84	65	5	23	4	8
Industrial property <sup>(c)</sup>	78	3	21	0	32	47	24
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	0	0	0	0
Conventional flatted factory space	70	3	21	0	32	0	0
Storage premises <sup>(d)</sup>	4	0	0	0	0	47	24
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	22 759	19 021	6 385	0	13 672	0	2 002
Subsidized sales flats <sup>(e)</sup>	2 200	370	1 110	0	0	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	530.0	546.8	586.5	111.9	163.1	66.6	248.1
Commercial property	147.7	178.3	156.3	0.6	44.8	14.5	39.8
Industrial property <sup>(f)</sup>	106.6	97.1	34.3	0.8	22.4	9.5	4.9
Other properties	212.8	253.2	459.2	79.8	67.4	86.4	23.6
Total	997.1	1 075.4	1 236.3	193.2	297.6	177.0	316.5
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	95 931	115 092	135 778	32 069	28 848	26 359	15 516
Primary market	11 046	16 161	13 646	2 877	1 905	3 845	1 723
Secondary market	84 885	98 931	122 132	29 192	26 943	22 514	13 793
Selected types of non-residential properties <sup>(h)</sup>							
Office space	2 845	2 521	3 591	1 025	1 052	1 014	609
Other commercial premises	4 149	5 359	7 639	1 989	1 864	2 061	1 244
Flatted factory space	5 741	5 554	8 206	2 471	2 586	2 430	1 601

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

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

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

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

**Table 13 : Property prices and rentals**

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

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

(b) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known. For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Q4	Q1	<u>2011</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	120.5	121.3	150.9	162.3	175.1	185.8	183.8
Office space	199.0	179.8	230.4	253.8	276.7	300.1	311.0
Shopping space	192.2	193.1	257.2	284.4	304.6	324.3	334.6
Flatted factory space	235.9	216.3	284.4	316.4	349.0	386.8	400.5
Property rental indices <sup>(b)</sup> :							
Residential flats	115.7	100.4	119.7	127.0	128.0	133.8	138.5
Office space	155.5	135.7	147.6	154.3	158.4	166.7	175.7
Shopping space	116.2	110.9	122.9	127.6	128.0	133.3	137.0
Flatted factory space	109.3	99.4	108.9	112.5	113.4	117.4	122.8
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	16.4	0.7	24.4	22.1	24.4	26.9	19.3
Office space	20.2	-9.6	28.1	25.0	29.6	34.6	34.4
Shopping space	11.4	0.5	33.2	28.9	30.3	30.8	27.3
Flatted factory space	18.2	-8.3	31.5	31.2	35.1	41.8	38.2
Property rental indices <sup>(b)</sup> :							
Residential flats	13.7	-13.2	19.2	16.7	14.3	13.6	13.6
Office space	17.9	-12.7	8.8	13.0	13.0	14.4	16.9
Shopping space	3.9	-4.6	10.8	10.4	8.4	9.7	10.0
Flatted factory space	8.8	-9.1	9.6	10.3	8.7	8.2	11.3

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

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

**Definition of Terms :**

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

**Total Money Supply:**

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

**Table 14 : Monetary aggregates (Cont'd)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Q4	Q1	<u>2011</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	491,115	671,241	730,093	730,093	745,847	755,406	781,835
M2 <sup>(a)</sup>	3,239,857	3,587,717	3,866,788	3,866,788	3,869,018	3,901,804	3,906,426
M3 <sup>(a)</sup>	3,261,306	3,604,843	3,878,193	3,878,193	3,882,868	3,911,982	3,915,088
Total money supply (\$Mn)							
M1	645,833	901,819	1,017,227	1,017,227	1,047,137	1,093,570	1,119,185
M2	6,268,058	6,602,310	7,136,271	7,136,271	7,374,716	7,626,662	7,769,534
M3	6,300,751	6,626,843	7,156,260	7,156,260	7,399,132	7,649,796	7,788,982
Deposit (\$Mn)							
HK\$	3,033,980	3,373,595	3,617,183	3,617,183	3,607,198	3,616,810	3,608,321
Foreign currency	3,024,004	3,007,445	3,245,081	3,245,081	3,469,856	3,618,675	3,715,298
Total	6,057,984	6,381,040	6,862,265	6,862,265	7,077,054	7,235,485	7,323,620
Loans and advances (\$Mn)							
HK\$	2,354,755	2,401,323	2,824,445	2,824,445	2,945,472	3,045,210	3,126,171
Foreign currency	930,883	887,160	1,403,281	1,403,281	1,595,470	1,773,240	1,903,745
Total	3,285,638	3,288,483	4,227,726	4,227,726	4,540,942	4,818,450	5,029,915
Nominal Effective Exchange Rate Indices (Jan 2000 =100) <sup>(b)(c)</sup>							
Trade-weighted	87.1	88.2	86.2	84.4	83.3	82.0	81.2
Import-weighted	87.1	87.9	85.3	83.2	82.0	80.7	79.6
Export-weighted	87.2	88.5	87.2	85.7	84.7	83.5	82.9
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	8.1	36.7	8.8	8.8	4.6	12.5	-6.0
M2 <sup>(a)</sup>	-1.3	10.7	7.8	7.8	7.4	8.5	-0.3
M3 <sup>(a)</sup>	-1.2	10.5	7.6	7.6	7.2	8.4	-0.4
Total money supply :							
M1	4.7	39.6	12.8	12.8	10.9	21.0	4.0
M2	2.6	5.3	8.1	8.1	11.8	15.9	11.2
M3	2.6	5.2	8.0	8.0	11.7	15.9	11.1
Deposit							
HK\$	-1.3	11.2	7.2	7.2	6.7	7.3	-2.0
Foreign currency	8.2	-0.5	7.9	7.9	16.0	21.4	21.6
Total	3.2	5.3	7.5	7.5	11.1	13.9	8.7
Loans and advances							
HK\$	7.8	2.0	17.6	17.6	18.8	16.2	9.4
Foreign currency	19.8	-4.7	58.2	58.2	61.2	53.9	49.9
Total	10.9	0.1	28.6	28.6	30.9	27.7	21.9
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	-5.2	1.3	-2.3	-2.2	-4.0	-6.4	-6.0
Import-weighted	-5.8	0.9	-3.0	-3.1	-4.9	-6.9	-6.8
Export-weighted	-4.5	1.5	-1.5	-1.3	-3.2	-5.6	-5.3

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

(b) Period average.

(c) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000.



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

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>		<u>2011</u>	
					Q3	Q4	Q1	Q2
<b>Service Industry</b>								
Import and export trade	8.1	7.4	-13.7	19.7	20.3	15.0	22.6	7.6
Wholesale	10.4	6.3	-12.6	25.0	24.8	16.8	21.7	8.9
Retail	12.8	10.6	0.6	18.3	17.9	19.4	21.0	28.1
Transportation	10.5	4.4	-19.9	24.5	32.4	15.0	13.4	4.3
<i>within which :</i>								
Land transport	3.7	2.2	-2.6	6.0	7.6	4.9	10.4	5.8
Water transport	16.8	6.1	-24.1	20.5	26.5	16.7	8.7	2.7
Air transport	7.3	3.5	-21.0	33.7	46.2	16.4	18.0	5.3
Warehousing and storage	15.9	6.6	1.4	9.5	5.4	6.4	10.7	10.4
Courier	5.5	2.1	-6.1	28.3	29.1	18.1	26.2	25.9
Accommodation	15.2	3.8	-17.4	25.3	25.2	26.5	23.3	20.8
Food services	13.4	13.1	0.6	5.1	5.2	5.6	5.9	6.0
Information and communications	8.4	6.0	-3.2	4.9	6.2	9.4	9.2	10.1
<i>within which :</i>								
Telecommunications	11.0	9.8	1.4	3.0	5.3	10.9	8.0	10.2
Film entertainment	6.1	-0.7	-12.6	-6.4	-3.8	-11.7	-17.0	6.9
Banking	38.3	-16.9	1.5	8.8	9.3	20.0	23.0	17.6
Financing (except banking)	68.8	-19.4	-10.3	16.7	-1.8	28.5	12.2	21.9
<i>within which :</i>								
Financial markets and asset management	71.7	-20.0	-11.7	15.3	-5.5	28.4	12.3	25.2
<i>within which : Asset management</i>	56.8	-5.2	-12.1	28.4	17.1	19.8	24.5	27.6
Insurance	28.8	*	0.7	8.3	4.8	6.8	7.8	12.7
Real estate	39.5	-3.7	9.7	11.4	8.6	15.2	11.4	12.5
Professional, scientific and technical services	12.3	6.8	-0.5	13.9	11.2	13.4	10.5	5.4
Administrative and support services	11.5	9.4	-12.4	12.3	15.4	12.3	14.9	10.7
<b>Service Domain</b>								
Tourism, convention and exhibition services	18.9	10.1	3.2	30.6	43.3	19.7	16.9 <sup>+</sup>	25.6 <sup>+</sup>
Computer and information technology services	6.8	5.3	-15.0	32.5	42.6	28.2	27.7	3.8

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> Q4	Q1 <sup>+</sup>	<u>2011</u> Q2 <sup>+</sup>	Q3 <sup>+</sup>
<u>(%)</u>									
Labour force participation rate	61.2	61.2	60.9	60.7	59.7	59.7	59.9	60.5	60.7
Seasonally adjusted unemployment rate	4.8	4.0	3.6	5.4	4.4	4.0	3.4	3.5	3.2
Underemployment rate	2.4	2.2	1.9	2.3	2.0	1.8	1.8	1.8	1.7
<u>('000)</u>									
Population of working age	5 832.2	5 928.4	5 993.9	6 056.6	6 122.9	6 159.5	6 174.9	6 193.6	6 209.7
Labour force	3 571.8	3 629.6	3 648.9	3 676.6	3 653.7	3 678.6	3 701.8	3 747.4	3 769.4
Persons employed	3 400.8	3 483.8	3 518.8	3 479.8	3 492.5	3 542.8	3 577.3	3 610.6	3 642.4
Persons unemployed	171.1	145.7	130.1	196.7	161.2	135.8	124.5	136.8	127.1
Persons underemployed	86.3	79.2	69.0	86.4	74.7	66.7	66.3	66.2	65.8
<u>(% change over a year earlier)</u>									
Population of working age	0.5	1.6	1.1	1.0	1.1	1.3	1.2	1.3	1.1
Labour force	1.1	1.6	0.5	0.8	-0.6	0.7	1.5	2.6	2.8
Persons employed	1.9	2.4	1.0	-1.1	0.4	1.8	2.7	3.8	4.0
Persons unemployed	-13.4	-14.8	-10.7	51.2	-18.1	-21.3	-22.9	-21.1	-21.3
Persons underemployed	-10.4	-8.2	-12.9	25.2	-13.5	-20.4	-16.1	-9.4	-7.5

Note : (+) Provisional figures.

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

Selected major industries	2006	2007	2008	2009	2010	2010			2011	No.
	(% change)					Sep	Dec	Mar	Jun	
						(% change over a year earlier)				
Manufacturing	-3.2	-2.9	-3.5	-5.7	-4.5	-5.6	-5.9	-6.1	-5.0	113 816
Construction sites (manual workers only)	-10.8	-5.1	-1.5	2.2	9.6	17.8	4.3	9.1	5.6	58 609
Import and export trade	1.0	0.8	-0.3	-4.4	0.9	0.9	0.5	0.2	-0.3	496 794
Wholesale	-4.2	-0.3	-2.7	-2.0	1.2	1.7	0.1	-0.3	0.3	64 005
Retail	3.1	2.1	2.8	-0.3	3.3	2.5	3.6	4.5	4.7	252 001
Food and beverage services	5.0	3.3	1.8	*	3.7	3.0	3.1	6.5	7.7	232 132
Accommodation services	8.0	5.4	3.1	-1.0	1.5	1.8	4.8	5.1	6.1	33 963
Transportation, storage, postal and courier services	1.6	2.5	3.5	1.1	1.5	1.4	1.4	1.6	1.7	163 086
Information and communications	1.4	2.2	3.6	-1.6	1.3	0.6	1.2	2.1	3.0	91 059
Financing and insurance	4.6	7.3	5.6	-0.5	4.8	6.0	5.8	6.4	6.3	202 835
Real estate	5.3	4.4	2.7	0.5	4.1	2.9	3.8	6.5	7.9	118 781
Professional and business services (excluding cleaning and similar services)	4.9	4.8	3.4	0.9	2.2	2.0	2.1	3.3	4.0	245 518
Cleaning and similar services	2.5	0.6	-1.7	6.7	13.7	16.1	10.6	15.0	11.3	75 194
Education	5.0	3.3	4.8	5.3	3.4	2.1	0.6	1.1	0.7	167 320
Human health services	3.7	5.5	5.1	3.8	3.0	2.7	2.9	3.2	4.6	96 212
Residential care and social work services	1.5	1.4	1.3	1.5	1.8	1.5	2.3	1.7	2.6	57 643
Arts, entertainment, recreation and other services	3.3	1.5	1.9	0.8	5.0	4.9	4.7	2.5	4.3	117 559
Civil Service <sup>(a)</sup>	-1.3	-0.4	0.1	1.1	0.5	0.3	0.3	0.2	0.7	157 348
Others <sup>(b)</sup>	-0.3	0.9	7.0	-1.0	3.1	7.4	1.8	1.8	2.2	11 089

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 2000.

(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 and gas supply, 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>		<u>2011</u>	
						Sep	Dec	Mar	Jun
<u>(number)</u>									
Building sites									
Private sector	30 993	29 240	28 899	28 776	28 620	29 571	26 327	26 777	28 704
Public sector <sup>(a)</sup>	7 643	7 767	8 136	10 277	11 463	10 943	13 052	14 077	13 139
Sub-total	38 636	37 007	37 034	39 053	40 083	40 514	39 379	40 854	41 843
Civil engineering sites									
Private sector	1 569	1 674	1 686	1 618	1 544	1 873	1 002	1 068	1 220
Public sector <sup>(a)</sup>	12 661	11 504	10 703	9 831	13 714	14 115	15 044	16 885	15 546
Sub-total	14 230	13 178	12 388	11 449	15 258	15 988	16 046	17 953	16 766
<b>Total</b>	<b>52 865</b>	<b>50 185</b>	<b>49 422</b>	<b>50 501</b>	<b>55 341</b>	<b>56 502</b>	<b>55 425</b>	<b>58 807</b>	<b>58 609</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.8	-5.7	-1.2	-0.4	-0.5	8.3	-11.6	-5.8	-4.8
Public sector <sup>(a)</sup>	-24.6	1.6	4.7	26.3	11.5	14.7	16.9	22.1	27.3
Sub-total	-7.3	-4.2	0.1	5.5	2.6	10.0	-3.8	2.2	3.4
Civil engineering sites									
Private sector	-28.6	6.7	0.7	-4.0	-4.6	8.1	-40.2	-34.7	-26.7
Public sector <sup>(a)</sup>	-17.7	-9.1	-7.0	-8.1	39.5	50.3	42.8	37.1	16.2
Sub-total	-19.0	-7.4	-6.0	-7.6	33.3	43.7	31.4	28.7	11.4
<b>Total</b>	<b>-10.8</b>	<b>-5.1</b>	<b>-1.5</b>	<b>2.2</b>	<b>9.6</b>	<b>17.8</b>	<b>4.3</b>	<b>9.1</b>	<b>5.6</b>

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

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

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

	(%)								
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>		<u>2011</u>	
Selected industry section						Q3	Q4	Q1	Q2
<b>(in nominal terms)</b>									
Manufacturing	1.7	2.5	0.9	-3.5	2.6	1.1	2.7	9.6	6.2
Sewerage, waste management and remediation activities	10.4	17.0	-8.6	2.1	-0.1	1.6	0.7	4.6	3.7
Import/export and wholesale trade	3.9	1.8	6.3	-1.6	2.6	0.5	4.9	10.0	16.4
Retail trade	2.1	2.6	8.1	-1.5	3.9	2.4	8.8	5.3	15.9
Transportation, storage, postal and courier services	3.0	3.9	-0.6	-0.2	3.4	3.6	1.7	8.3	8.1
Accommodation and food service activities	2.6	3.9	2.6	-0.6	3.3	3.0	2.0	9.6	12.1
Information and communications	0.6	-2.9	6.6	0.2	2.6	1.2	-0.5	3.8	7.3
Financial and insurance activities	10.0	9.8	9.0	-3.3	7.2	5.2	12.5	16.5	14.1
Real estate activities	-2.5	-0.4	8.0	-2.4	1.3	1.3	-0.1	4.7	10.4
Professional and business services	3.3	4.8	3.5	0.6	2.4	0.2	2.2	-4.8	0.2
Social and personal services	1.0	1.5	3.1	1.7	-2.4	-2.4	-1.2	-2.3	-0.2
<b>All industries surveyed</b>	<b>2.4</b>	<b>4.0</b>	<b>2.6</b>	<b>0.5</b>	<b>2.4</b>	<b>0.8</b>	<b>3.1</b>	<b>7.2</b>	<b>6.9</b>
<b>(in real terms)</b>									
Manufacturing	-0.3	0.5	-3.3	-4.1	0.3	-0.4	-0.1	5.5	1.1
Sewerage, waste management and remediation activities	8.2	14.8	-12.3	1.5	-2.3	0.1	-2.0	0.7	-1.3
Import/export and wholesale trade	1.8	-0.2	1.9	-2.3	0.2	-1.1	2.1	5.9	10.8
Retail trade	0.1	0.6	3.6	-2.1	1.6	0.8	5.8	1.4	10.3
Transportation, storage, postal and courier services	0.9	1.9	-4.7	-0.8	1.1	2.0	-1.1	4.3	2.9
Accommodation and food service activities	0.6	1.8	-1.7	-1.2	1.0	1.4	-0.8	5.5	6.7
Information and communications	-1.4	-4.7	2.2	-0.4	0.3	-0.4	-3.2	*	2.1
Financial and insurance activities	7.9	7.7	4.6	-3.9	4.8	3.6	9.5	12.2	8.6
Real estate activities	-4.4	-2.3	3.5	-3.0	-1.0	-0.3	-2.8	0.8	5.1
Professional and business services	1.3	2.8	-0.7	*	0.1	-1.4	-0.5	-8.3	-4.6
Social and personal services	-1.0	-0.5	-1.2	1.1	-4.6	-3.9	-3.9	-5.9	-5.0
<b>All industries surveyed</b>	<b>0.4</b>	<b>1.9</b>	<b>-1.7</b>	<b>-0.1</b>	<b>0.1</b>	<b>-0.7</b>	<b>0.3</b>	<b>3.2</b>	<b>1.8</b>

Notes : The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2009/10-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>		<u>2011</u>	
Selected industry section						Sep	Dec	Mar	Jun
<b>(in nominal terms)</b>									
Manufacturing	0.2	4.3	2.6	-1.2	-1.0	-0.3	-1.0	3.0	5.7
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	1.1	2.3	3.6	-1.1	2.6	2.6	4.4	5.8	7.1
Import/export and wholesale trades:	1.0	2.8	3.1	-1.2	2.7	2.7	--	6.1	--
Retail trade	0.8	-1.7	4.9	-0.2	1.1	1.6	--	0.8	--
Transportation	0.1	1.5	1.8	*	1.1	1.0	1.5	2.0	3.7
Accommodation and food service activities	1.0	1.4	3.1	-2.3	2.5	2.3	3.4	6.5	9.2
Financial and insurance activities <sup>(b)</sup>	2.1	2.4	2.8	-0.5	3.0	3.0	2.2	5.0	7.3
Real estate leasing and maintenance management	2.3	1.4	2.7	-0.4	2.6	2.3	1.9	1.7	10.3
Professional and business services	2.4	4.8	4.9	0.8	3.4	3.1	3.6	5.7	14.1
Personal services	3.4	8.5	0.5	-0.7	3.4	2.8	4.4	3.6	8.6
<b>All industries surveyed</b>	<b>1.7</b>	<b>2.6</b>	<b>3.4</b>	<b>-0.9</b>	<b>2.4</b>	<b>2.4</b>	<b>3.3</b>	<b>4.9</b>	<b>8.0</b>
<b>(in real terms)</b>									
Manufacturing	-1.5	2.4	-0.1	-1.8	-3.7	-1.3	-4.2	-1.7	-0.1
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	-0.6	0.4	0.9	-1.7	-0.2	1.5	1.0	1.0	1.1
Import/export and wholesale trades:	-0.7	1.0	0.4	-1.7	-0.1	1.6	--	1.3	--
Retail trade	-1.0	-3.5	2.2	-0.7	-1.6	0.5	--	-3.7	--
Transportation	-1.7	-0.4	-0.8	-0.5	-1.7	*	-1.7	-2.7	-2.1
Accommodation and food service activities	-0.8	-0.4	0.4	-2.8	-0.3	1.2	0.1	1.7	3.2
Financial and insurance activities <sup>(b)</sup>	0.3	0.6	0.2	-1.0	0.2	1.9	-1.0	0.2	1.3
Real estate leasing and maintenance management	0.6	-0.4	0.1	-1.0	-0.2	1.2	-1.3	-2.9	4.2
Professional and business services	0.6	2.9	2.2	0.3	0.6	2.0	0.3	0.9	7.7
Personal services	1.6	6.5	-2.1	-1.2	0.6	1.8	1.1	-1.1	2.6
<b>All industries surveyed</b>	<b>-0.1</b>	<b>0.7</b>	<b>0.7</b>	<b>-1.5</b>	<b>-0.4</b>	<b>1.3</b>	<b>*</b>	<b>0.2</b>	<b>2.0</b>

Notes : The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2009/10-based CPI(A).

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

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

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

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

(--) Not applicable.

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

(%)

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

Notes : (a) 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.

**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>	
			Q4	Q1	Q2	Q3	10 years 2000 to 2010	5 years 2005 to 2010
GDP deflator	-0.6 #	0.5 #	1.1 #	1.2 #	5.0 #	4.3 #	-1.1 #	0.8 #
Domestic demand deflator	-1.0 #	2.3 #	3.4 #	5.0 #	4.8 #	5.0 #	-0.2 #	1.6 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	0.5	2.4	2.7	3.8	5.2	6.4	0.4	2.2
CPI(A)	0.4	2.7	3.2	4.1	5.5	7.7	0.3	1.9
CPI(B)	0.5	2.3	2.4	3.7	5.1	6.0	0.5	2.3
CPI(C)	0.6	2.1	2.5	3.7	4.8	5.9	0.5	2.5
Unit Value Indices :								
Domestic exports	-0.2	5.5	6.7	6.7	6.4	7.6	0.4	1.8
Re-exports	1.2	4.6	6.5	7.6	8.7	8.6	0.9	2.6
Total exports of goods	1.1	4.7	6.5	7.6	8.6	8.6	0.9	2.6
Imports of goods	-0.1	6.4	8.2	8.9	8.1	8.6	1.3	3.0
Terms of Trade Index	1.3	-1.7	-1.6	-1.2	0.5	*	-0.4	-0.4
Producer Price Index <sup>(b)</sup> for all manufacturing industries	-1.7	6.0	7.6	8.2	9.0	N.A.	--	3.0
Tender Price Indices :								
Public sector building projects	-15.9	12.5	14.4	12.3	13.7	N.A.	3.1	11.1
Public housing projects	-6.8	6.7	10.2	10.8	10.9	N.A.	2.9	11.6



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

(%)								
	Weight	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<b>All items</b>	<b>100.0</b>	<b>-1.6</b> (--)	<b>-3.0</b> (--)	<b>-2.6</b> (--)	<b>-0.4</b> (--)	<b>1.0</b> (--)	<b>2.0</b> (--)	<b>2.0</b> (2.8)
Food	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 <sup>(a)</sup>	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 effects 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:	
					Q4	Q1	Q2	Q3	10 years 2000 to 2010	5 years 2005 to 2010	
<b>All items</b>	<b>100.0</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>2.4</b> <b>(1.7)</b>	<b>2.7</b> <b>(2.4)</b>	<b>3.8</b> <b>(3.7)</b>	<b>5.2</b> <b>(5.0)</b>	<b>6.4</b> <b>(6.1)</b>	<b>0.4</b> <b>(-)</b>	<b>2.2</b> <b>(-)</b>	
Food	27.45	10.1	1.3	2.4	3.6	5.2	6.9	7.8	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>2.4</i>	<i>4.1</i>	<i>5.1</i>	<i>5.7</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>5.6</i>	<i>7.0</i>	<i>9.8</i>	<i>11.3</i>	<i>2.9</i>	<i>6.0</i>	
Housing <sup>(a)</sup>	31.66	4.1	3.7	0.4	2.2	3.8	5.9	11.0	-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>2.2</i>	<i>4.1</i>	<i>6.5</i>	<i>8.4</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>4.0</i>	<i>4.0</i>	<i>2.7</i>	<i>676.7</i>	<i>-4.9</i>	<i>-9.5</i>	
Electricity, gas and water	3.10	-6.5	-25.3	43.3	16.1	7.3	8.0	-16.1	0.8	0.3	
Alcoholic drinks and tobacco	0.59	0.1	18.7	3.4	0.5	8.1	19.9	20.3	2.2	3.2	
Clothing and footwear	3.45	0.8	2.7	1.8	1.9	5.6	6.3	7.8	1.2	2.1	
Durable goods	5.27	-2.0	-3.0	-2.7	-5.0	-4.4	-4.3	-3.1	-4.4	-3.8	
Miscellaneous goods	4.17	5.0	2.3	2.4	2.5	3.1	4.2	4.5	2.4	2.8	
Transport	8.44	2.5	-0.9	2.0	3.0	3.3	4.7	5.0	0.5	0.8	
Miscellaneous services	15.87	0.8	-2.1	2.0	2.7	3.3	2.9	4.0	*	0.8	

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

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

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

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

	(%)								
	<u>2008</u>	<u>2009<sup>#</sup></u>	<u>2010<sup>#</sup></u>	<u>2010</u>		<u>2011</u>		Average annual <u>rate of change:</u>	
				Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2000 to 2010 <sup>#</sup>	5 years 2005 to 2010 <sup>#</sup>
Private consumption expenditure	2.8	-1.6	0.9	2.2	3.6	5.1	5.5	0.1	1.4
Government consumption expenditure	4.9	0.2	0.3	0.8	1.8	5.7	5.9	0.3	1.9
Gross domestic fixed capital formation	1.7	0.5	7.7	9.1	9.9	4.2	3.1	-1.2	2.2
Total exports of goods	3.4	0.5	4.6	5.8	6.4	7.6	8.7	0.5	2.2
Imports of goods	4.1	-1.3	6.3	7.8	8.5	7.5	8.8	0.9	2.6
Exports of services	3.4	-7.0	7.4	7.5	5.9	7.7	6.8	0.3	1.9
Imports of services	3.8	-2.3	5.1	4.9	6.0	8.5	7.9	1.7	2.0
<b>Gross Domestic Product</b>	<b>1.5</b>	<b>-0.6</b>	<b>0.5</b>	<b>1.1</b>	<b>1.2</b>	<b>5.0</b>	<b>4.3</b>	<b>-1.1</b>	<b>0.8</b>
Total final demand	3.2	-1.1	4.3	5.3	5.9	6.8	7.3	0.2	1.9
Domestic demand	2.8	-1.0	2.3	3.4	5.0	4.8	5.0	-0.2	1.6

