



2011 Economic Background and 2012 Prospects

Government of the Hong Kong
Special Administrative Region

***2011 ECONOMIC BACKGROUND
AND
2012 PROSPECTS***

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CALENDAR OF EVENTS OF SIGNIFICANCE FOR THE HONG KONG ECONOMY IN 2011

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2011

Summary

- *The Hong Kong economy sustained strong momentum on entering 2011. However, economic growth moderated progressively since the second quarter, as the external environment was increasingly plagued by the re-emergence of the eurozone sovereign debt crisis and faltering demand in the advanced economies. Yet, the domestic sector stayed resilient throughout the year, partially offsetting the drag from the weaker performance of merchandise exports. For 2011 as a whole, the economy still registered a notable 5.0% expansion, after a 7.0% growth in 2010.*
- *Total exports of goods re-accelerated strongly in the first quarter of 2011, but moderated markedly in the second quarter, partly exaggerated by the disruptions to supply chains caused by the Japan earthquake in March, and stayed sluggish in the second half of the year, due mainly to slackening demand in the advanced markets, notably the US and the EU. In addition, the second round impact of weaker demand in the advanced markets was also increasingly evident in some Asian markets.*
- *Exports of services fared rather strongly for 2011 as a whole, although growth also moderated visibly towards the year-end. Vibrant inbound tourism and buoyant cross-border commercial and financial activities provided the key drivers, but exports of trade-related and transportation services were more affected by the slowdown in merchandise trade flows.*
- *The domestic sector performed remarkably well in 2011. Private consumption expenditure grew robustly throughout the year, thanks to the notable job and income growth in the past year or so. Investment strengthened after the first quarter and held firm to the year-end on hectic machinery and equipment acquisition and intensive public sector works, despite more cautious business sentiments in the latter part of the year.*
- *The labour market was in a state of full employment. Job vacancies surged across many sectors amid the economic expansion, pushing total employment to successive new highs. The seasonally adjusted unemployment rate fell to a 13-year low of 3.2% in the third quarter, before edging up to 3.3% in the fourth quarter. Both wages and earnings recorded their largest increases since the mid-1990s, thanks to the buoyant labour market conditions, and an additional boost from the implementation of statutory minimum wage (SMW) since 1 May 2011.*

- *Local stock prices underwent sharp gyrations and drifted markedly lower during the year amid the global financial market turmoil induced by the deepening euro debt crisis. Local property market continued its uptrend in the first half of 2011, before turning much quieter in the second half amid a more uncertain global economic outlook and tighter mortgage loan terms.*
- *As part of a region-wide phenomenon, inflation went up visibly during most of 2011, driven by the feed-through of domestic cost pressures as well as higher imported inflation. Yet with the ease-back of global food and commodity prices since early 2011 and slower local economic growth, inflation stabilised towards the year-end. In 2011, underlying inflation averaged at 5.3%, up from 1.7% in 2010.*

Overall situation

1.1 Following the full-fledged upturn in 2010, the Hong Kong economy saw another year of above-trend growth in 2011, thanks largely to the spectacular performance in the early part of the year. However, successive moderation in growth momentum was seen after the first quarter of 2011, as the increasingly difficult global economic environment led to a marked slowdown in merchandise exports. Total exports of goods to the US, EU and Japan relapsed to declines since the second quarter, although exports of services held up relatively better on the back of thriving inbound tourism and vibrant cross-border commercial and financial activities. In contrast, domestic demand was the bright spot and sustained notable growth throughout the year, underpinned by strong consumption demand and hectic expansion of public sector construction works. The sanguine business sentiment during most of the year also contributed to a notable increase in investment in machinery and equipment. In line with the experience of many Asian economies, inflation went up uninterruptedly during most of the year, and then stabilised towards the year-end.

Diagram 1.1 : Economic growth moderated over the course of 2011, but still registered above-trend growth for the year as a whole



1.2 For 2011 as a whole, the *Gross Domestic Product (GDP)*⁽¹⁾ expanded by 5.0% in real terms, following a strong growth of 7.0% in 2010. In terms of the quarterly profile, real GDP surged by 7.6% in the first quarter over a year earlier, before moderating progressively to 5.3%, 4.3% and 3.0% year-on-year growth in the second, third and fourth quarters respectively amid increasing headwinds in the external environment. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP expanded strongly by 3.0% in the first quarter, but relapsed to a 0.5% decline in the second quarter, then grew only mildly by 0.1% in the third quarter, and by 0.3% in the fourth quarter.

The external sector

1.3 *Total exports of goods* slackened markedly to a modest growth of 3.6% in real terms in 2011, from the strong rebound of 17.3% in 2010. After a double-digit year-on-year growth of 16.8% in the first quarter of 2011, mainly driven by the vibrant Asian markets, total exports of goods decelerated sharply to virtually zero growth in the second quarter, partly dragged by temporary disruptions to regional supply chains arising from the March earthquake in Japan, and also partly by slower demand growth in many export markets. Import demand in the advanced economies was notably hampered by their fragile fiscal conditions and weak fundamentals in the ensuing quarters, as reflected by the further sharp plunges in exports to the US and enlarged declines in those to the EU. The spillover effect of waning final demand in these markets was also increasingly felt across Asia, as manifested by the region-wide deceleration in production and export activities. As a result, Hong Kong's merchandise exports to some Asian markets, including India, Korea and Singapore, slowed visibly in the second half of 2011. Total exports of goods registered a modest year-on-year decline of 2.2% in the third quarter, before rebounding by 2.2% in the fourth quarter over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports grew strongly in the first quarter, fell back notably in the second quarter, held flat in the third, only edging up slightly in the fourth quarter.

1.4 *Exports of services* fared better, with a growth of 6.3% in real terms for 2011 as a whole, though markedly slower than the 14.6% growth in 2010. With trade-related and transportation services significantly curtailed by the worsening global environment and slowdown in merchandise trade flows, the pace of growth in exports of services tapered over the course of the year, from a strong 9.1% year-on-year growth in the first quarter to only a moderate expansion of 3.5% in the fourth quarter. Yet exports of travel services stayed vibrant with very strong growth throughout the year, thanks to the rapid increase in visitor arrivals, especially those from the Mainland. Exports of financial and business services were likewise resilient during most of the year, on the back of buoyant cross-border financing, fund raising and other commercial activities. These two components provided a strong cushion against the slack in the trade-related components and helped underpin the still solid performance of exports of services in 2011.

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

	<u>2010[#]</u>	<u>2011⁺</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>	<u>Q4⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure	6.7	8.4	7.9 (0.9)	4.6 (1.6)	5.8 (1.9)	8.6 (3.7)	7.9 (0.6)	9.7 (3.1)	9.8 (2.1)	6.4 (0.4)
Government consumption expenditure	2.8	1.8	3.4 (1.0)	2.9 (0.8)	3.3 (0.8)	1.7 (-0.8)	2.5 (1.7)	1.0 (-0.8)	1.4 (1.1)	2.0 (0.1)
Gross domestic fixed capital formation	7.7	7.3	8.0	15.7	-0.4	8.5	0.8	7.7	11.2	9.0
<i>of which :</i>										
Building and construction	5.6	N.A.	-7.6	12.3	8.2	10.2	17.8	-4.2	1.8	N.A.
Machinery, equipment and computer software	6.4	N.A.	11.5	16.4	-6.6	7.1	-11.2	17.8	26.7	N.A.
Total exports of goods	17.3	3.6	21.6 (6.2)	20.2 (3.9)	20.8 (1.8)	8.2 (-3.5)	16.8 (13.8)	0.3 (-11.1)	-2.2 (*)	2.2 (0.9)
Imports of goods	18.1	4.8	28.3 (7.5)	23.4 (3.3)	16.7 (-0.6)	7.5 (-2.3)	12.6 (11.7)	2.6 (-5.9)	1.4 (-1.0)	3.9 (-0.5)
Exports of services	14.6	6.3	17.9 (3.8)	17.0 (2.1)	15.4 (2.4)	9.4 (0.7)	9.1 (3.5)	7.5 (0.6)	5.5 (0.5)	3.5 (-1.1)
Imports of services	10.7	3.0	11.6 (2.1)	12.2 (2.6)	11.2 (1.0)	8.1 (2.0)	5.3 (-0.6)	2.9 (0.5)	2.3 (0.3)	1.9 (1.5)
Gross Domestic Product	7.0	5.0	8.0 (1.9)	6.8 (1.9)	6.9 (0.9)	6.6 (1.7)	7.6 (3.0)	5.3 (-0.5)	4.3 (0.1)	3.0 (0.3)
<i>Change in the main price indicators (%)</i>										
GDP deflator	0.3	3.4	0.7 (0.9)	-2.2 (-2.4)	1.8 (2.4)	0.7 (-0.1)	1.4 (1.3)	4.9 (1.4)	4.7 (1.9)	2.8 (-1.7)
Composite CPI										
Headline	2.4[@]	5.3[@]	1.9 (0.8)[@]	2.6 (0.5)[@]	2.3 (-2.2)[@]	2.7[@] (3.7)[@]	3.8[@] (1.8)[@]	5.2[@] (1.8)[@]	6.4[@] (-0.9)[@]	5.7[@] (3.0)[@]
Underlying[^]	1.7[@]	5.3[@]	0.8 (0.5)[@]	1.5 (0.5)[@]	2.0 (0.4)[@]	2.4[@] (1.0)[@]	3.7[@] (1.8)[@]	5.0[@] (1.7)[@]	6.1[@] (1.5)[@]	6.4[@] (1.2)[@]
Change in nominal GDP (%)	7.3	8.6	8.7	4.4	8.9	7.3	9.1	10.5	9.2	5.9

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.

(+) Figures for Q4 2011 and year 2011 are advance preliminary estimates compiled in accordance with an advanced schedule. As the estimates are compiled based on limited data, only figures for major expenditure aggregates are available. More detailed data will be released on 22 Feb 2012 in the report *Gross Domestic Product, Fourth Quarter 2011*, which can be downloaded from the website of the Census and Statistics Department.

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

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

(*) Change of less than 0.05%.

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

N.A. Not yet available. An advance schedule has been adopted in compiling the GDP figures for Q4 2011 and year 2011. Due to insufficient data, figures of sub-components are not available.

The domestic sector

1.5 The domestic sector fared remarkably well in 2011, rendering the key impetus to overall economic growth. Local consumer sentiments were buoyed by the broad-based income and job growth over the past year or so. *Private consumption expenditure* (PCE) grew robustly in real terms in all four quarters of 2011. For 2011 as a whole, PCE grew by 8.4%, further to the already strong growth of 6.7% in 2010. On a seasonally adjusted quarter-to-quarter comparison, PCE stayed on an uptrend throughout 2011. Meanwhile, *government consumption expenditure* expanded steadily further in 2011, by 1.8% in real terms, following the 2.8% growth in 2010.

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

Of which :

		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2010	Annual	9.2	5.0	28.8	13.7	5.5	5.2	25.7	6.7
	H1	8.8	4.5	28.7	12.8	5.7	3.9	26.9	6.2
	H2	9.6	5.5	28.8	14.5	5.3	6.5	24.7	7.3
	Q1	9.8	5.1	30.3	13.8	6.4	4.5	19.1	7.9
	Q2	7.9	4.0	27.0	11.8	5.1	3.4	36.9	4.6
	Q3	9.4	5.3	28.1	14.1	5.8	10.0	39.4	5.8
	Q4	9.7	5.7	29.5	14.9	4.8	3.0	12.8	8.6
2011	Annual	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	8.4
	H1	10.0	1.1	34.1	22.2	3.6	2.3	13.0	8.8
	H2	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	8.0
	Q1	8.9	3.6	24.1	19.2	3.5	1.9	10.6	7.9
	Q2	11.0	-0.9	45.5	25.2	3.8	2.8	15.6	9.7
	Q3	10.7	0.3	38.2	21.8	3.7	-0.2	9.4	9.8
	Q4	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	6.4

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.

N.A. Not yet available. An advance schedule has been adopted in compiling the GDP figures for Q4 2011 and year 2011. Due to insufficient data, figures of sub-components are not available.

Diagram 1.2 : Private consumption expenditure sustained strong growth in 2011

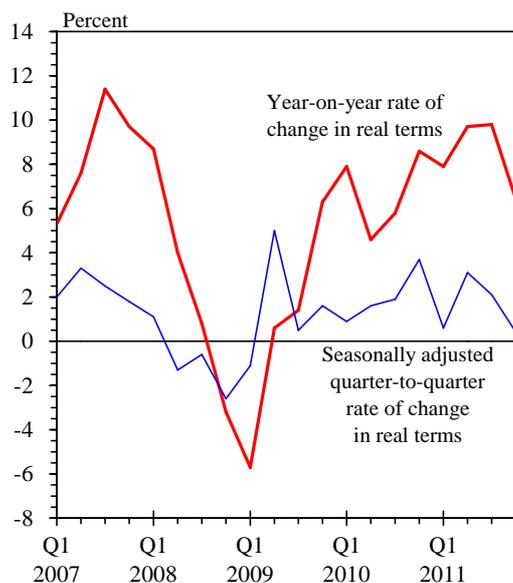
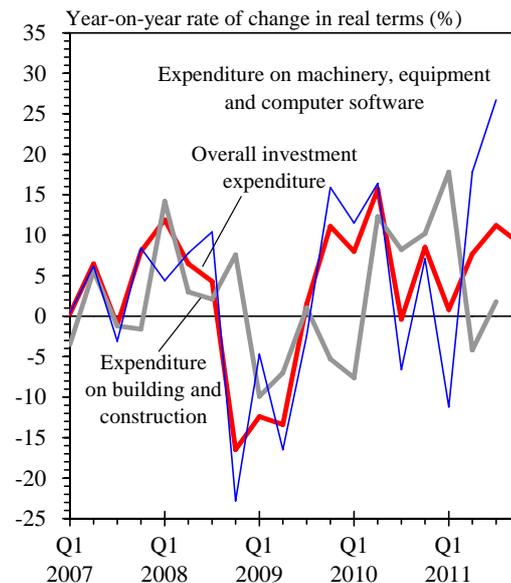


Diagram 1.3 : Investment spending was more volatile during 2011



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* posted a notable 7.3% growth in real terms in 2011, following the 7.7% expansion in 2010. Machinery and equipment acquisition, which tends to be rather volatile, displayed fluctuations during the year, relapsing to a year-on-year decline in the first quarter before rebounding to double-digit growth in the second and third quarters. Preliminary indication from retained imports of capital goods suggests that private machinery and equipment investment stayed vibrant in the fourth quarter. Meanwhile, public sector construction works continued apace throughout the year, offsetting the slack in private sector building activity, thereby rendering another important growth driver of domestic demand, and in turn, the overall economy. However, with increasing headwinds in the external environment upon the deepening euro debt crisis, business sentiments saw some deterioration in the latter part of the year, as suggested by results of the Quarterly Business Tendency Survey on large enterprises and diffusion indices on small and medium-sized enterprises (SMEs) (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)⁽¹⁾, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.1* in the *Third Quarter Economic Report 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, while 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 further towards the end of 2011 (*Table 1*). In November and December 2011, a larger proportion of SMEs in almost all of the seven sectors surveyed reported some deterioration in business receipts. More notable declines were seen in the real estate sector alongside a quieter property market, and logistics amid the slowdown in merchandise trade. On the other hand, the domestically-oriented sectors such as restaurants and retail trade held up relatively better, reflecting the still vibrant domestic demand, although the latter saw some worsening in December. Separately, the feedback from SMEs indicated that their employment situation remained largely stable 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 dropped to a record low of 43.1 in November 2011, before climbing back somewhat to 45.7 in December. This reflects a rather grim near-term outlook for exports due to faltering demand from the advanced economies and its increasingly evident second-round effects on the Asian markets.

(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 favourable in recent months, with only 1.2% of SMEs reporting tight current access to credit from October 2011 to December 2011, 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[^] on business receipts

	<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>	<u>Nov</u>	<u>Dec</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	49.1	50.0
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	42.6	39.7
Retail trade	50.0	48.3	50.4	50.0	49.5	45.1	49.1	48.7	46.9	49.1	48.6	46.8
Wholesale trade	50.0	50.0	52.8	50.0	50.0	50.0	45.0	47.5	50.0	42.5	42.5	47.5
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	46.9	45.3
<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	43.1	47.4
Logistics	50.0	52.8	50.0	50.0	50.0	47.4	47.5	45.0	42.5	45.0	42.5	36.1
Financing institutions	50.0	48.7	52.6	52.6	47.4	--	--	--	--	--	--	--
All the above sectors*	50.4	49.8	50.0	49.7	49.1	45.7	47.4	48.3	45.6	46.6	45.1	46.3

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

	<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>	<u>Nov</u>	<u>Dec</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	50.0	49.1
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	51.5	48.5
Retail trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.1
Wholesale trade	50.0	50.0	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	50.0	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	48.7	50.0
Logistics	50.0	50.0	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	--	--	--	--	--	--	--
All the above sectors*	50.1	50.1	50.1	50.1	50.1	49.8	50.1	50.2	49.7	49.8	49.5	49.6

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>	<u>Nov</u>	<u>Dec</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	43.1	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> [#]	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>
All selected sectors*	2.8	2.8	3.2	3.2	3.2	1.6	1.6	1.6	1.6	1.2	1.2	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 saw further notable and broad-based tightening in 2011. Total employment was on a strong uptrend throughout the year, reaching a new record high of 3 661 900 in the fourth quarter. Along with this, the *seasonally adjusted unemployment rate* fell successively to a 13-year low of 3.2% in the third quarter, only rising back slightly to 3.3% in the fourth quarter, a level that still signified full employment. The *underemployment rate* also declined steadily, to 1.4% in the fourth quarter. On the back of a vibrant domestic sector, labour demand stayed buoyant throughout the year with an upsurge in job vacancies, although hiring sentiments appeared to turn somewhat more cautious in the latter part of the year amid a highly uncertain external environment. In tandem, labour wages and earnings rose significantly across many sectors, especially for the lower decile groups, thanks in part to the additional boost from SMW implementation in May 2011.

The asset markets

1.8 The *local stock market* underwent sharp volatilities and drifted markedly lower during 2011. The correction was mainly induced by market worries over the worsening debt situation in Europe since the second quarter as well as the increasingly bleak global economic outlook. With the sharp intensification of the euro debt crisis and heightened contagion risks in the ensuing months, the Hang Seng Index (HSI) hit a low of 16 250 on 4 October 2011, the level last seen in May 2009. Though with some subsequent rebound upon the coordinated efforts taken by the European governments and major central banks to tackle the crisis and stabilise the global financial situation, the HSI closed the year at 18 434, still 20% lower than at end-2010. Against the market corrections worldwide and shifting market sentiments, fund-raising activities turned visibly quieter in the second half of the year. For 2011 as a whole, total IPO funds raised amounted to \$258.9 billion, 42% down from 2010. Yet Hong Kong still ranked as the world's top IPO centre in 2011, the third year in a row.

1.9 After an almost uninterrupted uptrend over the past two years or so, *residential property market* turned quieter in the second half of 2011, amid a more uncertain global economic outlook and tighter mortgage loan terms. Following the 21% increase during 2010, residential property prices rose further by a cumulative 15% during the first half of 2011, before retreating somewhat in the ensuing months. Nevertheless, overall flat prices in December 2011 were still 9% and 3% respectively higher than the level at end-2010 and the 1997 peak. Transaction volume fell visibly by 38% in 2011, as a combined result of the implementation of Special Stamp Duty (SSD) since November 2010 and the increasingly cautious market sentiment. Housing affordability ratio stood at 45% in the fourth quarter of 2011, on par with that a year earlier, though somewhat lower than the long-term average of 50% over 1991-2010. Rentals generally softened along with the property market correction in the latter part of the year, though for 2011 as a whole, flat rentals still rose by 7%. Rentals for offices and shops likewise softened towards the year-end. The increases were 15% and 9% respectively during the first eleven months of 2011.

Inflation

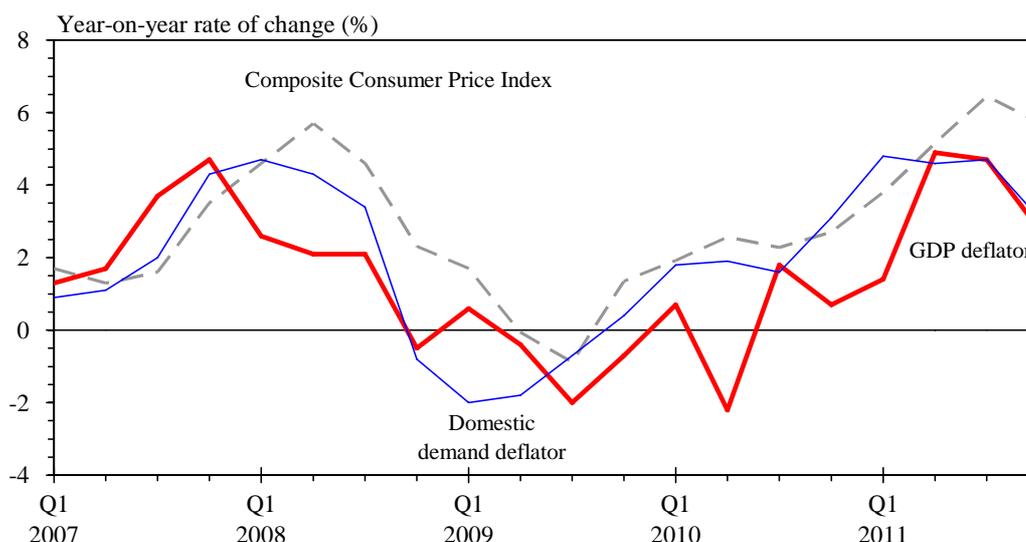
1.10 Inflation was on a notable uptrend during most of 2011 under the influence of both external and domestic factors. On the external front, the notable increases in import prices, driven by the surges of global food and commodity prices from late 2010 through early 2011, played a significant role in driving up local inflation. Domestically, the strong economic upswing in

2010 and early 2011, coupled with the one-off effect from the implementation of SMW in May 2011, resulted in higher local business costs and added further inflationary pressures. Nevertheless, with global food and commodity prices generally easing back after the first quarter and with the moderation in local economic growth over the course of the year, inflation stabilised on entering the fourth quarter.

1.11 The *Composite Consumer Price Index* (Composite CPI) rose by an average of 5.3% in 2011, faster than the 2.4% increase in 2010. Netting out the effects of the Government's one-off measures to give a more accurate indicator of the inflation trend, underlying Composite CPI also rose by 5.3% for 2011 as a whole, compared with the 1.7% increase in 2010. In terms of the quarterly profile, underlying consumer price inflation went up visibly from 3.7% year-on-year in the first quarter of 2011 to 5.0% and 6.1% respectively in the second and third quarters, and slightly further to 6.4% in the fourth quarter. On a seasonally adjusted quarter-to-quarter comparison, underlying inflation recorded increases of 1.8% and 1.7% in the first two quarters, followed by 1.5% and 1.2% in the third and fourth quarters, reflecting the progressive tapering in price pressures towards the year-end.

1.12 The *GDP deflator* rose by 3.4% in 2011, further to the 0.3% increase in 2010, in tandem with the pick-up in domestic prices in the year.

Diagram 1.4 : Inflation went up progressively in 2011 under the influence of both local and external factors



GDP by major economic sector

1.13 The services sector grew solidly in the first three quarters of 2011, albeit tapering in momentum through the quarters. Net output in real terms expanded by 7.4%, 5.1% and 3.9% respectively in the first three quarters of 2011 over a year earlier. Among the major sectors, import and export trade saw the most visible deceleration along with the slowdown in global and regional trade flows. Concurrently, the transportation and storage sector also saw less rapid growth in the second and third quarters than in the first quarter. Financing and insurance, which grew robustly at double-digit rates in the first two quarters, moderated somewhat in the third quarter on the back of a worsening global financial environment. On the other hand, the professional and business services sector sustained solid growth through the three quarters, underpinned by vibrant commercial activities, while accommodation and food services even picked up somewhat in the third quarter, thanks to buoyant local consumption and inbound tourism. Yet real estate activity, mainly reflecting the net output of private sector developers and property agency activity, declined in all three quarters. Meanwhile, output in the manufacturing sector saw only meagre growth, while the construction sector decelerated markedly in the second and third quarters, largely dragged by the slack in private building and construction activity.

**Table 1.3 : GDP by economic activity^(a)
(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>	<u>Q3</u>
Manufacturing	3.5	0.4	2.2	5.4	5.7	3.5	2.0	0.2
Construction	15.4	2.1	20.9	19.6	19.5	23.4	-0.3	1.2
Services ^(b)	7.0	8.1	6.2	7.2	6.4	7.4	5.1	3.9
Import/export, wholesale and retail trades	16.7	22.3	19.3	17.5	10.5	15.4	7.1	4.9
Import and export trade	16.6	23.3	20.0	17.4	9.3	15.1	5.0	2.9
Wholesale and retail trades	17.0	18.1	16.1	17.3	16.5	16.8	17.7	15.7
Accommodation and food services	9.5	10.8	12.7	9.6	5.3	0.9	0.9	2.1
Transportation, storage, postal and courier services	6.1	4.6	9.4	6.4	4.3	9.2	4.5	6.0
Transportation and storage	5.5	4.0	8.9	5.9	3.5	9.0	4.0	6.1
Postal and courier services	17.8	19.1	20.0	17.1	15.6	13.7	13.3	4.4
Information and communications	1.5	1.7	1.5	2.1	0.8	2.0	1.5	0.8
Financing and insurance	7.3	8.8	1.3	5.5	13.3	12.2	12.9	8.3
Real estate, professional and business services	2.3	2.7	1.4	0.9	4.3	2.3	1.3	0.9
Real estate	-1.4	-1.2	-2.7	-3.1	1.3	-0.6	-3.1	-4.2
Professional and business services	6.1	7.1	5.5	4.8	6.9	5.1	5.5	5.5
Public administration, social and personal services	1.8	2.7	1.5	2.5	0.7	2.3	2.4	2.5

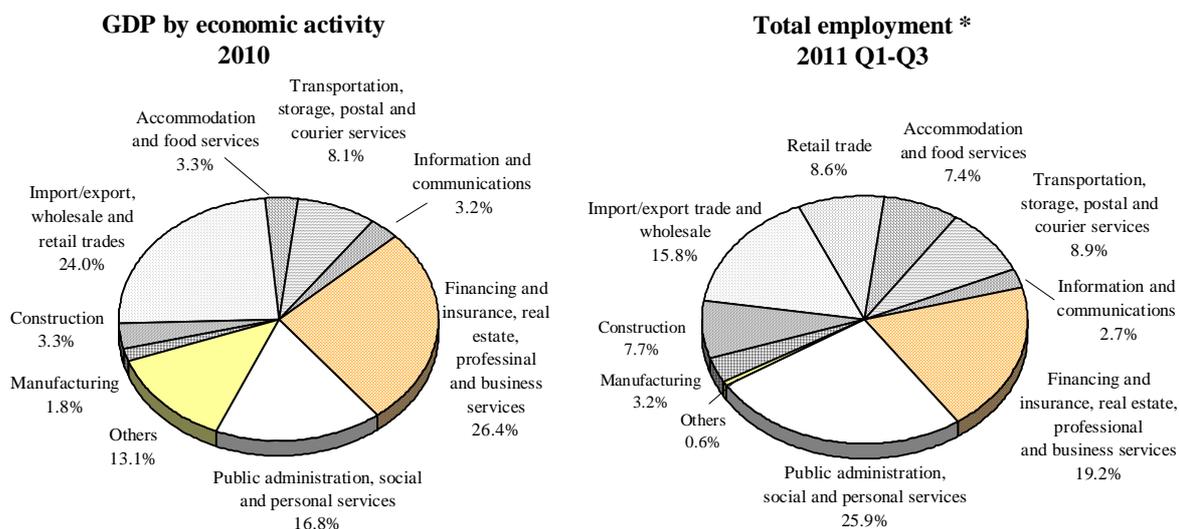
Notes : Figures are subject to revision later on as more data become available.

(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.

1.14 The services sector is the mainstay of Hong Kong's economy, accounting for 92.9% of GDP in 2010 and 88.5% of total employment in the first three quarters of 2011. Being the key driver of overall economic growth, the services sector is where Hong Kong's competitive advantage lies, and plays an increasing role in the deepening integration with the Mainland and strategic development of the nation. Hong Kong will continue to strengthen its position as a global financial centre and regional business hub, by increasing the competitiveness of the four pillar industries, developing further the six industries where it enjoys clear advantages⁽³⁾ (See **Box 1.2** for the latest statistics on the six industries in 2010), and by the continued upgrading of its infrastructure and human capital. On the latter, it is worth noting that the proportion of the local workforce with tertiary education attainment increased steadily from 30.3% in 2006 to 33.8% in 2011.

Diagram 1.5 : Services sector remains the key driver of the economy



Note : (*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2011 are averages for the first three quarters of the year.

Box 1.2

Economic contribution of the Six Industries (an update)

In 2009, the Government accepted the recommendations of the Task Force on Economic Challenges for the development of Six Industries where Hong Kong enjoys clear advantage. They are cultural and creative industries, medical services, education services, innovation and technology, testing and certification services, and environmental industries. To track the performance of the Six Industries, statistics on their value added and employment size will be useful. Since the Six Industries straddle different industries as defined by the current industrial classification⁽¹⁾, the Census and Statistics Department (C&SD) has developed a statistical framework specifically for measuring the economic contribution and employment of the Six Industries, by taking into account relevant policy objectives, international guidelines and feedback from stakeholders. This article provides a further update to **Box 1.2** of the *2010 Economic Background and 2011 Prospects* and summarises the latest statistics released by the C&SD on the direct economic contribution (in terms of value added) and employment in respect of the Six Industries for 2010.

The value added of the Six Industries grew notably further in 2010, by 15.6% over 2009 to \$143.8 billion, alongside the global economic rebound and the full-fledged local economic upturn in that year (*Table 1*). Notably, this is way above the already very strong growth of 9.8% in nominal terms for the overall Hong Kong economy in 2010⁽²⁾. As a result, they outperformed the overall economy by a clear margin with their combined direct contribution to GDP rising further to 8.4% in 2010 from 8.0% in 2009, a manifestation of their strong relative competitiveness.

As for employment, the Six Industries together employed 407 750 persons in 2010, representing an appreciable increase of 3.0% from 395 760 persons in 2009 (*Table 2*), also far outstripping the 0.5% employment growth for the overall economy. As a result, the contribution of the Six Industries to total employment increased from 11.3% in 2009 to 11.6% in 2010.

Among the Six Industries, the value added of cultural and creative industries posted the biggest growth in 2010, in contrast to the zero growth in 2009, backed by broad-based increases across the component industries, in particular software, computer games and interactive media; advertising; art, antiques and crafts; television and radio. Environmental industries continued to see double-digit growth in its value added, attributable to increased businesses in waste management and environmental engineering. The value added of innovation and technology likewise picked up notably, thanks to increased business spending on product innovation as well as higher education research and development activity. Growth in the value added of medical services and education services also grew markedly in 2010. The value added of testing and certification recorded a modest growth on continued demand for medical testing as well as other testing services amid tighter regulatory requirements in overseas markets.

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

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

Box 1.2 (Cont'd)

In terms of employment, environmental industries expanded the most in 2010, followed by education services, innovation and technology, medical services, and cultural and creative industries. Testing and certification services however saw a small decline, although their share in total employment remained stable.

Table 1: Value Added of the Six Industries ^{(a) (b)}

<u>Value added at current prices</u>	2008	2009	2010	% change of	
	<u>\$Mn</u>	<u>\$Mn</u>	<u>\$Mn</u>	<u>2009 over 2008</u>	<u>2010 over 2009</u>
1. Cultural and creative industries	63,275 (4.0%)	63,266 (4.1%)	77,683 (4.6%)	*	+22.8
2. Medical services	22,185 (1.4%)	24,156 (1.6%)	26,040 (1.5%)	+8.9	+7.8
3. Education services	15,809 (1.0%)	16,517 (1.1%)	17,542 (1.0%)	+4.5	+6.2
4. Innovation and technology	10,283 (0.6%)	10,733 (0.7%)	11,783 (0.7%)	+4.4	+9.8
5. Testing and certification services	4,499 (0.3%)	5,081 (0.3%)	5,157 (0.3%)	+12.9	+1.5
6. Environmental industries	4,178 (0.3%)	4,697 (0.3%)	5,603 (0.3%)	+12.4	+19.3
Six Industries^(c)	120,229 (7.5%)	124,450 (8.0%)	143,808 (8.4%)	+3.5	+15.6
GDP^(d)	1,592,897	1,550,851	1,702,966	-2.6	+9.8

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

- (a) This set of estimates reflects the direct economic contribution of the Six Industries in private sector.
 - (b) Strictly speaking, some of the Six Industries are service domains straddling different industries rather than individual industries. For example, innovation and technology can exist in any organisations and in any industries. But the term “industry” is still used to denote the aggregate of the economic activities concerned for the sake of simplicity and easy general understanding.
 - (c) The above total for the Six Industries in the private sector is only a simple summation of the figures for individual industries. Users should note that there is some overlapping among the Six Industries.
 - (d) To facilitate comparison of contribution of the Six Industries in the private sector as percentage of nominal GDP, GDP in terms of total gross value added is used. This is slightly different from the GDP figure commonly used, which is compiled at market price basis.
- (*) Change of less than 0.05%.

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

Box 1.2 (Cont'd)**Table 2: Employment in the Six Industries^{(a)(b)}**

<u>Employment</u>	<u>2008 Number</u>	<u>2009 Number</u>	<u>2010 Number</u>	<u>% change of</u>	
				<u>2009 over 2008</u>	<u>2010 over 2009</u>
1. Cultural and creative industries	191 260 (5.4%)	188 250 (5.4%)	189 430 (5.4%)	-1.6	+0.6
2. Medical services	71 040 (2.0%)	72 750 (2.1%)	74 450 (2.1%)	+2.4	+2.3
3. Education services	56 840 (1.6%)	62 200 (1.8%)	66 540 (1.9%)	+9.4	+7.0
4. Innovation and technology ^(c)	26 090 (0.7%)	27 470 (0.8%)	28 860 (0.8%)	+5.3	+5.1
5. Testing and certification services ^(d)	12 420 (0.4%)	12 680 (0.4%)	12 390 (0.4%)	+2.1	-2.3
6. Environmental industries	31 270 (0.9%)	32 410 (0.9%)	36 080 (1.0%)	+3.6	+11.3
Six Industries^(e)	388 920 (11.0%)	395 760 (11.3%)	407 750 (11.6%)	+1.8	+3.0
Total employment^(f)	3 521 400	3 486 900	3 503 000	-1.0	+0.5

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

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

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

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

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

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

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

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

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

Some highlights of economic policy

1.15 Following the strong economic upturn in 2010 and given the challenges as perceived in early 2011, the macroeconomic policy focus over the past year had been fighting inflation and containing asset market bubble risk. On fighting inflation, a series of relief measures were unveiled in the 2011-12 Budget and the 2011-12 Policy Address with a view to alleviating the impact of rising inflation on the lower-income people. The Government also strived to ease the domestically generated price pressure by forestalling asset market exuberance, preventing excessive credit growth, and pursuing a prudent fiscal policy.

1.16 Specifically on ensuring the stable development of the property market and maintaining macroeconomic stability, the Government stepped up efforts in increasing land supply and implementing macro-prudential measures. The Hong Kong Monetary Authority enhanced its monitoring of banks' business plans and funding strategies, and tightened on mortgage lending in order to strengthen risk management and safeguard the stability of the local banking system. This would build in a sufficiently large buffer should the global financial conditions reverse.

1.17 The global economic environment had turned more uncertain over the course of 2011. In face of this challenging environment, achieving long-term and sustainable growth is all the more important. The Government has adopted a multi-pronged strategy to strengthen and diversify our growth engines, viz. continuing to develop the traditional four pillar industries and six industries where we enjoy clear advantages, deepening integration with the Mainland and further developing the renminbi (RMB) business, fostering and broadening our economic ties with emerging and new markets, and investing in infrastructure and human capital to enhance Hong Kong's productive capacity and long-term competitiveness. Some of the specific measures and developments are summarised below:

- On economic integration with the Mainland, the National 12th Five-Year Plan was promulgated in March 2011, with a chapter dedicated to Hong Kong's positioning in the national development strategy. In addition to consolidating its position as an international financial, trade and shipping centre, Hong Kong will continue to nurture emerging industries and develop the six industries where it enjoys clear advantages. Subsequently, cooperation with the Mainland was further strengthened with the signing of Supplement VIII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) on 13 December 2011. The new

supplement brought the total number of covered service sectors up to 47.

- On the development of RMB business, Vice-Premier Li Keqiang unveiled a package of measures to boost Hong Kong's role as an RMB offshore centre and global financial centre during his visit in August. These include, among others, launching exchange-traded funds for Mainlanders to invest in Hong Kong stocks, allowing the repatriation of yuan via RMB qualified foreign institutional investors (RQFIIs) and foreign direct investment (FDI), and expanding RMB-denominated bond issuance in Hong Kong. The measures will broaden the scope of the offshore RMB market in Hong Kong and expand the channels for the flow and circulation of RMB funds between Hong Kong and the Mainland. The RMB business continued to grow at a rapid pace. Total RMB deposits in Hong Kong amounted to RMB627.3 billion at end-November, almost double the level at end-2010. Total RMB remittance for cross-border trade settlement handled by banks in Hong Kong likewise surged to RMB1,675.9 billion in the first eleven months of 2011, 4.5 times the level recorded for 2010 as a whole, a manifestation of the rapid development of Hong Kong as the premier offshore RMB business centre for the Mainland.
- On regional integration and developing overseas markets, Hong Kong strengthened economic relations with Shenzhen to raise the productivity of the twin cities as a whole. The Qianhai project entered the implementation stage in September with the establishment of the Inter-ministries Joint Conference on the Development of Qianhai Area in Shenzhen. Agreements were signed to enhance collaborations on various fronts, including legal services and developing of the Lok Ma Chau Loop. In addition, the Hong Kong Economic, Trade and Cultural Office was established in Taiwan on 20 December 2011. As for overseas markets, a free trade agreement was signed with the European Free Trade Association (FTA) in June, the first FTA with European economies. Linkages with emerging markets continued to deepen, with the value of Hong Kong's merchandise exports to India, Brazil and Russia surging by 26%, 23% and 18% respectively in 2011.

1.18 In sum, the Government will continue to provide the most favourable conditions for market forces to propel the economy forward. These include nurturing talents, building on infrastructure, maintaining our sound institutions as well as financial and macroeconomic stability, in addition to expanding our opportunities through broadening the industry base and exploring new markets. The strategy has served us well in navigating through the short-term challenges and positioning for long-term growth, as confirmed by

Hong Kong's ranking as the world's most competitive economy by the Institute for Management Development (IMD) in Switzerland, side by side with the US. While economic development is the way to raise people's standard of living, the Government is also committed to improving people's quality of living, specifically through spending on education, health, the environment, and social welfare. Indeed, the 2011-12 Policy Address laid out specific measures to tackle the social issues of housing, the wealth gap and the ageing population, with a view to enhancing social development.

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) The four traditional pillar industries refer to financial services, tourism, trading and logistics, and producer and professional services. The six industries where Hong Kong enjoys clear advantages refer to medical services, education services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries.

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2012 AND THE MEDIUM TERM

Summary

- *The global economy has entered a dangerous phase, with the growth prospects in many advanced economies remaining dim, while only limited progress has been achieved so far towards the resolution of the sovereign debt crisis in the eurozone and fiscal fragility in the US. Also worryingly, there are now signs that funding difficulties faced by some European governments are spreading to the banking sector and the wider economy, which, if escalated further, could lead to potentially damaging repercussions to the global financial markets. Emerging market economies, though having relatively sound fundamentals, can hardly stay unscathed from the slack in the advanced economies.*
- *Given the difficult external trading environment, the outlook for Hong Kong's merchandise trade in 2012 is bleak. Exports of services should nevertheless fare better, underpinned by the expected vibrancy of inbound tourism as well as cross-border financing and commercial activities.*
- *Locally, the notable job and income growth over the past year or so should help underpin a relatively better performance of local consumption spending going forward. However, consumer sentiment will also hinge on labour market conditions and asset market performance down the road in face of the worsening external environment. As for investment, machinery and equipment acquisition will likely suffer more due to its higher sensitivity to the business cycle, while building and construction should continue to be supported by the sustained high level of public sector infrastructure works.*
- *Notwithstanding the cushion rendered by a resilient domestic sector against the expected setback in external trade, the Hong Kong economy is forecast to post a rather muted growth at 1-3% in 2012. This sub-trend growth projection is subject to an unusually wide range of uncertainties, depending on how the eurozone sovereign debt crisis will unfold and whether it will escalate into a full-blown crisis that brings about a global recession.*
- *With the recent easing in global food and commodity prices and the expected economic slowdown, inflation can be expected to come down over the course of 2012. The underlying consumer price inflation is forecast at 4.0% in 2012.*

- *The medium term prospects for the Hong Kong economy should remain bright, although the degree of uncertainty in the external environment would likely stay elevated. Hong Kong will continue to ride on the growing economic prowess of the region and deepen its integration with the Mainland while continuing its stride towards a knowledge-based, high value-added economy. New markets and growth areas will be further explored, and the continued investment in human capital and infrastructure should bolster productivity and ensure sustainable economic growth in the longer run. The trend GDP growth rate in real terms is forecast at 4% per annum from 2013 to 2016, and the trend rate of underlying consumer price inflation at 3.5% per annum.*

Major external factors

2.1 Being a small and highly externally-oriented economy, the Hong Kong economy will inevitably be affected by the vicissitudes on the external front through both the trade and financial channels. The intensification of the eurozone sovereign debt crisis since mid-2011 has not only dealt a severe blow to the already fragile recovery in the advanced economies, but also led to a region-wide deceleration in exports and production activities in Asia which are so closely tied to the final consumption demand in the advanced economies. Against this background, the external environment has turned increasingly difficult and is expected to remain highly uncertain in the period ahead, thereby casting a shadow over Hong Kong's economic outlook in 2012.

2.2 So far, credible plans to stabilise the financial situation in Europe are yet to be in place, fuelling mounting uncertainties to the detriment of business and consumer confidence there and severely undermining Europe's economic prospects. The implementation of austerity measures in the European economies will weigh on their economy in the near term. Meanwhile, the US economy will have to contend with onerous structural problems including the fragile fiscal positions, persistently high unemployment, household deleveraging, and depressed housing market. Given these considerations, the ultra-loose monetary stance in the advanced economies will likely persist throughout 2012, resulting in a continuation of abundant global liquidity that could add to financial and currency market gyrations. Protectionist sentiments in the advanced economies may also rise further given their subdued economic performance.

2.3 In view of the fragility of the advanced economies and the rapidly evolving eurozone sovereign debt crisis, Asian and other emerging economies are deemed for further growth moderation in 2012, although they can be expected to stay relatively resilient given their sound fundamentals. However, the possibility of a sharper-than-expected slowdown in Asia cannot be underestimated, much depending on how the euro debt crisis would unfold and impact on the global economy. At this juncture, risks to the global economic prospects and hence Hong Kong's export outlook are tilted more towards the downside. The uncertain direction of the US dollar movement, with direct implications on Hong Kong's external competitiveness, will also complicate the situation. No doubt 2012 will be a challenging year for the Hong Kong economy.

Eurozone sovereign debt crisis

2.4 The eurozone sovereign debt crisis, which first broke out in early 2010 upon mounting concern over the fiscal sustainability of several peripheral eurozone economies, has re-intensified distinctly since the second quarter of 2011 and emerged as the biggest threat to the global economy and financial market stability. Of particular concern are the heightened risks of contagion beyond the peripheral economies to the other larger European economies, as manifested by the intense pressures faced by government bond markets across the region and a series of negative credit rating actions on various European economies (**Box 2.1**). At the same time, the European banking system has shown signs of increasing strains, stemming from the broad-based economic slowdown in Europe, exposures to the troubled sovereign debts, unease over inter-bank lending, and also the need for many banks to replenish their capital base as agreed at the October 2011 EU Summit. The tighter credit conditions, together with the implementation of austerity measures in many European countries, would likely exacerbate the downswing in their economies.

Box 2.1

Summary of major events and credit rating actions pertinent to euro debt crisis*

2011

- 4 Aug European Central Bank (ECB) re-activated the exceptional 6-month liquidity facility and Securities Markets Programme
- 5 Aug Italy announced a €45.5 billion austerity package
- 7 Aug ECB agreed to buy Spanish and Italian bonds
- 9 Aug Greece introduced a ban in short-selling shares on Athens bourse for two months
- 12 Aug France, Italy and Spain banned short-selling shares of banks and financial companies temporarily while Belgium's ban was for an indefinite period
- 16 Aug The Franco-German summit rejected eurozone bond issuance and expansion of European Financial Stability Facility (EFSF) size
- 18 Aug Spanish government announced new austerity measures worth €5 billion
- 24 Aug French government announced a €12 billion austerity package to meet its pledge to cut deficit
- 7 Sep German Federal Constitutional Court ruled that the eurozone bailout was legal
- 14 Sep Italy passed an enlarged €54 billion austerity package
- 15 Sep ECB decided, in coordination with the Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank, to conduct three US dollar liquidity-providing operations with maturity of three months through year-end
- 19 Sep S&P cut Italy's rating from A+ to A, outlook negative
- 27 Sep Greece approved a new property tax to boost revenue
- 4 Oct Moody's cut Italy's rating from Aa2 to A2, outlook negative
- 6 Oct ECB announced to spend €40 billion on covered bonds starting November and offer banks two unlimited loans of 12 and 13-month durations
- 7 Oct Fitch cut Italy's rating from AA- to A+, outlook negative; Spain's rating from AA+ to AA-, outlook negative; Moody's put Belgium on negative watch
- 13 Oct Portugal announced more austerity measures; S&P cut Spain's rating from AA to AA-, outlook negative
- 14 Oct Expansion of EFSF was ratified by all 17 eurozone member states
- 18 Oct Moody's cut Spain's rating from Aa2 to A1, outlook negative
- 20 Oct Greece passed a bill on additional austerity measures, including pay and staff cuts in the civil service, as well as pension cuts and tax hikes
- 26 Oct European leaders agreed on a rescue plan which included bank recapitalisation, higher voluntary haircut for Greek debt, leveraging the EFSF, etc., but details have yet to be fully worked out
- 31 Oct Greek Prime Minister, Mr. Papandreou, called referendum on the second bailout package and effectively euro membership
- 3 Nov ECB cut its main refinancing rate from 1.5% to 1.25%; Greek government scrapped its plan for a referendum on Greece's euro membership
- 4 Nov G20 failed to agree on the ways to boost International Monetary Fund (IMF) or EFSF resources, but Italy agreed to accept IMF surveillance of its fiscal and structural reforms;
- 6 Nov Greek Prime Minister, Mr. Papandreou, agreed to resign after narrowly won a confidence vote
- 7 Nov France announced €7 billion of new austerity measures to offset the lower GDP growth forecast in order to meet its deficit reduction target
- 8 Nov Italian Prime Minister, Mr. Berlusconi, announced to resign after losing parliamentary majority
- 9 Nov A joint EU/IMF taskforce started monitoring the Italian economy as agreed in the G20 meeting
- 12 Nov Italy passed new austerity measures

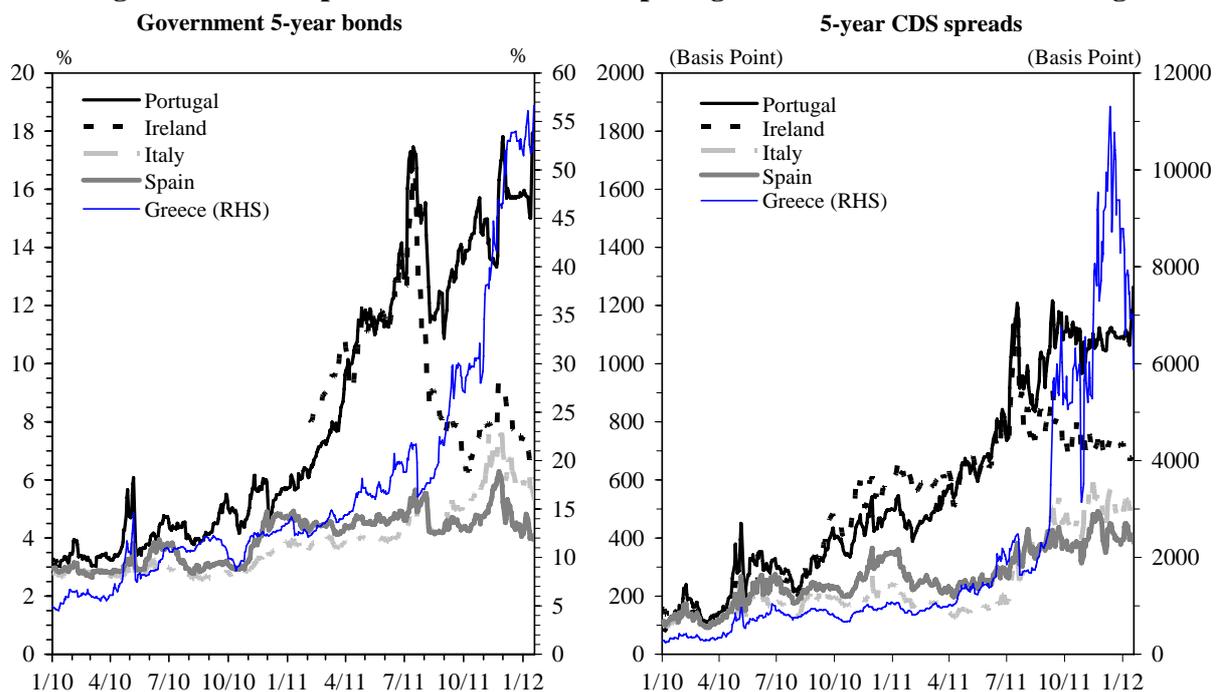
Box 2.1 (Cont'd)

Mid Nov	The new Greek, Italian and Spanish governments were elected or sworn in
22 Nov	IMF approved reforms to bolster flexibility and scope of its lending toolkit, including a six-month liquidity line to countries at risk from the eurozone crisis
23 Nov	European Commission (EC) proposed tighter controls over eurozone members' budgets, alongside options for a common eurozone bond market
24 Nov	Fitch downgraded Portugal's rating from BBB- to BB+ (junk), outlook negative
25 Nov	S&P cut Belgium's rating from AA+ to AA, outlook negative
28 Nov	Moody's warned that the European debt crisis had rapidly escalated, putting the ratings of all European sovereigns under threat for the first time
29 Nov	Eurozone finance ministers approved enhancements to the EFSF's capacity through leveraging and planned to create certificates that could guarantee up to 30% of new issues from troubled eurozone governments
30 Nov	The Fed and five other major central banks took actions, including the lowering of interest rate charged on dollar liquidity swap lines, to support global financial markets
4 Dec	Italian government announced new budget plan with a net fiscal tightening worth €20 billion
5 Dec	Ireland unveiled new spending cuts of €1 billion to shore up public finances; S&P placed the ratings of 15 eurozone countries on negative watch
6 Dec	Belgium's new government sworn in; S&P placed the AAA rating on EFSF on credit watch negative
8 Dec	ECB cut its main refinancing rate from 1.25% to 1% and unveiled a raft of new measures, such as opening up an unprecedented 3-year refinancing tender, reducing reserve requirements from 2% to 1%, and loosening certain collateral requirements; European Banking Authority released bank recapitalisation plan with an aggregated shortfall of €14.7 billion
9 Dec	EU Summit worked out some steps to support the sovereigns and push for tighter control over national budgets, such as speeding up the establishment of European Stability Mechanism to July 2012, considering the provision of up to €200 billion additional resources for IMF, and imposing automatic sanctions against countries with an annual structural deficit larger than 0.5% of GDP
12 Dec	Major ratings agencies indicated that the proposed actions of the EU summit were not adequate to resolve the sovereign debt problems, and warned to review the region's credit rating
16 Dec	Moody's downgraded Belgium's rating from Aa1 to Aa3, outlook negative; Fitch revised France's outlook to negative and put Belgium, Spain, Slovenia, Italy, Ireland, and Cyprus on negative watch
19 Dec	Eurozone agreed to boost IMF resources by €150 billion to ward off the debt crisis, as compared to its original target of €200 billion
Late Dec	France and Italy passed new budget plans
30 Dec	Spanish government indicated that the public deficit for 2011 would reach 8% of GDP and announced new spending cuts and tax hikes to tackle the shortfall
<u>2012</u>	
13 Jan	S&P cut France's and Austria's ratings from AAA to AA+ and downgraded 7 others, including Spain (A), Italy (BBB+) and Portugal (BB, junk). The rating outlook for all eurozone countries, except Germany and Slovakia, remained negative
16 Jan	S&P downgraded EFSF's long-term rating from AAA to AA+, outlook developing

Note: (*) Please see **Box 2.1** of the *Half-yearly Economic Report 2011* for earlier developments.

2.5 The European Central Bank (ECB) has taken a series of measures in order to stabilise the financial system, including notably the provision of unprecedented low-cost, long-term funding to financial institutions (known as “Long-Term Refinancing Operations”) and purchases of sovereign debts of eurozone countries through its Securities Markets Programme. The joint central bank actions led by the Federal Reserve in late November 2011 also helped ease the liquidity strain facing the European financial institutions somewhat. In addition, EU leaders have put forth a variety of initiatives to restore fiscal discipline in the eurozone (for details, see *Box 2.1*). Yet, despite all these efforts, there is still no clear-cut solution to the euro debt crisis, which is deeply rooted in structural problems upon years of lax fiscal management and over-spending on cheap credit. Indeed, government bond yields and the associated credit default swap (CDS) spreads for some debt-stricken eurozone countries remain worryingly high, despite some ease-backs in the more recent period, reflecting a high level of fluidity and fragile market confidence over the European debt situation.

Diagram 2.1 : Risk premiums on some European government debt scaled new highs



2.6 The consequences of the eurozone sovereign debt crisis can be dire. Even if the crisis can eventually be contained, it will likely linger for some time and significantly dent European consumer and business sentiments. Now that the EU economy is already on the brink of recession, the debt crisis looks set to pose a substantial drag on global economic growth in 2012 and, consequently, Hong Kong’s export prospects. In the worst case scenario where the debt crisis escalates into a full-blown crisis, Europe could be pushed into a deep and protracted recession, resulting in even more severe repercussions to the global

economy. Should this also trigger negative disorderly chain reactions across the global financial and banking systems, the impact on the global economy could be devastating, resembling a replay of the global financial crisis of 2008.

2.7 As an international financial centre, Hong Kong will inevitably be subject to fluctuations in global financial and credit conditions, which could in turn impact on the real sectors of the Hong Kong economy. Although the direct exposure of Hong Kong's banks to PIIGS debts (including Portugal, Ireland, Italy, Greece, and Spain) is very limited, representing less than 1% of the banking sector's total external claims at end-September 2011, the high degree of interconnectedness of the global banking systems means that should the euro debt situation escalate into a full-blown crisis, the possible repercussions through the financial channels around the world cannot be taken lightly.

Global economic outlook

2.8 According to the International Monetary Fund (IMF), the global economy has entered a dangerous phase, as the fragile recovery in the advanced economies has lost steam and yet the room for policy manoeuvre is limited. Interest rates in many advanced economies have already approached the zero bound, while the boosting effects of further monetary tools on real economic activities are questionable. Further fiscal stimulus measures are also not feasible given the already precarious states of public finance in the major advanced economies. Sluggish demand from the advanced economies will in turn dampen the growth momentum of the Asian and other emerging economies.

2.9 In the US, while the economy gathered some strength in the second half of 2011, the conditions of self-sustaining recovery have yet to be in place against the backdrops of persistently high unemployment, depressed housing market and the ongoing process of de-leveraging. On top of this, the US economic outlook is further clouded by the potential spill-over of the European sovereign debt crisis to the US financial markets, the possibility of premature withdrawal of accommodative fiscal policies and a more challenging global trading environment. As economic growth is still not fast enough to bring down the high unemployment rate, the Federal Reserve has pledged to keep the policy interest rate at the current ultra-low level at least through mid-2013, and introduced "operation twist" to lengthen the average maturity of its asset holding with a view to lowering longer-term interest rates. The effectiveness of the Federal Reserve's actions in resuscitating growth, however, remains to be seen.

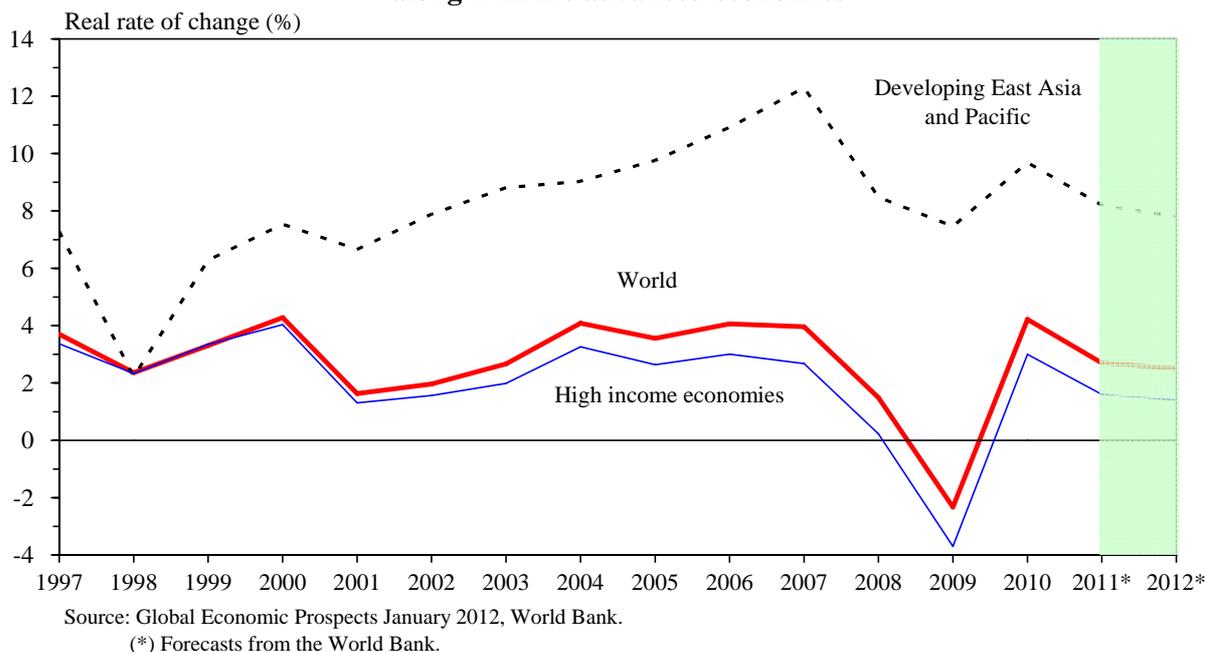
2.10 The European economic outlook is bleak, as detailed in paragraphs 2.4 to 2.6. While the various problems associated with the unsustainably high debt levels in many eurozone countries are yet to be fully addressed, the persistently high unemployment across Europe will also continue to hinder the recovery of domestic demand. The eurozone economy is generally expected to slip into recession in 2012.

2.11 Japan was severely hit by the mega earthquake and tsunami in March 2011. While the economy rebounded in recent quarters as exports recovered alongside the restoration of the supply chain, private domestic demand remained fragile amid the still weak consumer sentiment, and the economy is still mired in deflation. Nonetheless, increased spending on post-disaster reconstruction work should provide some support to economic growth down the road. While the Japanese economy should continue to recover this year, the fluid external environment and the prevailing yen strength are posing significant challenges to Japan's export prospects.

2.12 In sum, given the marked deterioration of the global economic situation in recent months, the advanced economies as a whole will at best see subdued growth in 2012. There will be significant downside risks, depending on how the euro debt crisis would evolve. Indeed, the recovery of the advanced economies will likely be a long drawn-out process, given their fragile fundamentals.

2.13 In contrast, economies in Asia, particularly the Mainland, India and other emerging economies, maintained robust growth in 2011 thanks to their sound fundamentals and relatively robust domestic demand. Going into 2012, however, the Asian economies are expected to decelerate alongside the slowing global trade flows consequential to faltering demand from advanced economies. The Mainland will remain the major growth engine, with economic growth in 2012 forecast at 8.4% on average by private sector analysts. Indeed, if the emerging Asian economies as a whole can exhibit a similar degree of resilience as that during the 2008 global financial crisis, they should be able to cushion part of the negative impacts brought about by the lull in the advanced economies.

Diagram 2.2 : The Asian region will slow down along with the advanced economies



2.14 Specifically on the Mainland economy, growth momentum is expected to taper in 2012 amid the increasingly difficult external trading environment and the cooling off of the domestic asset markets. This should nevertheless not be a totally bad development, as some growth moderation to a more sustainable pace is conducive to maintaining the overall macroeconomic and price stability. In addition, the recent retreat of inflationary pressures and the solid fiscal positions of the central government should provide ample room for policy fine-tuning to support growth, should that prove necessary. As such, barring any unforeseen abrupt shocks to the global economy, a sharp deceleration of the Mainland economy does not seem likely. Indeed, the relative resilience of the Mainland economy should not only serve as an important stabilising force for the global economy on the whole, but also render firm support to the Hong Kong economy in the turbulent period ahead.

2.15 That said, reflecting the drags from the advanced economies even in the absence of a sharp intensification of the euro debt crisis, the global economy should conceivably only expand at a modest pace in 2012, thereby posing challenges to world trade and hence Hong Kong's external sector. In recognition of the mounting concern over the eurozone debt crisis and the downside risks it entail, the World Bank, in its latest Global Economic Prospects published in mid-January 2012, has marked down sharply its 2012 global growth forecast, from 4.4% to 3.4%. The IMF has also indicated recently that in face of increasing downside risks, the global economic forecast in its World Economic Outlook Update to be released in late January 2012 would be marked down further.

Table 2.1 : Growth forecasts for major economies in 2012

	2012			
	<u>2011*</u> (%)	<u>IMF*</u> (%)	<u>World Bank⁺</u> (%)	Private sector forecast[^] (%)
World (PPP ^{##} weights)	4.0	4.0	3.4	-
Advanced economies	1.6	1.9	1.4	-
US	1.5	1.8	2.2	2.2
Euro area	1.6	1.1	-0.3	-0.3
Japan	-0.5	2.3	1.9	1.9
Newly Industrialised Asian Economies [@]	4.7	4.5	-	-
Emerging market and developing economies	6.4	6.1	5.4	-
Developing Asia	8.2	8.0	-	-
Mainland China	9.2 [#]	9.0	8.4	8.4
India	7.8	7.5	6.5	7.3
Middle East and North Africa	4.0	3.6	2.3	-

Notes : (*) World Economic Outlook, IMF, September 2011. The IMF will update the forecasts in late January 2012.
 (+) Global Economic Prospects, World Bank, January 2012
 (^) Average forecast as in January 2012.
 (-) Not available.
 (#) Actual figures.
 (@) Includes Hong Kong, Korea, Singapore, and Taiwan.
 (##) PPP refers to purchasing power parity.

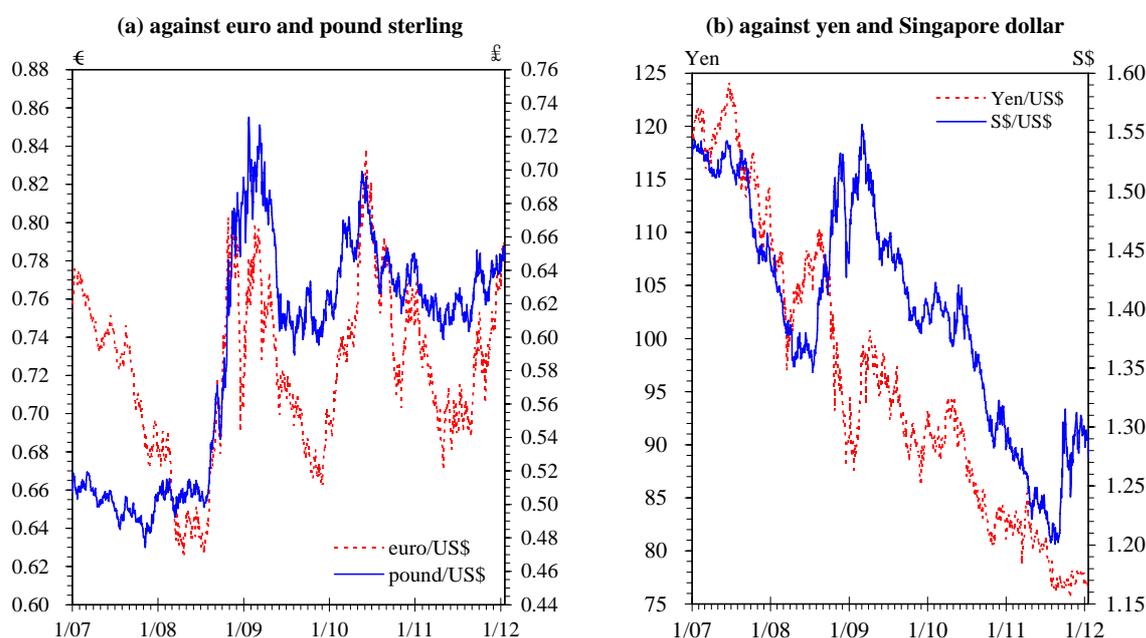
Exchange rates and price competitiveness

2.16 During most of 2011, the Hong Kong dollar weakened further, alongside the US dollar under the linked exchange rate system, against other major currencies. Notwithstanding some bounce-back in tandem with the US dollar in the latter part of the year, the nominal trade-weighted effective exchange rate index of the Hong Kong dollar still fell by 2.4% in December 2011 from a year earlier. The direction of exchange rate movements in 2012, as usual, is subject to considerable uncertainty.

2.17 In view of the relatively favourable assessment of the US economy by the Federal Reserve of late, some analysts believe that the US dollar should receive some support as the likelihood of the Federal Reserve launching another round of quantitative easing in the near term is not particularly high. Furthermore, risk aversion arising from the rapidly evolving sovereign debt

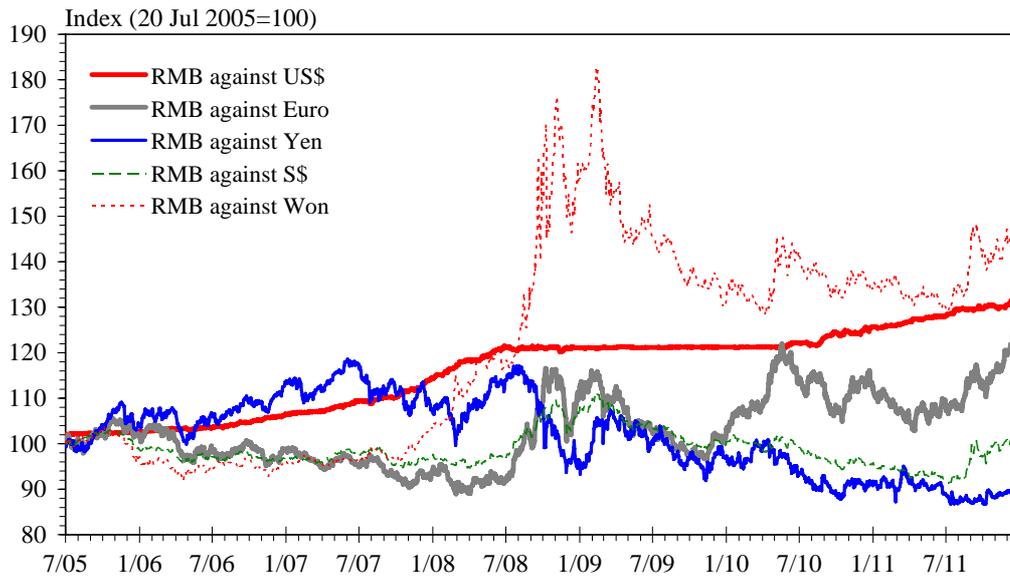
crisis in the eurozone may lead to capital flights to safety assets, including the US Treasury securities, thereby also underpinning the US dollar. On the other hand, the Federal Reserve has committed itself to maintaining the ultra-low federal fund target rates at least through mid-2013. It further indicated the readiness to adopt additional policy tools if the US economy were to deteriorate further, thereby adding uncertainty to the US dollar exchange rate movement. As far as Hong Kong is concerned, the exchange rate factor is likely to feature less prominently compared with the income factor in the major trading partners in determining Hong Kong's export growth prospects under a scenario of sagging global trade flows.

Diagram 2.3 : The foreign exchange market is likely to remain highly volatile in 2012



2.18 Given Hong Kong's close economic relationships with the Mainland, the movements of the renminbi is also a key factor affecting the performance of Hong Kong's external sector, including both trade in goods and services. While the renminbi had appreciated modestly against the US dollar since mid-June 2010, by a cumulative 8.5% as at end-December 2011, the market generally expects that the renminbi will not appreciate rapidly versus the US dollar in 2012, against the backdrop of the weak global trading environment. Going forward, the Mainland authorities are widely expected to proceed with the exchange rate regime reform in a controlled and gradual manner, avoiding significant fluctuations in the exchange value of the renminbi. A relatively stable renminbi can help reduce the exchange rate uncertainty facing Hong Kong's companies given the important role played by Mainland operations in the integrated regional supply chains and the increasing use of renminbi for trade settlements.

Diagram 2.4 : A relatively stable renminbi will help reduce uncertainty facing Hong Kong's traders



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

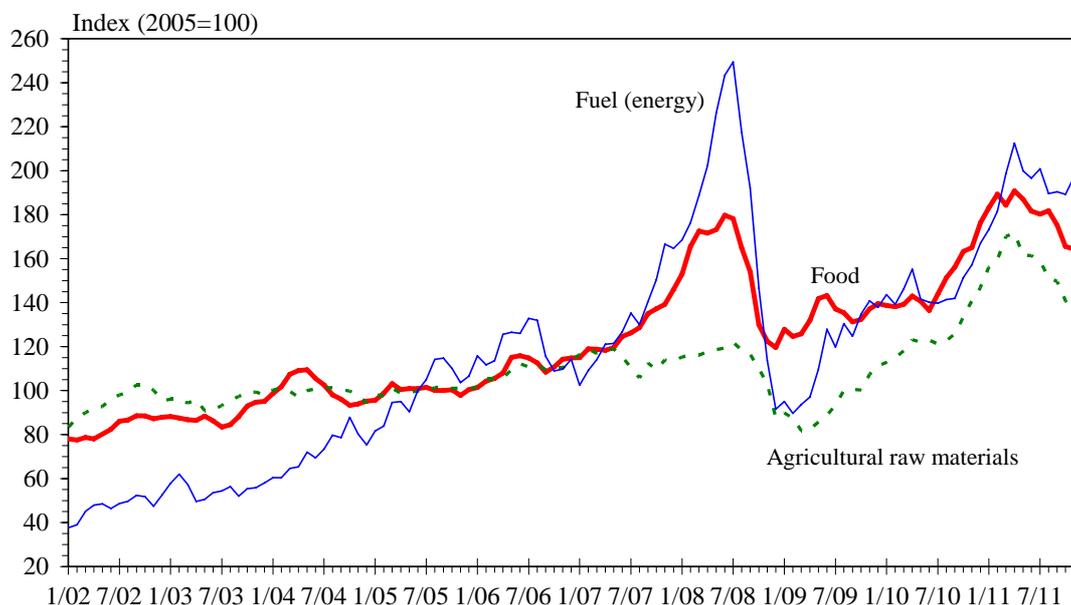
World inflation and global commodity prices

2.19 Inflation, having risen across emerging markets over the past year or so, showed signs of easing towards end-2011, thanks to a retreat in global food and commodity prices. A slower global growth momentum also contributed to receding upward price pressures in advanced and emerging markets alike. In fact, sustaining economic growth momentum has replaced inflation fighting as the top policy priority in some of the Asian economies. Yet, the extremely loose global monetary conditions will continue to threaten price stability in the period ahead.

2.20 Of particular note has been the recent ease-back in global commodity prices, against the backdrop of slowing global economic momentum. Many global commodity prices, including those of food, energy, agricultural raw materials, industrial materials and metals, showed some downward corrections in the latter half of 2011, although their average levels in 2011 were still distinctly higher than a year earlier. The slower pace of increase in global food prices is a positive development for consumer price inflation in Asian economies, given the relatively large weighting of food in the household consumption baskets. According to the Food and Agriculture Organisation (FAO) of the United Nations, global food prices surged by an average of 22.8% for 2011 as a whole, yet retreated by 11.3% from the peak in February towards the year-end. Barring unforeseen negative supply shocks, global inflation pressures should recede in 2012, although many of the structural factors in

support of higher commodity prices (e.g. rising population and purchasing power in many emerging market economies) still remain in place and warrant due vigilance.

Diagram 2.5 : Imported inflation expected to ease in 2012 along with the retreat in world commodity prices



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

Major sources of uncertainty

2.21 The level of uncertainty in the external environment is unusually high in 2012. *Firstly*, while pursuing vigorous fiscal consolidation is essential for the advanced economies in clearing the markets' doubts about their longer-term fiscal sustainability, private demand remains fragile and their recovery can be easily derailed by untimely fiscal tightening. Yet, a delay in guiding the public finances of the advanced economies back on a sustainable trajectory would risk undermining market confidence and result in upward pressures on governments' borrowing costs. Financial market volatility may thus remain significant in the period ahead. *Secondly*, it is possible that the evolving eurozone sovereign debt crisis will significantly increase the systemic risks borne by the banking sector, which could potentially lead to a negative feedback loop between credit tightening and deteriorating economic conditions, both within and outside Europe. *Thirdly*, the political disputes in the US over the fiscal issues may re-emerge again in the election year, which could hamper confidence and dim the outlook of the economy further. *Fourthly*, it remains uncertain as to whether emerging markets, those in Asia in particular, have the resilience to tide over a broad-based recession in the advanced economies, given that they are still tightly linked to the business cycles in the advanced economies (**Box 3.1**)

through the trade and financial channels. *Fifthly*, as job creation in the US and Europe is expected to remain slow and sustain unemployment at unacceptably high levels, this can breed protectionist sentiments, casting shadows over the global trading environment. *Sixthly*, whether the geopolitical risks around the Middle East and lately around the Korean peninsula would weigh on regional and global economic developments also needs to be watched over. At this juncture, risks to the global economic outlook for 2012 are decidedly tilted towards the downside. Nevertheless, should Europe's policy leaders step up their efforts further and come up with a comprehensive and credible package to address solvency and liquidity concerns, thereby stemming the sovereign debt crisis, the downbeat global economic sentiment right now should hopefully brighten up somewhat during 2012. There could also be some upside potential if the Mainland and other Asian economies could hold up better than expected in 2012, thereby rendering a more significant driving force to buffer the global economy against the expected lull in the advanced economies.

Outlook for the Hong Kong economy in 2012

2.22 Given the highly externally-oriented nature of the Hong Kong economy, its performance is closely tied to the demand conditions of its major economic partners. The external environment has deteriorated visibly over the course of 2011, with the eurozone sovereign debt crisis emerging as an imminent source of threat to the global economy and with the recovery in the US remaining unsteady. In face of increasing headwinds on the external front, the outlook for Hong Kong's *exports of goods* in 2012 is bleak. To what extent merchandise trade will be undermined hinges crucially on how the euro debt crisis will evolve and spill over to other economies, notably the US, for which Europe is a major trading partner. In any case, even if the debt crisis can be contained without unravelling in a disorderly fashion, the austerity measures required in the debt-stricken countries will pose a heavy drag on demand from Europe to the detriment of Asian exports, including Hong Kong's. Yet many Asian economies have relatively more room for policy manoeuvre, and granting that a full-blown euro debt crisis does not materialise, the Asian markets should provide some cushion to Hong Kong's external sector especially in the latter part of 2012.

Diagram 2.6 : The outlook for Hong Kong's exports of goods in 2012 is bleak

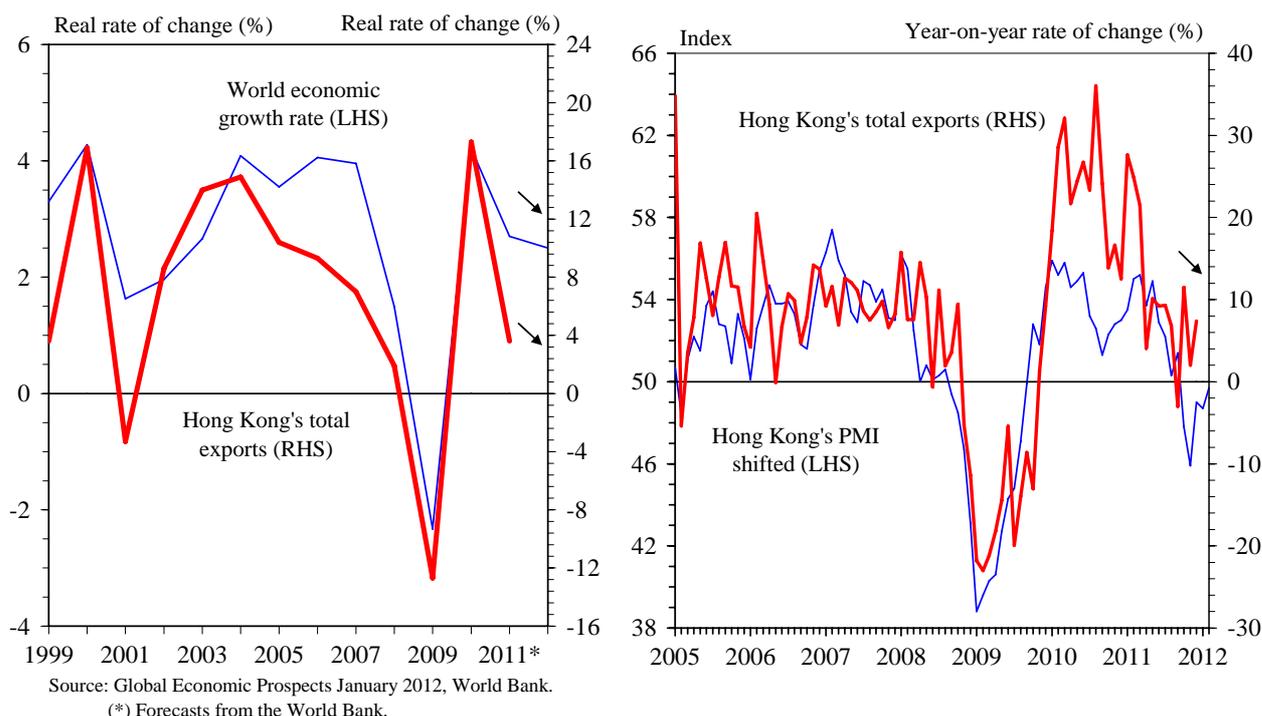
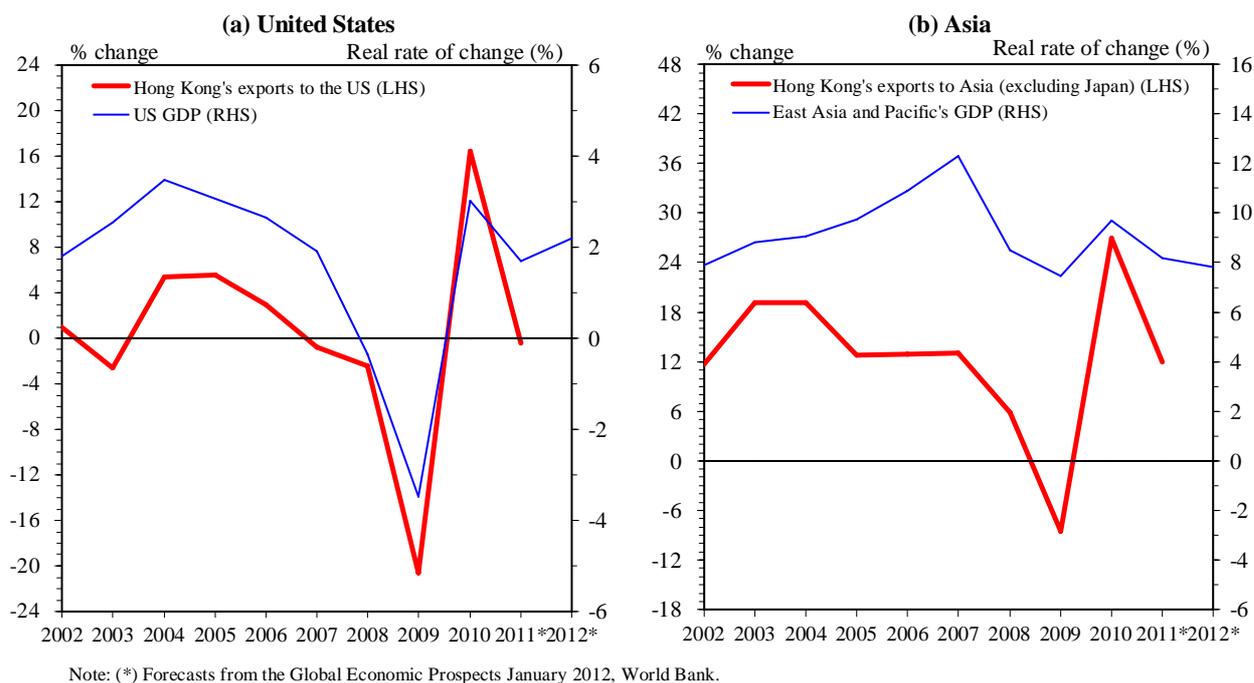


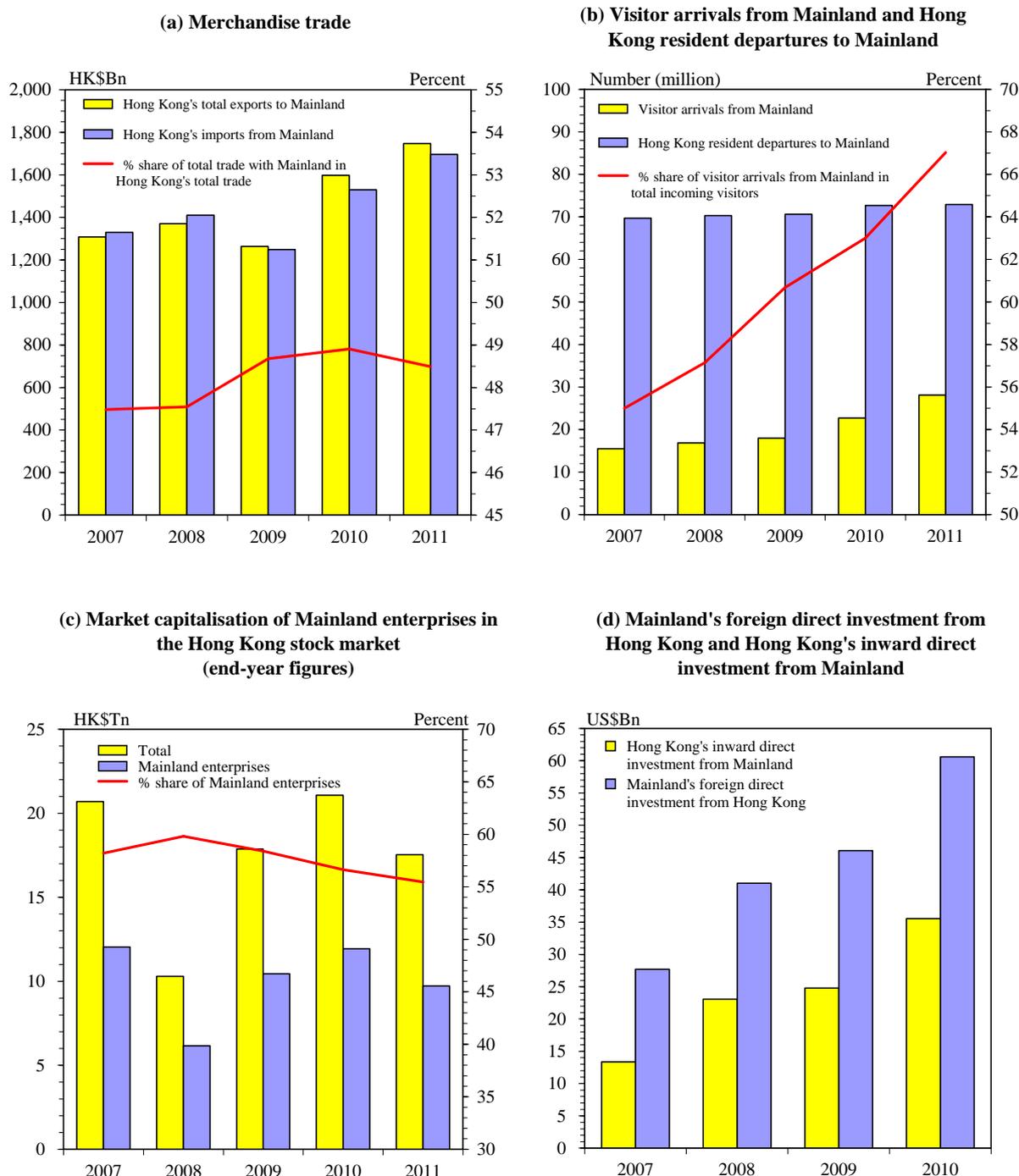
Diagram 2.7 : Exports to the Asian markets should provide some cushion to the expected weakness in the advanced markets



2.23 The performance of *exports of services* has been more resilient, underscoring the strong competitiveness of Hong Kong's services sector on the back of deepening integration with the Mainland. As such, exports of services should be less vulnerable to weaker external demand in 2012. In particular, inbound tourism is expected to stay vibrant, in view of the prevailing strong influx of visitors from the Mainland. Exports of financial and business services, despite the envisaged continuation of financial market volatilities, should still

be able to benefit from the further development of renminbi business in Hong Kong and cross-border commercial activity. However, offshore trade and exports of transportation services will likely show weaker performance in tandem with the expected slowdown in global and regional trade flows.

Diagram 2.8 : The Mainland factor will continue to be a key supportive factor for the Hong Kong economy



2.24 *Domestic demand* held up remarkably well throughout 2011 and served as a key growth driver. In the light of the notable employment and income growth over the past year or so, local consumption spending will likely hold up relatively better and provide some buffer to the expected weakness in

the external sector. That said, the level of resilience displayed by consumption spending will also hinge on the local labour market situation down the road now that employers' hiring sentiment has turned more cautious of late, and also on the performance of the local asset markets amid the strong headwinds in the external environment. As for investment, machinery and equipment acquisition, being more susceptible to the business cycle, is expected to slacken in the near term. Indeed, the results of the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department indicated that many of the large companies surveyed have turned more pessimistic about their near-term business outlook. Nevertheless, the building and construction component should continue to be underpinned by the intensive public sector infrastructure works, thereby rendering an additional cushion to the domestic economy.

Diagram 2.9 : Private consumption should hold up relatively better, thanks to the notable employment growth over the past year or so

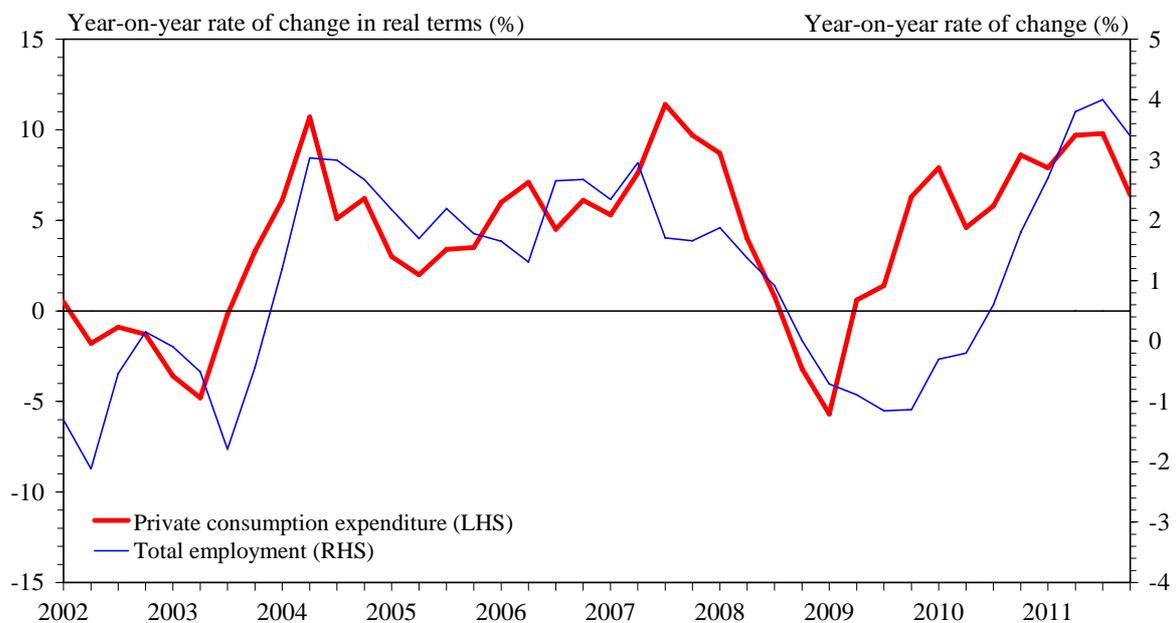


Diagram 2.10 : Yet consumer sentiments will also hinge on the performance of the asset markets

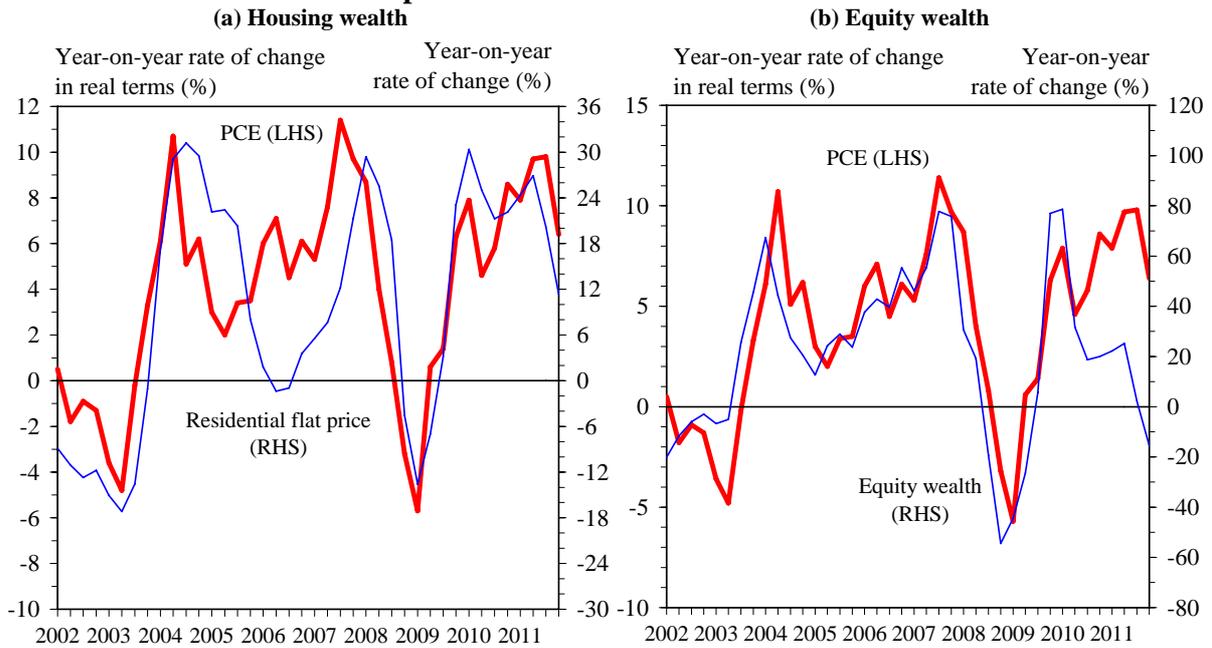
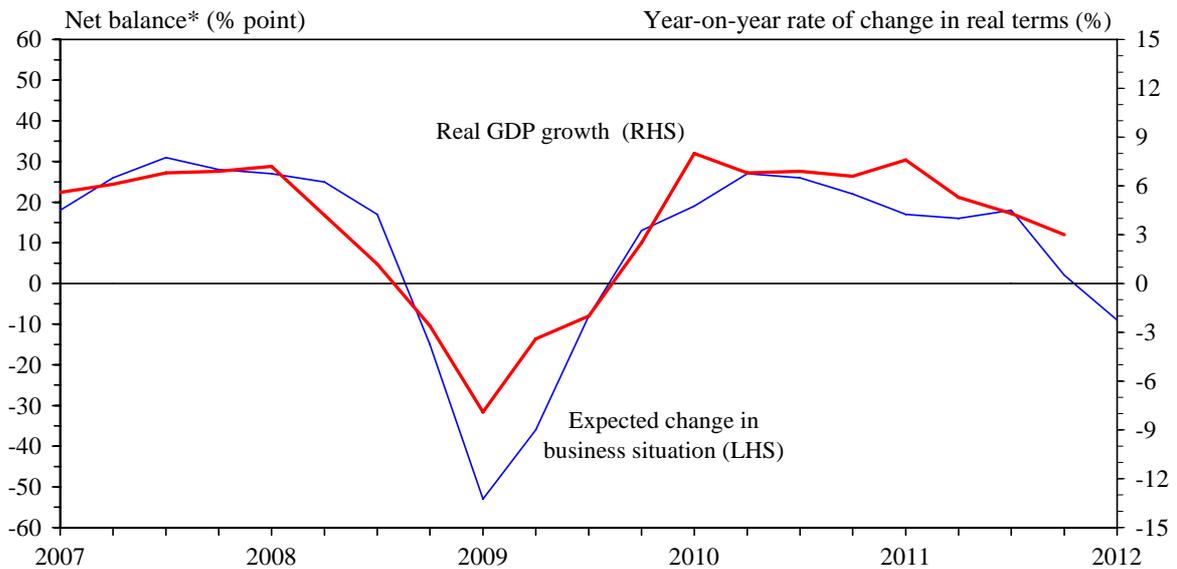
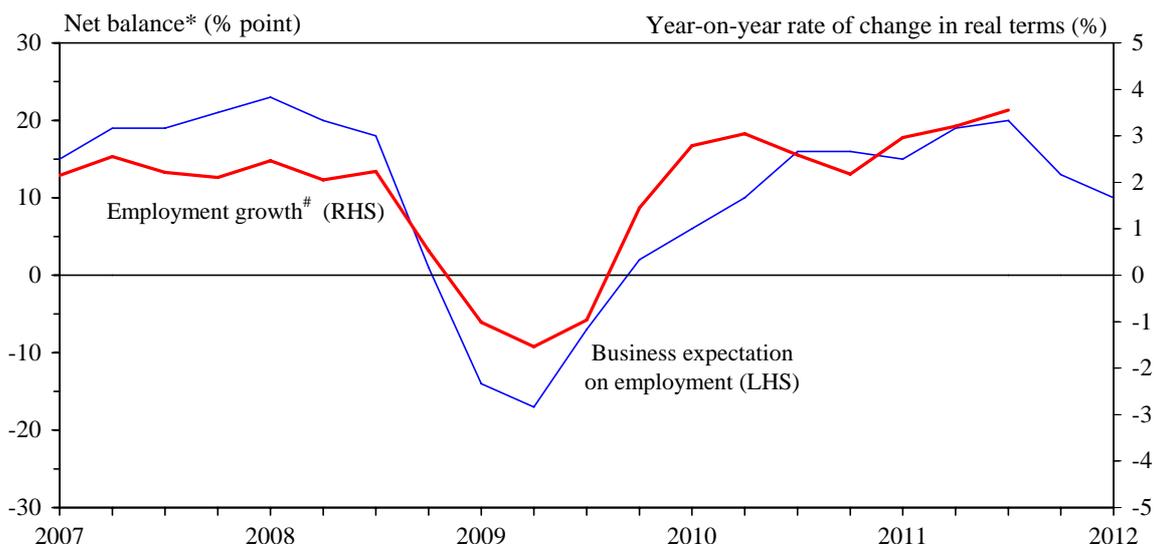


Diagram 2.11 : Business sentiment has turned more pessimistic of late



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

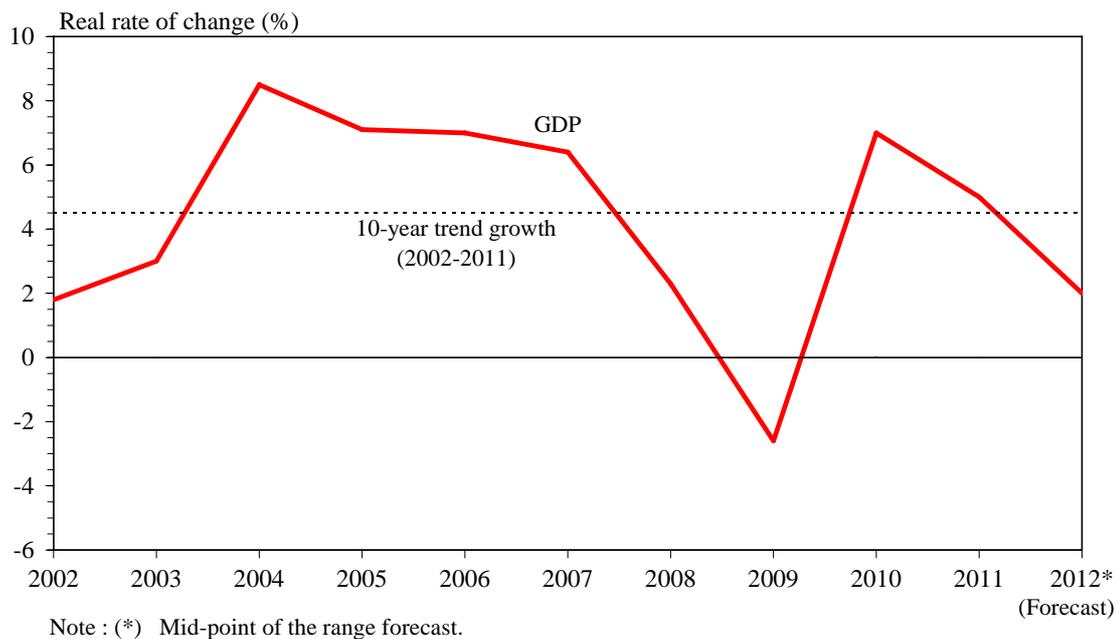
Diagram 2.12 : Businesses are also more cautious towards hiring



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

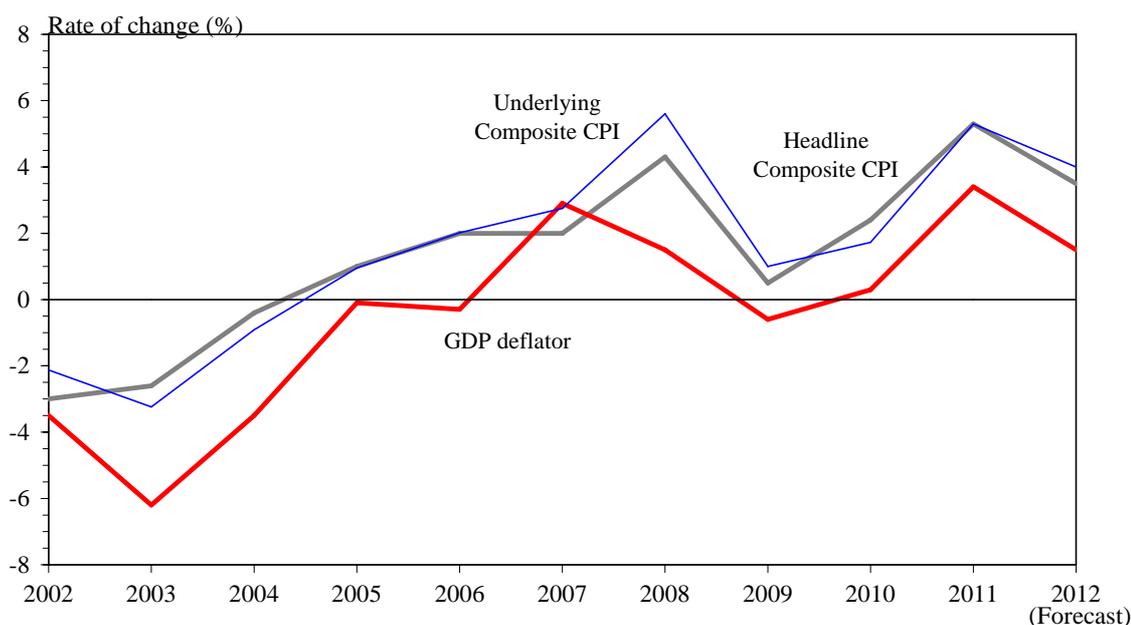
2.25 Taking all these developments together, and barring the adverse development of the euro debt problem into a full-blown crisis, the Hong Kong economy is projected to show a more muted growth of 1-3% in 2012. This will be lower than the average growth of 4.5% in the past ten years and the prevailing forecasts by private sector analysts, which mostly fall within the range of 1.5% to 3.5%. The wider than usual range of growth forecast signifies the unusually high degree of uncertainty facing the economy, mainly stemming from the fluidity of the eurozone debt situation and the ongoing fiscal consolidation in the advanced economies, as detailed in paragraph 2.21. The balance of forces will hinge on how well domestic demand and services exports, as well as the Asian markets, can hold up and to what extent they will offset the severe drag from goods exports due to the dire situations in the advanced economies.

Diagram 2.13 : Economy expected to show only muted growth in 2012



2.26 Inflation in Hong Kong has largely stabilised towards the end of 2011. Judging from the current trend, underlying inflation should come down over the course of 2012. On the external front, upward pressures on global commodity prices have largely abated given the subdued growth outlook in 2012. Global food prices, in particular, have broadly stabilised recently. Domestically, private housing rentals, after surging notably during 2010 and in the first half of 2011, have shown signs of tapering off of late alongside the consolidation in the local property market, although this favourable development would take time to show up in consumer price inflation. Furthermore, with the local economy poising for sub-par growth, wage cost pressures should also turn less notable. Overall, the *underlying Composite CPI* is forecast to increase by 4.0% for 2012 as a whole. Taking into account the effects of the Government's relevant one-off measures, the *headline Composite CPI* is forecast to increase by 3.5%. The *GDP deflator* is forecast to rise by 1.5%, largely on account of the slower increase of domestic prices as well as the expected change in the terms of trade.

**Diagram 2.14 : Inflation is expected to ease off in 2012,
with both external and domestic price pressures subsiding**



Forecast rate of change in 2012 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	1 to 3
<i>Nominal GDP</i>	2.5 to 4.5
<i>Per capita GDP, in real terms</i>	0.1 to 2.1
<i>Per capita GDP at current market prices</i>	HK\$270,400-275,700 (US\$34,700-35,300)

Composite Consumer Price Index

<i>Headline</i>	3.5
<i>Underlying</i>	4.0

GDP Deflator	1.5
---------------------	------------

**Forecast on Hong Kong's GDP growth in 2012
recently made by other selected parties**

The University of Hong Kong	(%) 2 to 3
Average forecast by private sector analysts [#]	3.3

Note: (#) Forecast GDP growth by private sector analysts mostly falls between 1.5% and 3.5%.

Medium-term outlook for the Hong Kong economy

2.27 The global economy will likely continue to face a higher degree of uncertainty over the medium term, given that the sovereign debt problem in the eurozone and the fiscal issues in the US are of structural nature, which will take time to be fully resolved. Notwithstanding this, the medium-term prospects for the Hong Kong economy should remain bright and promising. The Asian region, in particular the Mainland, should continue to be the key driver of global economic growth given its sounder fundamentals and huge development potentials. Hong Kong, with its advantageous location at the doorstep of the Mainland and strategic positioning as an international financial centre and regional business, trade and tourist hub, is poised to leverage on the growing economic prowess of the region while continuing to shift towards a knowledge-based, high value-added economy.

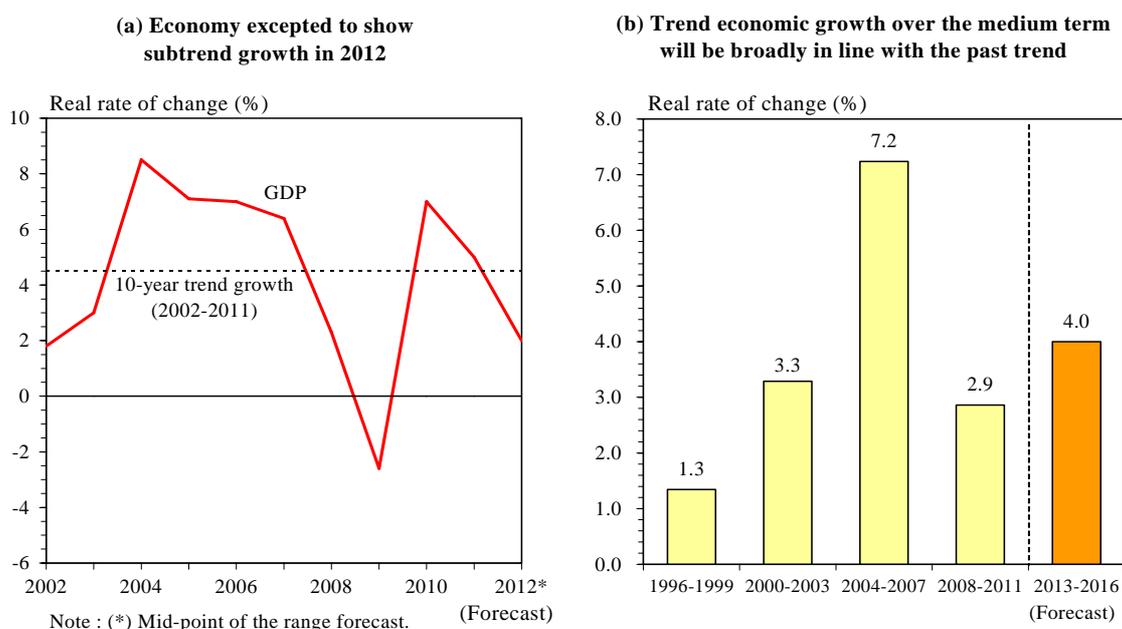
2.28 Specifically, Hong Kong will continue to deepen its integration with the hinterland through the CEPA and Pan-Pearl River Delta region platforms. With its long-established competitive advantage in financial and other services, Hong Kong will contribute to the nation's development in these areas while continuously propelling itself to move up the value chain. This is also a national strategy laid down in the National 12th Five-Year Plan. The process will open up vast opportunities for our professional services. In addition, Hong Kong will continue to broaden the local renminbi market and develop the asset management business in its strife to become a premier offshore RMB business centre, where it enjoys a first-mover advantage. Furthermore, the Government will also foster economic ties with new and emerging markets, and explore new growth areas such as the six industries where Hong Kong enjoys clear competitive advantage, in addition to the traditional four pillar industries in driving longer-term sustainable growth.

2.29 On the supply side, the Government will continue to upgrade our human capital and invest heavily on infrastructure to expand the production capacity and enhance efficiency. The productivity growth achieved in the process will help the economy attain a 4% growth per annum from 2013 to 2016, broadly in line with its past trend.

2.30 Inflationary pressures should come down gradually in the near term, but the upside risks to inflation over the medium term should not be underestimated at this juncture. Externally, upward pressures on global commodity prices should ease somewhat amid the expected demand slack in the advanced economies in the coming year or so. However, food and energy

prices may be subject to bouts of supply shocks, and the uncertain direction of the US dollar exchange rate and still-abundant global liquidity may also add further volatility to the global commodity price movements. Domestically, the continued productivity gain should provide some offset to local cost pressures. Taking into account the above factors, the trend rate of change in the underlying Composite CPI in Hong Kong over the medium term is forecast at 3.5% per annum.

Diagram 2.15 : Economic prospects remain bright over the medium term



2.31 The Government is mindful of the various challenges facing the global and local economy over the medium term. Globally, the fragile fundamentals of the advanced economies will continue to overshadow the growth prospects. The fiscal vulnerabilities of the advanced economies are rooted in structural problems that will take years to heal and meanwhile will undermine the real economy and increase financial market volatility. The economic drag and political discontent can also lead to increased protectionist sentiments on the trade and exchange rate fronts. How well the Asia region can withstand the drag with its relatively sound fundamentals will be crucial to the medium-term global economic outlook. Besides, the threat of inflationary pressures may still lurk in the background given the envisaged continuation of ultra-loose monetary stance in the advanced economies for some time. Locally, the structural shift of the Hong Kong economy to high value-added and knowledge-based activities could lead to wider income and wealth gaps, and would call for greater training and re-training needs of Hong Kong's workforce. Also, the ageing population will have profound implications on our public finance management over the medium to longer run, especially on the health care and social welfare fronts. In view of these medium-term issues and long-term development needs, it is therefore important for the Government to exercise prudence in deliberating its fiscal policy.

CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *Hong Kong's external sector faced stronger headwinds after the first quarter of 2011. This was particularly evident in the flows of merchandise trade. The combined influences of repercussions from the Japan earthquake in March, unsteady recovery in the US, and re-intensification of the European sovereign debt crisis took their toll on the global economy, resulting in an increasingly difficult external trading environment.*
- *The faltering demand in the advanced economies was the main drag on Hong Kong's merchandise exports, as it affected not only Hong Kong's exports to these markets, but also exports of raw materials to other Asian economies that were closely linked to the final consumption in the advanced economies. Although exports of consumer goods to Asia fared better, they were insufficient to make up for the lull in the advanced markets. Total exports of goods had lost steam since the second quarter of 2011, but still attained a modest growth of about 2.9% in real terms for the year as a whole.*
- *Exports of services stayed fairly resilient over the course of 2011, growing by 6.3% in real terms for the year as a whole. Exports of travel services grew notably further on the back of vibrant inbound tourism. Exports of financial and other business services also held firm during most of the year. Yet exports of trade-related services and transportation services decelerated markedly alongside the slowdown in trade flows.*
- *The National 12th Five-Year Plan (the Plan) promulgated in March included a dedicated chapter to Hong Kong and Macao for the first time, symbolising that Hong Kong's development had become a crucial part of the national strategy. Concrete progress was made in 2011 in implementing the Plan. Supplement VIII to the Mainland and Hong Kong Closer Economic Partnership Arrangement was signed in December to intensify the liberalisation of the Mainland market towards Hong Kong's services trade and strengthen co-operation in various areas. More measures to facilitate Hong Kong's development as an offshore renminbi business centre were announced. The development of the Shenzhen Qianhai Modern Service Industry Co-operation Zone proceeded further. Also, Hong Kong enhanced economic linkages with both traditional and new trading partners over the year.*

Visible trade

Total exports of goods

3.1 2011 was a year full of vicissitudes for Hong Kong's merchandise trade, mirroring the rapidly changing global economic environment. *Merchandise exports* (comprising re-exports and domestic exports) grew spectacularly by 17.7% in real terms⁽¹⁾ in the first quarter of 2011 over a year earlier, then abruptly relapsed to virtually no growth in the second quarter and further to a decline of 4.0% in the third quarter, before resuming a positive growth of about 1.3% in the fourth quarter. Yet thanks to the distinctive performance in the first quarter, merchandise exports still posted a modest growth of about 2.9% in real terms for 2011 as a whole, following the sharp rebound of 18.1% in 2010. On a seasonally adjusted quarter-to-quarter basis, merchandise exports leaped by 16.3% in the first quarter, then fell by 12.6% and 1.1% respectively in the second and third quarters, and reverted to a growth of about 1.3% in the fourth quarter.

3.2 The global trading environment was rather robust in the early part of 2011, with the advanced economies seemingly recovering at a steady pace and the emerging economies across continents growing strongly. However, the situation deteriorated markedly since the second quarter of the year. The 9.0-magnitude Great East Japan Earthquake on 11 March caused serious, albeit temporary, disruptions to the global supply chains and hence international trade flows. The encouraging signs displayed by the US and EU economies early in the year also proved to be short-lived, as many of them were constrained by the weak fundamentals as well as the needs to pursue austerity measures amid deepening concerns about their fiscal positions. In the US, the political disputes over the national debt limit in July and the unprecedented downgrade of sovereign credit rating by Standard & Poor's in early August led to another round of global financial market gyrations severely denting economic sentiment worldwide. In the eurozone, concerns about the European sovereign debt crisis re-ignited as the risks of contagion beyond the peripheral economies escalated notably since mid-2011, clouding further the global economic outlook. Asia was hardly unscathed. The setbacks in the advanced economies led to region-wide deceleration in industrial activities and intra-regional trade flows, causing many Asian economies to pause their policy tightening or turn to an easing bias in the latter part of the year.

3.3 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for about 98.0% of total exports by value, increased by about 3.5% in real terms in 2011, after the substantial growth of 18.1% in 2010. *Domestic exports*, which constitute the remaining 2.0% of total exports, turned to a notable decline of about 22.1% in real terms in 2011, in stark contrast to the 15.5% growth in the previous year.

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

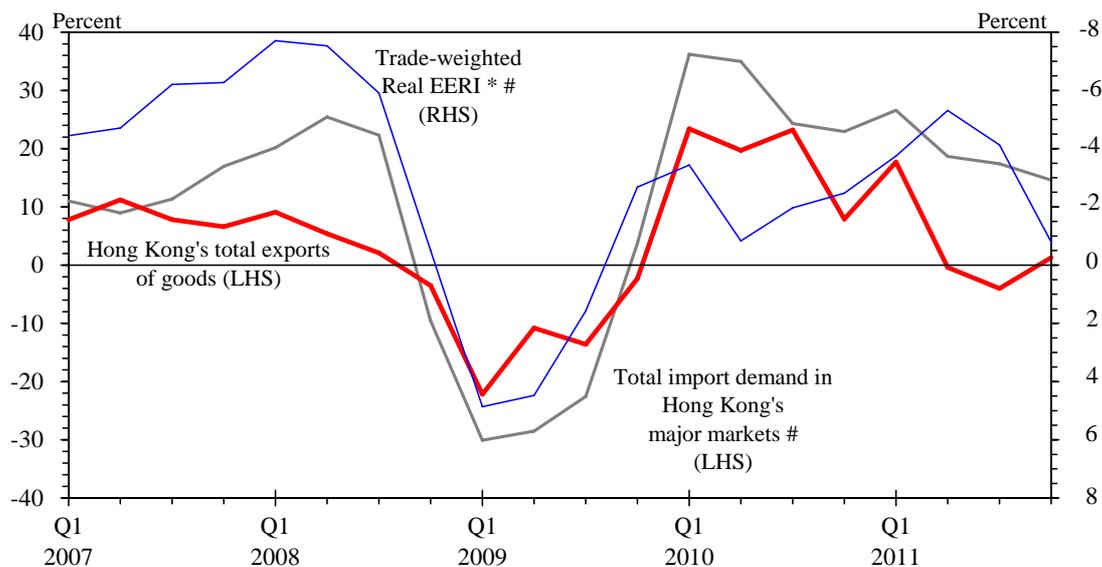
	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2010 Annual	22.8	18.1	4.7	22.8	18.1	4.6	20.4	15.5	5.5
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 Annual [#]	10.1	2.9	8.0	10.5	3.5	8.0	-5.5	-22.1	6.4
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
Q4 [#]	6.9	1.3 (1.3)	7.5	7.5	2.2 (1.4)	7.5	-19.5	-35.7 (-5.6)	5.7

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

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

(#) Figures on rate of change in real terms and change in prices for the fourth quarter and for 2011 as a whole are estimates based on actual unit value indices up to November 2011. They are subject to revision when the full-year data become available.

**Diagram 3.1 : Merchandise exports slackened markedly over the course of 2011
(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 and trade-weighted real EERI for the fourth quarter of 2011 is based on statistics for October and November 2011.

Diagram 3.2 : Both re-exports and domestic exports saw sharp slowdown during 2011

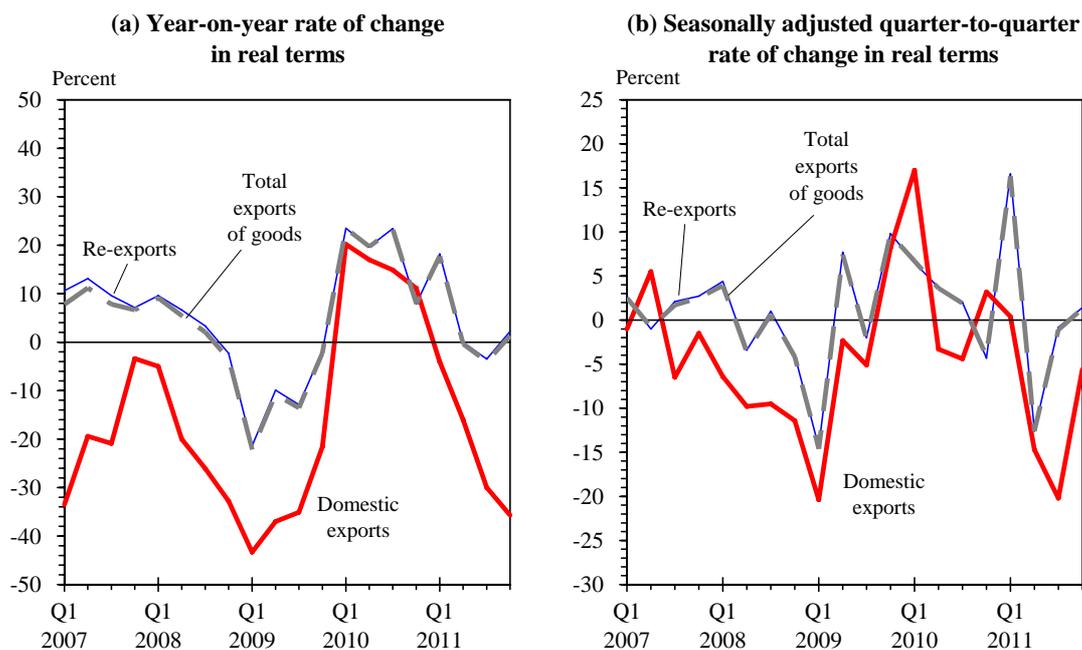


Diagram 3.3: Asian markets continued to feature prominently in Hong Kong's exports

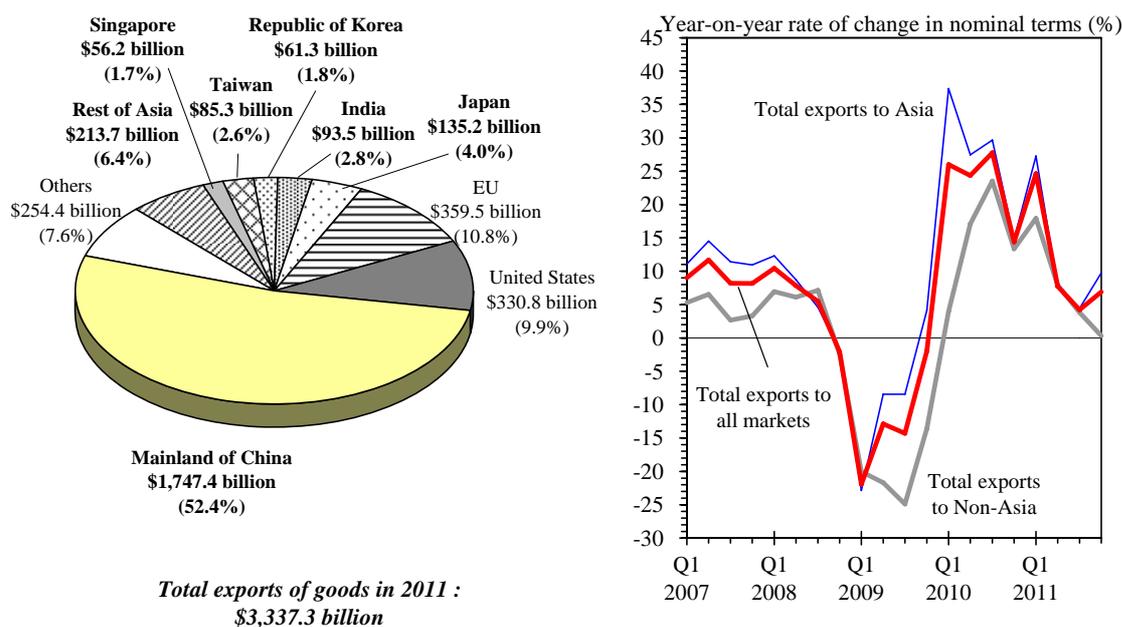


Table 3.2 : Total exports of goods by major markets (year-on-year rate of change in real terms (%))

	Annual	2010					Annual [#]	2011			
		Q1	Q2	Q3	Q4	Q1		Q2	Q3	Q4 [#]	
Mainland of China	20.0	32.1	18.8	26.3	7.0	3.4	20.8	-2.3	-6.9	5.6	
United States	14.5	6.7	19.9	19.7	10.4	-9.7	7.0	-12.4	-16.0	-12.8	
European Union	6.6	-0.6	10.4	15.8	1.0	-1.8	6.4	-0.9	-3.1	-8.3	
Japan	15.5	15.1	26.2	15.4	7.4	-2.0	3.2	-5.7	-2.4	-2.7	
India [*]	37.4	36.0	48.7	45.8	21.4	15.7	38.4	14.8	9.3	3.0	
Taiwan	23.0	59.8	28.1	17.6	2.8	16.3	20.5	18.2	19.9	7.2	
Republic of Korea	21.1	37.9	24.9	13.1	13.4	5.6	14.8	9.4	2.2	-2.9	
Singapore	18.1	16.9	18.6	22.2	14.7	5.6	21.7	9.0	0.1	-5.5	

Notes : (#) Figures for the fourth quarter and for 2011 as a whole are estimates based on actual unit value indices up to November 2011. They are subject to revision when the full-year data become available.

(*) The volume figures for exports to India are crude estimates, as a unit value index specifically compiled for exports to India is not available.

3.4 Although the Asian region as a whole stayed fairly resilient during 2011, production activities and trade flows within the region decelerated progressively after the first quarter along with the slackening final demand in the advanced economies. Consequently, Hong Kong's exports of raw materials to the Mainland and other Asian economies also lost steam. Exports of consumer goods to the Asian markets nevertheless held up relatively better, though also with some moderations in the second half of the year. Total exports to the Mainland, having fared strongly in the first quarter, eased back sharply in the second and third quarters before rebounding somewhat in the fourth quarter and recorded a modest growth of about 3.4% in 2011. Total exports to Korea and Singapore likewise decelerated noticeably over the course of 2011 and both only grew by about 5.6% for the year as a whole. Those to Japan fell, initially due to the disruptions caused by the March earthquake, then also the slow economic recovery there. On the other hand, total exports to Taiwan displayed strength during most of the year, conceivably boosted by the surge in trade flows after the signing of the Economic Cooperation Framework Agreement in June 2010. Exports to India, though also moderated during 2011, still posted a notable growth for the year as a whole.

3.5 Exports to the US and the EU showed renewed weaknesses in 2011, especially in the second half of the year. Private demand in the US was constrained by the depressed housing market, on-going deleveraging and persistently high unemployment, resulting in sharp year-on-year declines in exports to the US during most of 2011. Exports to the EU also reverted to decline in the second quarter and worsened notably in the second half of the year, as European consumer and business sentiments weakened progressively alongside the deepening eurozone sovereign debt crisis, which in turn posed a drag on import demand there. As a result, exports to these two major markets fell back towards their troughs in 2009. The US and the EU markets will be the key sources of downside risks to Hong Kong's export performance in the coming year, not only because they will affect Hong Kong through the direct trade channels, but also because their knock-on effects on other Asian economies and indeed the global economy could be severe (for more details, see *Box 3.1*).

Diagram 3.4 : Exports to the Mainland significantly affected by reduced import intake of raw materials

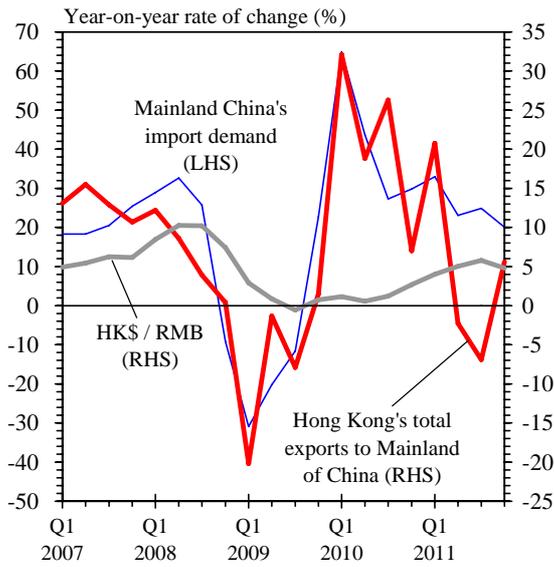
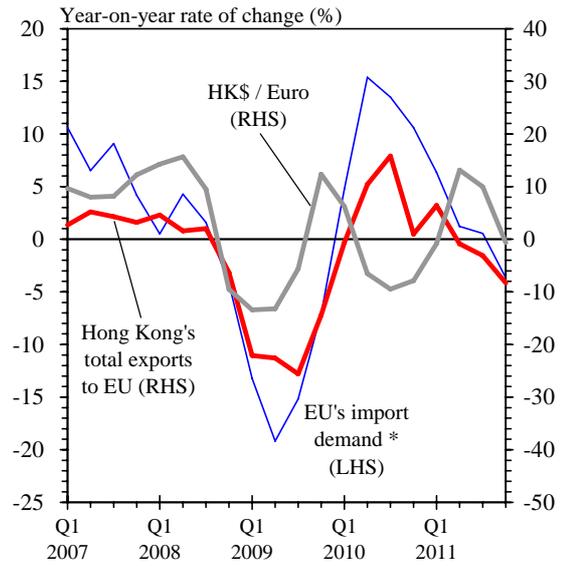


Diagram 3.5 : Exports to the EU slackened visibly during the year



Note: (*) Import demand figure for the fourth quarter of 2011 is based on statistics for Oct-Nov 2011.

Diagram 3.6 : Exports to the US fell markedly in 2011

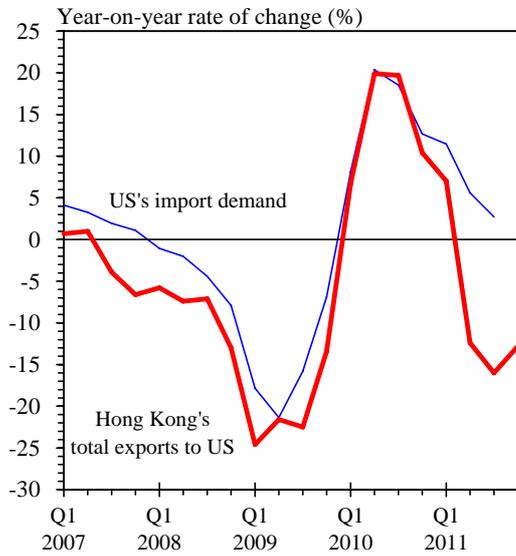
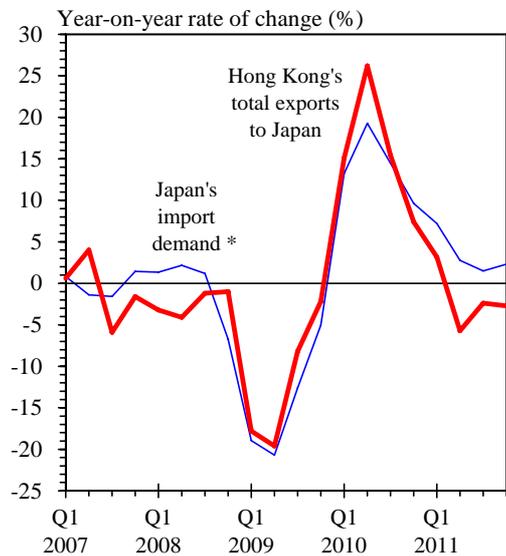


Diagram 3.7 : Exports to Japan also saw a moderate decline



Note: (*) Import demand figure for the fourth quarter of 2011 is based on statistics for Oct-Nov 2011.

Diagram 3.8 : Exports to India, though moderated during 2011, stayed relatively resilient

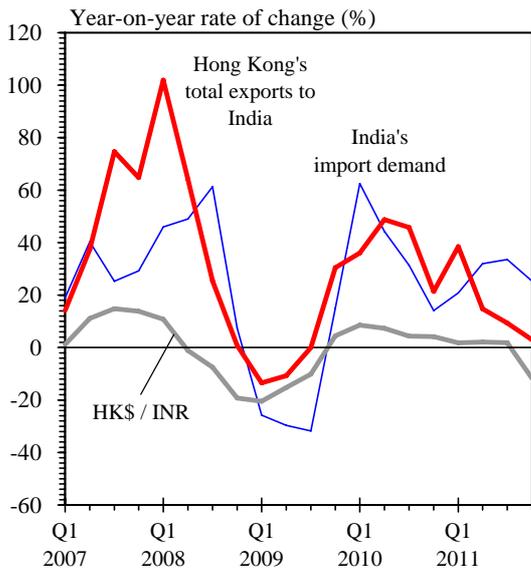


Diagram 3.9 : Exports to Taiwan sustained strong momentum throughout 2011

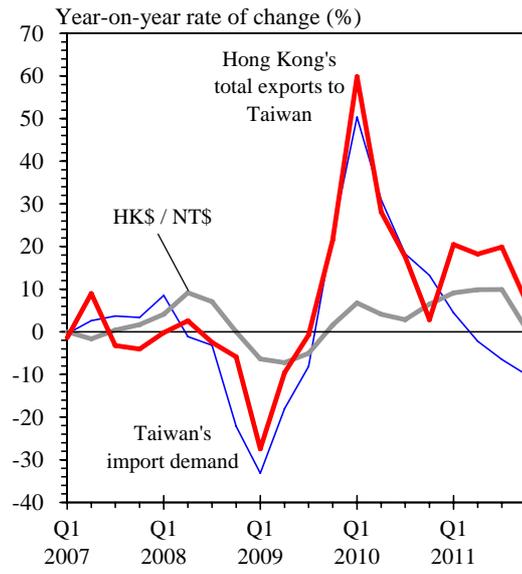
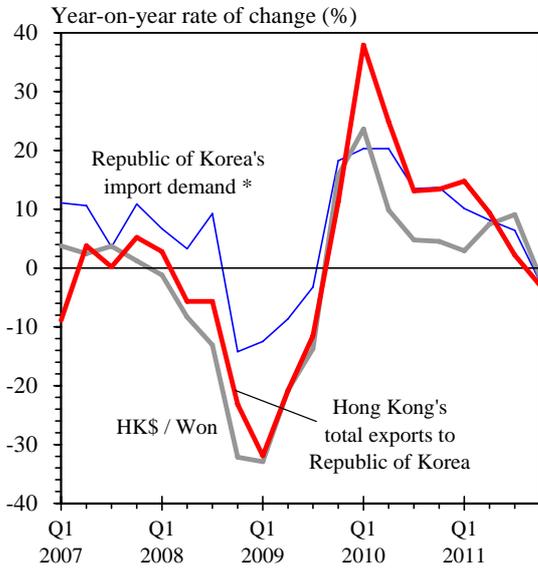
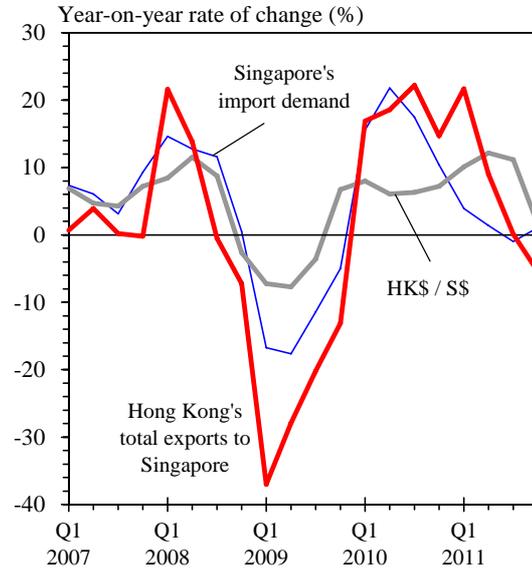


Diagram 3.10 : Exports to the Republic of Korea weakened over the course of 2011



Note: (*) Import demand figure for the fourth quarter of 2011 is based on statistics for Oct-Nov 2011.

Diagram 3.11 : So did exports to Singapore



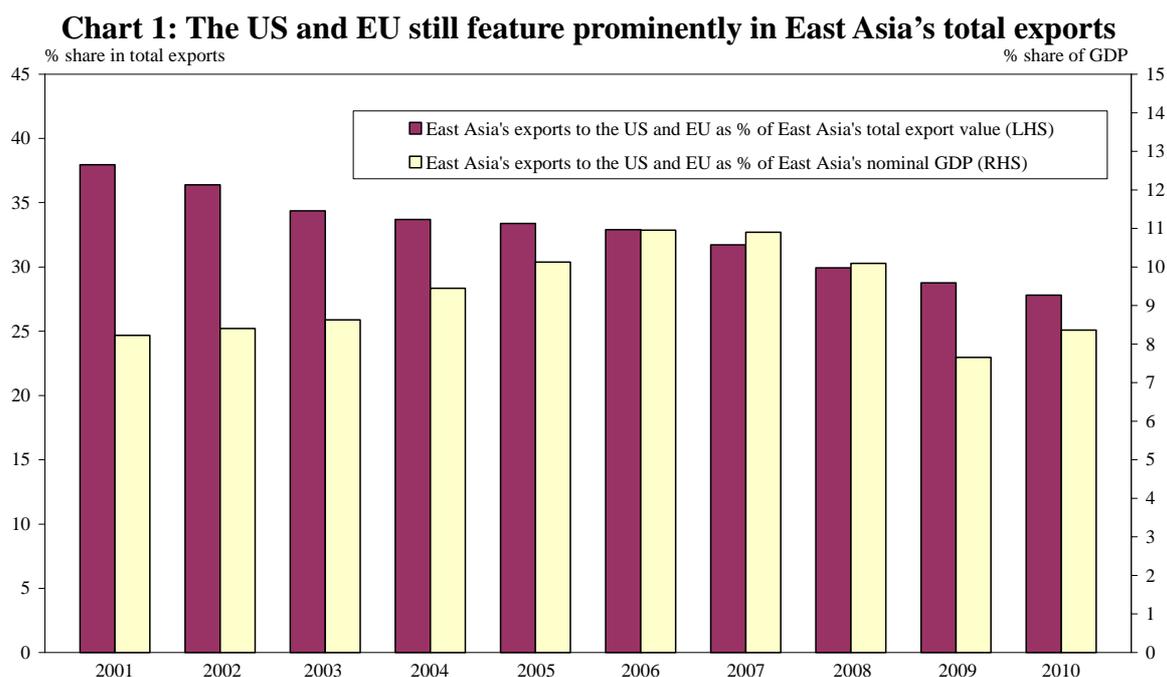
Box 3.1

Will the economic slowdown of the US and EU affect East Asia?

When the global financial crisis pulled the advanced economies into deep recession in 2009, East Asia was severely hit despite their sound fundamentals⁽¹⁾. But over the past three years, East Asia recovered well while economic growths in the advanced economies are still noticeably below trend. While this seems to suggest that the business cycle synchronisation between East Asia and the advanced economies had weakened, several pieces of evidences indicate that East Asia is still notably exposed to the vicissitudes of the advanced economies. Given the current escalated downside risks facing the US and EU, it is worthwhile to revisit these linkages to shed some light on the growth prospects of East Asia this year.

Fact 1 : The US and EU are still important export markets of East Asia

Given the enormous scale of their economies, the US and EU are important export markets of East Asia. The US and EU together still accounted for about 28% of East Asia's total export value in 2010, though their combined share was already lower than 10 years ago. As such, East Asia's external trade performances are still directly affected by the import demand in these two economies in a significant way (*Chart 1*).



Fact 2 : East Asia's export dependence on the US and EU markets when measured in terms of GDP remains very large

The large external sector of East Asia means that a sharp swing in their exports could cause notable fluctuations in the GDP growth of East Asia. To further illustrate the economic significance of East Asia's export dependence on the advanced economies, it is worth noting that total exports to the US and EU represented about 8% of East Asia's GDP in 2010. Although this ratio had diminished from about 11% before the global financial crisis, the pressure it could exert on East Asia remains sizeable (*Chart 1*).

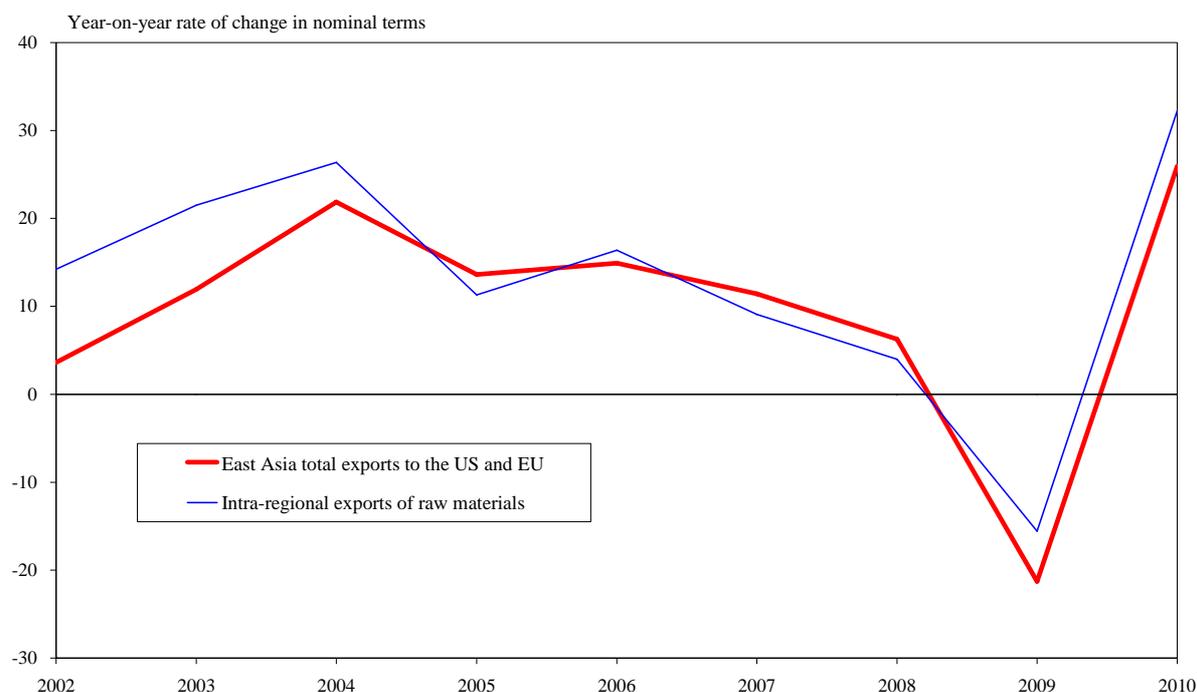
(1) In this Box, East Asia refers to the following 10 economies: the Mainland, Japan, Hong Kong, Taiwan, South Korea, Singapore, Indonesia, Thailand, Malaysia and the Philippines.

Box 3.1 (Cont'd)

Fact 3 : East Asia as intricate production supply chains

While intra-regional exports surged over the past decade and now account for about half of East Asia's total exports, a large part of these intra-regional exports comprise trade in raw materials (roughly about 40% in 2010)⁽²⁾. This is a manifestation of the intricate production supply network within Asia, propelled by globalisation and trade liberalisation over the past two decades. It is impossible to trace where these raw materials would go after rounds of processing, but the close relationship between growth rates of intra-regional exports of raw materials and East Asia's total exports to the US and EU provided a clue (*Chart 2*). This, together with the fact that the US and EU are the major export destinations of East Asia, suggests that a significant share of intra-regional exports of raw materials is related to East Asia's eventual exports to the US and EU, and in turn the final consumption demand in these two markets. Indeed, when the demand in the advanced economies shrank in 2009, East Asia's exports to the US and EU fell by more than 20% and intra-regional exports of raw materials also fell sharply by around 15%.

Chart 2: Intra-regional exports of raw materials conceivably hinge on eventual exports to the US and EU



As such, the direct and indirect economic influences of the US and EU on East Asia are still substantial. In this connection, if both the US and EU economies sink into a recession, East Asia would still be severely affected. This relationship had become evident again since the second quarter of 2011. When the demand in the US and EU weakened, not only did East Asia's direct exports to these two markets slow, intra-regional trade and industrial production in the region also trended down generally. In short, East Asia is yet to decouple from the advanced economies and remains closely tied to the vicissitudes of the US and EU markets in the near term. The growth rebalancing process towards more domestic demand-led growth in East Asia is likely to be more a long term goal that will take time to accomplish.

(2) East Asia's exports by end-use figures were crudely estimated based on the UN Comtrade database.

Imports of goods

3.6 *Imports of goods* recorded a moderate growth of about 5.1% in real terms in 2011, following an 18.6% increase in the previous year, largely due to the sharp slowdown in re-export trade. *Retained imports*, which accounted for over one-quarter of total imports, nevertheless leaped by about 9.2% in real terms in 2011, further to the 19.7% growth in 2010. The sharp contrast between the lacklustre external demand and the strong domestic demand led to a notable divergence among import intakes of different end-use categories. In particular, retained imports of consumer goods maintained strong growth throughout the year, reflecting buoyant local consumption and tourist spending. Retained imports of capital goods also grew notably on the back of a resilient domestic economy. Retained imports of foodstuffs recorded a mild growth for the year as a whole. On the other hand, retained imports of raw materials declined sharply, conceivably dragged by dimmer export outlook. Retained imports of fuels also went down after the sharp surge in 2010.

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

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)				
		<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		
	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	Annual [#]	11.9	5.1	8.1	15.9	9.2	8.2		
	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
	Q4 [#]	9.3	3.2	(-1.9)	7.1	14.3	5.8	(-9.5)	5.9

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

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

(#) Figures on rate of change in real terms and change in prices for the fourth quarter and for 2011 as a whole are estimates based on actual unit value indices up to November 2011. They are subject to revision when the full-year data become available.

Diagram 3.12 : Imports moderated along with the slowdown in re-exports, but retained imports grew remarkably

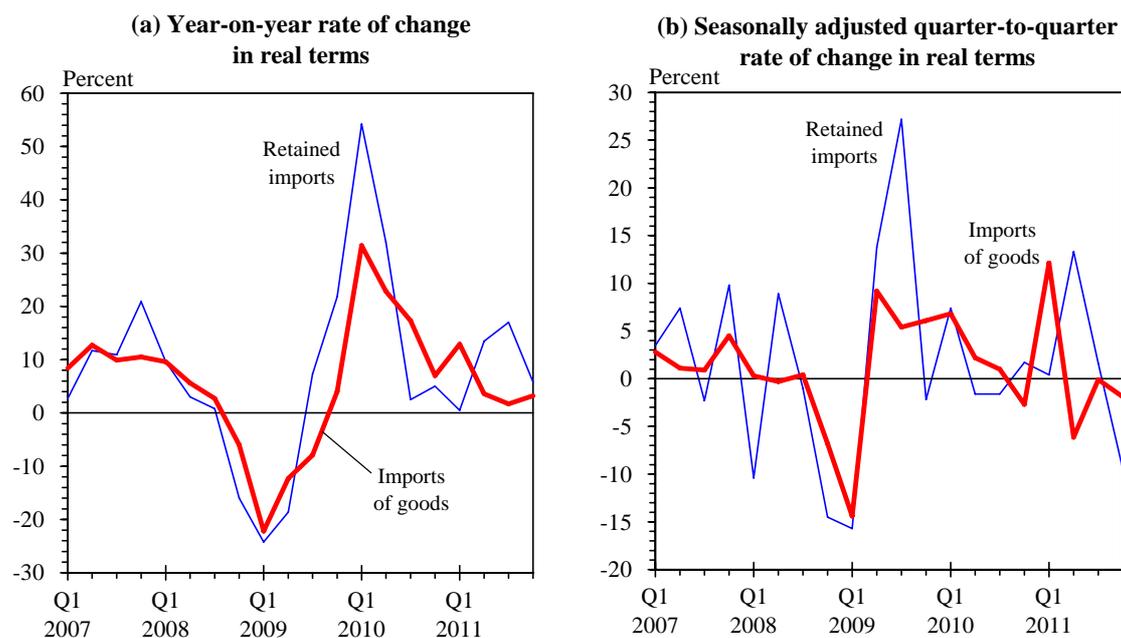


Table 3.4 : Retained imports by end-use category (year-on-year rate of change in real terms (%))

		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2010	Annual	22.5	11.6	15.5	31.3	13.9
	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	Annual [#]	24.2	1.9	15.2	-9.3	-11.2
	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
	Q4 [#]	10.1	-1.4	19.0	-25.4	-7.2

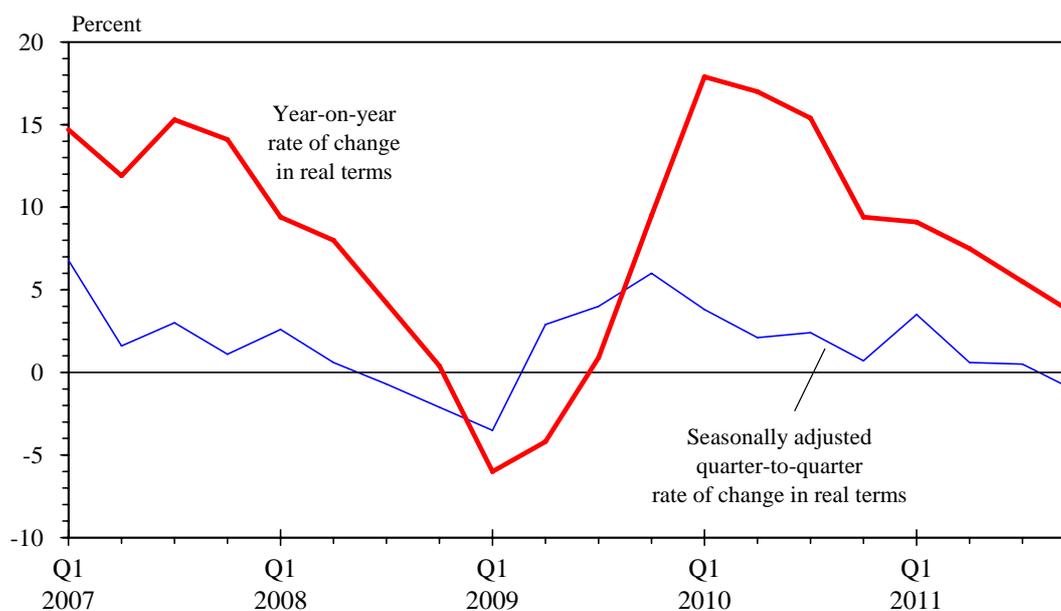
Note : (#) Figures for the fourth quarter and for 2011 as a whole are estimates based on actual unit value indices up to November 2011. They are subject to revision when the full-year data become available.

Invisible trade

Exports of services

3.7 *Exports of services* maintained an appreciable growth at 6.3% in real terms for 2011 as a whole, further to the 14.6% increase in 2010. Exports of travel services remained the bright spot with strong growth throughout the year, thanks to the thriving inbound tourism. Exports of financial and business services were likewise resilient during most of the year, on the back of buoyant cross-border financing, fund raising and other commercial activities. These two components provided a strong cushion against the slack in the trade-related components and helped underpin the still solid performance of exports of services in 2011.

Diagram 3.13 : Exports of services grew rather appreciably for 2011 as a whole



**Table 3.5 : 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^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2010	Annual	14.6	12.5	8.5	25.8	15.5
	Q1	17.9 (3.8)	18.8	13.0	19.1	21.5
	Q2	17.0 (2.1)	16.2	10.0	37.1	16.2
	Q3	15.4 (2.4)	12.3	8.1	39.6	10.8
	Q4	9.4 (0.7)	6.6	3.6	12.9	13.7
2011	Annual	6.3	N.A.	N.A.	N.A.	N.A.
	Q1	9.1 (3.5)	11.5	0.6	10.6	13.4
	Q2	7.5 (0.6)	3.4	4.8	15.7	9.1
	Q3	5.5 (0.5)	2.4	2.0	9.4	10.4
	Q4	3.5 (-1.1)	N.A.	N.A.	N.A.	N.A.

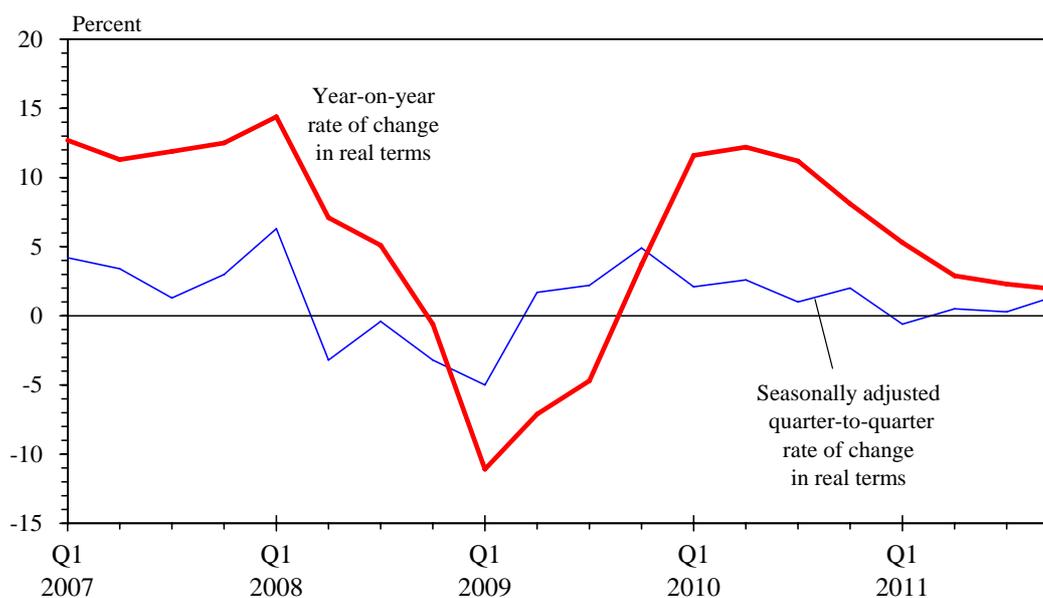
- Notes : (a) Comprising mainly offshore trade.
 (b) Comprising mainly inbound tourism receipts.
 () Seasonally adjusted quarter-to-quarter rate of change.

N.A. Not yet available. An advance schedule has been adopted in compiling the figures of exports of services for Q4 2011 and year 2011. Due to insufficient data, breakdown figures of major service groups are not available.

Imports of services

3.8 *Imports of services* grew modestly by 3.0% in real terms in 2011, following a sharp increase of 10.7% in the previous year. Growth in imports of financial and other business services moderated, amid an increasingly difficult external environment. Imports of transportation and trade-related services slowed more conspicuously alongside the slowdown in regional trade flows. Meanwhile, imports of travel services showed only a small growth in 2011.

Diagram 3.14 : Imports of services grew modestly



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

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2010	Annual	10.7	6.4	12.5	14.0	13.4
	Q1	11.6 (2.1)	4.2	13.2	20.4	17.0
	Q2	12.2 (2.6)	5.0	16.1	17.8	17.3
	Q3	11.2 (1.0)	10.2	11.8	13.9	10.9
	Q4	8.1 (2.0)	5.8	8.9	8.1	9.6
2011	Annual	3.0	N.A.	N.A.	N.A.	N.A.
	Q1	5.3 (-0.6)	3.6	3.8	13.1	6.7
	Q2	2.9 (0.5)	3.6	1.3	6.3	3.0
	Q3	2.3 (0.3)	1.6	0.6	0.4	5.5
	Q4	1.9 (1.5)	N.A.	N.A.	N.A.	N.A.

Notes : (+) Comprising mainly outbound travel spending.

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

N.A. Not yet available. An advance schedule has been adopted in compiling the figures of imports of services for Q4 2011 and year 2011. Due to insufficient data, breakdown figures of major service groups are not available.

Visible and invisible trade balance

3.9 Due to the strong headwinds in the external environment and buoyant domestic demand, visible trade deficit widened substantially in 2011. Nevertheless, the invisible trade surplus was still more than enough to offset the visible trade deficit. In 2011, the combined visible and invisible balance posted a surplus of \$68.8 billion, or 1.6% of the total value of imports of goods and services, though smaller than the surplus of \$94.7 billion or 2.5% in 2010.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>imports</u>
		<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	825	3,395	396	-334	428	95	2.5
	Q1	640	190	728	92	-88	99	11	1.3
	Q2	774	185	871	92	-97	93	-4	-0.5
	Q3	838	220	898	104	-60	116	56	5.6
	Q4	809	230	898	109	-89	121	32	3.2
2011	Annual	3,409	941	3,846	435	-437	506	69	1.6
	Q1	796	222	890	103	-94	119	25	2.5
	Q2	835	215	960	103	-126	112	-13	-1.3
	Q3	891	250	991	114	-100	136	36	3.3
	Q4	888	254	1,006	115	-118	139	21	1.8

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

Other developments

3.10 Hong Kong's role was highlighted in the national development strategy, as a dedicated chapter to Hong Kong and Macao was included for the first time in the National 12th Five-Year Plan (the Plan). In addition to bolstering Hong Kong's role as an international financial, trade and shipping centre, the Plan also positioned Hong Kong as an offshore renminbi business centre and an international asset management centre. Besides, the Plan also encouraged development in the six industries and deepening of Hong Kong's economic linkages with the Mainland.

3.11 Concrete progress was made in implementing the Plan. Following Vice-Premier Li Keqiang's visit in August, Supplement VIII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed on 13 December 2011. The new supplement provides for 32 services liberalisation and trade and investment facilitation measures, which include 23 liberalisation measures in 16 service sectors, and strengthen co-operation in areas of finance, tourism, innovation and technology etc. Inclusive of the measures in Supplement VIII, the total number of service sectors under CEPA increases to 47. Moreover, the Vice-Premier also announced a series of measures to facilitate Hong Kong's development as an offshore renminbi business centre, including but not limited to the renminbi Qualified Foreign Institutional Investor scheme (RQFII) and the expansion of renminbi-denominated bond issuance in Hong Kong.

3.12 Hong Kong's economic relations with Shenzhen have strengthened, with a view to raising the joint productivity of the twin cities. The formal establishment of the Inter-ministries Joint Conference on the Development of Qianhai Area in Shenzhen in September 2011 indicated that the Qianhai project has now entered the implementation stage. The Qianhai Modern Service Industry Cooperation Zone will help leverage Hong Kong's experience to expedite the development of a modern industry structure in the Mainland while strengthening the competitiveness of Hong Kong's service industries. Furthermore, in the 2011 Hong Kong-Shenzhen Cooperation Meeting, the two Governments signed agreements to enhance collaborations on various aspects, such as legal services and development of the Lok Ma Chau Loop.

3.13 Hong Kong also made notable progress on overseas trade relations with economies worldwide during 2011. Hong Kong and the member states of the European Free Trade Association, namely Iceland, Liechtenstein, Norway and Switzerland, signed a Free Trade Agreement (FTA) in June, marking Hong Kong's first FTA with the European economies. Moreover, agreements for avoidance of double taxation were signed with Portugal, Spain and Czech Republic to foster economic ties with these overseas markets. Separately, the Hong Kong-Guangdong Business Conference held in Poland in November and the business delegation led by the Financial Secretary to South Africa in December boosted links with these emerging economies. The Government has also been actively exploring the possibility of a FTA with Chile, and will start negotiation with Russia about an agreement on investment promotion and protection.

Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

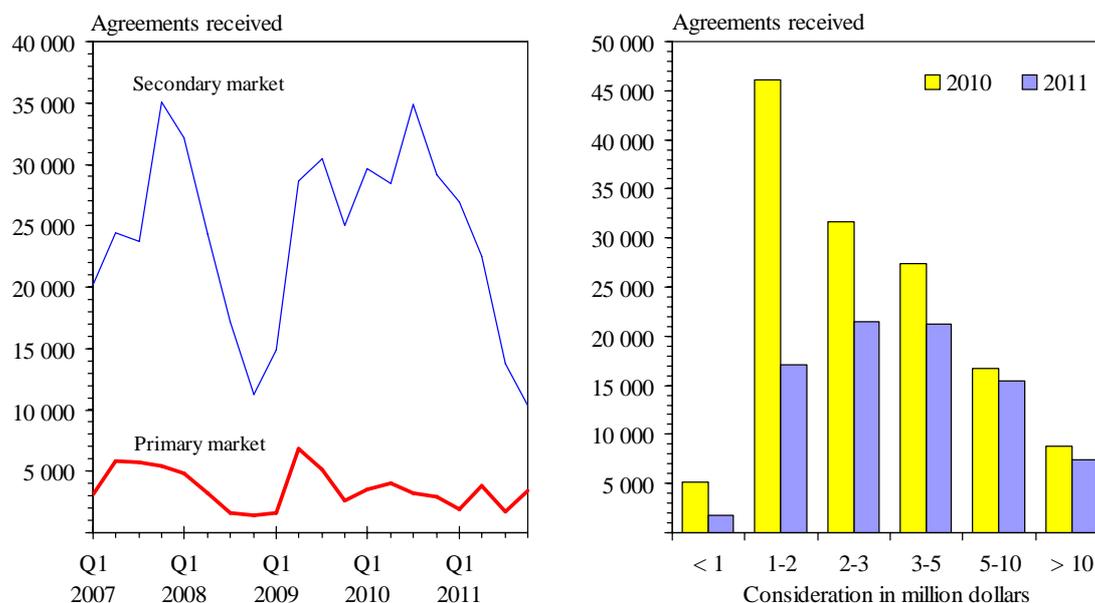
- *The residential property market remained buoyant in the first half of 2011, but underwent some consolidation after mid-year amid heightened external uncertainties and successive mortgage rate hikes by local banks. Trading activities went sharply down in 2011. Flat prices fell by 5% between June and December, but still rose by a rather notable 9% for 2011 as a whole due to the hefty gain in the early part of the year.*
- *The Government's various measures to ensure a stable and healthy development of the residential property market have achieved noticeable results in curbing speculation and preventing excessive growth of mortgage lending during the year. On flat supply, a total of 21 residential sites were disposed in 2011, and the total flat supply over the next few years rose to 62 000 units as estimated at end-2011.*
- *In October the Chief Executive announced in the 2011-12 Policy Address the resumption of the Home Ownership Scheme and enhancements to the My Home Purchase Plan to help low and middle-income families buy their own homes.*
- *Alongside a more cautious sentiment, the commercial and industrial property markets likewise eased towards the latter part of the year, with dwindled trading activities and some stabilisation in prices and rentals.*
- *Inbound tourism stayed sturdy in 2011, thanks to further marked growth in Mainland visitors. The total number of visitor arrivals leapt by another 16.4% to a record high of 41.9 million. Visitor spending surged in tandem, providing an important source of growth driver to the local economy at a time when external trade was faltering.*
- *The logistics sector was however more severely affected by the slowdown in external trade. Container throughput moderated towards the end of the year. Air freight throughput relapsed to a decline starting the second quarter, cumulating to a 4.6% decline in 2011.*

Property

4.1 The *residential property market* started the year with further price upsurge amid bullish sentiment and broad-based improvements in the labour market. However, sentiment turned much more cautious since June, dented by successive negative developments, first the increasing worries over the sluggish growth in the advanced economies, then the escalation of the European debt crisis and increasing evidence that the fragilities in the advanced economies would hurt Asia's growth momentum. The successive hikes in mortgage rates by the local banks also added to the cautious sentiment.

4.2 Trading activities came down to a more normal level in the first half of 2011 following the introduction of the Special Stamp Duty (SSD) in November 2010, and turned very subdued in the second half in face of an increasingly uncertain market outlook. The number of sale and purchase agreements for residential property received by the Land Registry plunged by 38% from the high base last year to 84 462 in 2011. Both primary and secondary market transactions plummeted. Transactions also decreased across all major consideration ranges. In parallel, total consideration declined by 21% to \$442.5 billion.

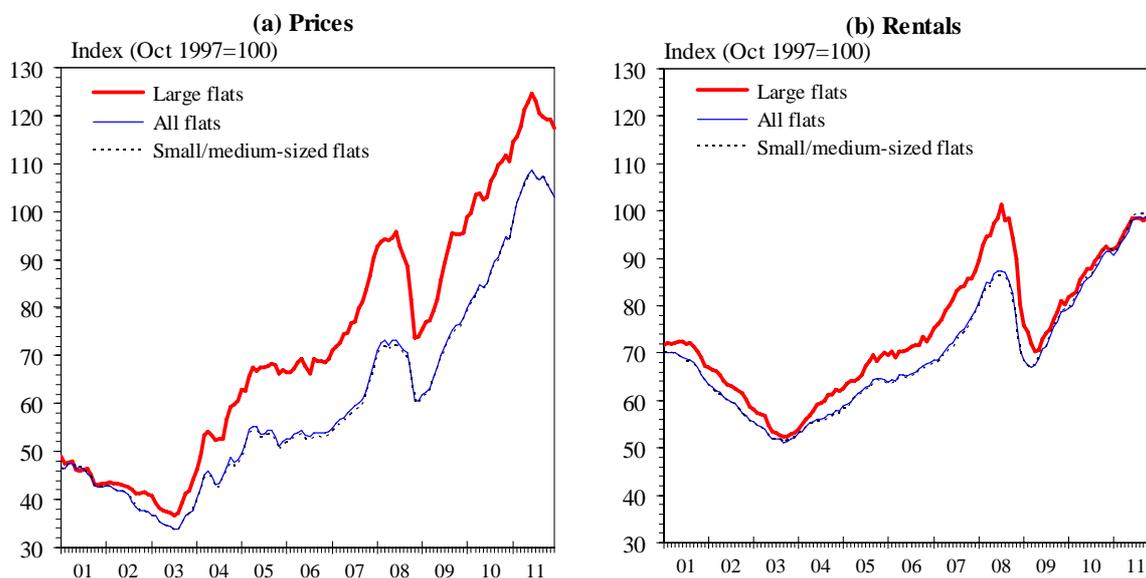
Diagram 4.1 : Trading in the residential property market contracted in 2011



4.3 As the earlier bullish sentiment switched to a more cautious tone, residential property prices fell by 5% between June and December, yet still rose by 9% between December 2010 and December 2011 due to the hefty gain in the first few months of the year. Downward price pressures were apparent across flats of all sizes, with prices of small/medium-sized flats down by 5% and those of large flats by 6% during the second half. For the year as a whole, there were however still price increases of 9% and 6% respectively. Also, when compared to the peak in 1997, overall flat prices in December 2011 were 3% higher, with prices of large flats exceeding the peak by a sharp 17%.

4.4 The leasing market also turned steadier towards the end of 2011, after staying generally buoyant through most part of the year. Overall flat rentals in December 2011 rose by 7% over a year earlier, though the gain concentrated in the first three quarters. Rentals of both large flats and small/medium-sized flats recorded similar increases of 7%. Following the surge since mid-2009, overall flat rentals in December 2011 were only 2% below the peak in 1997. The average rental yield for residential property hovered at a low level of 3.4% in December 2011, little changed from a year earlier.

Diagram 4.2 : Flat prices retreated in the second half, while rentals turned steadier towards end of the year



Note : Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m², and small/medium-sized flats with a saleable area of less than 100 m².

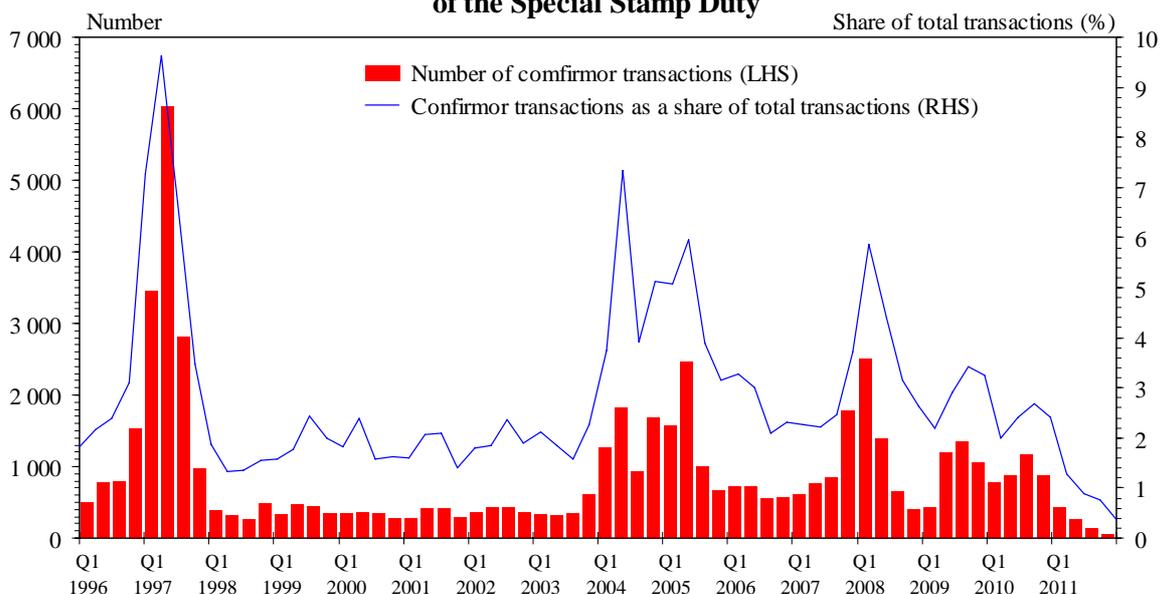
4.5 The Government has always been mindful of the ramifications that wild fluctuations in property prices would have on overall macroeconomic and financial stability. To ensure a healthy and stable development of the property market, the Government has introduced a series of measures since early 2010 along four directions, viz. raising flat supply through increasing the land supply, curbing speculative activities, preventing excessive growth of mortgage lending and increasing transparency of the property market. Following through these efforts, in April, June, September and December 2011 the Government successively announced the quarterly land sale programmes in order to sustain the momentum of supplying steady and sufficient land to the market. Also, in June the Hong Kong Monetary Authority (HKMA) further tightened the mortgage lending standards, the fourth time since October 2009. In October the Chief Executive announced in the 2011-12 Policy Address the resumption of the Home Ownership Scheme and enhancements to the My Home Purchase Plan, to help low and middle-income families buy their own homes⁽¹⁾.

4.6 The various measures have yielded noticeable results. Regarding *flat 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) increased from 59 000 units as estimated at end-2010 to 62 000 units as estimated at end-2011. In addition, another 6 500 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.

4.7 *Speculative activities* virtually vanished after the introduction of the SSD in November 2010. Confirmor transactions plunged by 76% to 883 cases in 2011, and its share in total transactions shrank to a meagre 0.9%. As regards *mortgage lending*, following the tightening of lending standards by the HKMA, the average loan-to-value ratio of new mortgages fell from 60.2% in 2010 to 54.7% in the first eleven months of 2011. With a view to better managing credit risks, the major banks tightened their mortgage lending terms and raised the margin for the HIBOR-based mortgage loans up to six times in the year.

4.8 Regarding *market transparency*, in November 2011 the Transport and Housing Bureau launched a two-month public consultation exercise on the proposed legislation to regulate the sale of first-hand residential properties, which was primarily based on the recommendations of the Steering Committee on the Regulation of the Sale of First-hand Residential Properties by Legislation⁽²⁾.

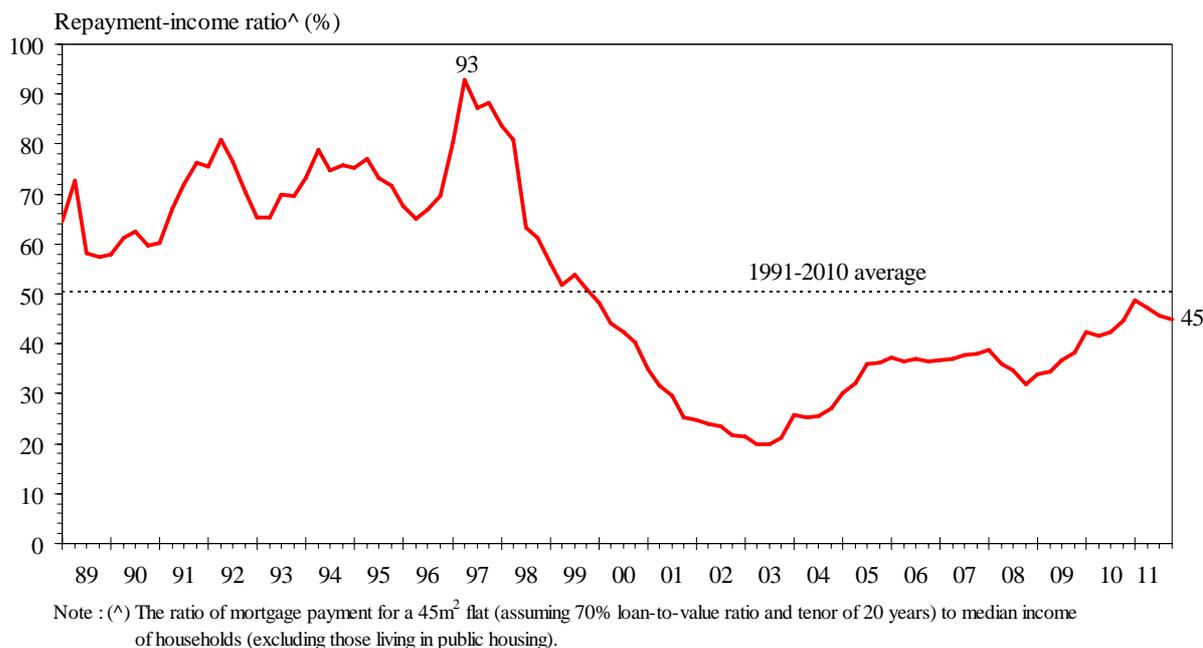
Diagram 4.3 : Speculative activities virtually vanished following the introduction of the Special Stamp Duty



Note : Confirmor transactions refer to resale before assignment.

4.9 Notwithstanding the recent market consolidation, the Government remains vigilant to the risk of a property market bubble. Following the surge in the past few years, flat prices have soared by a cumulative 70% over the trough in late 2008. 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) remained elevated at 45% in the fourth quarter of 2011, and would exceed the long-term average of 50% over 1991-2010 should interest rates return to a more normal level. Moreover, 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.

Diagram 4.4 : The mortgage payment to income ratio remained elevated



4.10 The *commercial* and *industrial property markets* were buoyant in the first three quarters of 2011, but also eased in the latter part of the year with prices and rentals either increasing at a moderated rate or even switching to a decline. In the first eleven months, transactions for *office space* fell by 12% from the high base a year earlier to 2 930 cases. While overall prices of office space in November 2011 were 17% higher than in December 2010, monthly declines were in fact recorded in September to November. Within the total, prices of Grade A, B and C office space went up by 13%, 18% and 24% respectively between December 2010 and November 2011. Overall office rentals rose by a cumulative 15% over the period, with Grade A, B and C office space registering gains of 18%, 10% and 11% respectively. The uptrend in rentals likewise slowed towards the year-end in tandem with heightened external uncertainties and the looming economic slowdown. The average rental yields for Grade A office space edged up from 3.1% in December 2010 to 3.3% in November 2011, while those for Grade B and C office space declined from 3.5% and 3.8% respectively to both 3.4% .

4.11 Transactions for *retail shop space* likewise retreated, by 21% from a year earlier to 5 630 cases in the first eleven months⁽³⁾. Between December 2010 and November 2011, prices still surged by 17%, though rentals rose by a more moderate 9%. The average rental yield for retail shop space declined from 3.2% in December 2010 to 3.0% in November 2011.

4.12 For *flatted factory space*, transactions declined by 2% from a year earlier to 7 320 in the first eleven months of 2011. Prices and rentals rose further by 22% and 9% respectively between December 2010 and November 2011, leading to a decline in average rental yield from 4.3% to 3.8%.

Diagram 4.5 : Transactions for commercial and industrial property fell in the first eleven months of 2011

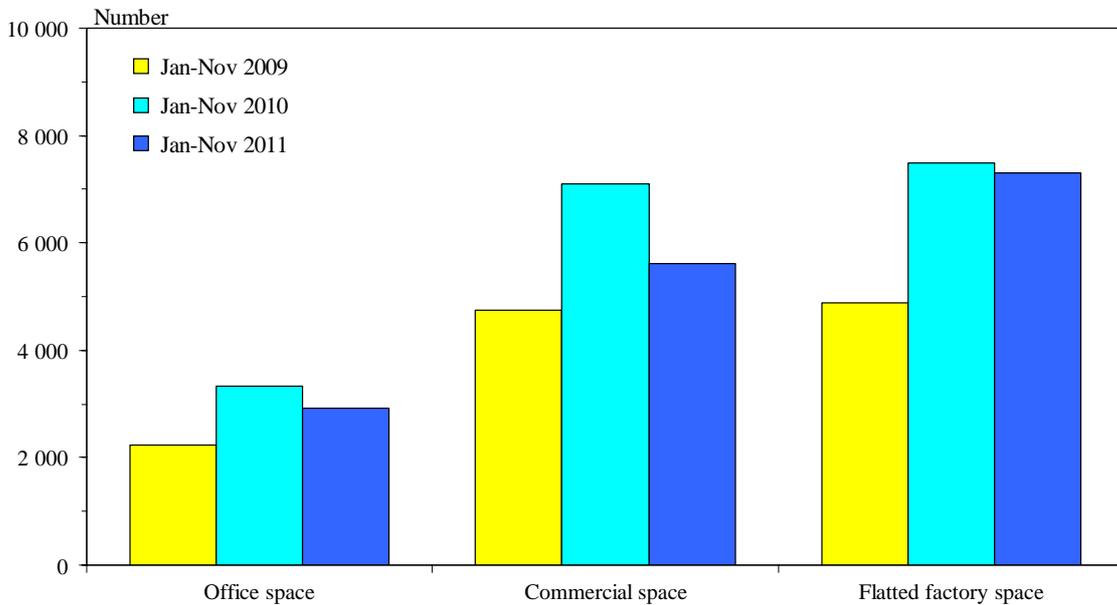
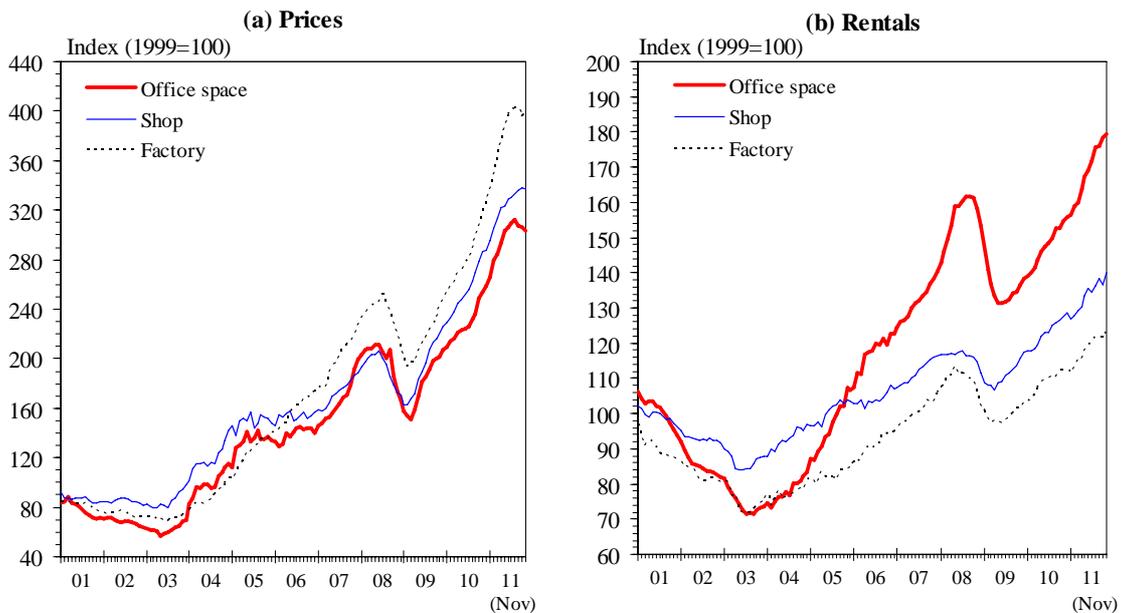


Diagram 4.6: Prices and rentals of non-residential properties rose rapidly during the first three quarters, but showed signs of tapering thereafter



Land

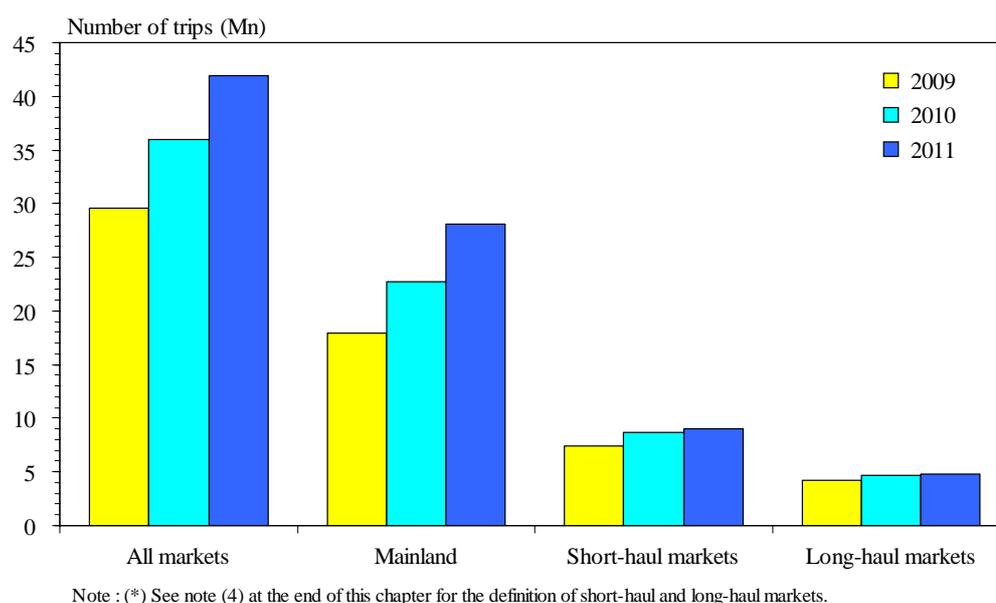
4.13 Reflecting the ongoing Government efforts to increase land supply, 33 land sites with a total area of 25.9 hectares were sold in 2011, fetching land premium of \$59.8 billion in total. Among these sites, 21 were residential, residential/commercial and residential/commercial-cum-hotel sites, six were commercial/business sites, three were petrol filling stations and three were hotel sites. In December, the tender exercises for two residential sites in Tseung Kwan O and Tuen Mun and one logistics services site in Tsing Yi also commenced.

4.14 Regarding exchange of land, 10 sites with a total area of 26.0 hectares were approved in the year. Among the approved cases, six were designated for private residential property development. As to lease modifications, 71 sites were approved, of which 39 were for residential use.

Tourism

4.15 The inbound tourism sector stayed sturdy in 2011, though performance of different market segments was mixed. Overall *visitor arrivals* leapt by another 16.4% to a record 41.9 million. The Mainland market remained the principal growth impetus, with visitor arrivals from this source surging by 23.9% to 28.1 million, and accounting for 67% of the total. The growth momentum in visitors from the other markets, especially those from the US and Europe, was however far less impressive. Mirroring this, visitor arrivals from the long-haul markets only edged up by 1.7% while those from the short-haul markets rose by a moderate 4.6%⁽⁴⁾. Analysed by length of stay, the growth in same-day visitors, at 24.8%, continued to outpace that of overnight visitors, at 9.7%. As a result, the share of same-day visitors in total arrivals picked up further from 44.3% in 2010 to 47.4% in 2011, while the share of overnight visitors declined from 55.7% to 52.6%.

**Diagram 4.7 : Incoming tourism stayed sturdy
on the back of a surge in Mainland visitors**



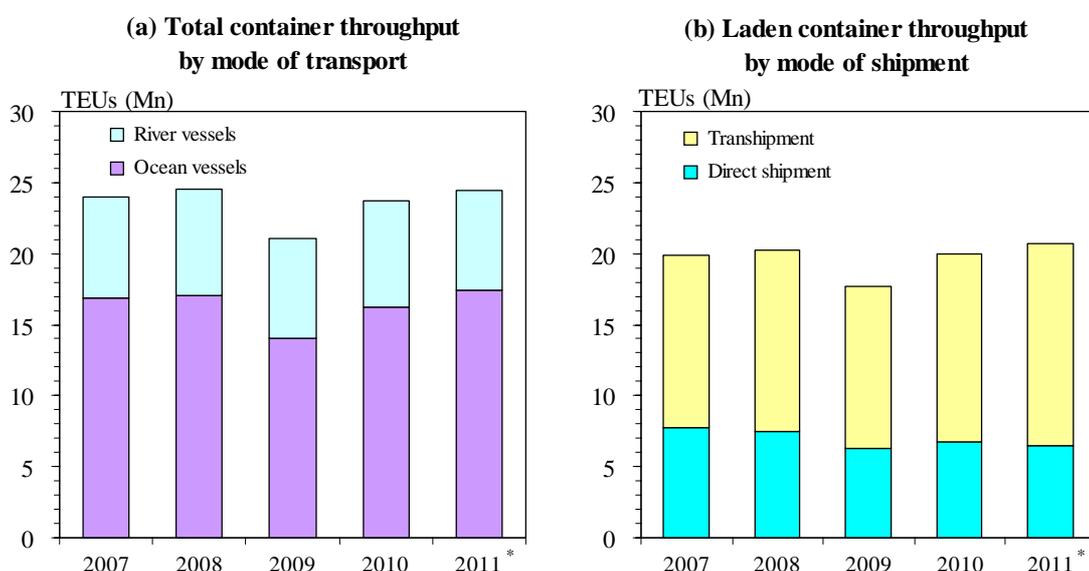
4.16 The average hotel room occupancy rate climbed further from 86% a year earlier to 89% in the first eleven months of 2011, and the average achieved hotel room rate jumped by 16.4% over the same period to \$1,339⁽⁵⁾. In tandem with the surge in visitors, visitor spending as reflected by the exports of travel services had another year of strong growth (paragraph 1.4), thereby providing an important growth source to the local economy at a time when external trade was severely affected by the fragilities in the advanced economies.

4.17 Following the earlier public consultation, in December the Government announced the proposed way forward for reforming the regulatory regime of the tourism sector. To instil a higher degree of independence, credibility and transparency of the current regulatory framework, the Government proposed to set up an independent statutory body, tentatively named the Travel Industry Authority, with non-trade members constituting the majority of its Board, as the overall regulatory body to perform the current regulatory and licensing functions of the Travel Industry Council of Hong Kong and the Travel Agents Registry. The Government also proposed to raise the minimum capital requirement for Travel Agents Licences and to introduce a statutory licensing system for tourist guides and tour escorts to help sustain a healthy development of the sector. The Government targets to introduce draft new legislation into the Legislative Council in about two and a half years.

Logistics

4.18 The logistics sector was more severely affected by the slowdown in external trade. *Total container throughput* grew by a mild 3.0% to 24.4 million TEUs in 2011. Within the laden container throughput, transshipment increased by 7.7% while direct shipment actually fell by 4.5%. The value of trade handled at the Hong Kong Port rose by 10.0%, but its share in overall trade value edged down from 26.9% in 2010 to 26.7% in 2011.

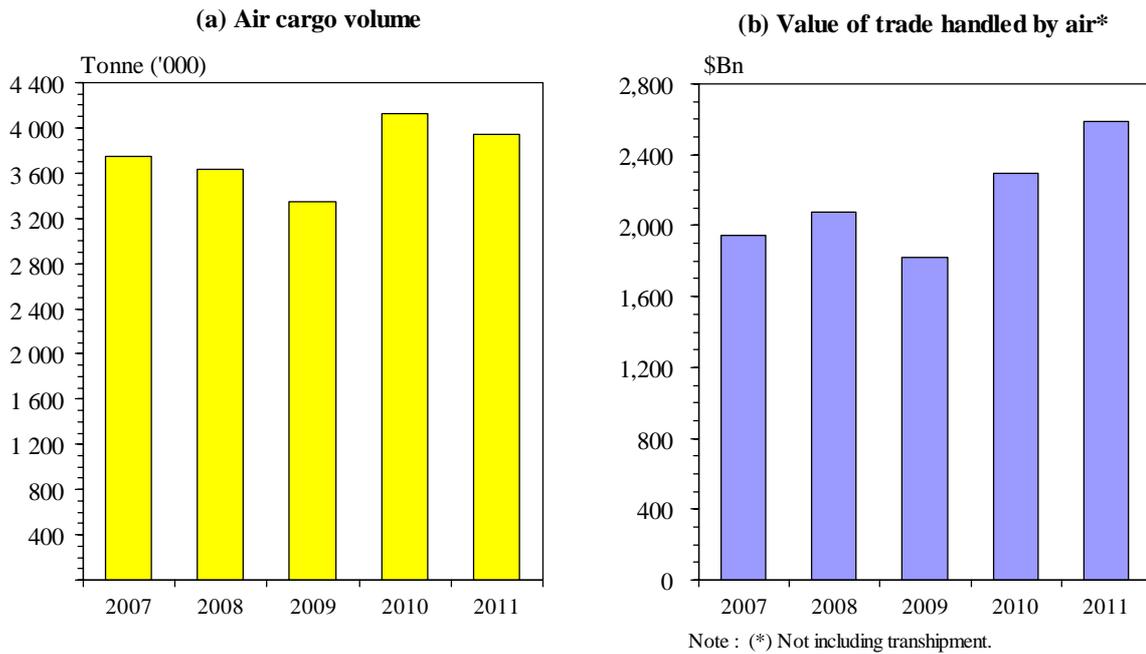
Diagram 4.8: Container throughput registered modest growth



Note : (*) Total container throughput for 2011 is the preliminary estimate by Hong Kong Port Development Council. Its breakdowns by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first ten months of 2011.

4.19 *Air freight throughput* contracted by 4.6% to 3.9 million tonnes in 2011, similarly affected by the fall-off in trade in the second half of the year. Also relevant were the temporary disruptions in air cargo to/from Japan after the earthquake and nuclear crisis in March. The total value of trade by air still expanded by 12.9% in 2011, and its share in overall trade value climbed further from 35.8% to 36.4%.

Diagram 4.9 : Air cargo volume declined but the value of trade by air rose further



Transport

4.20 Traffic flows for most major modes of transport recorded solid growth in 2011. Air passenger traffic rose by 5.9% to 53.9 million, and water-borne passenger trips by 5.5% to 27.3 million. As to land-based cross-boundary traffic movements, average daily passenger trips notched up by 4.8% to 522 200 while average daily vehicular movements edged down by 0.8% to 42 800.

4.21 Further progress was achieved in several transport infrastructure projects in 2011. For cross-boundary projects, construction of the Hong Kong-Zhuhai-Macao Bridge (HZMB) Hong Kong Boundary Crossing Facilities (HKBCF) commenced in late 2011. Located at the north-eastern waters off Hong Kong International Airport and linked to the strategic road network leading to the New Territories, the HKBCF will provide efficient and convenient services to inbound and outbound passengers and vehicles, and also serve as a strategic multi-modal transportation hub for Hong Kong, Zhuhai and Macao. The HKBCF is expected to complete for commissioning the HZMB Main Bridge in 2016.

4.22 On the domestic front, the first and second stage amendments to the railway scheme of the Shatin to Central Link were gazetted in July and November respectively to take into account the views and concerns of the public and stakeholders. The Government plans to complete the statutory process in early 2012 with a view to commencing the construction works within 2012. Separately, the construction works for the South Island Line (East) and Kwun Tong Line Extension commenced in mid-2011 for completion by 2015.

Creativity and innovation

4.23 The West Kowloon Cultural District (WKCD) Authority exhibited information on the proposed Development Plan (DP) for the WKCD in the Stage 3 Public Engagement exercise during September to October 2011. There was strong support for the overall layout of the proposed DP as well as the early implementation of the WKCD project. The DP, based on the “City Park” concept proposed by Foster+Partners and taking into account views from the public and stakeholders, was submitted to the Town Planning Board on 30 December 2011 for consideration. The statutory planning process is targeted to complete in early 2013. To commence construction works once the process is completed, the WKCD Authority is preparing for design competitions for a number of signature facilities in the WKCD.

Environment

4.24 The Motor Vehicle Idling (Fixed Penalty) Ordinance came into effect on 15 December 2011. Under the Ordinance, drivers are prohibited from leaving their vehicle engines idling for more than three minutes in any 60-minute period except under certain traffic or weather conditions or for some motor vehicles that require engines to be kept on for proper operation or reasonable service requirements. Through banning unnecessary idling of engines, the Ordinance can effectively reduce the air pollution, heat and noise nuisances generated at roadside.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011.
- (2) On 10 October 2011, 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 2011, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 67%, 22% and 11% of total visitors.
- (5) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

CHAPTER 5 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong generally continued through 2011 amid the ongoing accommodative monetary policy in the United States. Yet interest rates at the retail level have gradually crawled up from an extremely low base, with major banks raising the margin for the HIBOR-based mortgage rates several times since March.*
- *The Hong Kong dollar spot exchange rate strengthened slightly against the US dollar, despite the fluctuations in the second half of the year stemming from heightened external uncertainties. Meanwhile, the trade-weighted Hong Kong dollar Effective Exchange Rate Indices declined in the first half, but subsequently recouped some of the lost grounds alongside a rebound in the US dollar.*
- *Loans and advances continued to pose rapid growth in the first half, but the pace decelerated thereafter along with the economic slowdown. Also relevant were the review of risk management in the banking sector announced by the Hong Kong Monetary Authority (HKMA) in April and later the introduction of further prudential measures on mortgage lending in June. Reflecting the brisk growth in loans and the moderate rise in deposits, the Hong Kong dollar loan-to-deposit ratio rose to 85.5% at end-November 2011, the highest since October 2005.*
- *The local stock market mostly moved sideways in the first seven months of the year but suffered a major setback since August in face of heightened risks in the external environment. The Hang Seng Index closed the year at 18 434, representing a decline of 20.0% over a year earlier. Fund raising activities also turned quieter, with a noticeable retreat in the amount of equity funds raised.*

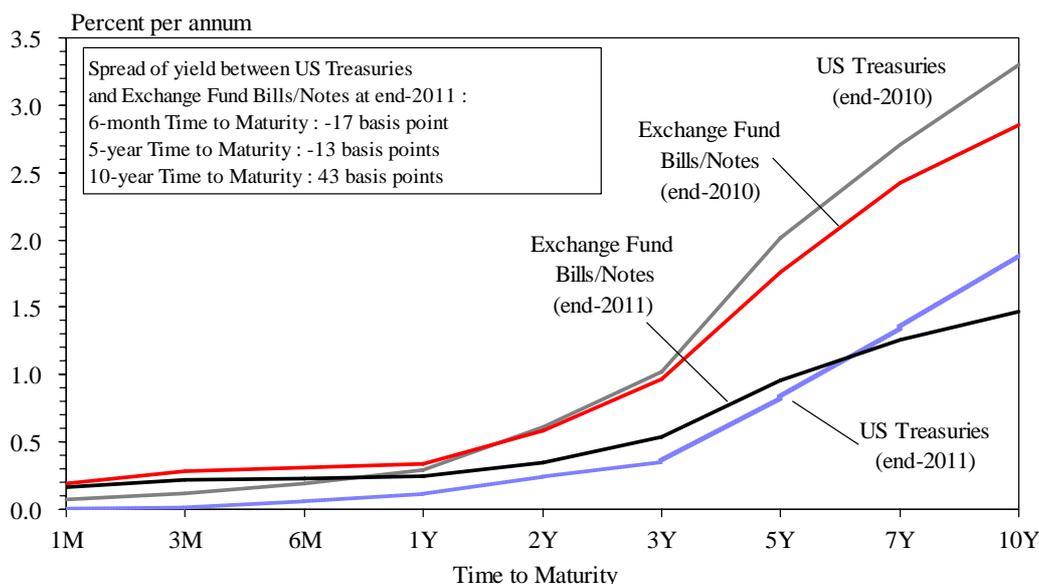
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.

Interest rates and exchange rates

5.1 As the United States maintained an accommodative monetary policy, the low interest rate environment in Hong Kong continued through 2011. With the US Federal Funds Target Rate staying at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA remained stable at 0.5% during the year⁽¹⁾. Similarly, the *Hong Kong dollar interbank interest rates* remained generally low, with the overnight and three-month HIBORs hovering at 0.13% and 0.33% respectively at end-2011.

5.2 The *US dollar yield curve* flattened noticeably, especially in the second half of 2011, partly due to increasing safe-haven demand for US government bonds in face of the sluggish growth in advanced economies and the deteriorating European debt problems, and partly due to the announcement of the maturity extension program by the Federal Open Market Committee⁽²⁾. The *Hong Kong dollar yield curve* likewise flattened. Reflecting these movements, the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes narrowed slightly from 44 basis points at end-2010 to 43 basis points at end-2011 while the positive spread between 6-month Exchange Funds Bills and 6-month US Treasury Bills widened from 12 basis points to 17 basis points.

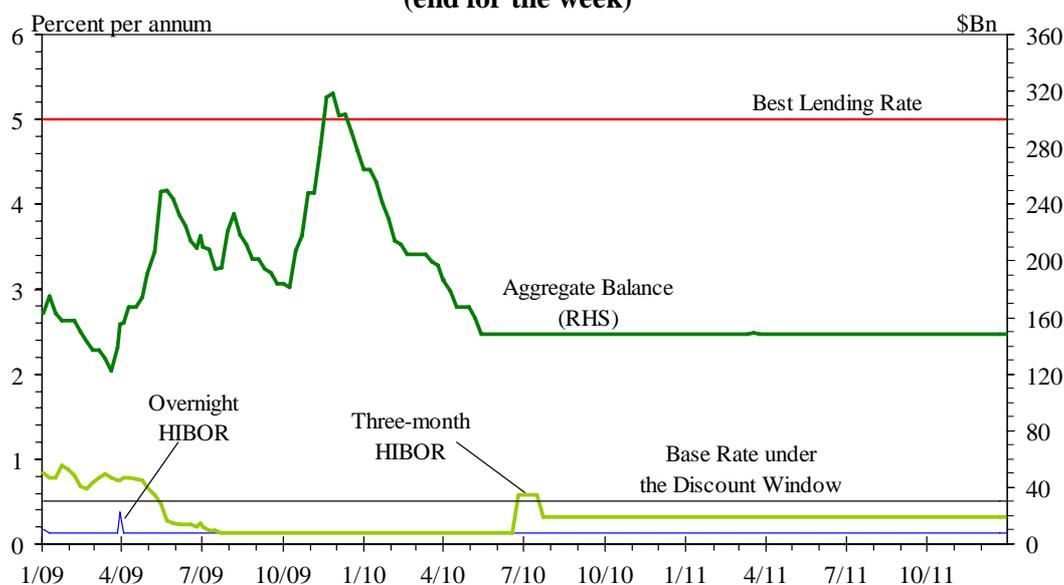
Diagram 5.1 : Both the Hong Kong dollar and US dollar yield curves flattened in 2011



5.3 Interest rates at the retail level also stayed low, but have gradually crawled up from an extremely low base over the course of the year. The *Best*

Lending Rates remained unchanged at 5.00% or 5.25%, but the major banks have raised the interest margins for their mortgage loans several times since March. Specifically, the margin for HIBOR-based mortgage loans has notched up from 0.6-0.9 percentage point in early 2011 to around 2.2-3.0 percentage points at end-2011. While 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) showed little movement and stayed at 0.01% and 0.16% respectively in December 2011, reportedly many banks raised their term deposit rates for new customers in the second half to attract large and longer-term deposits. The *composite interest rate*, which reflects the average cost of funds for banks, hence picked up from 0.21% at end-2010 to 0.48% at end-November 2011, though still a low level by historical standards⁽³⁾.

Diagram 5.2 : Hong Kong dollar interest rates generally stayed low through 2011 (end for the week)

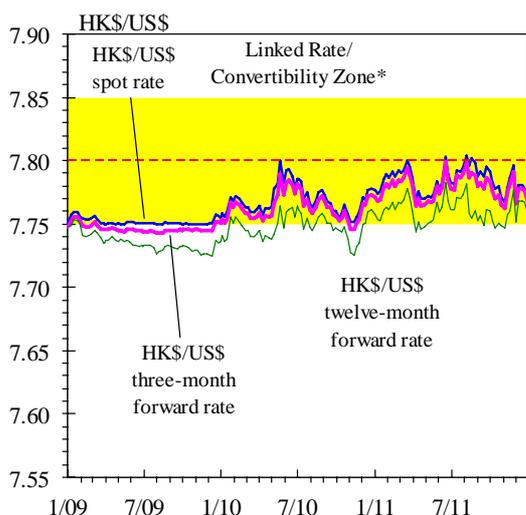


5.4 The Hong Kong dollar spot exchange rate against the US dollar closed at 7.766 at end-2011, slightly stronger than the 7.775 at end-2010. Yet this concealed the fluctuations in the second half of the year stemming from rising external uncertainties, from a low of 7.761 to a high of 7.809. The discounts of the *3-month* and *12-month Hong Kong dollar forward rates* once widened sharply in the second half, before gradually reverting to 31 and 138 pips respectively at end-2011, compared with 57 and 191 pips at end-2010.

5.5 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

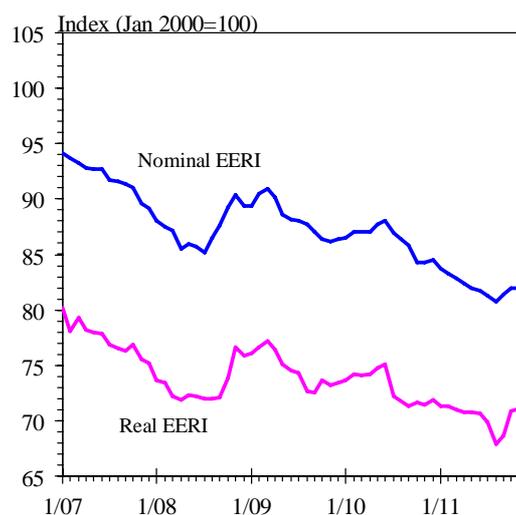
the first half of 2011, but recouped some of the lost grounds in the second half on increasing safe-haven demand for the US dollar. Reflecting these movements, the *trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index* only declined by 2.5% during 2011, and the real index by 1.0% between December 2010 and November 2011⁽⁴⁾.

Diagram 5.3 : Hong Kong dollar strengthened slightly against the US dollar, despite some fluctuations during the year (end for the week)



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

Diagram 5.4 : Trade-weighted EERIs declined in the first half but rebounded in the second half (average for the month)*



Note : (*) The real EERI is only available up to Nov-2011.

Money supply and banking sector

5.6 The Hong Kong dollar monetary aggregates maintained solid growth in 2011, though the increase was mostly seen during the first half. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by 6.0% over end-2010 to \$760 billion at end-November 2011⁽⁵⁾. The broad money supply (HK\$M3) also expanded by a decelerated 3.8% to \$4,024 billion. Meanwhile, *total deposits* with authorized institutions (AIs) grew by 9.7% to \$7,528 billion, with foreign currency deposits growing at a much faster rate than Hong Kong dollar deposits⁽⁶⁾.

Diagram 5.5 : The monetary aggregates maintained solid growth in the first half of 2011, but the pace decelerated in the second half

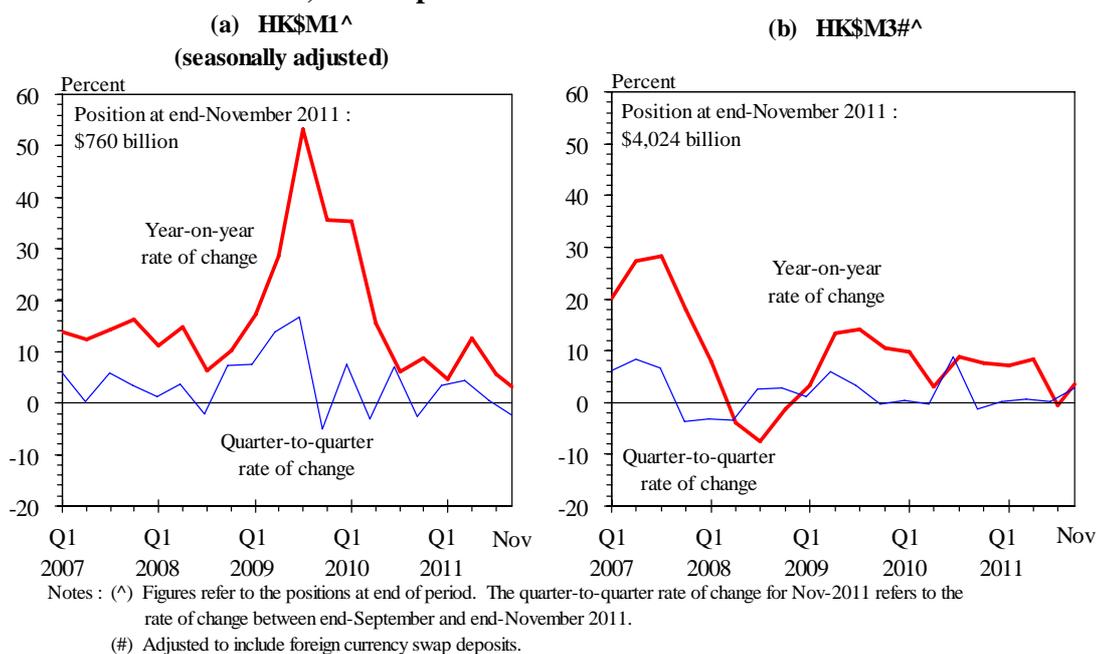


Table 5.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		HK\$ [^]	Total	HK\$ ^(a)	Total	HK\$ ^(a)	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
	Nov [#]	-2.3	0.2	2.8	2.9	2.8	2.9
Total amount at end-November 2011 (\$Bn)		760	1,122	4,016	7,997	4,024	8,017
% change over end-2010		6.0	10.3	3.9	12.1	3.8	12.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than $\pm 0.05\%$.

(#) % change between end-September and end-November 2011.

5.7 *Total loans and advances* continued to pose rapid growth in the first seven months of the year amid robust Mainland-related loan demand, but the pace moderated thereafter along with the economic slowdown. Also relevant were the review of better credit and liquidity risks management in the banking sector announced by HKMA in April as well as the introduction of the fourth round of prudential measures on mortgage lending in June. Total loans jumped by 21.0% over end-2010 to \$5,117 billion at end-November 2011 (comprising Hong Kong dollar loans of \$3,175 billion and foreign currency loans of \$1,942 billion), with the gain recorded mainly in the first half. Within the total, loans for use in Hong Kong grew by 15.7% to \$3,775 billion while loans for use outside Hong Kong surged by 39.1% to \$1,343 billion. Given the brisk growth in loans and the moderate rise in deposits, the Hong Kong dollar loan-to-deposit ratio rose visibly from 78.1% at end-2010 to 85.5% at end-November 2011, the highest since October 2005.

5.8 Within loans and advances for use in Hong Kong, lending to most major sectors expanded at a brisk pace in the first half, but generally slowed in the third quarter. Between end-2010 and end-September 2011, loans to wholesale and retail trade and trade financing surged by 40.9% and 30.8% respectively, but growth slowed sharply between June and September in line with the faltering external trade. Loans to building, construction, property development and investment and loans for purchase of residential property also recorded solid growth of 9.8% and 6.7% respectively, but again the pace tapered in the third quarter amid the property market consolidation.

Table 5.2 : Loans and advances

All loans and advances for use in Hong Kong

		Loans to :									Total loans and advances
		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property and development investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	
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	5.9	6.4	1.3	3.0	1.2	-83.1	0.4	10.2	2.5
2011	Q1	13.0	7.4	17.0	4.2	2.4	13.2	25.7	7.1	8.6	7.4
	Q2	11.7	5.9	16.6	2.2	3.1	-1.4	9.5	4.4	11.9	6.1
	Q3	3.7	4.4	3.3	3.1	1.1	10.4	-20.1	2.4	10.5	4.4
Total amount at end-September 2011 (\$Bn)		358	193	323	908	850	289	20	3,734	1,296	5,030
% change from end-2010		30.8	18.8	40.9	9.8	6.7	23.2	10.0	14.5	34.3	19.0

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

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

5.9 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II"), the capital adequacy ratio (CAR) of these institutions stayed high at an average of 15.7% at end-September. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA. In addition, Hong Kong has completed the legislative process for implementation of the enhancements to Basel II introduced by the Basel Committee in July 2009 ("Basel 2.5")⁽⁷⁾. The Banking (Capital) (Amendment) Rules 2011 and the Banking (Disclosure) (Amendment) Rules 2011 have come into effect on 1 January 2012 in line with the Basel Committee's timetable.

5.10 Following the release of the Basel III rules text by the Basel Committee in December 2010, 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⁽⁸⁾. 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 consulted the industry on its proposed amendments to the Banking Ordinance in October. The Banking (Amendment) Bill was gazetted in December, and subsequently introduced into the Legislative Council. The HKMA anticipates enactment of the 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.

5.11 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 has commenced another round of QIS to assess the impact of the new Basel III requirements on AIs.

5.12 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans declined from 0.77% at end-2010 to a record-low of 0.60% at end-September 2011, and the delinquency ratio for credit card lending from 0.20% to 0.18%. The delinquency ratio for residential mortgage loans hovered at a low level of around 0.01% through 2011.

Table 5.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
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
Q3	98.21	1.19	0.60

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

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

5.13 Renminbi (RMB) business in Hong Kong expanded further in 2011 on the back of a series of significant policy breakthroughs. In January the People's Bank of China (PBoC) launched a pilot scheme for the settlement of overseas direct investments in renminbi. Then the Central Government stated in the 12th National Five-Year Plan promulgated in March 2011 its support for Hong Kong's development as an offshore renminbi business centre, and subsequently announced a series of supportive measures in August, including the further expansion of the renminbi trade settlement scheme, support for the use of RMB for foreign direct investments in the Mainland, and the introduction of a renminbi Qualified Foreign Institutional Investors scheme for investing in the Mainland's securities markets. Later in November, the PBoC and the HKMA signed a renewed currency swap agreement for a term of another three years, with its size expanding to RMB400 billion/HK\$490 billion. These measures would deepen the development of the offshore renminbi market in Hong Kong and also expand the channels for the flow and circulation of renminbi funds between Hong Kong and the Mainland.

5.14 Reflecting the ongoing expansion in the renminbi trade settlement scheme, the value of *renminbi cross-border trade settlement handled by banks* in Hong Kong soared to RMB1,675.9 billion in the first eleven months of 2011, more than quadrupling the RMB369.2 billion for the entire 2010. Thanks to the rapid increase in corporate RMB deposits, *RMB deposits* in Hong Kong jumped from RMB314.9 billion at end-2010 to RMB627.3 billion at end-November 2011. With a diversified base of investors and issuers, *RMB bond* issuance expanded to RMB99 billion in the first eleven months, more than doubling the total of last year.

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

<u>As at end of period</u>		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	<u>Interest rates on^(a)</u>		Number of authorized institutions engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
					Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
2010	Q1	44,609	26,145	70,755	0.46	0.68	73	4,163
	Q2	52,426	37,275	89,702	0.46	0.68	77	22,974
	Q3	71,947	77,378	149,326	0.46	0.68	92	78,856
	Q4	117,573	197,365	314,938	0.46	0.68	111	263,238
2011	Q1	137,454	313,965	451,419	0.46	0.66	118	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
	Nov	186,986	440,317	627,302	0.28	0.52	132	346,452 ^(d)
% change from end-2010		59.0	123.1	99.2	N.A.	N.A.	N.A.	N.A.

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

(b) Period average figures.

(c) Figures during the period.

(d) Figures for October and November 2011.

N.A. Not available.

The debt market

5.15 The Hong Kong dollar debt market expanded further in 2011⁽⁹⁾. In the first eleven months, total gross issuance of Hong Kong dollar debt securities expanded by 5.7% over a year earlier to \$1,907 billion. Within the total, debt issued by public sector rose by 4.4% and by private sector by a sharper 20.8%. The total outstanding balance of Hong Kong dollar debt ascended by 1.5% over end-2010 to \$1,264.5 billion at end-November 2011, equivalent to 31.8% of HK\$M3 or 25.1% of Hong Kong dollar-denominated assets of the entire banking sector⁽¹⁰⁾.

5.16 As to the Government Bond (“GB”) Programme, a total worth of \$17.5 billion institutional bonds, with tenors ranging from two to ten years, were issued in 2011. Within the total, two institutional bond tenders were held in the fourth quarter, namely a \$3 billion 3-year re-opening in November and a new \$2.5 billion 5-year GB in December. Daily turnover for the period of January to November 2011 averaged at \$5.73 billion, equivalent to a turnover ratio of 19%⁽¹¹⁾, and the outstanding size of institutional GBs amounted to \$38.0 billion at end-2011. Apart from the institutional bonds, the GB Programme

also consists of a retail part. A \$10 billion 3-year inflation-linked bond, or the iBond, was issued to Hong Kong residents in July 2011. The iBond, being the inaugural retail issue under the GB Programme, was well-received by investors.

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

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New Issuance											
2010	Annual	1,816.8	11.2	18.5	1,846.4	103.6	13.4	32.3	149.2	0.3	1,996.0
	Q1	437.4	2.8	6.0	446.2	27.0	4.3	7.3	38.6	-	484.9
	Q2	456.5	3.6	4.5	464.6	19.7	3.2	6.9	29.8	0.3	494.6
	Q3	458.7	1.2	3.5	463.4	28.4	2.8	8.6	39.8	-	503.2
	Q4	464.1	3.6	4.5	472.3	28.4	3.2	9.4	41.0	-	513.3
2011	Jan-Nov	1,694.4	17.5	25.0	1,737.0	128.8	23.7	17.5	170.1	-	1,907.0
	Q1	452.9	4.8	3.5	461.2	32.8	6.1	5.0	43.8	-	505.0
	Q2	459.4	4.4	2.5	466.4	39.9	9.0	5.5	54.3	-	520.7
	Q3	462.0	6.5	16.0	484.5	35.1	3.6	3.2	41.8	-	526.3
	Oct-Nov	320.2	1.8	3.0	324.9	21.0	5.1	3.9	30.0	-	355.0
2011	Jan-Nov	3.5	71.9	56.3	4.4	32.3	90.2	-43.4	20.8	-	5.7
% change over a year earlier											
Outstanding (as at end of period)											
2010	Q1	612.5	64.9	13.0	690.4	199.0	82.6	196.4	478.0	21.1	1,189.5
	Q2	651.4	61.9	17.5	730.8	195.4	84.1	188.6	468.2	18.4	1,217.4
	Q3	652.1	60.8	21.0	733.8	207.3	85.2	187.8	480.3	15.9	1,230.1
	Q4	653.1	60.6	25.5	739.2	218.7	84.9	187.3	490.9	15.5	1,245.7
2011	Q1	653.8	58.6	29.0	741.4	235.6	86.8	187.0	509.4	15.1	1,265.8
	Q2	654.4	52.6	31.5	738.5	244.4	93.0	179.0	516.5	14.7	1,269.7
	Q3	654.8	53.0	44.0	751.8	244.3	94.1	172.8	511.2	14.7	1,277.7
	Nov	655.0	50.3	47.0	752.3	233.9	95.5	168.1	497.5	14.7	1,264.5
% change over end-2010		0.3	-17.0	84.3	1.8	7.0	12.5	-10.3	1.3	-5.2	1.5

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

5.17 The *local stock market* moved sideways in the first seven months of 2011, but suffered a major setback since August in face of heightened risks in the external environment. Concerns over tapering growth in the advanced economies and escalating European debt problems sent shockwaves to the local stock market. Also relevant was the growth moderation in the Mainland economy. The *Hang Seng Index* (HSI) once fell to 16 250 on October 4, the lowest closing since May 2009. While it rebounded to 20 019 on October 28, it subsequently closed at 18 434 at end-2011, 20.0% lower than a year earlier. In parallel, *market capitalisation* of the Hong Kong stock market contracted by 16.8% to \$17.5 trillion, though it remained the seventh largest bourse globally and the third largest in Asia⁽¹²⁾.

5.18 Meanwhile, trading activities were relatively steady during most of 2011, though showing some retreat in the fourth quarter. *Average daily turnover* in the securities market edged up by 0.9% to \$69.7 billion in 2011. Notwithstanding the contraction in the fourth quarter against a high base of comparison, trading of *derivatives products* still witnessed a notable growth for the year as a whole. Average daily trading volume of futures and options expanded by 22.3%⁽¹³⁾, with across-the-board increases for all major products. Trading of HSI options and stock options surged by 26.6% and 22.8% respectively, while trading of H-shares Index futures and HSI futures also recorded substantial growth of 21.9% and 10.9%. Average daily trading value of securitised derivatives products went up by 9.4%, with the surge of 28.8% in callable bull/bear contracts more than offsetting the slight decline of 1.1% in derivative warrants.

Diagram 5.6 : The Hang Seng Index suffered a major setback since August 2011

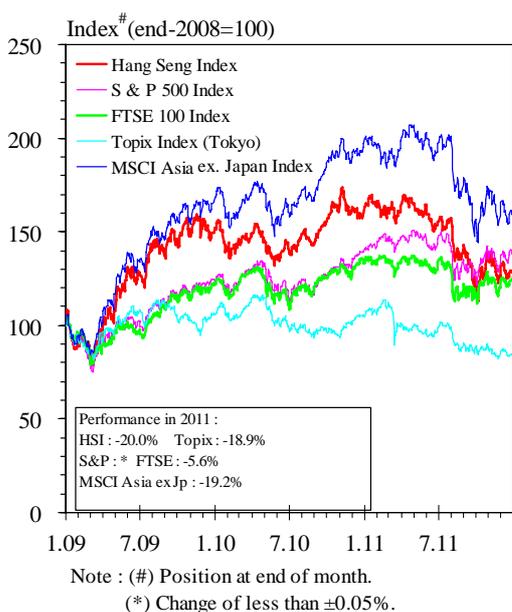


Diagram 5.7 : Market capitalisation contracted but trading activities were relatively steady in 2011

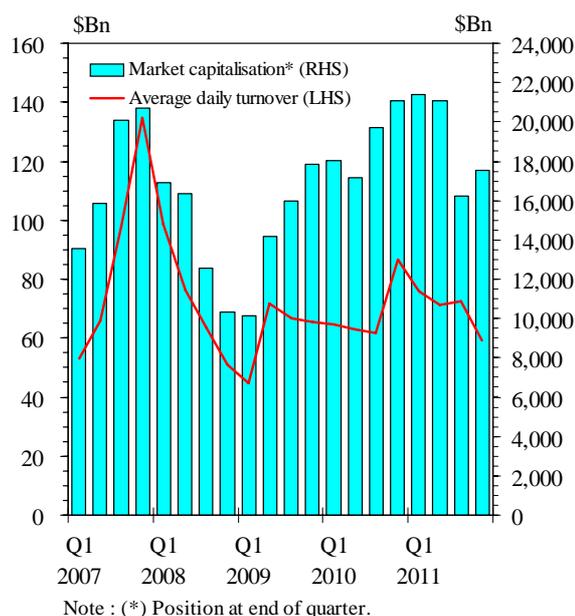


Table 5.6 : Average daily turnover of derivatives products of the Hong Kong market

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn)^
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	Annual	94 036	43 452	61 116	302 750	572 274	10,691	7,529	18,220
	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
	Q4	92 210	37 284	65 597	283 945	555 467	8,225	10,340	18,565
% change in 2011 Q4 over 2010 Q4		-0.5	-14.0	27.4	-12.5	-2.7	-41.3	28.6	-15.8
% change in 2011 over 2010		10.9	26.6	21.9	22.8	22.3	-1.1	28.8	9.4

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

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

5.19 Fund raising activities quietened down in 2011, especially during the second half, along with the subdued stock market performance. *Total equity capital raised*, including new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹⁴⁾, tumbled by 42.6% to \$488.3 billion in 2011. Within the total, the amount of funds raised through IPOs shrank by 41.8% to \$258.9 billion. Yet Hong Kong still ranked the first globally in terms of funds raised through IPOs for the third straight year.

5.20 Mainland enterprises continued to play a dominant role in the local stock market. At end-2011, a total of 640 Mainland enterprises (including 168 H-share companies, 107 “Red Chips” companies and 365 private enterprises) were listed on the Main Board and GEM, accounting for 43% of the total number of listed companies and 55% of total market capitalisation. Mainland-related stocks also accounted for 66% of equity turnover and 46% of total equity fund raised in the Hong Kong stock exchange in 2011.

5.21 Having considered the views collected from an earlier consultation, in October the Securities and Futures Commission (SFC) announced the revised proposals on short position reporting rules to further consult the public. The SFC considered it more pragmatic to require the industry to report short positions on a net basis, instead of a gross basis, while keeping other earlier proposals unchanged, so as to provide the market with more information on short selling activities without placing undue burden on the industry⁽¹⁵⁾. Subject to the legislative process, the SFC targets to implement the short position reporting requirement by end-March 2012.

5.22 Following an earlier consultation, in December the Hong Kong Exchanges and Clearing Limited announced to proceed with the proposed after-hours futures trading (AHFT). Specifically, HSI futures, H-shares index futures and gold futures would be traded from 5:00 pm to 11:00 pm. In view of the concerns over potential excessive market movements, HKEx will implement a 5% price limit up/down mechanism in the AHFT session. Through extending the trading hours to cover most of the business hours in both Europe and the United States, AHFT would provide investors the opportunities to hedge or adjust their positions in response to the latest market developments. Subject to the legislative amendments and market readiness, HKEx would implement the AHFT in the second half of 2012.

Fund management and investment funds

5.23 The fund management business basically tracked the local stock market during 2011, marked by steady performance in the early part of the year and some moderation later in face of the more volatile global financial markets. Taking the first eleven months together, gross retail sales of *mutual funds* still surged by 34.4% over a year earlier to US\$36.1 billion, but it actually recorded declines in the latter part of the year⁽¹⁶⁾. Aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* declined by 4.0% from end-2010 to \$351 billion at end-November 2011⁽¹⁷⁾, with most of the decline occurring in the second half conceivably due to correction in the global stock markets. Similarly, the amount of net assets managed by retail hedge funds also retreated⁽¹⁸⁾.

5.24 In the light of operational experience gained and comments received over the past years, in December the MPF Authority announced a public consultation on review of the regulation of withdrawal of MPF benefits, including the mode of payment of MPF benefits on retirement as well as grounds for early withdrawal of MPF benefits. The consultation would last until end-March 2012, and the MPF Authority will consider the way forward after reviewing the views and comments.

Insurance sector

5.25 The *insurance sector* expanded further in the third quarter⁽¹⁹⁾. Driven by both linked and non-linked plans, gross premium income from long-term business registered another robust year-on-year increase of 29.0%. Gross and net premium income from general business also grew, by 12.2% and 10.1% respectively.

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

	General business			Premium for long-term business [^]					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
Q3	8,700	6,051	642	12,846	4,998	16	103	17,963	26,663
% change in 2011Q3 over 2010Q3	12.2	10.1	46.2	32.6	20.3	45.5	58.5	29.0	23.0

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

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

Highlights of market developments

5.26 Having considered the comments and feedback collected in an earlier consultation, in October the HKEx announced the amendments to the Code on Corporate Governance Practices and certain Listing Rules relating to corporate governance. The proposed amendments target at such important aspects as communications with shareholders, quality of directors and company secretaries, independent non-executive directors' involvement in the board committees of listed companies and the chairman's role in corporate governance, and will be gradually adopted in 2012. These amendments would help maintain a high standard of corporate governance amongst the listed companies in Hong Kong and would protect investors and the integrity of the market for the benefit of Hong Kong's position as an international financial centre.

5.27 In accordance with the commitments of the G20 Leaders, in October the SFC and HKMA issued a joint consultation paper on the proposed regulatory regime for Hong Kong's over-the-counter (OTC) derivatives market to improve the overall transparency and reduce systemic risk in the financial

system. The proposed regime will be set out in the Securities and Futures Ordinance, and will be jointly overseen and regulated by the HKMA and SFC. OTC derivatives transactions will be reported to the trade repository to be set up by the HKMA, and standardised OTC derivatives transactions will be centrally cleared through a designated central counterparty. The reporting requirement and clearing obligation would initially apply only to certain interest rate swaps and non-deliverable forwards, and may be subsequently extended to other product classes after further market consultation. The HKMA and SFC are working towards meeting the G20 implementation deadline of end-2012, subject to the progress of reform in other major markets, due completion of the legislative process and market readiness.

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-November 2011, there were 151 licensed banks, 20 restricted licence banks and 26 deposit-taking companies in Hong Kong. Altogether, 197 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

(7) Basel 2.5 strengthens the risk coverage of Basel II in the light of lessons drawn from the global financial crisis. The main improvements include raising banks' capital requirements for exposures booked in banks' trading books and for securitization exposures, providing supplemental guidance on risk management principles and strengthening disclosure in corresponding areas.

(8) 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.

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

(10) 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.

- (11) Turnover ratio is defined as the average daily turnover of bonds divided by the average amount of bonds outstanding.
- (12) 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 20 January 2012), covering almost all globally recognised stock exchanges.
- (13) At end-2011, there were 60 classes of stock options contracts and 38 classes of stock futures contracts.
- (14) At end-2011, there were 1 326 and 170 companies listed on the Main Board and GEM respectively.
- (15) Specifically, it is required that a net short position that hits the threshold of 0.02% of the issued share capital of a listed company, or a market value of \$30 million, whichever is lower, has to be reported to the SFC on a weekly basis. In general, the party who beneficially owns the short position will be responsible for the reporting. Only short positions in the constituent stocks of the Hang Seng Index, the Hang Seng China Enterprises Index and other financial stocks specified by the SFC will be subject to reporting. The reporting requirement may be tightened to further enhance transparency and monitoring in contingency situations.
- (16) 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-November 2011, the survey covered a total of 1 220 active authorized funds.
- (17) At end-2011, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 445 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 252 000 employers, 2.34 million employees and 229 000 self-employed persons have participated in MPF schemes.
- (18) At end-November 2011, there were 6 SFC-authorized retail hedge funds with combined net asset size of US\$759 million. The amount of net assets under management was 20.3% 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.
- (19) At end-2011, there were 163 authorized insurers in Hong Kong. Within this total, 45 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 6 : THE LABOUR SECTOR

Summary

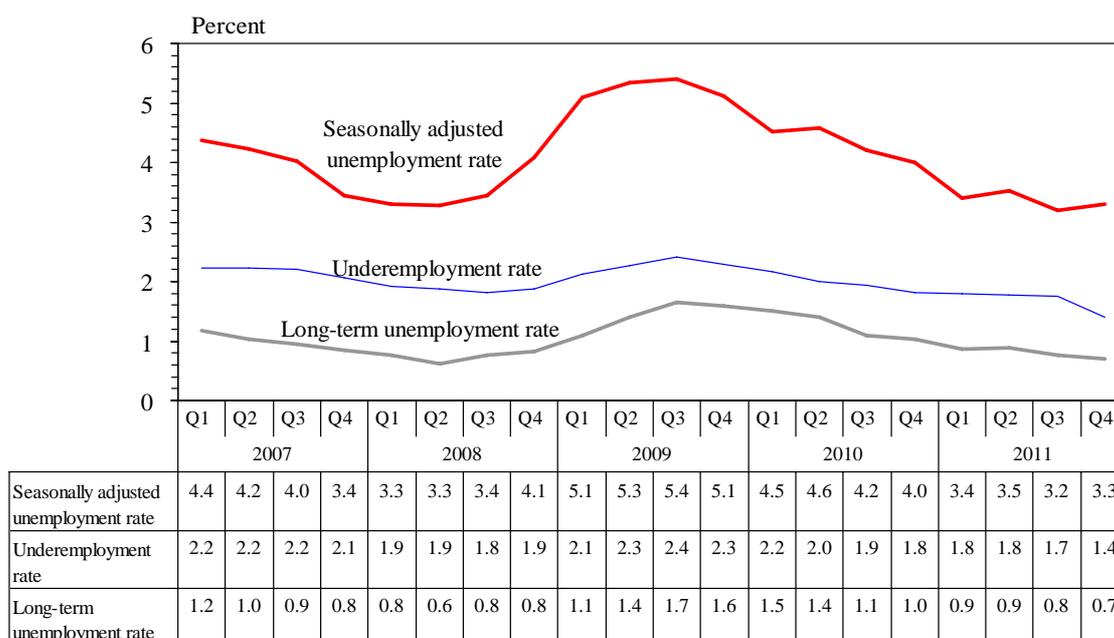
- *The labour market showed distinct and broad-based improvements for the second consecutive year in 2011. With persistent strength in labour demand, unemployment rate fell to a 13-year low during the year, accompanied by a sharp rise in job vacancies and strong upward pressure on wages and earnings.*
- *Overall demand for labour was even stronger in 2011. Total employment hit successive record highs during the year, reaching a high of 3 661 900 in the fourth quarter. Job creation was particularly strong in the domestic sectors, more than compensating for the meagre performance in the externally-oriented sectors, the latter being affected by the worsening in external trade since the second quarter.*
- *As labour demand persistently outstripped labour supply, the seasonally adjusted unemployment rate fell to a 13-year low of 3.2% in the third quarter of 2011. Demand in the labour market stayed buoyant through to the year-end, despite slower overall economic growth amid a more difficult external environment, with the unemployment rate only edging up to 3.3% in the fourth quarter.*
- *With the labour market remaining in a state of full employment, wages and earnings picked up sharply during 2011, recording the fastest increases since the mid-90s. Workers in the lower segment enjoyed distinctly above-average pay hikes, in part boosted by the implementation of statutory minimum wage (SMW) in May 2011.*

Overall labour market situation

6.1 The labour market continued its broad-based improvements for the second consecutive year. Benefiting from buoyant business activity especially in the domestic sectors, total employment growth kept outpacing labour supply growth, even with the additional new entrants enticed in part by SMW implementation. The number of job vacancies increased sharply to its highest level since March 1997. As a result, the labour market turned even tighter by around mid-year, pushing the *unemployment rate*⁽¹⁾ to a 13-year low of 3.2% in the third quarter, and despite slower economic growth towards the year-end, unemployment rate remained at a still low level of 3.3% in the fourth quarter

amid sustained buoyant labour demand. The *underemployment*⁽²⁾ rate also declined successively during the year. With the labour market in a state of full employment, labour shortage was increasingly apparent in some sectors. In tandem, labour wages and earnings picked up markedly during the year, particularly for those in the lower segment, which received an additional boost from SMW implementation.

Diagram 6.1 : Unemployment rate fell to a 13-year low of 3.2% during 2011



Total employment and labour force

6.2 Thanks to the robust local economy and vibrant business activity, labour demand was even stronger in 2011. *Total employment*⁽³⁾ hit successive record highs to reach 3 661 900 in the fourth quarter, up by 3.4% over a year earlier. For 2011 as a whole, employment grew by a remarkable 3.7%, not only distinctly up from the meagre 0.4% rise in 2010, but also the fastest since 1996. In absolute terms, the number of employed persons averaged at 3 623 000 in 2011, representing significant gains of 130 500 over 2010. The strength in labour demand was manifested by the distinct growth in the number of both full-time employees and those voluntarily working part-time, by 103 700 and 16 700 (or 3.5% and 12.1%) respectively, in conjunction with a marked reduction in underemployment (11 700 or 15.7%), thanks to the hectic job creation in the business sector absorbing many previously unemployed and underemployed.

6.3 The tightening of the labour market was also evident in the continued pick-up in employment all through the four quarters in 2011. The employment growth was broad-based initially but by the fourth quarter, growth was concentrated in the domestically-oriented and consumption-related sectors such as retail; repair, laundry, domestic and other personal service activities; as well as wholesale.

6.4 Analysed by occupational category, job gains were observed in both the higher-skilled and lower-skilled segment during the fourth quarter of 2011, with more pronounced employment growth seen for managers and administrators (up by 17 900 or 4.6% over the third quarter) and workers in elementary occupations (29 500 or 4.1%). As for other socio-economic characteristics, persons aged 30-44 and 55-59 as well as those with upper secondary and tertiary degree education were the ones benefiting more from the increase in employment.

6.5 Comparing the fourth quarter of 2011 with June – August 2008 (i.e. just before the outbreak of the global financial crisis), total employment was up by 130 900, or 3.7%. Both higher-skilled and lower-skilled workers saw solid employment growth, at 82 000 (or 6.3%) and 49 000 (or 2.2%) respectively. Among the economic sectors, more visible employment generation was observed in consumption-related services; repair, laundry, domestic and other personal service activities; construction; and education, whereas the externally-oriented sectors such as import and export trade, manufacturing and transportation had yet to recover to their pre-crisis levels.

6.6 On the supply side, the *labour force*⁽⁴⁾ increased markedly by 2.6% in 2011, the strongest growth since 1996 and reversing the decline of 0.6% in 2010. Furthermore, the year-on-year growth picked up markedly after the first quarter, and remained notable through to the fourth quarter. Conceivably, increased job opportunities amid the economic expansion, coupled with better income prospects following SMW implementation, had induced more job-seekers to enter the labour market, especially females and those aged 50 or above. For 2011 as a whole, the labour force participation rate for females rose by 1.4 percentage points to 53.4%, while that for males held largely steady at 68.7%. The increase in workforce from such entry more than offset the reduction in school leavers due to increased pathways of further studies and the roll-out of the new Secondary School System, which required all secondary five students (mainly comprising youth aged 15-19) to advance to secondary six study.

6.7 When matched against the 2.6% growth in labour supply, the expansion in total employment was much higher at 3.7% in 2011. In terms of the quarterly profile, the growth differentials in favour of the latter were notable, at 1.2 percentage points in the first three quarters, though narrowed somewhat to 0.7 percentage point in the last quarter, indicating a slight easing in pressure of demand along with a slower economic growth.

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

	<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2010 Annual	3 653 700 (-0.6)	3 492 500 (0.4)	161 200	74 700
Q1	3 645 800 (-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 Annual [#]	3 749 200 (2.6)	3 623 000 (3.7)	126 100	63 000
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
Q3	3 769 400 (2.8)	3 642 400 (4.0)	127 100	65 800
Q4 [#]	3 778 000 (2.7)	3 661 900 (3.4)	116 100	53 800
	<0.2>	<0.1>		

- Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () % change over a year earlier.
 < > Seasonally adjusted quarter-to-quarter % change for October - December 2011.
 # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.2 : Manpower balance tightened up in 2011

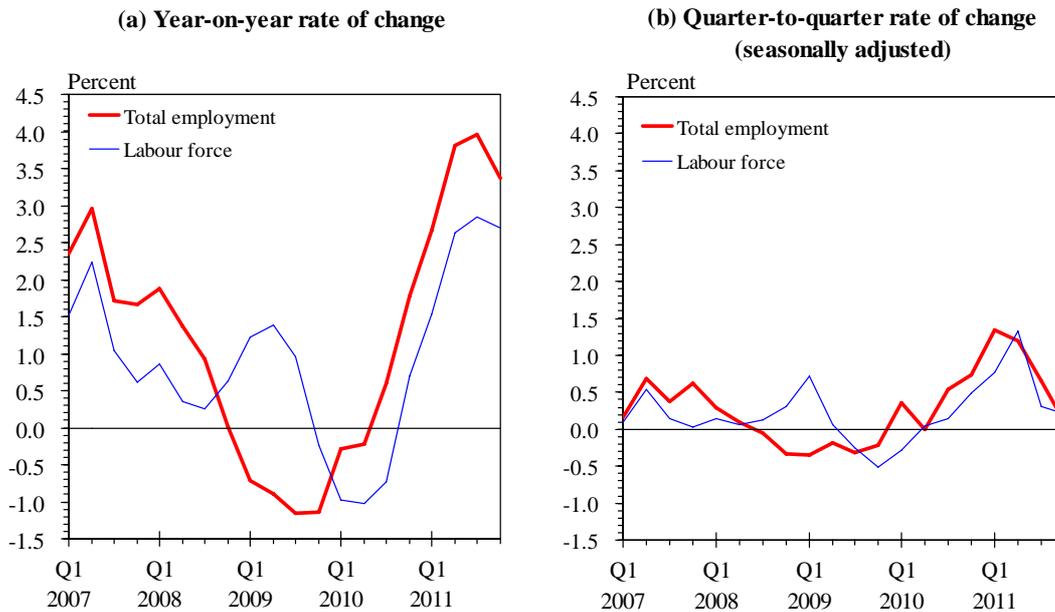


Table 6.2 : Labour force participation rates by gender (%)

		<u>Male</u>	<u>Female</u>	<u>Both genders combined</u>
2010	Annual	68.6	52.0	59.7
	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	Annual [#]	68.7	53.4	60.4
	Q1	68.2	52.9	59.9
	Q2	68.9	53.3	60.5
	Q3	69.0	53.6	60.7
	Q4 [#]	68.7	53.8	60.6

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

**Table 6.3 : 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[#]</u>
<u>Male</u>						
15-19	14.3	14.8	13.0	12.6	10.3	9.8
20-24	69.0	67.6	65.8	64.8	61.1	61.4
25-29	95.6	95.0	94.3	94.8	94.3	93.6
30-39	96.7	97.1	96.5	96.3	96.5	96.6
40-49	95.2	95.5	95.1	95.0	95.0	95.3
50-59	83.3	83.3	84.0	84.3	84.5	85.1
≥ 60	19.3	19.6	20.0	21.2	21.9	23.5
Overall	70.9	70.5	69.7	69.4	68.6	68.7
<u>Female</u>						
15-19	13.1	13.5	12.4	11.4	9.4	9.2
20-24	71.1	71.7	69.5	66.2	61.7	62.9
25-29	87.2	87.4	87.3	87.0	86.4	87.7
30-39	75.5	76.2	76.8	77.0	75.2	77.6
40-49	65.1	66.6	66.7	68.5	68.1	70.1
50-59	45.7	46.7	48.5	48.8	49.2	51.8
≥ 60	4.5	5.2	5.7	6.6	6.8	8.1
Overall	52.6	53.1	53.1	53.1	52.0	53.4
<u>Both genders combined</u>						
15-19	13.7	14.2	12.7	12.0	9.9	9.5
20-24	70.1	69.8	67.7	65.5	61.4	62.1
25-29	90.9	90.7	90.3	90.4	89.7	90.2
30-39	84.6	85.1	85.1	85.1	84.0	85.4
40-49	79.3	80.1	79.8	80.7	80.1	81.2
50-59	64.5	64.9	66.1	66.5	66.6	68.3
≥ 60	11.7	12.1	12.6	13.7	14.1	15.5
Overall	61.2	61.2	60.9	60.7	59.7	60.4

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

6.8 As a result of sustained strong growth in labour demand since 2010, unemployment continued on a downtrend in 2011, declining to 116 100 in number in the fourth quarter of 2011, the lowest level since early 2008. The unemployment rate declined by another 1 percentage point to 3.4% in 2011, after falling by the same magnitude in 2010. This annual average figure was the lowest since 1997, signifying full employment for the local workforce. In absolute terms, the number of unemployed persons declined to 126 100 in 2011, from the 2010 average of 161 200.

6.9 The decline in unemployment rate in 2011 was across-the-board. The unemployment rate for higher-skilled workers fell by 0.7 percentage point to 1.7%, and that for lower-skilled workers went down even more by 0.9 percentage point to 3.8%. Analysed by economic sector, retail, accommodation and food services; information and communications; construction; insurance; and cleaning and similar activities saw more notable declines in unemployment rate ranging from 1.3-1.7 percentage points. In terms of age group, the improvement in unemployment rate was also widespread, though more pronounced for persons aged 15-19, 20-24 and 50-59 (down by 4.6, 2.6 and 1.2 percentage points respectively).

6.10 In terms of the quarterly profile, the seasonally adjusted unemployment rate edged up from 3.4% in the first quarter to 3.5% in the second quarter, then fell notably to a 13-year low of 3.2% in the third quarter, before rising slightly to a still low level of 3.3% in the fourth quarter. The marginal rise-back in unemployment rate in the last quarter was more apparent in construction; financing and insurance; transportation, storage, postal and courier services; and social and personal services (mainly driven by repair, laundry, domestic and other personal service activities). On the other hand, the unemployment rate of the *low-paying sectors*⁽⁵⁾ as a whole, which exhibited some deterioration right after the implementation of SMW in May, fell for two straight quarters, reaching 3.1% in the fourth quarter.

Table 6.4 : Unemployment rate by major economic sector

	<u>2010</u>				<u>2011</u>			
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u> [#]
Import/export trade and wholesale	4.3	4.5	3.7	3.7	3.2	3.4	2.8	2.7
Retail	5.2	6.1	5.8	4.9	4.4	4.3	4.7	3.8
Accommodation and food services	6.9	6.7	6.0	4.9	4.6	6.0	5.0	4.2
Transportation, storage, postal and courier services	4.1	3.7	3.6	3.3	3.0	3.4	2.8	3.0
Information and communications	4.5	4.9	3.5	4.0	2.6	2.9	2.5	2.3
Financing and insurance	3.3	3.2	2.4	2.0	2.2	2.0	1.8	2.2
Real estate	4.2	4.1	3.4	3.3	2.8	3.2	2.8	2.4
Professional and business services	3.1	4.3	3.9	3.3	3.2	3.4	2.8	2.5
Public administration, social and personal services	1.8	1.9	1.9	1.2	1.3	1.6	1.3	1.4
Manufacturing	4.6	6.1	4.2	3.8	3.8	3.2	4.8	3.8
Construction	8.1	7.7	6.6	4.9	6.2	5.6	4.4	5.2
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)	3.1 (3.3)

Notes : () Seasonally adjusted unemployment figures.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.3 : In 2011, unemployment rates* fell in almost all occupational groups

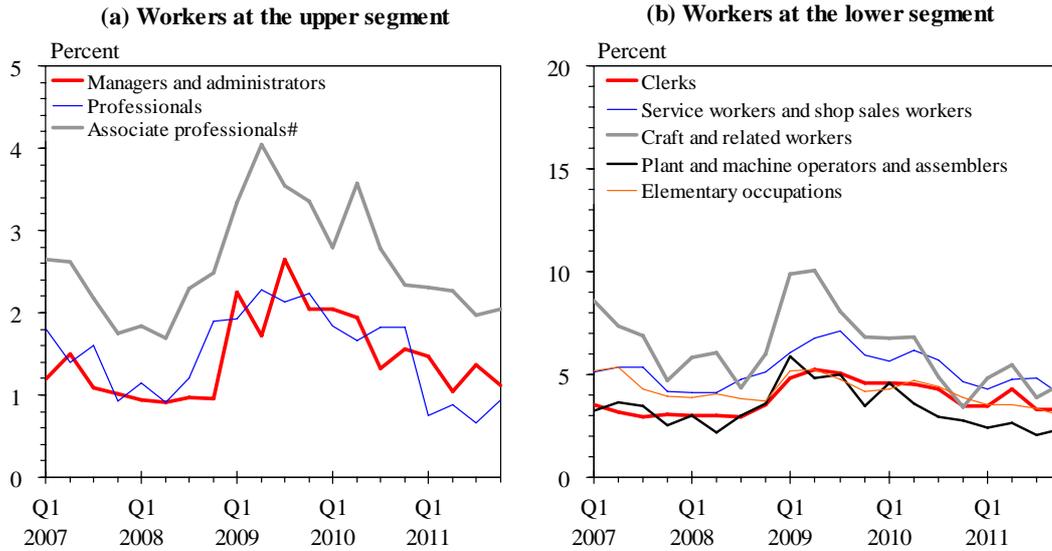


Diagram 6.4 : Declines in unemployment rate* seen across most age groups during 2011

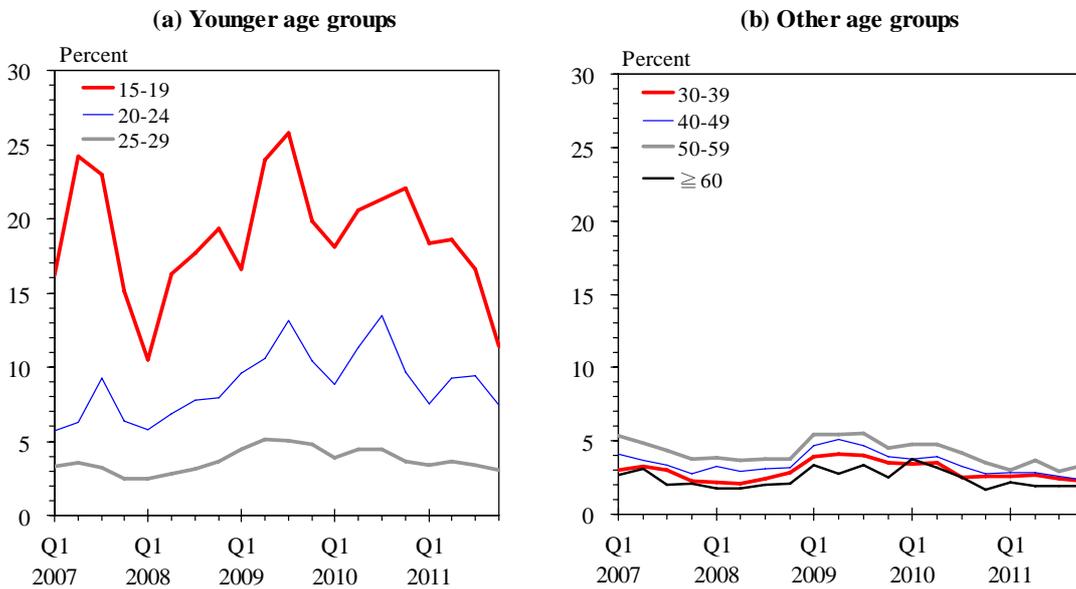
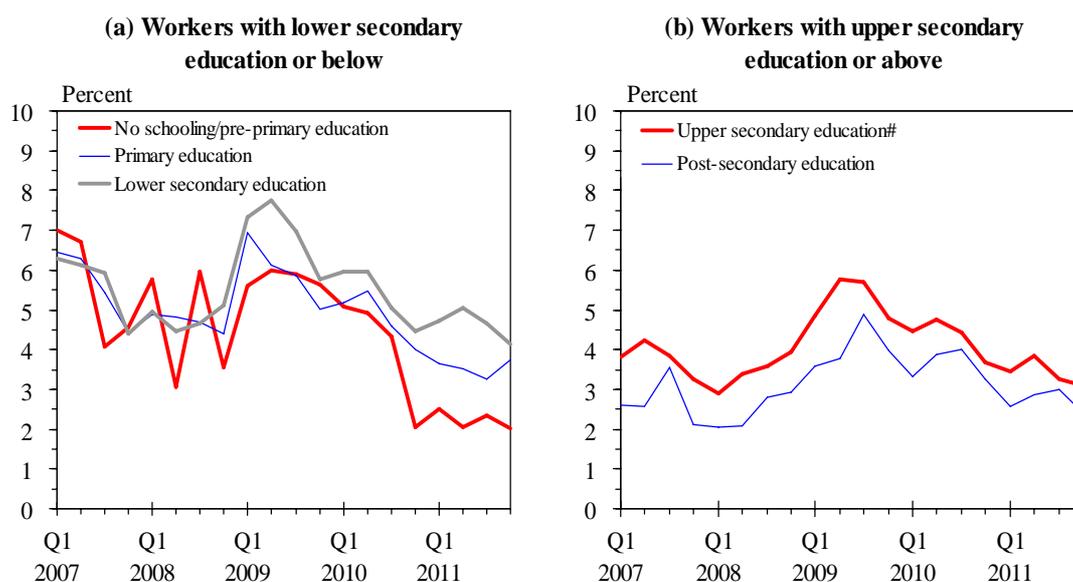


Diagram 6.5 : Likewise, almost across-the-board improvement in unemployment* situation for workers with different educational attainments



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

6.11 Analysed by other socio-economic attributes, the recent rise-back in unemployment rate was more apparent among persons aged 35-39 and 50-64, and those with primary or below education, as well as among craft and related workers, and plant and machine operators and assemblers.

6.12 Indicators measuring the intensity of unemployment showed significant improvements for 2011 as a whole. Specifically, long-term unemployment (i.e. unemployed for six months or longer) shrank further in number from 47 300 in 2010 to 30 400 in 2011, as did the long-term unemployment rate from 1.3% to 0.8%. Concurrently, the median duration of unemployment shortened from 88 to 75 days. Moreover, among the total number of unemployed persons in 2011, the proportion of dismissal or lay-offs was 50.7%, considerably smaller than that of 56.5% in 2010. These positive signs, which signified an overall improvement of the unemployment situation, largely extended to the last quarter of 2011, with all three indicators staying at relatively low levels of 0.7%, 77 days and 50.7% respectively.

Profile of underemployment

6.13 Underemployment also came down successively in 2011. For the year as a whole, the underemployment rate averaged at 1.7%, down from 2.0% in 2010, with the number of underemployed persons falling to 63 000 from 74 700. As for the latest trend, the underemployment rate declined further to 1.4% in the fourth quarter of 2011, from 1.7% in the preceding quarter. Economic sectors usually employing a substantial proportion of part-time and casual workers, including construction; retail, accommodation, and food services; and cleaning and similar activities demonstrated more appreciable declines in the underemployment rate. Analysed by occupational category, more visible improvement in underemployment was observed for workers in elementary occupations, service workers and shop sales workers, and craft and related workers.

Profile of employment in establishments

6.14 Statistics as enumerated from private sector establishments on employment, vacancies, wages and payroll are available only up to September 2011. Attempts have been made where possible to bring the analysis more up-to-date, by drawing reference to information from supplementary sources.

6.15 In September 2011, total employment in private sector establishments went up appreciably to a record high of 2 618 500, a year-on-year increase of 3.6%, further to the 3.2% rise in June. Spurred by the sustained double-digit growth of public infrastructure works, buoyant local consumption and tourist spending, as well as thriving commercial and financial market activities, more notable employment growth was observed in the construction (up by 12.8% year-on-year); accommodation and food services (7.8%); financing, insurance, real estate, professional and business services (6.6%); and retail (4.2%) sectors. On the other hand, manufacturing (down by 5.2%) was again the only exception following its secular downtrend. In terms of establishment size, larger enterprises dominated in job creation, accounting for about two-thirds of the total job gains in September 2011, up by a marked 4.6% over a year earlier, while those engaged in small and medium-sized enterprises (SMEs)⁽⁶⁾ also rose solidly by 2.4%. Taking the first nine months of 2011 together, total employment in private sector establishments increased by 3.2% year-on-year. As for the civil service, employment grew at a steady pace of 0.8% in September 2011, and by 0.6% in the first nine months of 2011 over a year earlier.

6.16 Compared with September 2008 (i.e. just before the outbreak of the global financial crisis), the number of persons engaged by private sector establishments in September 2011 surpassed the pre-crisis level by 5.2%. While the externally-oriented sectors such as manufacturing, and import and export trade had yet to recoup fully the jobs lost during the crisis, they were more than offset by the jobs gained in most other sectors, particularly in cleaning and similar activities; construction; financing, insurance, real estate, professional and business services; and accommodation and food services.

Table 6.5 : 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>	<u>Sep</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)	564 300 (0.1)
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)	252 900 (4.2)
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)	266 300 (7.8)
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)	163 800 (2.4)
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)	91 700 (3.6)
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)	652 500 (6.6)
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)	440 600 (2.7)
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)	111 500 (-5.2)
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)	63 700 (12.8)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 528 800 (2.6)</i>	<i>2 510 300 (2.8)</i>	<i>2 517 000 (3.0)</i>	<i>2 528 700 (2.6)</i>	<i>2 559 200 (2.2)</i>	<i>2 584 700 (3.0)</i>	<i>2 597 600 (3.2)</i>	<i>2 618 500 (3.6)</i>
		<i><0.5></i>	<i><0.4></i>	<i><0.4></i>	<i><0.9></i>	<i><1.3></i>	<i><0.7></i>	<i><0.7></i>
<i>Civil service^(b)</i>	<i>156 500 (0.5)</i>	<i>156 600 (0.9)</i>	<i>156 300 (0.6)</i>	<i>156 400 (0.3)</i>	<i>156 700 (0.3)</i>	<i>156 900 (0.2)</i>	<i>157 300 (0.7)</i>	<i>157 700 (0.8)</i>

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

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

6.17 Job vacancies in private sector establishments saw a further upsurge in 2011. In September, the number of private sector vacancies was 12.9% higher than the year-ago level, at 57 700, the highest since March 1997. For the first nine months of 2011 as a whole, job vacancies surged by 20.6% over a year earlier. On a seasonally adjusted basis, the number of vacancies fell by 4.6% in September over June, with more visible declines in the trade and logistics-related sectors, conceivably reflecting a slightly more cautious hiring sentiment amid rising economic uncertainties in the global environment.

6.18 Detailed analysis by economic sector showed that more distinct year-on-year growth of job vacancies in September 2011 was found among manufacturing (up by 44.9%); social and personal services (17.6%); transportation, storage, postal and courier services (13.2%); and financing, insurance, real estate, professional and business services (10.8%). In terms of skill level, vacancies for lower-skilled jobs leaped by 8.0%, while those for higher-skilled jobs increased more impressively by 21.8%, though less pronounced than the corresponding increases of 24.5% and 26.4% in June. Analysed by occupational group, prominent increases in job openings were found among professionals (up by 30.9%), craft and related workers (27.3%), managers and administrators (27.0%), and service workers and shop sales workers (21.4%). As for the size of establishments, SMEs reported year-on-year increase of 7.9% in vacancies in September 2011, while large enterprises reported a larger increase of 17.7%. Within the civil service, the number of vacancies rose by 11.8% in September over a year earlier. Taking the first nine months together, these vacancies registered an increase of 11.1% year-on-year, compared with 9.9% in the same period of 2010.

6.19 Analysing the number of job vacancies in private sector establishments relative to that of unemployed persons, the ratio of job vacancies was 45 per 100 job-seekers in September 2011, higher than that of 41 in June. Concurrently, the corresponding ratio for lower-skilled jobs rose from 34 to 41, and that for higher-skilled jobs from 97 to 100, signifying further tightening in the labour market. Moreover, some sectors such as human health services, and residential care and social work services were apparently suffering from labour shortages, with the vacancy per 100 unemployed ratio way above 100. When measured in terms of the percentage of job openings to total employment opportunities, the vacancy rate for private sector establishments edged up from 2.1% in June to 2.2% in September 2011, with more apparent increases in the retail, and social and personal services sectors.

Table 6.6 : Vacancies by major economic sector

	<u>Number of vacancies</u>								Vacancy rate in Sep 2011 (%)
	<u>Annual average</u>	<u>2010</u>				<u>2011</u>			
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Import/export trade and wholesale	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)	7 700 (10.4)	1.4
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)	6 100 (10.3)	2.4
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)	8 000 (9.7)	2.9
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)	2 400 (13.2)	1.5
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)	2 200 (-13.9)	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)	14 300 (10.8)	2.1
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)	13 900 (17.6)	3.1
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)	2 300 (44.9)	2.0
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)	500 (641.7)	0.8
<i>All establishments surveyed in the private sector^(a)</i>	47 600 (43.5)	46 000 (65.4)	45 200 (43.4)	51 100 (31.7)	48 100 (39.3)	57 200 (24.4)	56 600 (25.3)	57 700 (12.9)	2.2
		<15.8>	<2.2>	<5.8>	<11.1>	<3.9>	<2.4>	<-4.6>	
<i>Civil service^(b)</i>	5 700 (10.9)	5 300 (0.9)	5 700 (10.7)	5 900 (18.7)	5 900 (13.9)	6 000 (13.2)	6 200 (8.5)	6 600 (11.8)	4.0

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.

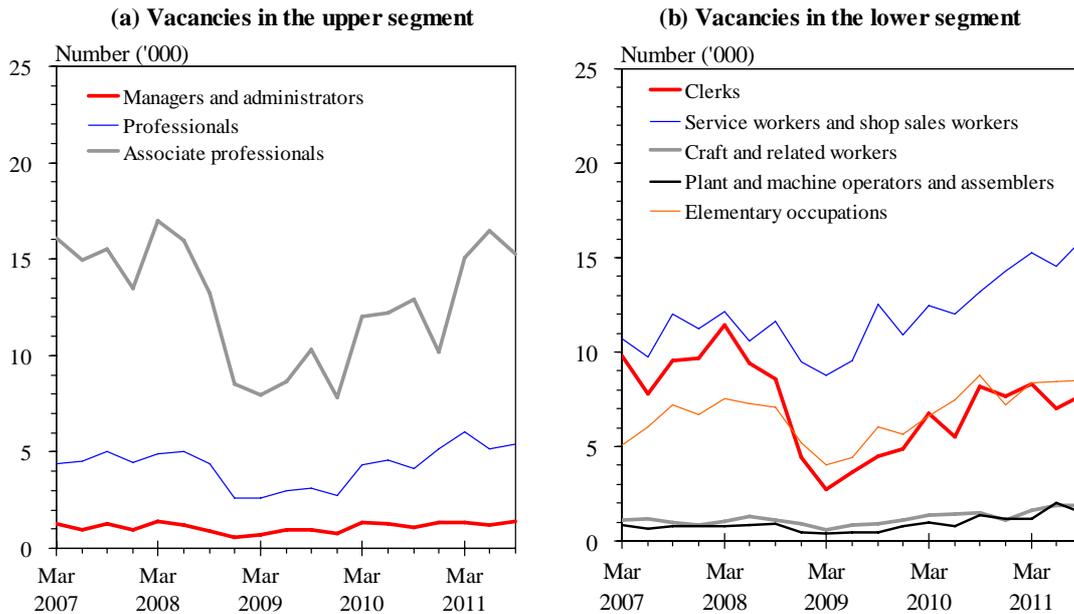
() % change over a year earlier.

<> 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 6.6 : Job vacancies rose to the highest level since March 1997



6.20 Data on the latest vacancies registered via the Labour Department (LD), despite its smaller sample size, may provide some clues regarding the most recent developments in the labour market. In December 2011, the number of private sector job vacancies posted by the LD was 80 400, a 28.1% surge over a year earlier. Comparing the fourth quarter with the third quarter, the average number of vacancies also increased by 15.6%. For 2011 as a whole, the department recorded a historic high of 75 000 in monthly average private sector vacancies, a 19.7% gain over 2010.

Wages and earnings

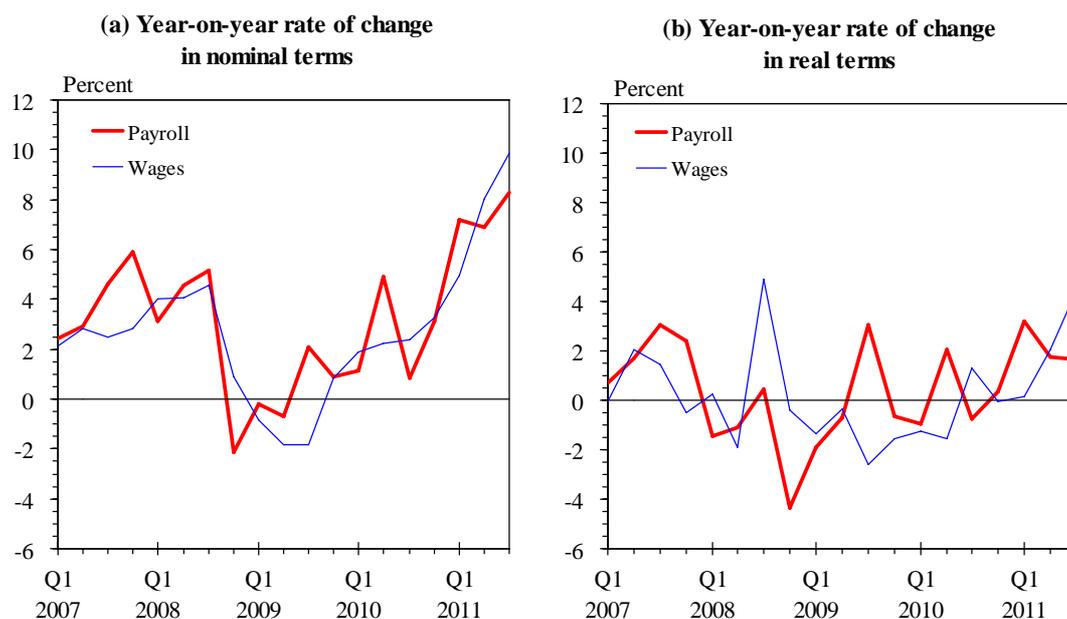
6.21 The tightening of the labour market amid the solid economic performance in 2011, coupled with the additional boost from the implementation of SMW, translated into a notable and broad-based improvement in wages and earnings. Specifically, *labour wages*, as a measure of regular payment to employees at the supervisory level or below, surged further by 9.9% year-on-year in September 2011, the fastest increase since March 1994. After discounting for consumer price inflation⁽⁷⁾, labour wages still rose by an appreciable 4.4% in real terms over a year earlier. Taking the first nine months of 2011 together, labour wages grew markedly by 7.6% in money terms and 2.3% in real terms over a year earlier.

6.22 In September 2011, nominal pay rises were observed in nearly all economic sectors, with more prominent year-on-year increases in professional and business services (up by 15.6%), personal services (12.8%), and real estate leasing and maintenance management (10.6%) sectors. Analysed by occupational category, the latest rise in nominal wages was widespread, and more visible among workers in the lower segment due to the implementation of SMW, such as miscellaneous non-production workers (up by 13.8%) and service workers (13.3%).

6.23 Similarly, *labour earnings*⁽⁸⁾, as measured by payroll per person engaged in the private sector, increased markedly further by 8.3% in the third quarter of 2011 over a year earlier. After adjusting for changes in consumer prices, there was a real improvement of 1.6%. Taking the first three quarters of 2011 together, the earnings growth was 7.4% in money terms and 2.2% in real terms. By the third quarter of 2011, labour earnings were visibly higher by 11.4% and 3.9% in nominal and real terms respectively compared with the same period in 2008 (i.e. pre-crisis level).

6.24 Analysed by economic sector, nominal payroll picked up in almost all sectors in the third quarter of 2011. Among them, workers engaged in retail trade; import/export trade and wholesale; and real estate sectors saw more notable year-on-year increases in earnings, at 15.3%, 12.8% and 12.8% respectively.

Diagram 6.7 : Labour earnings and wages recorded the fastest increases since mid-90s



6.25 The latest data available (September – November 2011) from the General Household Survey, though not strictly comparable to those from the business establishment surveys, indicated that the average monthly employment earnings⁽⁹⁾ (excluding foreign domestic helpers) for full-time employees rose at a still notable pace of 7.1% year-on-year in the latest period, though not as fast as that of 8.1% in the third quarter. Yet those in the lowest decile group saw earnings growth of 12.5% in the latest period, as against 13.1% in the third quarter. After discounting the price effects, increases in real earnings for full-time employees and those in the lowest decile were 1.3% and 7.0% respectively in September – November 2011. For 2011 as a whole, preliminary estimates suggested that earnings for full-time employees rose by around 7% in money terms and 2% in real terms, while the lowest decile group enjoyed a remarkable earnings hike of 11% and 5% in nominal and real terms respectively thanks to the additional boost from the SMW implementation.

Recent labour-related measures

6.26 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 provides 11 000 places each year. Separately, LD set up a pioneer one-stop employment and training centre called "Employment in One-stop" in Tin Shui Wai in December 2011 to offer targeted assistance to job-seekers.

6.27 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 people 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.

6.28 To relieve the burden on travelling expenses commuting to and from work on the part of low-income households with employed members and to promote sustained employment, the territory-wide Work Incentive Transport Subsidy Scheme has started receiving applications since October 2011, with payment dating back to April 2011 the earliest. Employees and self-employed persons may apply under the scheme, and each qualified person will receive the monthly subsidy of \$600, or \$300 at half-rate.

6.29 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 remained tight so far, with a further pick-up in job creation 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 7 : PRICES

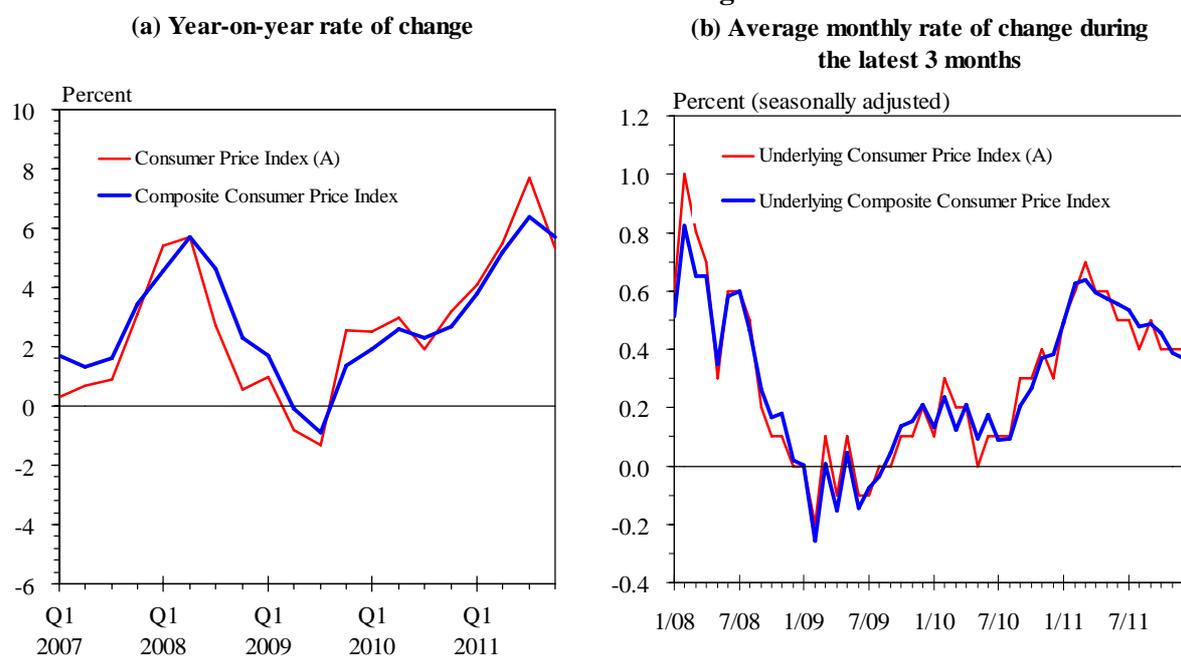
Summary

- *Inflationary pressures turned more evident in 2011, reflecting the feed-through of domestic cost pressures after six quarters of above-trend economic growth up till the second quarter, as well as higher imported inflation stemming from elevated world food prices and commodity prices. The one-off increase in wage cost upon the implementation of statutory minimum wage also added to inflation over the course of the year.*
- *Yet with the onset of slower economic growth and with imported inflation also easing somewhat towards the year-end, Hong Kong's inflation stabilized on entering the fourth quarter after an uninterrupted rise since October 2010.*
- *Inflation in many Asian and emerging economies, under the combined influence of strong economic growth and high global food prices, likewise saw a visible pick-up in inflation in most of 2011, followed by some signs of easing towards the year-end.*
- *For 2011 as a whole, the Composite Consumer Price Index⁽¹⁾ rose by 5.3%, up notably from the 2.4% increase in 2010. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, the underlying Composite CPI also rose by 5.3% in 2011, after a 1.7% increase in 2010.*
- *Domestically, with the labour market in a state of full employment and also the one-off boost from statutory minimum wage, wages picked up visibly during 2011, recording their fastest growth since 1994. The wage cost pressures would have been even more marked if not for the hefty productivity growth over this period. Commercial rental costs continued their uptrend for most of the year, but softened somewhat alongside the cooling off of the property market in late 2011.*
- *Imported inflation also played a key role in Hong Kong's rising inflation in 2011. In the midst of soaring world food and commodity prices, as well as higher inflation in supply sources, import prices registered a sharp rise of 8.1% in 2011, the largest increase since 1984. External price pressures saw some tapering off towards the year-end, thanks to the retreat in world commodity prices and lower inflation in Mainland in the latter part of 2011.*

Consumer prices

7.1 Inflation was on a visible uptrend during most of 2011. Domestically, with the economy operating close to capacity and the labour market in a state of full employment, wages picked up markedly upon entering 2011, recording their fastest increase since 1994. Also relevant was the one-off effect from the implementation of statutory minimum wage in May 2011. Commercial rental costs surged on support of thriving retail business and generally sanguine business sentiment during most of the year. The notable increases in import prices, following the surges of international food and oil prices from late 2010 through early 2011, also played a significant role in driving up local inflation in 2011. Nevertheless, with global food and commodity prices generally easing back after the first quarter, and with the local economy also moderating in growth in the second half of the year, underlying inflation held stable in September to December. Indeed, the inflation situation in many Asian and emerging economies was broadly similar, with food-led inflation as a key feature, and similarly, some tapering in headline inflation towards the year-end⁽²⁾.

Diagram 7.1 : Upward price pressures built up progressively since late 2010, leading to notable rise in inflation during most 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.

7.2 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 visibly from 3.7% in the first quarter to 5.0% and 6.1% in the second and third quarters, and slightly further to 6.4% in the fourth quarter. For 2011 as a whole, underlying inflation averaged at 5.3%, up from 1.7% in 2010. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite Consumer Price Index (Composite CPI), also rose by an average of 5.3% in 2011, notably higher than the 2.4% increase in 2010.

7.3 The monthly profile indicates that underlying inflation kept rising until September, stabilising at 6.4% in September to December. The tapering in price pressures in the second half of 2011 was also evident from the seasonally adjusted quarter-to-quarter comparison, with increases of 1.8% and 1.7% in the first two quarters, followed by 1.5% and 1.2% respectively in the third and fourth quarters.

7.4 Most of the major components in the underlying Composite CPI saw further price increases in 2011 over a year earlier, with food and housing being the two most prominent drivers behind rising inflation. Local food prices (including costs of dining out) went up progressively by 5.2%, 6.9%, 7.8% and 8.2% year-on-year in the four quarters of 2011 respectively, mainly driven by the earlier surges in international food prices as well as greater pricing power of local retailers and restaurants amid a buoyant domestic sector. At the same time, private housing rentals picked up successively, cumulating to an average increase of 7.1% for 2011 as a whole, as the lagged effects of the past increases in market rentals continued to filter through to the private housing component of the Composite CPI. Indeed, food prices and private housing rentals taken together accounted for over 70% of the underlying inflation in 2011. Price increases of many other components also saw varying degrees of acceleration, reflecting the combined effects of rising local costs and higher import prices. Yet, prices of durable goods continued their secular downtrend, thanks to market competition and improving technology.

Table 7.1 : Consumer Price Indices
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2010	Annual	1.7 ^(b)	2.4 ^(b)	2.7 ^(b)	2.3 ^(b)	2.1 ^(b)
	H1	1.2	2.2	2.8	2.2	1.8
	H2	2.2 ^(b)	2.5 ^(b)	2.6 ^(b)	2.5 ^(b)	2.4 ^(b)
	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	Annual	5.3	5.3	5.6	5.2	5.1
	H1	4.4	4.5	4.8	4.4	4.3
	H2	6.2	6.1	6.5	6.0	5.9
	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
	Q4	6.4	5.7	5.3	6.0	6.0

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

2010	Q1	0.5	0.8	1.2	0.6	0.5
	Q2	0.5	0.5	0.4	0.4	0.8
	Q3	0.4	-2.2	-6.3	-0.5	0.2
	Q4	1.0	3.7	8.4	1.9	1.0
2011	Q1	1.8	1.8	2.0	1.8	1.7
	Q2	1.7	1.8	1.7	1.8	1.8
	Q3	1.5	-0.9	-4.3	0.4	1.2
	Q4	1.2	3.0	5.9	1.9	1.1

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

(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.

7.5 On a seasonally adjusted 3-month to 3-month comparison, the underlying Composite CPI rose in tandem with food prices and private housing rentals, price pressures from both of which were particularly pronounced in early 2011. Yet they have shown some signs of tapering off in the latter part of 2011, upon the recent ease-backs in global food prices and the softening of market rentals amid a slowing economy.

Diagram 7.2 : The uptrend in CPI inflation slowed towards the end of 2011, thanks to some easing in price pressures in food and private housing rentals

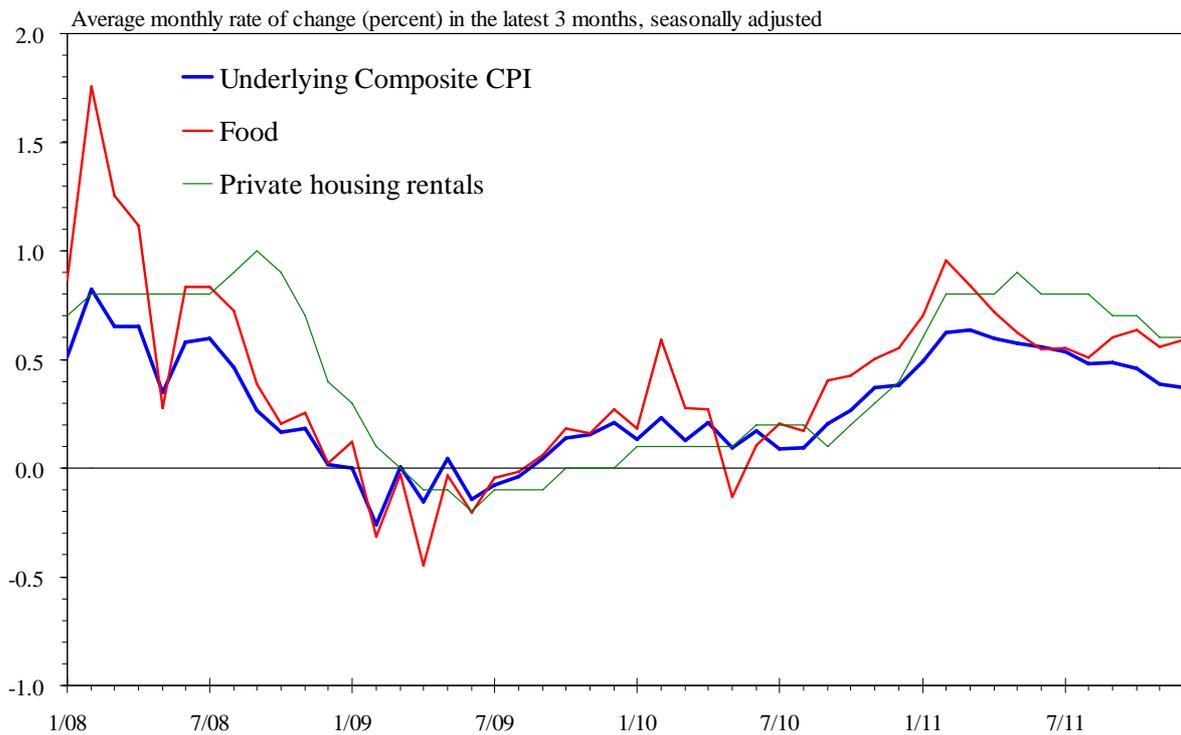


Diagram 7.3 (a) : The rising trend in food prices and housing costs largely stabilized during the fourth quarter of 2011

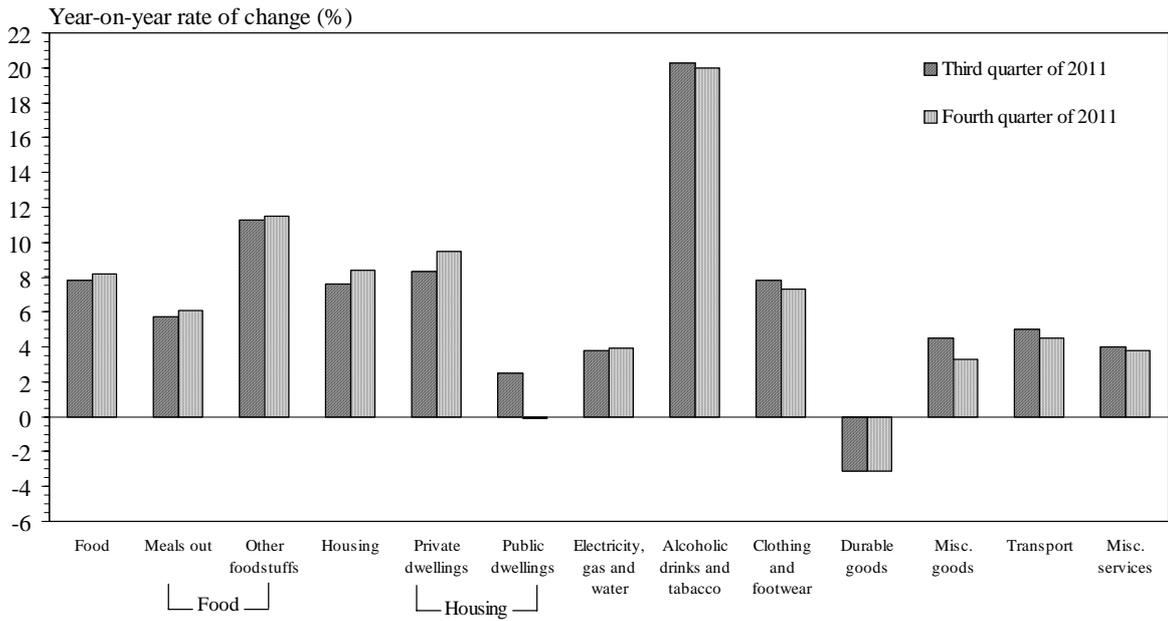
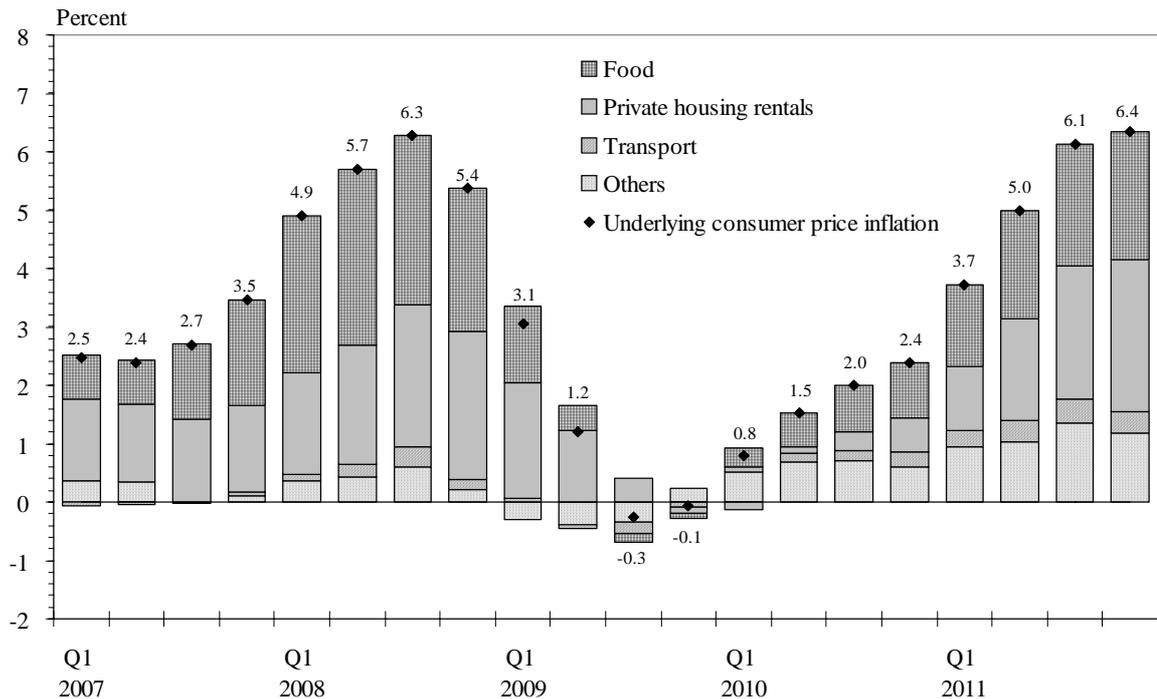


Diagram 7.3 (b) : Contribution to underlying consumer price inflation by major components



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 7.2 : 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>2011</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	27.45	2.4	7.0	5.2	6.9	7.8	8.2
<i>Meals bought away from home</i>	17.07	1.7	5.2	4.1	5.1	5.7	6.1
<i>Other foodstuffs</i>	10.38	3.5	9.9	7.0	9.8	11.3	11.5
Housing ^(a)	31.66	0.4 (0.8)	7.2 (6.4)	3.8 (3.9)	5.9 (5.9)	11.0 (7.6)	8.4 (8.4)
<i>Private dwellings</i>	27.14	0.9 (0.8)	7.2 (7.1)	4.1 (4.1)	6.5 (6.4)	8.4 (8.3)	9.6 (9.5)
<i>Public dwellings</i>	2.05	-7.8 (1.2)	11.9 (2.5)	4.0 (3.8)	2.7 (3.9)	676.7 (2.5)	-1.5 (-0.1)
Electricity, gas and water	3.10	43.3 (5.1)	-4.2 (3.8)	7.3 (3.8)	8.0 (3.6)	-16.1 (3.8)	-16.1 (3.9)
Alcoholic drinks and tobacco	0.59	3.4	17.1	8.1	19.9	20.3	20.0
Clothing and footwear	3.45	1.8	6.8	5.6	6.3	7.8	7.3
Durable goods	5.27	-2.7	-3.8	-4.4	-4.3	-3.1	-3.1
Miscellaneous goods	4.17	2.4	3.8	3.1	4.2	4.5	3.3
Transport	8.44	2.0	4.4	3.3	4.7	5.0	4.5
Miscellaneous services	15.87	2.0 (2.3)	3.5 (3.5)	3.3 (3.4)	2.9 (2.9)	4.0 (4.0)	3.8 (3.8)
All items	100.00	2.4 (1.7)	5.3 (5.3)	3.8 (3.7)	5.2 (5.0)	6.4 (6.1)	5.7 (6.4)

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 7.1

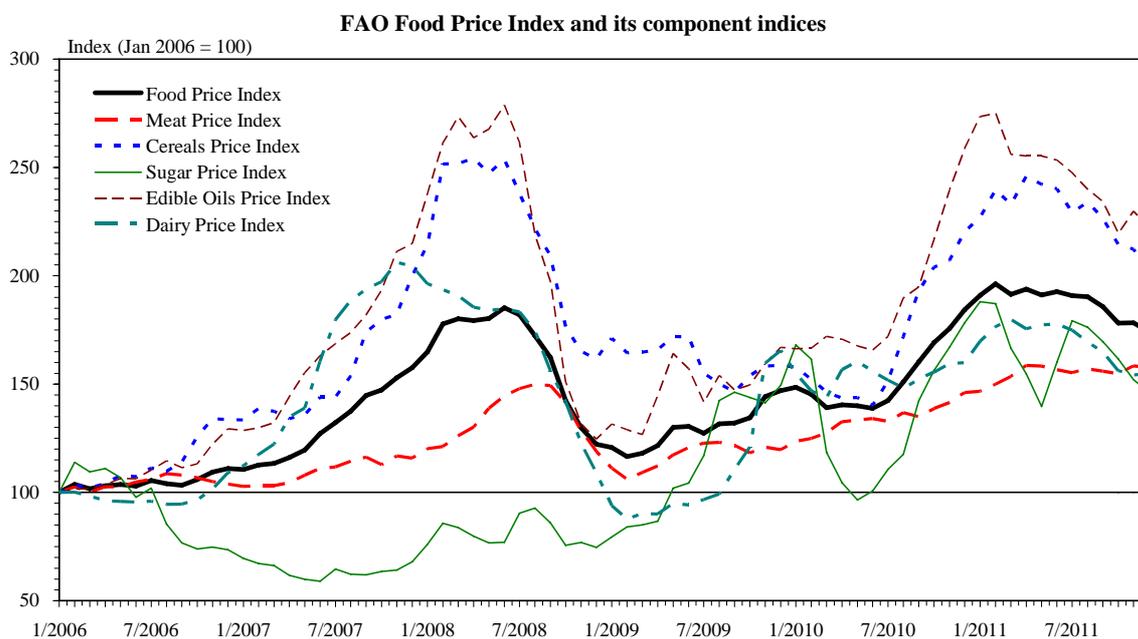
Recent movements of prices of food and oil in the international markets

International commodity prices are well-known to be volatile, as they are easily thrown off balance by such factors as the ebb and flow of world demand, abrupt disruptions to supply conditions, and global liquidity. Among the various commodity prices, those of food and, to a lesser extent, oil have the strongest direct bearing on Hong Kong's inflation. Indeed, the fluctuations of food and oil prices in the international markets have been highly notable in recent years.

Recent trend of global food prices

According to the Food Price Index compiled by the Food and Agriculture Organization (FAO) of the United Nations, global food prices embarked on a general uptrend between early 2006 and mid-2008 (**Chart 1**). After peaking out in June 2008, global food prices tumbled and drifted 37% lower by February 2009, as the global economy underwent a drastic downturn subsequent to the outbreak of the global financial tsunami. Yet alongside the worldwide economic recovery and the occurrence of a number of supply-side shocks, global food prices bounced back briskly thereafter by 68% to a historic peak in February 2011, before retreating more visibly in the latter part of 2011. Yet, for 2011 as a whole, global food prices were still on average 23% higher compared with 2010.

Chart 1: Global food prices tapered off more visibly in the latter part of 2011



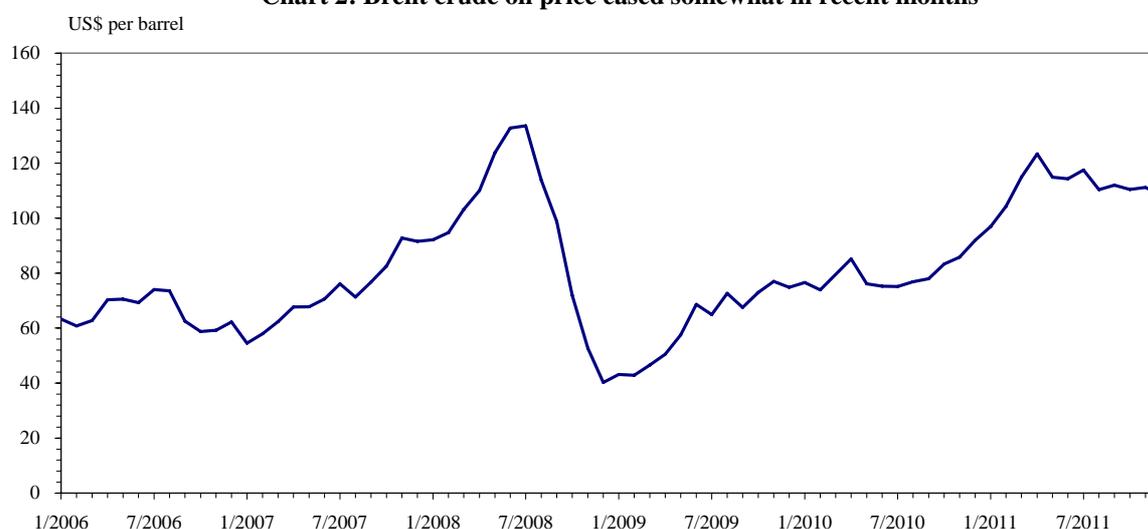
Based on the analysis of the FAO, in spite of improved production prospects and a slowing demand, the overall demand/supply balance of the agricultural commodity market remained tight up till late 2011. Looking ahead, the movements of global food prices will continue to hinge on the relative shifts of factors that affect the demand and supply situation. Apart from a highly uncertain global economic outlook, gyrations in the financial and equity markets, and fluctuations in exchange rates and in the energy markets would also add to sharp price swings in the agriculture markets.

Box 7.1 (Cont'd)

Recent trend of international oil prices

The movements of oil prices in the international markets have exhibited a similar pattern in recent years (**Chart 2**). Taking the monthly average of the spot price of North Sea Brent Oil as an indicator, the oil price hit an all-time monthly record high at US\$133.6 per barrel in July 2008, before plummeting by nearly 70% to US\$40.3 per barrel in December 2008. Against the backdrops of global economic rebound and liquidity glut, as well as a series of supply shocks stemming from the wide-spread political unrest in the Middle East and North Africa (MENA) region, the Brent crude oil price kicked off a renewed rally, hitting a recent monthly peak of US\$123.3 per barrel in April 2011, before easing somewhat to US\$108.3 per barrel in December 2011.

Chart 2: Brent crude oil price eased somewhat in recent months



According to the analysis of the International Energy Agency (IEA), the modest decline of crude oil prices recently could be partly attributed to the deepening eurozone sovereign debt crisis, rising output from Libya and recovery in North Sea supplies. However, the still-evolving political turmoil in the MENA region where many major oil exporting countries locate, if re-aggravated, could spur further price swings in the oil markets.

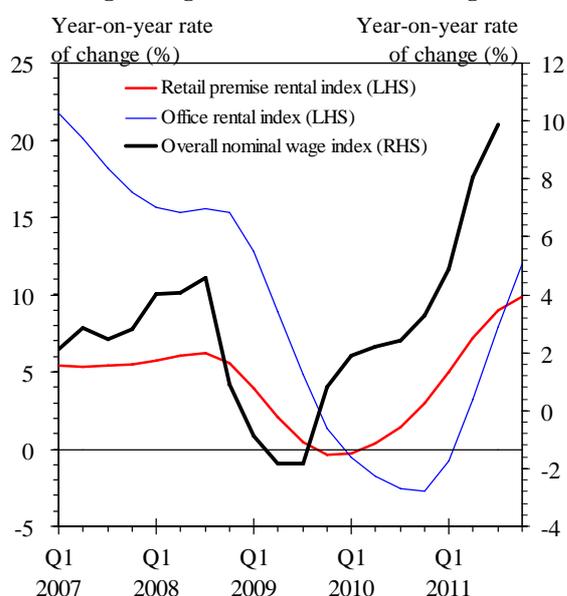
All in all, as the global economy is facing an unusually high level of uncertainty, and as the expected continuation of abundant global liquidity may add to financial and currency market gyrations, food and oil prices are more likely than not to observe pronounced fluctuations in the near future. As a small and open economy, Hong Kong is highly dependent on the imports from overseas, particularly foodstuffs and fuels, and is hence highly susceptible to the ups and downs of global food and oil prices. Indeed, the radical price swings of foodstuffs and oil products in the international markets have been one of the key ingredients in driving the rise and fall of inflation over the past few years in many economies across the globe, including the Mainland and many emerging Asian economies. Given all the uncertainties hanging over the food and oil markets, we will continue to closely monitor the movements of global food and oil prices, and their possible impacts on the inflation in Hong Kong.

Costs of factor inputs and import prices

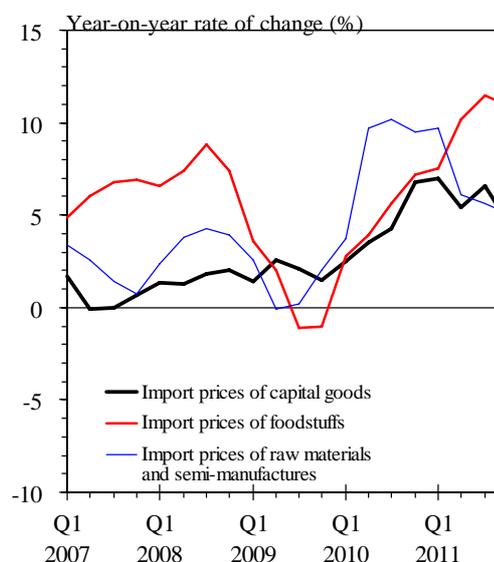
7.6 Domestic cost pressures went up visibly in 2011, consequential to the strong economic upswing in 2010 and early 2011. Market rentals for the new letting of retail premises and offices continued their uptrend during most of 2011, before tapering off in the more recent period amid a more uncertain local economic outlook. As for labour costs, with the economy in a state of full employment, coupled with the one-off effect from the implementation of statutory minimum wage, wages picked up visibly in the year, recording its fastest increase since 1994. The wage cost pressures on inflation would have been even more marked if not for the hefty rise in productivity in the year.

Diagram 7.4 : Both local and external cost pressures turned more evident in 2011

(a) Retail premise and office rental indices (8-quarter moving average) and overall nominal wage index



(b) Import prices by selected end-use categories



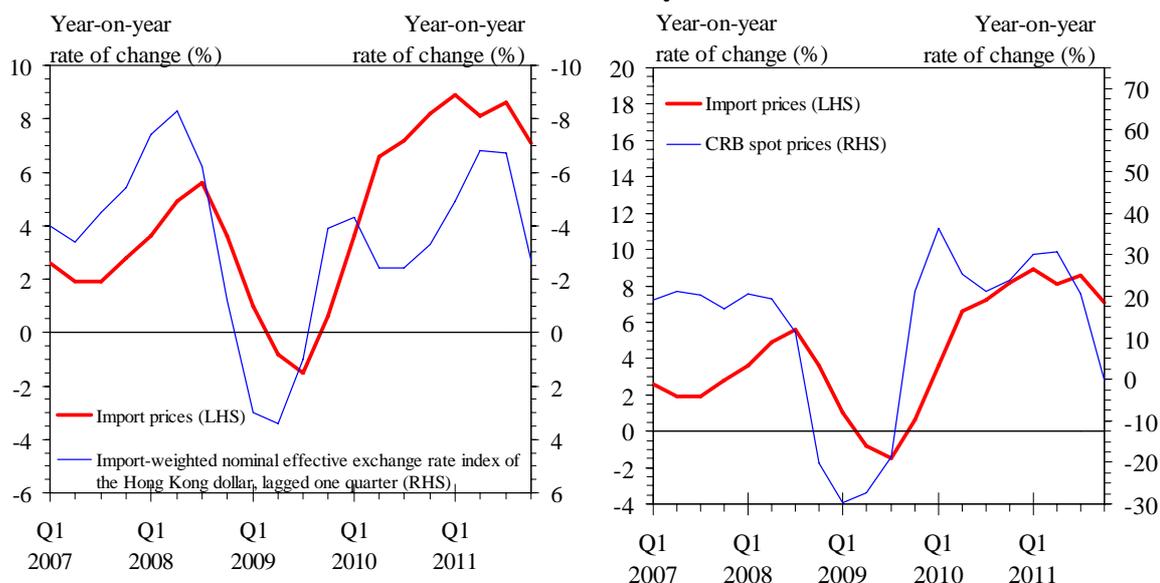
7.7 On the external front, import prices showed large increases in overall terms throughout 2011, though with slight easing towards the year-end. For the year as a whole, overall import prices went up sharply by 8.1%, further up from an increase of 6.4% in 2010. This was also the largest increase since 1984. Analyzed by major end-uses, fuel prices surged by 35.3% in 2011, as international oil prices remained notably higher than the level in 2010. The increases in import prices of foodstuffs and consumer goods were also marked, at 10.1% and 9.2% respectively, and understandably so, given the feed-through of surging world food and commodity prices with a time lag. Import prices of raw materials and capital goods generally eased off after the first quarter, but for 2011 as a whole, the average increases remained notable at 6.5% and 5.8% respectively.

**Table 7.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
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	Annual [#]	10.1	9.2	6.5	35.3	5.8
	H1	8.9	8.9	7.6	33.1	6.1	8.4
	H2 [#]	11.1	9.7	5.4	37.3	5.6	7.8
	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
	Q4 [#]	10.9	9.0	5.1	32.0	4.6	7.1

Note : (#) Estimates compiled based on actual figures up to November 2011. Figures will be subject to revision when full-year data become available.

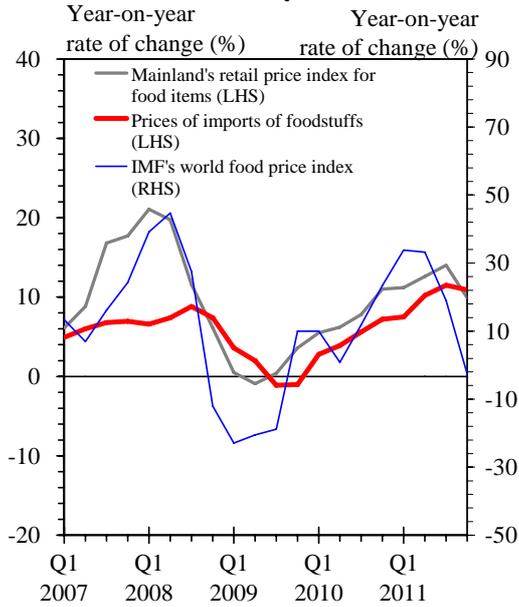
Diagram 7.5 : Import inflation stayed notable throughout 2011, yet saw some signs of stabilisation towards the year-end



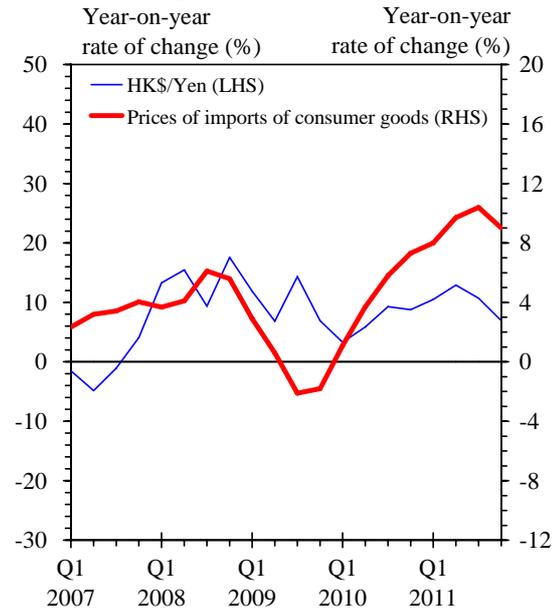
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

Diagram 7.6 : Import prices by end-use categories

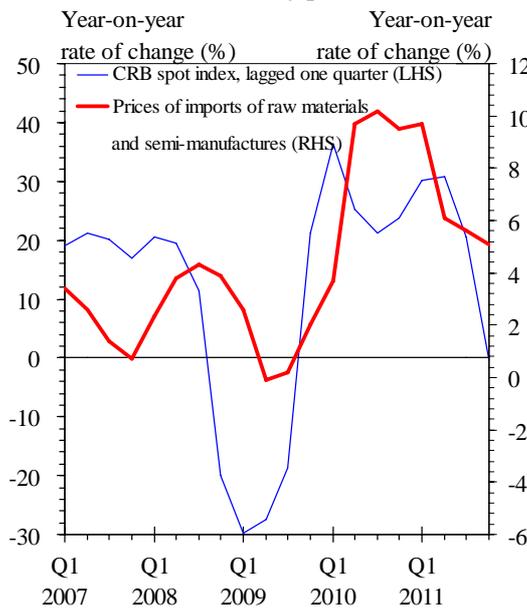
(a) Import prices of foodstuffs rose visibly further



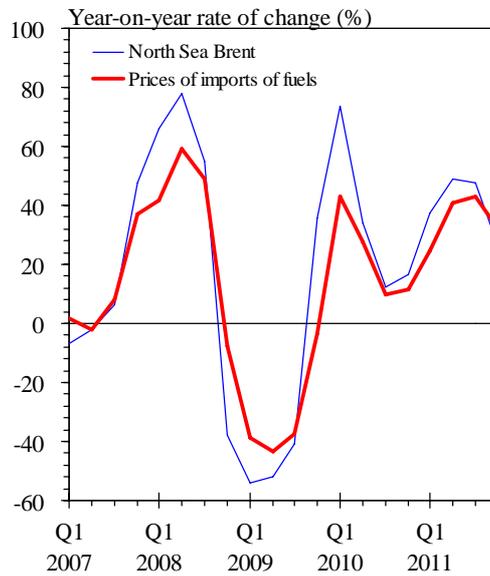
(b) Import prices of consumer goods also posted a notable increase



(c) Increase in import prices of raw materials continued to moderate alongside the retreat in world commodity prices



(d) Oil prices, though eased somewhat in the second half of 2011, stayed elevated throughout the year



Output prices

7.8 Output prices, as measured by the *Producer Price Indices*⁽³⁾, exhibited diverse trends across different sectors in the first three quarters of 2011. Output prices for the manufacturing sector posted faster increases across a wide range of products, reflecting the continued pass-through of higher material costs. Among the service sectors, output prices for accommodation services picked up to a double-digit increase, on the back of thriving inbound tourism. Increases in output prices for courier services and land transport were nevertheless more moderate. On the other hand, output prices for water transport reverted to a marked decline, while those for air transport also fell in the third quarter after some notable increases in the first half, conceivably reflecting the slower global trade flows. Separately, the perennial downtrend in output prices for telecommunications services continued under an environment of technological advancement and keen competition.

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

<u>Industry group</u>	<u>Annual</u>	<u>Q1</u>	<u>2010</u>			<u>2011</u>		
			<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	6.0	4.0	6.0	6.4	7.6	8.2	9.0	9.5
Selected services sector ^(a)								
Accommodation services	8.9	4.4	6.8	9.1	15.0	12.7	13.3	12.8
Land transport	1.3	0.1	0.9	2.2	1.9	1.6	2.0	2.2
Water transport	27.4	13.0	43.7	41.4	15.0	-2.3	-12.6	-21.1
Air transport	16.5	13.9	17.4	23.5	12.0	8.8	5.5	-2.1
Telecommunications	-1.5	-2.3	-2.1	-1.3	-0.1	-0.6	-2.9	-2.6
Courier services	2.2	1.6	2.3	2.3	2.4	2.2	2.6	3.4

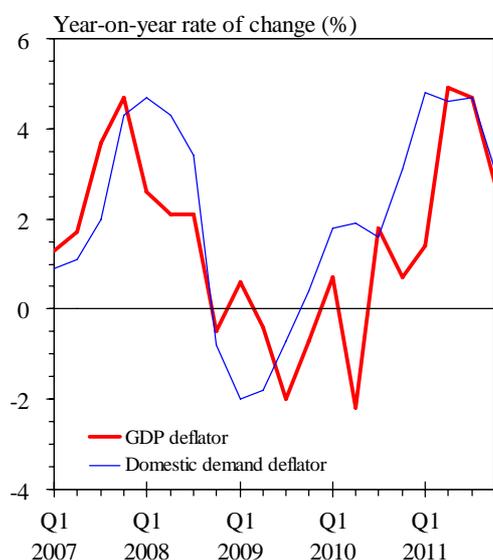
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

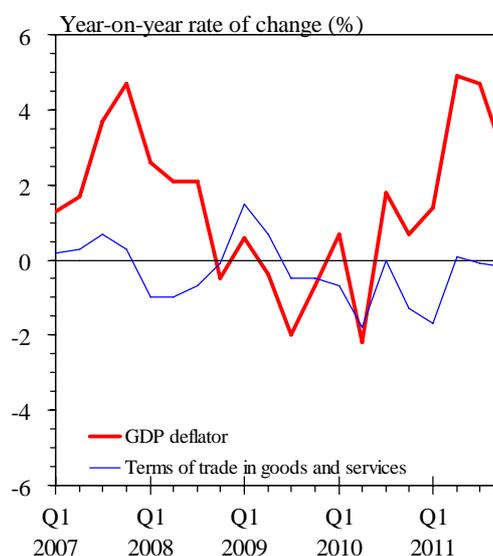
7.9 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 3.4% in 2011, following an increase of 0.3% in 2010. The *terms of trade*⁽⁵⁾ saw a mild deterioration in 2011, since import prices rose slightly faster than export prices. Taking out the external components, the domestic demand deflator went up by 4.3% in 2011, notably faster than the 2.1% increase in 2010.

Diagram 7.7 : GDP deflator

(a) Domestic demand deflator picked up notably in 2011



(b) Terms of trade worsened slightly for 2011 as a whole



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

	<u>Annual</u> [#]	<u>2010</u>				<u>2011</u>				
		<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Annual</u> ⁺	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> ⁺
Private consumption expenditure	1.0	0.6	0.3	0.7	2.2	4.1	3.2	4.7	5.0	3.7
Government consumption expenditure	0.3	-0.5	0.4	0.6	0.7	4.9	1.8	5.7	6.1	6.0
Gross domestic fixed capital formation	6.6	6.9	7.0	4.5	8.3	4.2	9.7	4.1	3.2	0.9
Total exports of goods	4.6	2.8	4.1	5.6	5.8	7.5	6.4	7.6	8.7	7.4
Imports of goods	6.3	3.8	7.2	6.4	7.8	8.1	8.5	7.5	8.8	7.8
Exports of services	7.4	4.9	10.0	8.2	7.1	7.3	6.9	8.1	7.8	6.7
Imports of services	5.1	7.2	4.8	4.1	4.9	6.4	6.7	8.5	6.9	4.0
Gross Domestic Product	0.3	0.7	-2.2	1.8	0.7	3.4	1.4	4.9	4.7	2.8
		<0.9>	<-2.4>	<2.4>	<-0.1>		<1.3>	<1.4>	<1.9>	<-1.7>
Total final demand	4.3	2.9	4.1	4.8	5.2	6.5	6.0	6.7	7.3	6.0
Domestic demand	2.1	1.8	1.9	1.6	3.1	4.3	4.8	4.6	4.7	3.1
Terms of trade in goods and services	-0.9	-0.7	-1.8	*	-1.3	-0.4	-1.7	0.1	-0.1	-0.2

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.

(+) Advance preliminary figures.

< > Seasonally adjusted quarter-to-quarter rate of change.

(*) Change of less than 0.05%.

Notes :

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

The expenditure ranges of the households covered in the 2009/10-based CPIs are shown below:

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

The weightings of the various components in the 2009/10-based CPIs are as follows:

<u>Expenditure component</u>	<u>Composite CPI</u> (%)	<u>CPI(A)</u> (%)	<u>CPI(B)</u> (%)	<u>CPI(C)</u> (%)
Food	27.45	33.68	27.16	20.87
<i>Meals bought away from home</i>	<i>17.07</i>	<i>19.23</i>	<i>17.90</i>	<i>13.55</i>
<i>Other foodstuffs</i>	<i>10.38</i>	<i>14.45</i>	<i>9.26</i>	<i>7.32</i>
Housing	31.66	32.19	31.43	31.36
<i>Private dwellings</i>	<i>27.14</i>	<i>24.78</i>	<i>28.13</i>	<i>28.45</i>
<i>Public dwellings</i>	<i>2.05</i>	<i>5.49</i>	<i>0.72</i>	<i>--</i>
<i>Maintenance costs and other housing charges</i>	<i>2.47</i>	<i>1.92</i>	<i>2.58</i>	<i>2.91</i>
Electricity, gas and water	3.10	4.36	2.84	2.03
Alcoholic drinks and tobacco	0.59	0.91	0.56	0.29
Clothing and footwear	3.45	2.60	3.45	4.39
Durable goods	5.27	3.73	5.73	6.39
Miscellaneous goods	4.17	3.87	4.17	4.49
Transport	8.44	7.22	8.35	9.93
Miscellaneous services	15.87	11.44	16.31	20.25
All items	100.00	100.00	100.00	100.00

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>				
	<u>Annual</u>	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Selected developed economies							
US	-0.4	1.6	3.2	2.1	3.4	3.8	3.3
Canada	0.3	1.8	3.0 ⁺	2.6	3.4	3.0	2.9 [^]
EU	1.0	2.1	3.1	2.9	3.2	3.1	3.2
Japan	-1.4	-0.7	-0.3 ⁺	-0.5	-0.4	0.1	-0.3 [^]
Major emerging economies							
Mainland China	-0.7	3.3	5.4	5.0	5.7	6.3	4.6
Russia	11.7	6.9	8.4	9.5	9.5	8.1	6.7
India	10.9	12.0	9.1 ⁺	9.0	8.9	9.2	9.4 [^]
Brazil	4.9	5.0	6.6	6.1	6.6	7.1	6.7
Selected Asian economies							
Hong Kong	0.5	2.4	5.3	3.8	5.2	6.4	5.7
Singapore	0.6	2.8	5.2 ⁺	5.2	4.7	5.5	5.5 [^]
Taiwan	-0.9	1.0	1.4	1.3	1.6	1.3	1.4
South Korea	2.8	2.9	4.0	3.8	4.0	4.3	4.0
Malaysia	0.6	1.7	3.2	2.8	3.3	3.4	3.2
Thailand	-0.8	3.3	3.8	3.0	4.1	4.1	4.0
Indonesia	4.8	5.1	5.4	6.8	5.9	4.7	4.1
Philippines	4.1	3.8	4.8	4.5	5.0	4.9	4.7
Vietnam	6.7	9.2	18.7 ⁺	12.8	19.4	22.5	20.7 [^]
Macao	1.2	2.8	5.7 ⁺	5.0	5.2	6.2	6.7 [^]

Notes : (+) Based on data for the first eleven months of 2011.

(^) Based on data for October and November 2011.

- (3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

Calendar of Events of Significance for the Hong Kong Economy in 2011

- 1 Jan The enhanced Deposit Protection Scheme providing a higher protection limit of \$500,000 came into operation.
- The Hong Kong, China - New Zealand Closer Economic Partnership Agreement entered into force.
- The liberalisation measures under Supplement VII to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) came into effect. Hong Kong service suppliers enjoyed preferential access to the Mainland market in 44 service areas, including 27 new liberalisation measures in 14 service sectors and of which eight were measures for “early and pilot implementation”. At the same time, the number of products with rules of origin agreed under CEPA was increased to 1 621.
- 4 Jan The World Bank issued its first renminbi (RMB) bond in Hong Kong.
- The Government announced a comprehensive waste management strategy and an updated action plan to tackle the imminent waste problem in Hong Kong. Major initiatives include revising the municipal solid waste (MSW) recovery target for 2015 upward to 55%; enhancing community participation and promotional efforts in waste reduction and recycling; expediting the legislative proposals on Producer Responsibility Schemes; engaging the public on continued discussions on MSW charging; and developing advanced waste treatment facilities and extension to existing landfills to ensure that waste can continue to be properly managed in an environmentally acceptable manner.
- 11 Jan The Customs and Excise Department and the Consumer Product Safety Commission of the United States signed a Memorandum of Understanding (MoU), with an objective of strengthening information and experience sharing relating to consumer product safety.
- 12 Jan The Heritage Foundation and the Wall Street Journal released the 2011 Index of Economic Freedom. Hong Kong was rated the freest economy in the world for the 17th straight year.
- 13 Jan The People’s Bank of China (PBoC) announced a pilot scheme for the settlement of overseas direct investments in RMB. Under this pilot scheme, Mainland enterprises, upon approval by the relevant Mainland authorities, can conduct direct investments overseas using RMB. Moreover, the Hong Kong branches and correspondent banks of Mainland banks can obtain RMB funds from the Mainland and extend RMB lending to the enterprises conducting the investments.
- 18 Jan The Legislative Council (LegCo) endorsed the provision of funding support to Partner State Key Laboratories in Hong Kong through the Innovation and Technology Fund. From 2011/12 to 2015/16, each Partner State Key Laboratory will receive a total of \$10 million for strengthening research capability and infrastructure support.
- 20 Jan The Commerce and Economic Development Bureau (CEDB) published a consultation report on legislative proposals to enhance protection for consumers against unfair trade practices.

The "Join Hands with Hong Kong in Going Global" Forum was hosted in Hong Kong by Invest Hong Kong, in collaboration with the Department of Outward Investment and Economic Cooperation of the Ministry of Commerce of the People's Republic of China, and the Commercial Office of the Economic Affairs Department of the Liaison Office of the Central People's Government in the HKSAR. The forum encouraged Mainland enterprises to strengthen co-operation with Hong Kong companies to develop the international market for infrastructure projects.

21 Jan The Hong Kong Association of Banks announced the industry's implementation of the first batch of credit card reform measures within March to further improve consumer protection and transparency of credit card business. The second batch of measures was announced on 10 June 2011.

26 Jan The Ocean Park unveiled a number of new attractions in 2011, leading to the best yearly attendance ever of around 5.89 million in the financial year 2010-11.

The Government introduced the Companies Bill into the LegCo. The Bill aims to rewrite and modernise the company law for the operation of companies in Hong Kong.

18 Feb The Finance Committee of the LegCo approved the funding applications of the Shatin to Central Link Advance Works. Construction of the Shatin to Central Link Advance Works commenced in May 2011 and is expected for completion in 2015.

The Hong Kong Monetary Authority (HKMA) issued a circular to alert authorized institutions (AIs) of the need to pay particular attention to the trading, clearing and settlement of RMB-denominated products to be listed on the Stock Exchange of Hong Kong Limited (SEHK), and to consider the implications for RMB banking business.

21 Feb The Government announced the tendering of 2-year Government Bonds, totalling \$3.5 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.

Companies Registry and Inland Revenue Department jointly launched the "one-stop company and business registration" and "one-stop notification of change of company particulars" services to facilitate business operators.

23 Feb The Financial Secretary (FS) presented the Budget for the financial year 2011-12 to the LegCo, focusing on promoting the economic development of Hong Kong, building a cohesive community and improving people's livelihood.

The FS proposed a number of one-off measures to help ease pressure arising from the impact of inflation and rising prices on people's livelihood, including, among others, waiving rates for four quarters of the financial year 2011-12 (subject to a ceiling of \$1,500 per quarter for each rateable tenement), provision of electricity charge subsidy to households, paying two months of public housing rentals and an extra allowance to recipients of various social security schemes. To provide another investment option for coping with inflation, the FS also proposed the issuance of inflation-linked retail bond (iBond).

To stabilise the property market, the FS proposed a number of measures, including increasing land sales via the Land Sales Programme as well as exploring the feasibility of reclamation, on an appropriate scale, outside Victoria Harbour and rock cavern development to increase the supply of land.

The FS also proposed a number of measures regarding public finance: (a) Raise the tobacco duty rates by 41.5% on grounds of public health; (b) Increase tax allowances for dependent parent/grandparent and deduction ceiling for elderly residential care expenses both by 20%; (c) Increase tax allowances for child by 20%; and (d) Raise the rate of each tax band for the First Registration Tax for private cars by about 15% to curb the growth of private cars.

The 2010 Economic Background and 2011 Prospects were published along with the 2011-12 Budget. Hong Kong's Gross Domestic Product (GDP) was forecast to grow by 4% to 5% in real terms in 2011, thanks to the stronger growth sustained by the Mainland and Asian economies as well as the envisaged further recovery of domestic demand. The headline and underlying Composite Consumer Price Indices (CCPI) for 2011 were both forecast to increase by 4.5%.

24 Feb The Government announced the 2011-12 Land Sale Programme which comprises an Application List and a Sale by Tender List. The Programme offers a total of 52 residential sites with a capacity to produce about 16 000 units. In addition, it contains 14 commercial/business sites and five hotel sites.

The Government promulgated a new Urban Renewal Strategy (URS) on the basis of broad public consensus reached after a two-year, three-stage extensive public engagement exercise.

The Hong Kong Mortgage Corporation Limited (HKMC) announced certain enhancements to the Reverse Mortgage Pilot Scheme.

2 Mar The FS announced adjustments to the 2011-12 Budget, including the proposal of reducing salaries tax and tax under personal assessment for the year of assessment 2010-11 by 75%, subject to a ceiling of \$6,000 for each case.

3 Mar The Office of the Telecommunications Authority (OFTA) successfully conducted an auction of radio spectrum in the 850 MHz and 900 MHz bands, with a total of 20 MHz of spectrum acquired by two mobile operators at a total spectrum utilization fee of \$1,952 million. These mobile operators can make use of the newly acquired spectrum to expand their existing networks with additional network capacity to meet the increasing market demand for public mobile telecommunications services.

5 Mar Premier of the State Council Wen Jiabao presented the "Government Work Report" at the 4th meeting of the 11th National People's Congress. The Report confirmed the principles of "One Country, Two Systems", "Hong Kong people administering Hong Kong" and high degree of autonomy. It also supported Hong Kong to strengthen its position as an international finance, trade and shipping centre, and supported the further development of regional co-operation among Guangdong, Hong Kong and Macao.

8 – 10 Mar The Asian Aerospace International Expo & Congress 2011, the world's largest trade exhibition and congress for the commercial aerospace and civil aviation sector, was held at Asia-World Expo.

14 Mar The HKMA issued a circular to further enhance the regulatory requirements for the sale of investment-linked assurance scheme products by AIs.

- 16 Mar “The National 12th Five-Year Plan” (the Plan) was officially promulgated. For the first time, a dedicated chapter entitled "Maintaining the Long-term Prosperity and Stability of Hong Kong and Macao" had been included in the Plan. The significant functions and positioning of the HKSAR in the national development strategy were elaborated. The Plan clearly indicated the Central Government’s support for Hong Kong to consolidate and enhance its competitive advantages, including consolidating and enhancing Hong Kong’s status as an international centre for financial services, trade and shipping, and in particular, the support for Hong Kong’s development as an offshore Renminbi centre and an international asset management centre; to nurture its emerging industries and develop the six industries where Hong Kong enjoyed clear advantages; and to deepen economic co-operation with the Mainland and continue to implement CEPA. It also confirmed the significant functions and positioning of Hong Kong’s co-operation with Guangdong under the Framework Agreement on Hong Kong/Guangdong Co-operation.
- 17 Mar The HKMA conducted in Sydney its first of a series of overseas roadshows to showcase Hong Kong as the offshore RMB business centre, attracting over 300 participants from leading financial institutions and corporates in Australia and New Zealand. The roadshow series aims to promote overseas interests in the one-stop financial platform provided by Hong Kong for offshore RMB businesses.
- 18 Mar The Companies Registry launched a new electronic incorporation service and, in collaboration with the Inland Revenue Department, introduced a new one-stop electronic service for company incorporation and business registration. Members of the public can incorporate a company in less than 24 hours. The new service facilitates the start of business in Hong Kong and, according to a World Bank study, has enhanced Hong Kong’s international ranking in starting a business.
- 21 Mar – 17 Apr The Entertainment Expo Hong Kong, Asia’s leading entertainment industry gathering, was held and featured 10 multimedia events covering films, television, music and digital entertainment in its seventh edition.
- 22 Mar The HKSAR and the Portuguese Republic signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Hong Kong.
- The CE in Council granted sound broadcasting licences for providing digital audio broadcasting (DAB) to Digital Broadcasting Corporation Hong Kong Limited, Metro Broadcast Corporation Limited and Phoenix U Radio Limited. The new licensees, together with RTHK, the public service broadcaster, would launch a total of 18 DAB channels to offer a greater variety of radio programmes with better sound quality and images to the audience.
- 24 Mar The Hong Kong Internet Registration Corporation Limited (HKIRC) launched the full Chinese Internationalized Domain Name country code Top Level Domain (IDN ccTLD) registration service.
- 25 Mar The Inland Revenue (Amendment) Ordinance 2011 came into effect. The 50% concessionary profits tax rate is extended to interest income and trading profits derived from a qualifying debt instrument with a tenor of less than 3 years.
- The Government launched a 3-month public consultation on the proposed establishment of a Policyholders' Protection Fund.

Governor of Sichuan Province Jiang Jufeng led a delegation to Hong Kong and attended the Sichuan and Hong Kong Financial Co-operation Forum, co-organised by the HKSAR Government and the Sichuan Provincial Government. The Forum gave positive fresh impetus to the financial co-operation between Hong Kong and Western China.

28 Mar Japan Credit Rating Agency, Ltd. affirmed Hong Kong's long-term local-currency and foreign-currency sovereign ratings at "AA+", with "Stable" outlook.

30 Mar Hong Kong International Airport was named the "World's Best Airport" in the annual passenger survey by Skytrax for the eighth time since 2001.

The Government set up a \$300 million Pilot Green Transport Fund for application by the public transport trade, goods vehicle owners and charitable/non-profit making organizations providing transportation services to their clients. The Fund will subsidize them to test out green and low-carbon transport technologies.

31 Mar The RMB Clearing Bank announced that AIs participating in RMB business can place RMB funds in excess of their day-to-day business and settlement needs in a segregated Fiduciary Account with the PBoC through the RMB Clearing Bank. This new arrangement facilitates Participating AIs to better manage their credit exposure to the Clearing Bank for RMB business in Hong Kong.

The Data.One portal (www.gov.hk/data.one) was launched under an 18-month pilot scheme, providing real time traffic data and geo-referenced public facilities data for free value-added re-use.

The Office of the Government Chief Information Officer (OGCIO) completed the Study of Economic Benefit Analysis of Developing Hong Kong into a Regional Data Centre Hub, and published the Executive Summary of the study report on the OGCIO website for public reference.

1 Apr A set of new/revised practice notes for implementing the policy to foster a quality and sustainable built environment promulgated by the Buildings Department came into effect.

The first set of amendments to the Code of Practice on Consumer Credit Data took effect to provide for the implementation of the positive data mortgage sharing by credit providers, strengthening their credit risk assessment and thereby promoting banking and financial stability in Hong Kong.

The HKSAR and the Kingdom of Spain signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Hong Kong.

7 Apr Hong Kong International Airport was named the "World's Best Airport" among facilities serving over 40 million passengers annually at the Airport Services Quality Awards for the fifth consecutive year.

8 Apr The Foundation Stone Laying Ceremony of the new cruise terminal building at Kai Tak was held. The terminal building and the first berth are expected to be commissioned in mid-2013.

- 11 Apr In connection with the very rapid growth of loans granted by AIs, the HKMA issued a circular to require AIs to re-assess their loan business and funding plans for the remainder of the year and submit them to the HKMA for review.
- 13 Apr Cyberport and Shanghai Knowledge and Innovation Community (KIC) signed a five-year Strategic Partnership Agreement to advance closer bilateral information and communications technology (ICT) collaboration.
- 14 Apr The European Commission published its 13th report on Hong Kong, affirming the continued development of relations and co-operation between the European Union (EU) and Hong Kong in terms of trade, investment and dialogue on issues of common interest as well as recognising Hong Kong's strategic importance as a trading and investment partner for the EU. At the same time, the report pointed out that the principle of "One Country, Two Systems" had continued to work well, the rights and fundamental freedoms of the people of Hong Kong had been respected, and the rule of law protected.
- 14 – 15 Apr The Chief Executive (CE) visited Hainan to attend the Boao Forum for Asia Annual Conference 2011.
- 16 – 17 Apr The President of the Russian Federation, Mr Dmitry Medvedev, led a business delegation on a two-day official visit to Hong Kong at the invitation of the CE. The two leaders discussed ways to increase bilateral collaboration in a number of areas.
- 17 – 20 Apr The FS visited Chengdu and Chongqing to inspect the progress of post-quake reconstruction project funded by Hong Kong, while fostering closer economic ties with the two places.
- 18 Apr The HKMA introduced a new investor protection measure, requiring AIs to provide important facts statements for currency-linked instruments and interest rate-linked instruments to the relevant retail customers for product disclosure enhancement.
- 21 Apr The Government announced the tendering of 5-year Government Bonds, totalling \$2.5 billion, through the re-opening of an existing 5-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 27 Apr The National Association of Financial Market Institutional Investors of China and the Treasury Markets Association of Hong Kong signed a MoU on Co-operation in Beijing, agreeing to strengthen co-operation in a wide range of areas such as market development, establishment of codes, research, visits, exchanges and training.
- 29 Apr The first RMB-denominated real estate investment trust was listed in Hong Kong.
- 1 May The Minimum Wage Ordinance, with the initial statutory minimum wage rate at \$28 per hour, came into effect. The statutory minimum wage system provides a wage floor to forestall excessively low wages, but without unduly jeopardising Hong Kong's labour market flexibility, economic growth and competitiveness or causing significant adverse impact on employment opportunities for vulnerable workers.
- 4 – 6 May The Chief Secretary for Administration (CS) led a government delegation to Sichuan to inspect the progress of reconstruction projects funded by the HKSAR Government and the Hong Kong Jockey Club. He also attended the High-level Co-ordination Group Meeting and the ceremony of completion of some reconstruction projects.

- 8 May Hong Kong residential and business users pay as low as one-tenth of the telecommunications charges as their counterparts in six other cities, namely Copenhagen, London, New York, Shanghai, Singapore and Tokyo, as revealed by the findings of an international tariff benchmarking study commissioned by OFTA.
- 13 May The Government released the GDP figures for the first quarter of 2011. The Hong Kong economy grew notably by 7.2% (preliminary figure) in real terms in the first quarter over a year earlier.
- In the May update of the economic forecast for 2011, the forecast growth rate in real terms of GDP was revised upwards to 5-6%. The forecast rates of increase in the headline and underlying Composite CPI were also revised upwards to 5.4% and 5.5% respectively.
- The Securities and Futures and Companies Legislation (Structured Products Amendment) Ordinance 2011 took effect. The Ordinance aims to rationalise the legislative framework by putting the regulation of public offers of all structured products under the offers of investments regime of the Securities and Futures Ordinance and to enhance investor protection.
- 17 May The Cultural Co-operation Committee under the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council (ECCPC) held the first Hong Kong-Taiwan Cultural Co-operation Forum in Hong Kong with “*Forming Cultural Co-operation Platform, Building Chinese Creative Branding*” as the theme. At the Forum, Hong Kong and Taiwan mapped out an action agenda that aimed to deepen mutual understanding on the development of cultural and creative industries, and to facilitate concrete co-operation directions and plans for these industries.
- 20 May The Government removed the licensing control requirement for Hong Kong’s textiles exports and imports involving the “non-sensitive markets” and for all textiles transshipments.
- 23 May The 6th meeting of the Hong Kong-Shenzhen Joint Task Force on Boundary District Development (JTF) was convened in Hong Kong. The JTF noted the marked progress of the development of the Lok Ma Chau Loop and the Liantang/Heung Yuen Wai Boundary Control Point project.
- Construction of the South Island Line (East) and the Kwun Tong Line Extension commenced and is expected for completion in 2015.
- Three universities in Hong Kong were named the first, second and fifth in the Asian University Rankings 2011 run by Quacquarelli Symonds.
- The Government conducted a joint roadshow in Indonesia and Malaysia on 23-26 May with the Shanghai Municipal Government Financial Services Office to promote the financial co-operation between Shanghai and Hong Kong and the development of RMB business.
- 24 May The HKMA and the Securities and Futures Commission (SFC) released the findings of a mystery shopping exercise on the sales practices of retail banks in respect of unlisted securities and futures investment products and structured deposits. The objectives of the exercise were to understand the industry-wide sales practices of intermediaries and to identify areas for improvements.

- 26 May The first international boarding school, the Harrow International School Hong Kong, conducted the foundation stone laying ceremony for its campus on one of the four greenfield sites allocated for international school development. Along with other measures, around 5 000 additional international school places are expected to come on stream in the coming few years in meeting the demand for school places from families coming to Hong Kong for work or investment.
- 30 May The HKMC announced the introduction of a special arrangement effective from 1 June to 31 December under the SME Financing Guarantee Scheme to help local enterprises affected by the Japanese earthquake to tide over the difficult times.
- 31 May The Education Bureau received nine expression of interests from local and non-local institutions for the development of self-financing tertiary education at the Queen's Hill site.
- 1 Jun The HKMA announced that all AIs in Hong Kong would implement the chip-based technology for all Automatic Teller Machine (ATM) services in Hong Kong, making it much more difficult for fraudsters to replicate ATM cards with stolen data for use in Hong Kong.
- A new regulatory regime governing credit rating agencies (CRAs) operating in Hong Kong became effective. Under the new regime, CRAs and their rating analysts who provide credit rating services in Hong Kong are required to be licensed and subject to supervision by the SFC, in line with the requirements laid down by G20.
- 2 Jun The Airport Authority released its 20-year development blueprint, the *Hong Kong International Airport Master Plan 2030*, and launched a three-month public consultation exercise to solicit stakeholder and public feedback on the direction for the airport's future development.
- 6 Jun The Government of the HKSAR and the Government of the Czech Republic signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Prague.
- 6 – 9 Jun The Secretary for Environment (SEN) led a delegation of Hong Kong's environmental industry to Beijing to attend the 12th China International Environmental Protection Exhibition and Conference (CIEPEC 2011). More than 30 Hong Kong companies and organizations took part in the exhibition with government funding support. The delegation also visited the Ministry of Environmental Protection, the National Development and Reform Commission and the Beijing Municipal Environmental Protection Bureau to gain a better understanding of Mainland's policy on environmental protection and green economy under the National 12th Five-Year Plan.
- 10 Jun The HKMA issued guidelines to require AIs to implement measures to strengthen risk management in residential mortgage lending business, including lowering the maximum loan-to-value (LTV) ratio for residential properties with a value between \$7 million to \$12 million; lowering the maximum LTV ratio for mortgage loan applicants whose principal income is not derived from Hong Kong; and lowering the maximum LTV ratio for properties under the net worth-based mortgage.

Taking into account the above measures, the HKMC announced the lowering of the cap on the value of property that can be covered under the Mortgage Insurance Programme from \$6.8 million to \$6 million, and the unavailability of the Programme to applicants whose principal income is not derived from Hong Kong.

The Finance Committee of LegCo approved \$92 million to support the establishment of a Financial Dispute Resolution Centre and its operating costs for the first three years. The Government provided half of the funding support, with the other half provided by the HKMA and SFC. The Centre aims to offer an independent and affordable avenue for resolving monetary disputes between individual consumers and financial institutions.

15 Jun The HKMA and China Development Bank (CDB) jointly organised in Russia HKMA's second overseas roadshow in the year to showcase Hong Kong as the offshore RMB centre, attracting over 120 participants from government agencies, financial institutions and corporates in Russia and other parts of Eastern Europe.

Cushman & Wakefield and Hurleypalmerflatt published the Data Centre Risk Index report ranking Hong Kong as the lowest risk location for data centres in Asia Pacific, and the fourth lowest in the world.

16 – 23 Jun The CE visited Australia to strengthen the ties between Hong Kong and Australia, promote trade opportunities, and encourage more Australian companies, particularly resources companies, to list in Hong Kong.

21 Jun Hong Kong and the Member States of the European Free Trade Association (EFTA), namely Iceland, Liechtenstein, Norway and Switzerland, signed a Free Trade Agreement (FTA) in Liechtenstein. This is Hong Kong's first FTA with the European economies. The Agreement is comprehensive, encompassing a wide range of areas of mutual interest to Hong Kong and the EFTA Member States including trade in services and goods as well as investment. It will open up new business opportunities for our traders and investors in the Northern and Western European markets.

The CE in Council decided that the target date for switching off analogue television services be deferred from end-2012 to end-2015.

22 Jun The Stamp Duty (Amendment) (No.2) Ordinance 2010 was enacted by the LegCo to introduce the "Special Stamp Duty" to combat short-term speculative activities on residential properties, with a view to ensuring the healthy and stable development of the property market.

23 Jun The Treasury Markets Association announced the formal launch of the Spot USD/CNY(HK) Fixing on 27 June.

24 Jun The CE in Council accepted the recommendations of the Broadcasting Authority following the mid-term review of the sound broadcasting licences of Hong Kong Commercial Broadcasting Company Limited and Metro Broadcast Corporation Limited, including new licence conditions to be imposed for the remaining validity period of the licences, i.e. until August 2016, to improve the services of the two licensees.

The Government announced the consultation conclusions and detailed proposals for the establishment of an independent Insurance Authority.

The Government introduced the Securities and Futures (Amendment) Bill 2011 into the LegCo. The Bill aims to oblige listed corporations to disclose price sensitive information, and to enable the SFC to institute proceedings before the Market Misconduct Tribunal and establish an Investor Education Council.

30 Jun The Communications Authority (CA) Bill was passed by the LegCo. To pave the way for the increasing convergence between telecommunications and broadcasting, the CA will be set up as a unified regulator under the CA Ordinance.

1 Jul The number of products with CEPA rules of origin agreed was increased to 1 630.

5 Jul The Government announced the launch of the iBond under the Retail Bond Issuance Programme of the Government Bond Programme for subscription by Hong Kong residents. The issuance of the iBond mainly aimed to promote the further development of retail bond market in Hong Kong by enhancing retail investors' awareness and interest in bond investment. A total of \$10 billion of iBond, with a tenor of three years, was issued on 28 July and listed on the SEHK the following day (29 July).

8 Jul The Finance Committee of the LegCo approved the 2011-12 Civil Service Pay Adjustment. The adjustment rates ranged from 6.16% to 7.24%, and took retrospective effect from 1 April 2011.

11 Jul The HKMC held a signing ceremony for its Reverse Mortgage Programme. The Programme provides elderly people aged 60 or above with an additional financial planning option to enhance their quality of life.

The Government released the healthcare reform second stage public consultation report, and announced the action plan for taking forward the voluntary, government-regulated Health Protection Scheme (HPS), namely formulating detailed implementation proposals for the HPS, conducting a strategic review on healthcare manpower planning and professional development, and facilitating healthcare services development.

11 – 15 Jul The FS visited Toronto, Ottawa and Montreal to strengthen economic and trade ties between Hong Kong and Canada.

14 Jul The OGCI launched the "i Learn at home" Internet Learning Support Programme to assist students from low-income families to undertake web-based learning at home.

18 Jul The Government increased the total guarantee commitment under the SME Loan Guarantee Scheme substantially from \$20 billion to \$30 billion; and increased the total commitment for the SME Export Marketing Fund and the SME Development Fund from \$2.75 billion to \$3.75 billion.

20 Jul The Hong Kong, Guangdong and Macao Governments held a joint meeting of the Expert Groups on Hong Kong/Guangdong and Macao/Guangdong Town Planning and Development in Guangzhou. The meeting noted the comments received during the public engagement exercise and the progress on revising the proposals in the "Action Plan for the Bay Area of the Pearl River Estuary" to take account of the public feedback.

The 6th meeting of the Hong Kong/Guangdong Expert Group on Co-operation in Informatisation under the Hong Kong/Guangdong Co-operation Joint Conference was held in Hong Kong. It was agreed that the co-operation between Guangdong and Hong Kong would focus on, among others, “improving cross-boundary infrastructure facilities”, “supporting modern service industries”, “creating an internationalised business environment”, and “building a quality living area”.

The SFC released its Fund Management Activities Survey, which showed that Hong Kong’s combined fund management business amounted to \$10,091 billion as at end-2010, representing an increase of 18.6% from end-2009.

21 Jul The Treasury Markets Association announced the launch of the Code of Conduct and Practice, and a new Professional Qualification Framework, further enhancing the ethical conduct and professional competence of treasury market practitioners.

22 Jul The HKMA and the three note-issuing banks unveiled the designs of the \$100, \$50 and \$20 of the new Hong Kong banknotes (2010 Series).

25 Jul The Government announced the tendering of 10-year Government Bonds, totalling \$2.5 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.

The OGCIO established the Data Centre Facilitation Unit and launched a thematic information portal (www.datacentre.gov.hk) to provide one-stop support services for setting up data centres in Hong Kong.

27 Jul Hong Kong was ranked the world's third largest recipient of Foreign Direct Investment (FDI) flows in 2010, according to World Investment Report 2011 released by the United Nations Conference on Trade and Development (UNCTAD), outstripping the fourth position it earned in 2009. In Asia’s ranking, Hong Kong continued to be the second largest FDI recipient, after Mainland China, for 13 consecutive years.

28 Jul The HKMA issued a circular to AIs, setting out the refinements to the existing arrangements regarding position squaring with the RMB Clearing Bank and net open position.

29 Jul The 8th meeting of the Guangdong/Hong Kong Expert Group on Co-operation in Innovation and Technology was held in Guangzhou. The meeting agreed to further enhance science and technology collaboration between Hong Kong and Guangdong under the Framework Agreement on Hong Kong/Guangdong Co-operation.

The Government organised an industry forum to give the ICT sector an overview of the Government's upcoming strategic IT initiatives, particularly its plans to set up a Government Cloud Platform, to help the industry better prepare for the provision of related products and services.

10 Aug The ECCPC and its counterpart, the Taiwan-Hong Kong Economic and Cultural Co-operation Council, held their second joint meeting in Hong Kong. Both sides agreed to take forward new priority areas of co-operation including education, legal co-operation in civil and commercial matters and insurance regulation.

11 Aug The HKMA and the Taiwan Financial Supervisory Commission signed a MoU for banking supervisory co-operation between the two authorities.

- 12 Aug The Government released the GDP figures for the second quarter of 2011. Despite a more challenging external environment, real GDP increased by 5.1% (preliminary figure) in the second quarter over a year earlier.
- In the August update of the economic forecast for 2011, the forecast growth rate in real terms of GDP was maintained at 5-6%. The forecast rates of increase in the headline and underlying Composite CPI were also kept unchanged at 5.4% and 5.5% respectively.
- 17 Aug Vice-Premier of the State Council Li Keqiang announced during his visit to Hong Kong more than 30 concrete policies and measures formulated by the Central Government to support Hong Kong's further development and deepen economic and financial co-operation between the Mainland and Hong Kong. Among the announcements include new initiatives to support the development of Hong Kong as an offshore RMB business centre, including the further expansion of the RMB trade settlement scheme, support for the use of RMB for foreign direct investments in the Mainland, introduction of an RMB Qualified Foreign Institutional Investors scheme for investing in Mainland's securities markets, pilot arrangement for foreign banks to increase capital of their Mainland subsidiaries using RMB, and expansion of issuance of RMB bonds in Hong Kong by Mainland entities (including financial institutions and corporates). The Central Government's established policy of opening the Mainland to Hong Kong first under the "One Country, Two Systems" policy was highlighted.
- The Ministry of Finance launched the third issue of RMB bonds of the Central People's Government in Hong Kong.
- 23 Aug The CE and the Governor of Guangdong Province co-chaired the 14th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference in Hong Kong. At the meeting, the two sides discussed the way forward and agreed to enhance the overall competitiveness of the region through closer co-operation in various aspects, such as taking forward the key co-operation areas, formulation of regional co-operation plans, financial services, commerce and trade, travel facilitation, and environmental protection. At the same time, the "Cooperation Agreement between Hong Kong and Guangdong on Combating Climate Change" was signed at the Plenary, and both sides agreed to set up the Hong Kong-Guangdong Joint Liaison Group on Combating Climate Change to promote cooperation and exchanges in greenhouse gas emission reduction activities and scientific research and technology development in the two places.
- 24 Aug Rating and Investment Information, Inc. affirmed Hong Kong's long-term local-currency and foreign-currency sovereign ratings at "AA+", with "Stable" outlook.
- 25 Aug The Government announced the appointment of 12 Primary Dealers for the Institutional Bond Issuance Programme under the Government Bond Programme.
- 29 Aug The Planning Department and Civil Engineering and Development Department jointly commissioned consultants to undertake the "Planning and Engineering Study on the Hung Shui Kiu New Development Area (NDA)". The purpose of the Study is to formulate a land use framework and ascertain the feasibility of implementing the recommended proposals for the development of the Hung Shui Kiu NDA to meet housing and other land use needs of Hong Kong in the long term.
- The Government announced the tendering of 2-year Government Bonds, totalling \$3.5 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.

- 30 Aug The 6th meeting of the Mainland/Hong Kong Science and Technology Co-operation Committee was held in Chengdu. The two sides agreed to reinforce collaboration under the National 12th Five-Year Plan, including follow up on the initiatives of setting up the National High-tech Industrialisation Base and Chinese National Engineering Research Centre in Hong Kong.
- 31 Aug – 2 Sep The CE visited Urumqi of Xinjiang Uygur Autonomous Region and attended the 1st China-Eurasia Expo.
- 1 Sep The Government announced that the Liangtang/Heung Yuen Wai Boundary Control Point (BCP) on the Hong Kong side will be designed as the first land-based BCP directly accessible by both pedestrians (through a pedestrian subway) and private vehicles to facilitate public use and convenience.
- Hong Kong, Guangdong and Macao jointly launched a three-month public consultation on initial proposals for the Regional Cooperation Plan on Building a Quality Living Area. The consultation document puts forward the objectives and vision to transform the Greater Pearl River Delta (PRD) region into a low-carbon, high-technology, low-pollution city cluster of quality living. It also suggests initial cooperation directions and proposals in the five areas of environment and ecology; low-carbon development; culture and social living; spatial planning; and transportation systems.
- 7 Sep The World Economic Forum released its Global Competitiveness Report 2011-12. Hong Kong ranked 11th, same place as in the preceding year.
- 7 – 8 Sep The FS visited Xiamen to strengthen closer economic ties with Fujian and attend the 15th China International Fair for Investment and Trade.
- 8 – 16 Sep The CE visited Brussels from 8 to 10 September, and London and Edinburgh from 11 to 16 September. During his visit, the CE met political and business leaders in Belgium and the United Kingdom to discuss Hong Kong's latest developments.
- 13 Sep The HKMA, together with the Hong Kong Trade Development Council, conducted in London its third roadshow in the year to promote Hong Kong as the offshore RMB business centre, attracting over 200 representatives of financial institutions and corporates from the UK and other parts of Europe.
- 14 Sep NTT Com Asia, the regional information technology services arm of Japan's NTT Communications Corp, laid the foundation stone for its first Tier 4 data centre operator in Hong Kong. The new data centre has an estimated investment over \$3 billion.
- 20 Sep Hong Kong remained the freest economy in the world, according to the 2011 Annual Report on the Economic Freedom of the World jointly released by the Fraser Institute of Canada, CATO Institute of the US and more than 70 other research institutes around the world.
- 20 – 28 Sep The FS visited New York, Washington DC and Chicago to strengthen Hong Kong's economic ties with the United States. The FS also attended the Annual Meeting of the International Monetary Fund/World Bank held in Washington DC as a member of the Chinese delegation.

- 23 Sep CEDB and OFTA jointly issued a statement on the imposition of Spectrum Utilization Fee (SUF) on non-government uses of administratively assigned radio spectrum to facilitate the most economical and socially efficient use of radio spectrum which is a scarce public resource.
- 25 – 26 Sep The Secretary for Commerce and Economic Development visited Taiyuan of Shanxi Province to attend the 6th Expo Central China.
- 27 Sep HKSAR Government delegation attended the first meeting of the Inter-ministries Joint Conference on the Development of Qianhai Area in Shenzhen. At the meeting, representatives from relevant ministries of the Central Government, Guangdong Provincial Government, Shenzhen Municipal Government and the HKSAR Government reviewed the work progress of "Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area" since the approval by the State Council in August last year. They also conducted in-depth discussions on how to drive the development of Qianhai and enhance its business environment.
- 28 Sep Google announced its plan for the establishment of a data centre in Hong Kong. The company said it would invest US\$300 million in the Hong Kong data centre.
- 29 Sep The Pacific Economic Co-operation Council published its State of the Region Report 2011-2012. The Report recognised Hong Kong as one of the economies most highly integrated with the Asia-Pacific region.
- 30 Sep West Kowloon Cultural District Authority started the one-month Stage 3 Public Engagement Exercise to exhibit the modified Conceptual Plan based on Foster + Partners' "City Park" concept, and information on the proposed Development Plan for the cultural district.
- 3 Oct Fitch Ratings affirmed Hong Kong's long-term local-currency foreign-currency sovereign ratings at "AA+", with "Stable" outlook.
- 7 Oct The Government invited tenders for the implementation of the Next Generation Government Wi-Fi (GovWiFi) Programme. The new programme will succeed the existing one with free and enhanced services to the public upon expiry of the current service contract at the end of 2012.
- 11 Oct The HKMC announced a number of enhancements to the SME Financing Guarantee Scheme, further boosting the flexibility of the Scheme and helping banks provide stronger funding support to small and medium-sized enterprises.
- 12 Oct In the Policy Address 2011/12, the CE elaborated the Government's policies in improving the people's livelihood and promoting economic development. Among others, the proposed policy measures include: (a) Two buffering measures in response to the aspirations of low and middle-income families to buy their own homes, namely, a new policy for the resumption of the Home Ownership Scheme and the enhanced My Home Purchase Plan; (b) The initiative on land reserve and six measures to expand Hong Kong's land resources including reclamation on an appropriate scale outside Victoria Harbour and relocation of existing public facilities to caverns for releasing such sites for housing and other uses; (c) The expedition of the transformation of Kowloon East into a core business district to support Hong Kong's economic development; (d) The reservation of about two hectares of land in Tseung Kwan O for data centre use; (e) Promoting the use and circulation of RMB funds, and establishing strong and extensive

links with the Mainland's onshore RMB market by three "bridges", namely trade, direct investment and equity investment; and (f) The earmarking of \$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, and setting aside \$150 million for a one-off subsidy to owners of LPG taxis and light buses to help them replace catalytic converters.

- 14 Oct The PBoC and the Ministry of Commerce promulgated the Administrative Rules on Settlement Business of Foreign Direct Investment Denominated in RMB. The promulgation of the Administrative Rules will greatly expand the use of RMB funds in Hong Kong and promote the development of the RMB bond market and financing activities in Hong Kong, enabling the development of the Hong Kong offshore RMB business centre to reach a new level.
- 17 Oct The HKMA and SFC issued a joint consultation paper on the proposed regulatory regime for Hong Kong's over-the-counter (OTC) derivatives market. In line with the objectives of the commitments the G20 Leaders made in September 2009 to carry out reform in the area, the proposed regime aims to improve overall transparency in the OTC derivatives market, reduce interconnectedness of participants, and generally reduce systemic risk in the financial system. The consultation closed on 30 November.
- The HKMA organised its fourth roadshow in the year to promote Hong Kong as the offshore RMB business centre, attracting almost 200 participants from government agencies, financial institutions, and corporates in Spain and other parts of Europe.
- 18 Oct The CE in Council approved the Draft Chek Lap Kok Outline Zoning Plan under the Town Planning Ordinance; and authorized the reclamation works for the construction of the Hong Kong-Zhuhai-Macao Bridge (HZMB) Hong Kong Boundary Crossing Facilities under the Foreshore and Sea-bed (Reclamations) Ordinance, as well as the road schemes for the Hong Kong Boundary Crossing Facilities, Hong Kong Link Road and Tuen Mun-Chek Lap Kok Link under Roads (Works, Use and Compensation) Ordinance.
- 18 – 21 Oct The FS led a government delegation to visit Beijing and meet with Central Government officials responsible for financial and monetary matters to discuss issues of mutual concern. During his visit, the FS attended the 15th Beijing-Hong Kong Economic Co-operation Symposium in Beijing on 20 October.
- 20 Oct The State Council approved the first Mainland enterprise to issue bonds totalling RMB6.5 billion in Hong Kong.
- 24 Oct The Government announced the tendering of 3-year Government Bonds, totalling \$3 billion, through the re-opening of an existing 5-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 24 Oct – 5 Nov Three key wine-related promotional events were successfully held in Hong Kong within this period: (a) Burgundy of France held its first official wine promotional event here during the week ending 29 October; (b) The Hong Kong Tourism Board organised the third "Hong Kong Wine and Dine Festival" from 27 to 30 October; and (c) The Trade Development Council held the fourth Hong Kong International Wine and Spirits Fair from 3 to 5 November.
- 26 – 29 Oct The Environment Bureau, together with the Hong Kong Trade and Development Council (HKTDC), co-organised the Eco Expo Asia 2011 which attracted more than 260 exhibitors from various countries and regions including the US, Japan, UK, Holland, Mainland China and Macao.

- 27 Oct The “Hong Kong-Guangdong Business Conference” was jointly held in Warsaw, Poland by Invest Hong Kong and the Department of Foreign Trade and Economic Cooperation of Guangdong Province, to promote the combined business advantages that Hong Kong and Guangdong can offer to Polish companies. The CS and the Governor of Guangdong Province led high-level delegations to join this event.
- The Environmental Protection Department and the Economic and Information Commission of Guangdong Province jointly held the third "Hong Kong - Guangdong Cleaner Production Partners" presentation ceremony. A total of 113 Hong Kong-owned manufacturing enterprises, 6 sourcing enterprises and 20 environmental technology service providers were recognised as "Hong Kong - Guangdong Cleaner Production Partners" under the Hong Kong – Guangdong Cleaner Production Partners Recognition Scheme.
- 31 Oct The HKMA issued a circular again on the selling of accumulators, further elaborating on its expected standards of conduct of AIs engaging in the selling of these products, particularly that the selling should be justified with specific grounds acknowledged by the customer.
- The 7th meeting of the Hong Kong-Shenzhen JTF was convened in Hong Kong. The JTF reached consensus on various issues relating to development of the Lok Ma Chau Loop.
- 1 Nov The minimum level of relevant income for making MPF mandatory contributions was increased from \$5,000 to \$6,500 per month.
- 3 – 4 Nov The FS attended the G20 summit in Cannes as member of the Chinese delegation.
- 4 Nov The PBoC announced the re-appointment of Bank of China (Hong Kong) Limited as the Clearing Bank for RMB business in Hong Kong.
- 7 – 8 Nov The FS visited Los Angeles to promote the advantages of doing business in Hong Kong.
- 8 Nov The Government of the HKSAR and the Government of Malta signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in Hong Kong.
- 9 Nov With a view to providing guidance to mobile and fixed broadband service providers on how they may implement Fair Usage Policy (FUP) and to enhance the transparency of service information to facilitate better informed consumer choices, OFTA promulgated a set of mandatory guidelines setting out the relevant guiding principles for compliance by service providers.
- 9 – 10 Nov The FS attended the APEC Finance Ministers’ Meeting in Honolulu.
- 10 Nov The Government launched a public engagement exercise on enhancing land supply strategy by reclamation outside Victoria Harbour and rock cavern development to ensure an adequate and steady land supply for sustainable development of Hong Kong.
- 11 Nov The Government released the GDP figures for the third quarter of 2011. The Hong Kong economy grew by 4.3% (preliminary figure) in real GDP terms in the third quarter over a year earlier, broadly on par with the trend growth over the past ten years.

In the November update of the economic forecast for 2011, the forecast growth rate of GDP in real terms was 5%, the lower bound of the earlier range forecast of 5-6% in the August round. The forecast rates of increase in the headline and underlying Composite CPI were slightly revised downwards to 5.2% and 5.3% respectively.

Hong Kong Science Park was approved by the State Ministry of Science and Technology as the National High-tech Industrialisation Base (Partner Base) for Green Technology.

The Government published the reserve price and an information memorandum in respect of the auction of radio spectrum in the 2.3 GHz band. The auction is expected to take place in February 2012 and serves to meet the industry's demand for additional radio spectrum to sustain the momentum of growth of the mobile data service market.

12 – 13 Nov The CE attended the 19th Economic Leaders' Meeting of the Asia-Pacific Economic Cooperation in Honolulu, the United States of America, together with Leaders of 20 other Asia-Pacific economies. Leaders' discussions focused on issues including growth and jobs; regulatory reform and competitiveness; and energy efficiency and energy security.

16 Nov In its Preliminary Conclusions following the 2011 Article IV consultation discussions, the International Monetary Fund (IMF) Staff Mission to Hong Kong gave a strong endorsement of the Linked Exchange Rate system and the Government's policy framework to support growth and safeguard financial stability.

18 Nov The Finance Committee of the LegCo approved the funding for construction of the HZMB Hong Kong Boundary Crossing Facilities and Hong Kong Link Road; and for the detailed design, site investigation and advance works of the Tuen Mun-Chek Lap Kok Link.

22 Nov The PBoC and the HKMA signed a renewed currency swap agreement for a term of another three years with the size expanded from RMB200 billion to RMB400 billion, allowing the HKMA to provide liquidity to maintain the stability of the offshore RMB market in Hong Kong when necessary, thereby facilitating the steady development of the business.

23 Nov The LegCo completed negative vetting of the Banking (Capital) (Amendment) Rules 2011 and Banking (Disclosure) (Amendment) Rules 2011. The two sets of Rules will come into operation on 1 January 2012 to provide for the implementation of the enhancements to Basel II.

The LegCo passed the proposal to increase the maximum level of relevant income for making MPF mandatory contributions from \$20,000 to \$25,000 per month with effect from 1 June 2012.

25 Nov The Government and the HKTDC jointly hosted an Asian Logistics and Maritime Conference, attracting over 600 business leaders and industry practitioners from 14 countries and regions.

The HKMA released its findings of the thematic on-site examinations on the Initial Public Offering (IPO) sponsor activities of all the five Registered Institutions engaged in such activities.

The CS and the Mayor of Shenzhen co-chaired the Hong Kong/Shenzhen Co-operation Meeting in Hong Kong. The two sides comprehensively reviewed the work progress in the past year, and conducted in-depth discussions on a number of key areas, such as the development of Qianhai, financial services and economic and trade co-operation, industrial co-operation, cross-boundary infrastructural development, co-operation on livelihood issues, etc. The two sides agreed to continue to deepen co-operation and expand areas of co-operation in line with the national economic development direction. At the same time, a “Co-operation agreement on jointly taking forward the development of Lok Ma Chau Loop”, which provides a framework for the co-development of the Loop by the two sides, was signed by the Hong Kong and Shenzhen Governments at the meeting.

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

28 Nov – 3 Dec “Business of Design Week 2011”, the largest annual design event in Asia and one of the leading design events in the world, was held. Germany was the partner country for the event. Some 98 000 persons participated in the “Business of Design Week” and its concurrent events.

29 Nov The Steering Committee on Regulation of Sale of First-hand Residential Properties by Legislation completed its work and submitted its report to the Secretary for Transport and Housing. It recommended that legislation be introduced to regulate the sale of first-hand residential properties. The Transport and Housing Bureau launched a public consultation exercise in the form of draft legislation.

4 – 11 Dec The FS led a business delegation to visit South Africa to strengthen mutual economic ties and promote Hong Kong’s status as an international financial centre and business hub.

5 Dec The HKSAR Government signed a 3-year agreement worth \$11.24 billion with the People’s Government of Guangdong Province for the supply of Dongjiang water to Hong Kong from 2012 to 2014.

6 – 9 Dec The Environment Bureau joined the Chinese delegation to attend the United Nations Climate Change Conference at Durban, South Africa.

8 Dec The fifth annual structured dialogue meeting between the HKSAR Government and the European Commission was held in Hong Kong. The two sides had fruitful exchange on a number of issues including trade, innovation and technology, creative industries, testing and certification and agreed to continue to strengthen co-operation in these areas.

9 Dec Hong Kong International Airport Midfield Concourse groundbreaking ceremony was held.

The Banking (Amendment) Bill 2011 was gazetted. The main purpose of the Bill is to amend the Banking Ordinance to set out the legal framework for the implementation of the Basel Committee’s on Banking Supervision’s capital, liquidity and disclosure requirements for banks (commonly known as “Basel III”) in Hong Kong.

The IMF released its Staff Report on Hong Kong, setting out its strong endorsement of the Linked Exchange Rate system and commending the Government’s effort to safeguard financial stability.

- 13 Dec The HKSAR Government and the Central People's Government signed Supplement VIII to CEPA.
- 14 Dec Launching ceremony of the construction of the HZMB Hong Kong Boundary Crossing Facilities was held. The project is expected for completion in 2016.
- The Mandatory Provident Fund Schemes (Amendment) Bill (No.2) 2011 was introduced into the LegCo with a view to enhancing the regulation of MPF intermediaries for better protection of scheme members. It will pave the way for the implementation of the Employee Choice Arrangement scheduled for the fourth quarter of 2012 which will increase the transferable MPF assets from 39% to 67% and hence increase market competition.
- The Government organized a seminar entitled "Implementation of Central Government's Measures to Support the Financial Development of Hong Kong" in conjunction with the business sector and with participation of representatives from the Central Government.
- 15 Dec The Motor Vehicle Idling (Fixed Penalty) Ordinance came into effect. Through banning unnecessary idling of engines, the Ordinance can help mitigate air pollution, heat and noise nuisances caused by idling engines at roadside, and reduce fuel consumption.
- 15 – 17 Dec The Secretary for Commerce and Economic Development led the Hong Kong, China delegation to the Eighth Ministerial Conference (MC8) of the World Trade Organization (WTO) held in Geneva, Switzerland. Ministers emphasised the vital role of the WTO in fighting against all forms of protectionism, and reaffirmed their commitment to work towards a successful conclusion of the "Doha Development Agenda" (DDA) in accordance with its mandate.
- 16 Dec The Inland Revenue (Amendment) (No. 3) Ordinance 2011 was gazetted to implement the 2010-11 Budget initiative to grant profits tax deduction for capital expenditure incurred on the purchase of copyrights, registered designs and registered trade marks.
- "Rules on Pilot Scheme on Investment in Mainland Securities by Renminbi Qualified Foreign Institutional Investors of Fund Management and Securities Companies" were promulgated by the Central Government. The Rules help further enhance the circulation of onshore and offshore RMB funds.
- 19 Dec The Hong Kong Economic, Trade and Cultural Office came into operation in Taiwan to promote the long-term economic and cultural relations between Hong Kong and Taiwan.
- 20 Dec The Government announced the proposed way forward for reforming the regulatory regime of the tourism sector in Hong Kong after conducting a public consultation exercise from 29 April to 15 July 2011. After considering carefully the views collected, the Government proposed an independent statutory body be established as the overall regulatory body of the tourism sector.
- 21 Dec CDB announced its issuance of RMB bonds in Hong Kong through the bond tendering platform of the Central Moneymarkets Unit of the HKMA. CDB would be the first Mainland financial institution to make use of the platform to issue RMB bonds following the inaugural issuances by the Ministry of Finance in December 2010 and August 2011.

23 Dec The Telecommunications Authority (TA) issued a statement setting out a revised regulatory regime in relation to the local access charge payable by operators of external telecommunications services to local network operators for the conveyance of external traffic to and from Hong Kong.

31 Dec The number of visitors to Hong Kong in 2011 reached 41.92 million, setting a new record.

In 2011, the amount of funds raised through initial public offerings on the Stock Exchange of Hong Kong totalled \$258.9 billion, making Hong Kong rank first in the world for the third consecutive year.

Statistical Appendix

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

	(\$Mn)					
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Private consumption expenditure	748,402	719,873	767,923	804,936	863,591	972,028
Government consumption expenditure	131,291	130,151	127,327	121,435	123,033	130,404
Gross domestic fixed capital formation	286,025	261,576	275,034	289,170	322,691	325,366
<i>of which:</i>						
Building and construction	131,757	116,628	107,692	105,993	106,268	111,776
Machinery, equipment and computer software	144,832	136,537	150,545	163,287	199,631	189,093
Changes in inventories	5,660	9,111	7,076	-4,761	-2,129	12,841
Total exports of goods	1,562,121	1,749,089	2,027,031	2,251,744	2,467,357	2,698,850
Imports of goods	1,601,527	1,794,059	2,099,545	2,311,091	2,576,340	2,852,522
Exports of services	347,836	362,420	429,584	495,394	565,054	660,847
Imports of services	202,494	203,400	242,507	264,237	287,900	332,240
GDP	1,277,314	1,234,761	1,291,923	1,382,590	1,475,357	1,615,574
<i>Per capita GDP (\$)</i>	<i>189,397</i>	<i>183,449</i>	<i>190,451</i>	<i>202,928</i>	<i>215,158</i>	<i>233,266</i>
GNP	1,282,966	1,263,252	1,315,333	1,384,238	1,502,705	1,660,011
<i>Per capita GNP (\$)</i>	<i>190,235</i>	<i>187,682</i>	<i>193,902</i>	<i>203,170</i>	<i>219,146</i>	<i>239,682</i>
Total final demand	3,081,335	3,232,220	3,633,975	3,957,918	4,339,597	4,800,336
Total final demand excluding re-exports ^(a)	1,923,623	1,896,483	2,062,142	2,212,697	2,406,861	2,660,146
Domestic demand	1,171,378	1,120,711	1,177,360	1,210,780	1,307,186	1,440,639
Private	986,542	939,104	1,001,588	1,048,026	1,149,285	1,278,479
Public	184,836	181,607	175,772	162,754	157,901	162,160
External demand	1,909,957	2,111,509	2,456,615	2,747,138	3,032,411	3,359,697

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>2008</u>	<u>2009</u>	<u>2010[#]</u>	<u>2011[#]</u>		<u>2011</u>		
					Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Private consumption expenditure	1,022,862	1,012,774	1,091,613	1,232,147	285,336	310,287	307,743	328,781
Government consumption expenditure	139,262	142,924	147,393	157,257	40,443	37,245	39,594	39,975
Gross domestic fixed capital formation	334,352	322,869	370,453	414,285	91,600	105,301	108,447	108,937
<i>of which:</i>								
Building and construction	127,312	123,752	139,212	N.A.	38,939	39,007	39,959	N.A.
Machinery, equipment and computer software	182,189	174,879	193,206	N.A.	42,069	55,420	60,434	N.A.
Changes in inventories	8,480	22,941	37,522	18,494	9,156	7,448	-1,868	3,758
Total exports of goods	2,843,998	2,494,746	3,061,252	3,409,192	795,731	834,799	891,033	887,629
Imports of goods	3,024,089	2,702,966	3,395,057	3,846,474	889,542	960,405	990,906	1,005,621
Exports of services	718,630	669,829	824,751	940,541	221,816	214,846	250,220	253,659
Imports of services	366,484	340,601	396,269	434,503	102,898	102,650	113,983	114,972
GDP	1,677,011	1,622,516	1,741,658	1,890,939	451,642	446,871	490,280	502,146
<i>Per capita GDP (\$)</i>	<i>240,339</i>	<i>231,666</i>	<i>246,422</i>	<i>266,026</i>	--	--	--	--
GNP	1,760,317	1,665,382	1,769,957	N.A.	471,779	471,181	496,365	N.A.
<i>Per capita GNP (\$)</i>	<i>252,278</i>	<i>237,786</i>	<i>250,425</i>	N.A.	--	--	--	--
Total final demand	5,067,584	4,666,083	5,532,984	6,171,916	1,444,082	1,509,926	1,595,169	1,622,739
Total final demand excluding re-exports ^(a)	2,805,196	2,656,449	3,027,593	3,377,855	790,385	827,692	864,856	894,922
Domestic demand	1,504,956	1,501,508	1,646,981	1,822,183	426,535	460,281	453,916	481,451
Private	1,329,853	1,317,682	1,442,326	N.A.	365,834	408,821	398,654	N.A.
Public	175,103	183,826	204,655	N.A.	60,701	51,460	55,262	N.A.
External demand	3,562,628	3,164,575	3,886,003	4,349,733	1,017,547	1,049,645	1,141,253	1,141,288

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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Private consumption expenditure	-0.9	-1.3	7.0	3.0	5.9	8.5
Government consumption expenditure	2.4	1.8	0.7	-3.2	0.3	3.0
Gross domestic fixed capital formation	-4.7	0.9	2.5	4.1	7.1	3.4
<i>of which:</i>						
Building and construction	-1.3	-5.4	-10.7	-7.6	-7.1	-0.3
Machinery, equipment and computer software	-7.6	7.0	10.3	12.8	19.2	3.0
Total exports of goods	8.6	14.0	14.9	10.4	9.3	7.0
Imports of goods	7.9	13.1	13.7	8.0	9.2	8.8
Exports of services	11.1	7.6	18.0	11.6	10.1	14.1
Imports of services	3.9	-2.2	14.6	7.8	8.1	12.1
GDP	1.8	3.0	8.5	7.1	7.0	6.4
<i>Per capita GDP</i>	<i>1.4</i>	<i>3.2</i>	<i>7.6</i>	<i>6.6</i>	<i>6.3</i>	<i>5.3</i>
GNP	0.1	4.9	7.9	5.3	8.8	7.4
<i>Per capita GNP</i>	<i>-0.3</i>	<i>5.1</i>	<i>7.0</i>	<i>4.8</i>	<i>8.1</i>	<i>6.3</i>
Total final demand	5.0	7.9	11.8	7.7	8.4	8.2
Total final demand excluding re-exports ^(a)	2.0	3.1	8.9	5.4	7.3	7.9
Domestic demand	-0.7	-0.2	5.0	1.6	6.0	7.9
Private	-1.0	-0.5	6.2	3.0	7.5	9.0
Public	1.1	1.4	-1.2	-6.2	-3.8	0.2
External demand	9.0	12.8	15.4	10.6	9.4	8.3

- 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.
 (^) Average annual rate of change for the 10-year period 2000-2010.
 (~) Average annual rate of change for the 5-year period 2005-2010.

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

	<u>2008</u>	<u>2009</u>	<u>2010[#]</u>	<u>2011[#]</u>	<u>2011</u>				Average annual rate of change:	
					Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	10 years 2001 to 2011 [#]	5 years 2006 to 2011 [#]
Private consumption expenditure	2.4	0.7	6.7	8.4	7.9	9.7	9.8	6.4	4.0	5.3
Government consumption expenditure	1.8	2.4	2.8	1.8	2.5	1.0	1.4	2.0	1.4	2.3
Gross domestic fixed capital formation	1.0	-3.9	7.7	7.3	0.8	7.7	11.2	9.0	2.5	3.0
<i>of which:</i>										
Building and construction	6.8	-5.5	5.6	N.A.	17.8	-4.2	1.8	N.A.	-2.8 [^]	-0.2 [~]
Machinery, equipment and computer software	-0.7	-2.9	6.4	N.A.	-11.2	17.8	26.7	N.A.	5.1 [^]	4.7 [~]
Total exports of goods	1.9	-12.7	17.3	3.6	16.8	0.3	-2.2	2.2	7.1	3.0
Imports of goods	1.8	-9.5	18.1	4.8	12.6	2.6	1.4	3.9	7.4	4.4
Exports of services	5.2	0.3	14.6	6.3	9.1	7.5	5.5	3.5	9.8	7.9
Imports of services	6.3	-4.9	10.7	3.0	5.3	2.9	2.3	1.9	5.8	5.3
GDP	2.3	-2.6	7.0	5.0	7.6	5.3	4.3	3.0	4.5	3.6
Per capita GDP	1.5	-3.0	6.1	4.4	--	--	--	--	3.9	2.8
GNP	4.5	-4.8	6.0	N.A.	7.7	9.4	5.3	N.A.	4.1[^]	4.3[~]
Per capita GNP	3.7	-5.1	5.0	N.A.	--	--	--	--	3.5[^]	3.5[~]
Total final demand	2.3	-6.9	13.7	4.8	10.4	3.4	2.4	3.4	6.1	4.2
Total final demand excluding re-exports ^(a)	1.8	-2.6	10.6	5.4	5.4	5.9	6.4	4.1	4.9	4.5
Domestic demand	1.6	0.8	7.5	6.1	1.0	7.6	10.3	5.6	3.5	4.7
Private	1.5	0.3	7.1	N.A.	-0.6	8.2	11.4	N.A.	3.3 [^]	5.0 [~]
Public	2.6	4.3	10.2	N.A.	11.4	3.5	2.6	N.A.	1.1 [^]	2.6 [~]
External demand	2.6	-10.1	16.7	4.2	15.1	1.6	-0.6	2.5	7.6	4.0

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

	<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009</u>		<u>2010</u> [#]	
	\$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	29,965	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	34,466	2.0
Construction	39,124	2.7	40,611	2.6	48,357	3.0	50,146	3.2	56,277	3.3
Services	1,332,191	91.7	1,466,109	92.8	1,473,037	92.5	1,436,427	92.6	1,581,310	92.9
<i>Import/export, wholesale and retail trades</i>	<i>361,169</i>	<i>24.9</i>	<i>374,614</i>	<i>23.7</i>	<i>393,914</i>	<i>24.7</i>	<i>365,880</i>	<i>23.6</i>	<i>408,361</i>	<i>24.0</i>
<i>Accommodation and food services</i>	<i>42,697</i>	<i>2.9</i>	<i>48,827</i>	<i>3.1</i>	<i>53,596</i>	<i>3.4</i>	<i>48,787</i>	<i>3.1</i>	<i>56,409</i>	<i>3.3</i>
<i>Transportation, storage, postal and courier services</i>	<i>116,104</i>	<i>8.0</i>	<i>119,728</i>	<i>7.6</i>	<i>98,245</i>	<i>6.2</i>	<i>99,048</i>	<i>6.4</i>	<i>137,769</i>	<i>8.1</i>
<i>Information and communications</i>	<i>48,243</i>	<i>3.3</i>	<i>50,873</i>	<i>3.2</i>	<i>48,258</i>	<i>3.0</i>	<i>46,808</i>	<i>3.0</i>	<i>54,318</i>	<i>3.2</i>
<i>Financing and insurance</i>	<i>228,178</i>	<i>15.7</i>	<i>304,764</i>	<i>19.3</i>	<i>255,586</i>	<i>16.0</i>	<i>235,581</i>	<i>15.2</i>	<i>262,021</i>	<i>15.4</i>
<i>Real estate, professional and business services</i>	<i>128,111</i>	<i>8.8</i>	<i>146,562</i>	<i>9.3</i>	<i>165,594</i>	<i>10.4</i>	<i>173,583</i>	<i>11.2</i>	<i>187,850</i>	<i>11.0</i>
<i>Public administration, social and personal services</i>	<i>245,295</i>	<i>16.9</i>	<i>254,391</i>	<i>16.1</i>	<i>269,601</i>	<i>16.9</i>	<i>279,453</i>	<i>18.0</i>	<i>285,630</i>	<i>16.8</i>
<i>Ownership of premises</i>	<i>162,393</i>	<i>11.2</i>	<i>166,352</i>	<i>10.5</i>	<i>188,244</i>	<i>11.8</i>	<i>187,286</i>	<i>12.1</i>	<i>188,952</i>	<i>11.1</i>
GDP at basic prices	1,452,803	100.0	1,580,148	100.0	1,592,897	100.0	1,550,851	100.0	1,702,966	100.0
Taxes on products	40,348	--	64,634	--	59,919	--	55,967	--	68,707	--
Statistical discrepancy (%)	-1.2	--	-1.8	--	1.4	--	1.0	--	-1.7	--
GDP at current market prices	1,475,357	--	1,615,574	--	1,677,011	--	1,622,516	--	1,741,658	--

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.

(--) Not applicable.

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

	(%)									
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010[#]</u>	<u>2010</u>	<u>2011</u>		
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Agriculture, fishing, mining and quarrying	-0.2	-3.3	-4.3	-17.0	-4.6	3.9	1.3	-13.9	-3.9	-3.6
Manufacturing	1.7	2.2	-1.4	-6.7	-8.3	3.5	5.7	3.5	2.0	0.2
Electricity, gas and water supply, and waste management	2.3	0.8	1.3	0.7	1.5	-0.2	0.1	-2.9	3.2	1.3
Construction	-7.9	-9.4	-1.0	8.9	-7.6	15.4	19.5	23.4	-0.3	1.2
Services	7.4	7.0	6.9	2.5	-1.6	7.0	6.4	7.4	5.1	3.9
<i>Import/export, wholesale and retail trades</i>	<i>14.7</i>	<i>8.6</i>	<i>6.1</i>	<i>6.8</i>	<i>-9.4</i>	<i>16.7</i>	<i>10.5</i>	<i>15.4</i>	<i>7.1</i>	<i>4.9</i>
<i>Accommodation and food services</i>	<i>6.2</i>	<i>9.7</i>	<i>10.7</i>	<i>1.7</i>	<i>-11.3</i>	<i>9.5</i>	<i>5.3</i>	<i>0.9</i>	<i>0.9</i>	<i>2.1</i>
<i>Transportation, storage, postal and courier services</i>	<i>7.0</i>	<i>6.5</i>	<i>5.2</i>	<i>2.5</i>	<i>-5.5</i>	<i>6.1</i>	<i>4.3</i>	<i>9.2</i>	<i>4.5</i>	<i>6.0</i>
<i>Information and communications</i>	<i>2.6</i>	<i>8.0</i>	<i>6.5</i>	<i>-1.5</i>	<i>0.9</i>	<i>1.5</i>	<i>0.8</i>	<i>2.0</i>	<i>1.5</i>	<i>0.8</i>
<i>Financing and insurance</i>	<i>11.8</i>	<i>19.6</i>	<i>17.7</i>	<i>-0.8</i>	<i>4.3</i>	<i>7.3</i>	<i>13.3</i>	<i>12.2</i>	<i>12.9</i>	<i>8.3</i>
<i>Real estate, professional and business services</i>	<i>4.6</i>	<i>2.3</i>	<i>6.5</i>	<i>1.7</i>	<i>1.7</i>	<i>2.3</i>	<i>4.3</i>	<i>2.3</i>	<i>1.3</i>	<i>0.9</i>
<i>Public administration, social and personal services</i>	<i>0.2</i>	<i>0.6</i>	<i>1.5</i>	<i>2.2</i>	<i>2.8</i>	<i>1.8</i>	<i>0.7</i>	<i>2.3</i>	<i>2.4</i>	<i>2.5</i>
<i>Ownership of premises</i>	<i>3.0</i>	<i>2.6</i>	<i>2.8</i>	<i>1.8</i>	<i>1.3</i>	<i>0.7</i>	<i>0.8</i>	<i>0.2</i>	<i>0.7</i>	<i>0.9</i>
Taxes on products	-1.5	7.7	24.9	-1.7	-4.6	6.1	9.5	7.7	-3.5	-5.3
GDP in chained (2009) dollars	7.1	7.0	6.4	2.3	-2.6	7.0	6.6	7.6	5.3	4.3

Note : (#) 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[#]</u>	<u>2010</u>		<u>2011</u>	
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Current account ^(a)	178,166	199,279	229,506	139,249	96,224	28,959	37,986	4,041	34,035
Goods	-108,983	-153,672	-180,091	-208,220	-333,805	-88,944	-93,811	-125,606	-99,873
Services	277,154	328,607	352,146	329,228	428,482	121,031	118,918	112,196	136,237
Income	27,348	44,437	83,306	42,866	28,299	3,701	20,137	24,310	6,085
Current transfers	-17,353	-20,093	-25,855	-24,625	-26,752	-6,830	-7,258	-6,860	-8,415
Capital and financial account ^(a)	-209,935	-259,247	-231,162	-155,371	-152,502	-53,029	-21,254	-20,897	-56,473
Capital and financial non-reserve assets (net change)	-163,199	-144,749	32,707	393,891	-81,416	-22,968	-2,561	-1,293	-32,917
Capital transfers	-2,900	10,338	16,393	36,210	40,898	10,364	12,966	12,392	21,619
Financial non-reserve assets (net change)	-160,300	-155,086	16,314	357,680	-122,314	-33,332	-15,527	-13,685	-54,537
<i>Direct investment</i>	635	-52,577	70,393	-89,900	-188,998	-178,120	58,767	-2,171	6,825
<i>Portfolio investment</i>	-207,879	-21,452	-295,148	-332,417	-467,379	-128,058	17,598	-62,784	-94,475
<i>Financial derivatives</i>	25,925	43,534	63,338	24,560	18,677	-3,610	5,199	-4,059	2,323
<i>Other investment</i>	21,019	-124,592	177,732	755,438	515,386	276,457	-97,091	55,329	30,790
Reserve assets (net change)	-46,735	-114,498	-263,869	-549,262	-71,086	-30,061	-18,694	-19,604	-23,556
Net errors and omissions	31,769	59,968	1,656	16,122	56,278	24,070	-16,732	16,857	22,438
Overall balance of payments	46,735	114,498	263,869	549,262	71,086	30,061	18,694	19,604	23,556

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010[#]</u>	<u>2011[#]</u>	<u>2011</u>				
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	
Total exports of goods	2,698,850	2,843,998	2,494,746	3,061,252	3,409,192	795,731	834,799	891,033	887,629	
Imports of goods	2,852,522	3,024,089	2,702,966	3,395,057	3,846,474	889,542	960,405	990,906	1,005,621	
Visible trade balance	-153,672	-180,091	-208,220	-333,805	-437,282	-93,811	-125,606	-99,873	-117,992	
	(-5.4)	(-6.0)	(-7.7)	(-9.8)	(-11.4)	(-10.5)	(-13.1)	(-10.1)	(-11.7)	
Exports of services	660,847	718,630	669,829	824,751	940,541	221,816	214,846	250,220	253,659	
Imports of services	332,240	366,484	340,601	396,269	434,503	102,898	102,650	113,983	114,972	
Invisible trade balance	328,607	352,146	329,228	428,482	506,038	118,918	112,196	136,237	138,687	
	(98.9)	(96.1)	(96.7)	(108.1)	(116.5)	(115.6)	(109.3)	(119.5)	(120.6)	
Exports of goods and services	3,359,697	3,562,628	3,164,575	3,886,003	4,349,733	1,017,547	1,049,645	1,141,253	1,141,288	
Imports of goods and services	3,184,762	3,390,573	3,043,567	3,791,326	4,280,977	992,440	1,063,055	1,104,889	1,120,593	
Visible and invisible trade balance	174,935	172,055	121,008	94,677	68,756	25,107	-13,410	36,364	20,695	
	<5.5>	<5.1>	<4.0>	<2.5>	<1.6>	<2.5>	<-1.3>	<3.3>	<1.8>	

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

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

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

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

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		<u>2011</u>			
	(% change)			(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
All markets	9.2	5.1	-12.6	22.8	10.1	3,337,253	24.6	7.7	4.2	6.9
Mainland of China	13.2	4.7	-7.8	26.5	9.3	1,747,355	27.6	4.3	0.2	9.3
United States	-0.8	-2.4	-20.6	16.4	-0.4	330,771	13.3	-3.1	-5.7	-2.1
Japan	-0.7	1.2	-10.0	17.2	5.9	135,155	11.3	2.0	5.6	5.2
Germany	7.2	15.8	-15.5	1.6	10.7	89,264	16.6	19.7	7.1	2.2
India	51.2	50.0	0.2	42.4	25.6	93,518	48.1	26.6	20.8	10.4
Taiwan	1.6	3.8	-0.4	25.4	24.3	85,270	21.9	28.3	29.9	17.4
United Kingdom	1.7	0.7	-20.8	1.9	-3.4	58,688	-1.2	-1.9	3.9	-14.1
Republic of Korea	2.0	-6.4	-13.0	24.4	14.2	61,274	23.0	18.9	13.1	3.4
Singapore	3.8	9.6	-23.6	20.7	10.3	56,244	23.8	13.8	5.6	1.0
Netherlands	8.2	2.0	-17.8	18.4	-4.1	42,302	-0.7	-11.1	1.2	-5.5
Rest of the world	11.8	9.4	-19.0	21.8	18.1	637,412	29.1	20.5	16.3	9.3

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		<u>2011</u>			
		(% change)			(% change)	(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
All sources	10.3	5.5	-11.0	25.0	11.9	3,764,596	20.6	10.3	8.9	9.3
Mainland of China	11.5	6.1	-11.4	22.4	10.9	1,696,807	21.3	10.3	7.4	7.0
Japan	7.2	3.6	-20.6	30.4	3.4	318,601	15.3	-5.2	3.4	2.1
Singapore	18.2	0.1	-10.4	35.9	7.2	254,556	23.3	-0.1	-4.2	12.9
Taiwan	5.2	-6.4	-8.5	28.0	7.2	240,916	13.6	-2.4	4.3	14.9
United States	12.3	8.6	-5.7	26.0	18.0	211,368	19.4	19.2	11.7	21.8
Republic of Korea	-0.2	-1.1	-12.7	29.8	12.2	149,969	29.0	6.6	5.1	11.3
Malaysia	4.1	5.3	2.8	24.5	5.1	89,015	15.9	8.5	-3.3	0.8
India	29.7	21.5	-9.3	36.5	20.6	86,603	23.3	33.3	20.4	6.0
Thailand	8.1	11.1	-9.7	32.5	0.3	76,537	25.3	-6.1	11.8	-25.1
Germany	8.1	11.2	-6.2	15.1	13.9	65,688	15.7	25.8	16.9	-0.8
Rest of the world	10.5	11.4	-8.8	20.5	24.5	574,536	22.6	29.3	26.1	20.4

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		<u>2011</u>			
		(% change)			(% change)	(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
Overall	9.4	5.3	-10.8	27.3	15.9	1,013,744	9.5	16.8	22.7	14.3
Foodstuffs	12.9	19.7	9.9	17.0	17.9	108,508	3.4	19.7	34.4	16.5
Consumer goods	11.4	9.0	-14.0	33.8	41.3	260,100	31.9	56.2	61.0	19.5
Raw materials and semi-manufactures	17.7	-4.5	-6.4	32.3	-3.3	316,028	1.1	-2.4	-3.6	-8.2
Fuels	20.1	26.6	-18.4	33.8	22.0	141,667	28.6	12.4	24.6	24.3
Capital goods	-8.3	2.5	-18.7	12.9	19.7	185,253	-11.0	16.6	28.5	42.2

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010[#]</u>	<u>2011[#]</u>		<u>2011</u>			
	(% change)			(% change)	(\$Mn)	Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	(% change over a year earlier)
Exports of services	17.0	8.7	-6.8	23.1	14.0	940,541	16.6	16.3	13.6	10.5
Transportation	14.6	12.7	-18.4	26.5	N.A.	N.A.	8.5	13.3	8.5	N.A.
Travel	18.7	11.1	6.7	35.6	N.A.	N.A.	19.2	25.6	21.5	N.A.
Trade-related	11.6	8.5	-4.3	18.0	N.A.	N.A.	19.9	12.3	11.2	N.A.
Other services	26.8	2.3	-4.0	15.7	N.A.	N.A.	20.0	16.8	16.6	N.A.
Imports of services	15.4	10.3	-7.1	16.3	9.6	434,503	12.3	11.6	9.4	5.9
Transportation	20.4	13.5	-23.0	19.7	N.A.	N.A.	9.8	9.2	8.1	N.A.
Travel	7.6	6.8	-3.1	12.0	N.A.	N.A.	9.5	13.0	9.0	N.A.
Trade-related	15.9	10.6	0.5	21.6	N.A.	N.A.	23.1	15.0	9.1	N.A.
Other services	21.2	11.0	6.8	17.1	N.A.	N.A.	15.3	11.7	11.4	N.A.
Net exports of services	18.6	7.2	-6.5	30.1	18.1	506,038	20.6	20.9	17.4	14.6

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.

N.A Not yet available.

Table 11 : Incoming visitors by source

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>			
						Q1	Q2	Q3	Q4
<u>('000)</u>									
All sources	28 169.3	29 506.6	29 590.7	36 030.3	41 921.3	9 708.0	9 623.2	11 092.2	11 497.9
Mainland of China	15 485.8	16 862.0	17 956.7	22 684.4	28 100.1	6 520.5	6 176.9	7 686.6	7 716.2
South and Southeast Asia	2 888.1	2 936.2	2 885.2	3 500.9	3 751.1	776.4	1 011.3	887.3	1 076.2
Taiwan	2 238.7	2 240.5	2 009.6	2 164.8	2 148.7	507.4	546.3	585.9	509.1
Europe	1 772.2	1 711.4	1 610.5	1 757.8	1 801.3	441.9	425.2	412.6	521.7
Japan	1 324.3	1 324.8	1 204.5	1 316.6	1 283.7	326.9	272.0	331.2	353.6
United States	1 230.9	1 146.4	1 070.1	1 171.4	1 212.3	279.4	311.5	279.8	341.8
Others	3 229.2	3 285.3	2 854.0	3 434.5	3 623.9	855.6	880.1	909.0	979.3
<u>(% change over a year earlier)</u>									
All sources	11.6	4.7	0.3	21.8	16.4	12.6	16.9	19.0	16.7
Mainland of China	13.9	8.9	6.5	26.3	23.9	17.5	25.1	27.9	24.7
South and Southeast Asia	8.6	1.7	-1.7	21.3	7.1	8.6	6.0	8.1	6.5
Taiwan	2.8	0.1	-10.3	7.7	-0.7	-5.5	5.2	0.5	-3.2
Europe	14.5	-3.4	-5.9	9.1	2.5	0.8	4.1	3.4	1.9
Japan	1.0	*	-9.1	9.3	-2.5	-2.2	-12.0	-2.5	5.9
United States	6.2	-6.9	-6.7	9.5	3.5	5.3	3.7	-0.2	5.0
Others	15.1	1.7	-13.1	20.3	5.5	8.9	9.8	2.2	2.3

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

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

Table 12 : Property market

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	31 052	26 397	26 036	17 321	16 579	10 471	8 776
Commercial property	304	417	371	145	291	368	390
<i>of which :</i>							
Office space	166	299	280	34	108	320	341
Other commercial premises ^(b)	138	118	91	111	183	48	49
Industrial property ^(c)	29	15	1	17	27	16	78
<i>of which :</i>							
Industrial-cum-office premises	0	15	0	4	0	0	4
Conventional flatted factory space	3	0	1	0	0	16	70
Storage premises ^(d)	27	0	0	13	27	0	4
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	20 154	13 705	20 614	24 691	4 430	4 795	22 759
Subsidized sales flats ^(e)	1 072	320	0	0	0	2 010	2 200
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	790.0	1 038.4	530.0	550.7	706.7	956.1	530.0
Commercial property	365.3	200.0	161.3	481.9	468.4	327.5	147.7
Industrial property ^(f)	107.1	0.8	16.4	35.1	23.9	103.5	106.6
Other properties	109.3	444.2	407.1	408.0	199.2	207.7	212.8
Total	1 371.8	1 683.3	1 114.8	1 475.8	1 398.2	1 594.8	997.1
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	72 974	71 576	100 630	103 362	82 472	123 575	95 931
Primary market	23 088	26 498	25 694	15 994	13 986	20 123	11 046
Secondary market	49 886	45 078	74 936	87 368	68 486	103 452	84 885
Selected types of non-residential properties ^(h)							
Office space	1 639	1 817	3 213	3 431	2 874	4 129	2 845
Other commercial premises	3 167	4 142	7 833	7 143	4 402	5 490	4 149
Flatted factory space	3 756	3 813	5 889	6 560	7 409	9 072	5 741

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>2009</u>	<u>2010</u>	<u>2011</u>		<u>2011</u>			
			Jan-Nov	Q1	Q2	Q3	Oct-Nov	
Completion of new property by the private sector								
<i>('000 m² of internal floor area)</i>								
Residential property ^(a) (in units)	7 157	13 405	6 994	3 259	1 227	2 189	319	
Commercial property	235	189	193	112	61	8	12	
<i>of which :</i>								
Office space	151	124	155	89	57	0	10	
Other commercial premises ^(b)	84	65	38	23	4	8	2	
Industrial property ^(c)	3	21	130	32	47	24	26	
<i>of which :</i>								
Industrial-cum-office premises	0	0	0	0	0	0	0	
Conventional flatted factory space	3	21	32	32	0	0	0	
Storage premises ^(d)	0	0	97	0	47	24	26	
Production of public housing								
<i>(in units)</i>								
			<u>2011</u>					<u>Q4</u>
Rental housing flats ^(e)	19 021	6 385	17 787	13 672	0	2 002	2 113	
Subsidized sales flats ^(e)	370	1 110	0	0	0	0	0	
Building plans with consent to commence work in the private sector								
<i>('000 m² of usable floor area)</i>								
			Jan-Nov					Oct-Nov
Residential property	546.8	560.3	562.0	163.1	66.6	248.1	84.1	
Commercial property	178.3	156.3	130.9	44.8	14.5	39.8	31.8	
Industrial property ^(f)	97.1	34.3	104.9	22.4	9.5	4.9	68.0	
Other properties	253.2	459.2	208.9	67.4	86.4	23.6	31.5	
Total	1 075.4	1 210.0	1 006.6	297.6	177.0	316.5	215.5	
Agreements for sale and purchase of property								
<i>(Number)</i>								
			<u>2011</u>					<u>Q4</u>
Residential property ^(g)	115 092	135 778	84 462	28 848	26 359	15 516	13 739	
Primary market	16 161	13 646	10 880	1 905	3 845	1 723	3 407	
Secondary market	98 931	122 132	73 582	26 943	22 514	13 793	10 332	
Selected types of non-residential properties ^(h)			Jan-Nov					Oct-Nov
Office space	2 521	3 591	2 930	1 052	1 013	591	274	
Other commercial premises	5 359	7 639	5 627	1 864	2 056	1 201	506	
Flatted factory space	5 554	8 206	7 316	2 586	2 430	1 523	777	

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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	69.9	61.6	78.0	92.0	92.7	103.5	120.5
Office space	68.4	62.5	99.3	133.0	139.3	165.5	199.0
Shopping space	85.0	85.5	119.3	149.3	153.5	172.5	192.2
Flatted factory space	74.8	71.7	88.6	125.0	158.5	199.5	235.9
Property rental indices ^(b) :							
Residential flats	83.4	73.6	77.7	86.5	91.6	101.8	115.7
Office space	85.4	74.6	78.1	96.4	117.4	131.9	155.5
Shopping space	92.9	86.4	92.8	100.5	104.3	111.8	116.2
Flatted factory space	82.7	74.9	77.3	82.6	91.0	100.5	109.3
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	-11.2	-11.9	26.6	17.9	0.8	11.7	16.4
Office space	-13.1	-8.6	58.9	33.9	4.7	18.8	20.2
Shopping space	-2.1	0.6	39.5	25.1	2.8	12.4	11.4
Flatted factory space	-8.8	-4.1	23.6	41.1	26.8	25.9	18.2
Property rental indices ^(b) :							
Residential flats	-12.6	-11.8	5.6	11.3	5.9	11.1	13.7
Office space	-15.4	-12.6	4.7	23.4	21.8	12.4	17.9
Shopping space	-6.5	-7.0	7.4	8.3	3.8	7.2	3.9
Flatted factory space	-8.4	-9.4	3.2	6.9	10.2	10.4	8.8

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>2009</u>	<u>2010</u>	<u>2011⁺</u> Jan-Nov	Q1	Q2 [#]	<u>2011</u> Q3 ⁺	Oct-Nov ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	121.3	150.9	181.9	175.1	185.8	185.1	181.3
Office space	179.8	230.4	297.4	276.7	301.3	309.5	304.8
Shopping space	193.1	257.2	323.9	304.6	324.8	333.1	337.6
Flatted factory space	216.3	284.4	382.5	349.0	387.0	402.0	396.7
Property rental indices ^(b) :							
Residential flats	100.4	119.7	133.9	128.0	133.8	137.5	137.5
Office space	135.7	147.6	168.8	158.4	166.7	174.4	179.0
Shopping space	110.9	122.9	133.6	128.0	133.2	136.4	138.3
Flatted factory space	99.4	108.9	118.2	113.4	117.4	121.3	122.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	0.7	24.4	21.4	24.4	26.9	20.1	11.9
Office space	-9.6	28.1	30.5	29.6	35.2	33.8	21.2
Shopping space	0.5	33.2	27.3	30.3	31.0	26.8	19.4
Flatted factory space	-8.3	31.5	36.4	35.1	41.9	38.7	27.4
Property rental indices ^(b) :							
Residential flats	-13.2	19.2	12.5	14.3	13.6	12.8	8.4
Office space	-12.7	8.8	14.9	13.0	14.4	16.0	16.5
Shopping space	-4.6	10.8	9.2	8.4	9.6	9.5	8.8
Flatted factory space	-9.1	9.6	8.8	8.7	8.2	10.0	8.7

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

(+) Provisional figures.

Table 14 : Monetary aggregates

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	259,411	354,752	412,629	348,248	387,909	454,342	491,115
M2 ^(a)	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017	3,239,857
M3 ^(a)	2,004,225	2,122,861	2,219,557	2,345,838	2,795,545	3,300,500	3,261,306
Total money supply (\$Mn)							
M1	295,650	413,423	484,494	434,684	491,648	616,709	645,833
M2	3,518,326	3,813,442	4,166,706	4,379,057	5,054,332	6,106,348	6,268,058
M3	3,561,852	3,858,044	4,189,544	4,407,188	5,089,741	6,139,758	6,300,751
Deposit (\$Mn)							
HK\$	1,824,911	1,930,790	2,017,911	2,131,579	2,568,283	3,075,042	3,033,980
Foreign currency	1,492,631	1,636,227	1,848,145	1,936,322	2,188,993	2,793,856	3,024,004
Total	3,317,542	3,567,018	3,866,056	4,067,901	4,757,275	5,868,898	6,057,984
Loans and advances (\$Mn)							
HK\$	1,615,667	1,573,079	1,666,740	1,797,350	1,917,437	2,184,705	2,354,755
Foreign currency	460,659	462,000	488,964	514,637	550,392	776,971	930,883
Total	2,076,325	2,035,079	2,155,704	2,311,987	2,467,828	2,961,676	3,285,638
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	120.2	116.4	113.6	112.6	111.1	106.3	100.7
Import-weighted	121.8	118.2	115.4	114.1	112.6	107.6	101.3
Export-weighted	118.6	114.5	111.7	110.9	109.6	104.8	100.1
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	12.9	36.8	16.3	-15.6	11.4	17.1	8.1
M2 ^(a)	-0.7	6.2	4.8	5.5	19.2	18.1	-1.3
M3 ^(a)	-0.6	5.9	4.6	5.7	19.2	18.1	-1.2
Total money supply :							
M1	14.6	39.8	17.2	-10.3	13.1	25.4	4.7
M2	-0.9	8.4	9.3	5.1	15.4	20.8	2.6
M3	-0.9	8.3	8.6	5.2	15.5	20.6	2.6
Deposit							
HK\$	-1.6	5.8	4.5	5.6	20.5	19.7	-1.3
Foreign currency	-3.8	9.6	13.0	4.8	13.0	27.6	8.2
Total	-2.6	7.5	8.4	5.2	16.9	23.4	3.2
Loans and advances							
HK\$	-1.9	-2.6	6.0	7.8	6.7	13.9	7.8
Foreign currency	-14.3	0.3	5.8	5.3	6.9	41.2	19.8
Total	-5.0	-2.0	5.9	7.2	6.7	20.0	10.9
Nominal Effective Exchange Rate Indices ^(b)							
Trade-weighted	-0.7	-3.2	-2.4	-0.9	-1.3	-4.3	-5.3
Import-weighted	-0.4	-3.0	-2.4	-1.1	-1.3	-4.4	-5.9
Export-weighted	-0.9	-3.5	-2.4	-0.7	-1.2	-4.4	-4.5

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>2009</u>	<u>2010</u>	<u>2011</u> Nov	Q1	<u>2011</u>		Nov
					Q2	Q3	
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	671,241	730,093	774,128	745,847	755,406	781,835	774,128
M2 ^(a)	3,587,717	3,866,788	4,015,805	3,869,018	3,901,804	3,906,427	4,015,805
M3 ^(a)	3,604,843	3,878,193	4,024,215	3,882,868	3,911,982	3,915,089	4,024,215
Total money supply (\$Mn)							
M1	901,819	1,017,227	1,121,596	1,047,137	1,093,570	1,119,185	1,121,596
M2	6,602,310	7,136,271	7,996,556	7,374,716	7,626,662	7,769,534	7,996,556
M3	6,626,843	7,156,260	8,016,769	7,399,132	7,649,796	7,788,982	8,016,769
Deposit (\$Mn)							
HK\$	3,373,595	3,617,183	3,712,327	3,607,198	3,616,810	3,608,323	3,712,327
Foreign currency	3,007,445	3,245,081	3,815,265	3,469,856	3,618,675	3,715,297	3,815,265
Total	6,381,040	6,862,265	7,527,592	7,077,054	7,235,485	7,323,620	7,527,592
Loans and advances (\$Mn)							
HK\$	2,401,323	2,824,445	3,175,070	2,945,472	3,045,210	3,126,171	3,175,070
Foreign currency	887,160	1,403,281	1,942,136	1,595,470	1,773,240	1,903,745	1,942,136
Total	3,288,483	4,227,726	5,117,206	4,540,942	4,818,450	5,029,915	5,117,206
Nominal Effective Exchange Rate Indices							
(Jan 2010 =100) ^(b)							
			<u>2011</u>				Q4
Trade-weighted	101.9	99.5	94.6	96.0	94.5	93.4	94.6
Import-weighted	102.2	99.2	93.9	95.3	93.8	92.6	94.0
Export-weighted	101.6	99.8	95.4	96.7	95.2	94.4	95.3
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
			Nov				Nov
M1	36.7	8.8	3.1	4.6	12.5	-6.0	3.1
M2 ^(a)	10.7	7.8	3.6	7.4	8.5	-0.3	3.6
M3 ^(a)	10.5	7.6	3.5	7.2	8.4	-0.4	3.5
Total money supply :							
M1	39.6	12.8	8.4	10.9	21.0	4.0	8.4
M2	5.3	8.1	12.5	11.8	15.9	11.2	12.5
M3	5.2	8.0	12.4	11.7	15.9	11.1	12.4
Deposit							
HK\$	11.2	7.2	2.1	6.7	7.3	-2.0	2.1
Foreign currency	-0.5	7.9	18.8	16.0	21.4	21.6	18.8
Total	5.3	7.5	9.9	11.1	13.9	8.7	9.9
Loans and advances							
HK\$	2.0	17.6	13.7	18.8	16.2	9.4	13.7
Foreign currency	-4.7	58.2	43.7	61.2	53.9	49.9	43.7
Total	0.1	28.6	23.5	30.9	27.7	21.9	23.5
Nominal Effective Exchange Rate Indices ^(b)							
			<u>2011</u>				Q4
Trade-weighted	1.2	-2.4	-4.9	-4.3	-6.3	-6.3	-2.8
Import-weighted	0.9	-2.9	-5.3	-4.9	-6.9	-6.7	-2.8
Export-weighted	1.5	-1.8	-4.4	-3.6	-5.8	-5.7	-2.7

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

(b) Period average.

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>		
					Q4	Q1	Q2	Q3
Service Industry								
Import and export trade	8.1	7.4	-13.7	19.7	15.0	22.6	7.6	3.4
Wholesale	10.4	6.3	-12.6	25.0	16.8	21.7	8.9	9.1
Retail	12.8	10.6	0.6	18.3	19.4	21.0	28.1	27.4
Transportation	10.5	4.4	-19.9	24.5	15.0	13.4	4.3	2.4
<i>within which :</i>								
Land transport	3.7	2.2	-2.6	6.0	4.9	10.4	5.8	4.2
Water transport	16.8	6.1	-24.1	20.5	16.7	8.7	2.7	-2.1
Air transport	7.3	3.5	-21.0	33.7	16.4	18.0	5.3	5.5
Warehousing and storage	15.9	6.6	1.4	9.5	6.4	10.7	10.4	10.3
Courier	5.5	2.1	-6.1	28.3	18.1	26.2	25.9	11.2
Accommodation	15.2	3.8	-17.4	25.3	26.5	23.3	20.8	22.4
Food services	13.4	13.1	0.6	5.1	5.6	5.9	6.0	6.2
Information and communications	8.4	6.0	-3.2	4.9	9.4	9.2	10.1	7.8
<i>within which :</i>								
Telecommunications	11.0	9.8	1.4	3.0	10.9	8.0	10.2	7.9
Film entertainment	6.1	-0.7	-12.6	-6.4	-11.7	-17.0	6.9	-10.3
Banking	38.3	-16.9	1.5	8.8	20.0	23.0	17.6	7.1
Financing (except banking)	68.8	-19.4	-10.3	16.7	28.5	12.2	21.9	-11.8
<i>within which :</i>								
Financial markets and asset management	71.7	-20.0	-11.7	15.3	28.4	12.3	25.2	-13.6
<i>within which : Asset management</i>	56.8	-5.2	-12.1	28.4	19.8	24.5	27.6	15.7
Insurance	28.8	*	0.7	8.3	6.8	7.8	12.7	10.3
Real estate	39.5	-3.7	9.7	11.4	15.2	11.4	12.5	-15.4
Professional, scientific and technical services	12.3	6.8	-0.5	13.9	13.4	10.5	5.4	9.3
Administrative and support services	11.5	9.4	-12.4	12.3	12.3	14.9	10.7	8.6
Service Domain								
Tourism, convention and exhibition services	18.9	10.1	3.2	30.6	19.7	16.9 ⁺	23.6 ⁺	24.6 ⁺
Computer and information technology services	6.8	5.3	-15.0	32.5	28.2	27.7	3.8	0.8

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011⁺</u>	<u>2011</u>			
						Q1 ⁺	Q2 ⁺	Q3 ⁺	Q4 ⁺
<u>(%)</u>									
Labour force participation rate	61.2	60.9	60.7	59.7	60.4	59.9	60.5	60.7	60.6
Seasonally adjusted unemployment rate	4.0	3.6	5.4	4.4	3.4	3.4	3.5	3.2	3.3
Underemployment rate	2.2	1.9	2.3	2.0	1.7	1.8	1.8	1.7	1.4
<u>('000)</u>									
Population of working age	5 928.4	5 993.9	6 056.6	6 122.9	6 203.0	6 174.9	6 193.6	6 209.7	6 233.7
Labour force	3 629.6	3 648.9	3 676.6	3 653.7	3 749.2	3 701.8	3 747.4	3 769.4	3 778.0
Persons employed	3 483.8	3 518.8	3 479.8	3 492.5	3 623.0	3 577.3	3 610.6	3 642.4	3 661.9
Persons unemployed	145.7	130.1	196.7	161.2	126.1	124.5	136.8	127.1	116.1
Persons underemployed	79.2	69.0	86.4	74.7	63.0	66.3	66.2	65.8	53.8
<u>(% change over a year earlier)</u>									
Population of working age	1.6	1.1	1.0	1.1	1.3	1.2	1.3	1.1	1.2
Labour force	1.6	0.5	0.8	-0.6	2.6	1.5	2.6	2.8	2.7
Persons employed	2.4	1.0	-1.1	0.4	3.7	2.7	3.8	4.0	3.4
Persons unemployed	-14.8	-10.7	51.2	-18.1	-21.7	-22.9	-21.1	-21.3	-14.5
Persons underemployed	-8.2	-12.9	25.2	-13.5	-15.7	-16.1	-9.4	-7.5	-19.4

Note : (+) Provisional figures.

Table 17 : Employment in selected major industries

Selected major industries	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>	<u>2011</u>			No.
	(% change)					Dec	Mar	Jun	Sep	
Manufacturing	-3.2	-2.9	-3.5	-5.7	-4.5	-5.9	-6.1	-5.0	-5.2	111 534
Construction sites (manual workers only)	-10.8	-5.1	-1.5	2.2	9.6	4.3	9.1	5.6	12.8	63 728
Import and export trade	1.0	0.8	-0.3	-4.4	0.9	0.5	0.2	-0.3	0.1	499 640
Wholesale	-4.2	-0.3	-2.7	-2.0	1.2	0.1	-0.3	0.3	0.5	64 703
Retail	3.1	2.1	2.8	-0.3	3.3	3.6	4.5	4.7	4.2	252 935
Food and beverage services	5.0	3.3	1.8	*	3.7	3.1	6.5	7.7	7.9	232 085
Accommodation services	8.0	5.4	3.1	-1.0	1.5	4.8	5.1	6.1	7.1	34 228
Transportation, storage, postal and courier services	1.6	2.5	3.5	1.1	1.5	1.4	1.6	1.7	2.4	163 775
Information and communications	1.4	2.2	3.6	-1.6	1.3	1.2	2.1	3.0	3.6	91 663
Financing and insurance	4.6	7.3	5.6	-0.5	4.8	5.8	6.4	6.3	7.0	206 635
Real estate	5.3	4.4	2.7	0.5	4.1	3.8	6.5	7.9	8.8	119 995
Professional and business services (excluding cleaning and similar services)	4.9	4.8	3.4	0.9	2.2	2.1	3.3	4.0	5.0	250 486
Cleaning and similar services	2.5	0.6	-1.7	6.7	13.7	10.6	15.0	11.3	7.2	75 401
Education	5.0	3.3	4.8	5.3	3.4	0.6	1.1	0.7	1.9	168 274
Human health services	3.7	5.5	5.1	3.8	3.0	2.9	3.2	4.6	4.1	96 622
Residential care and social work services	1.5	1.4	1.3	1.5	1.8	2.3	1.7	2.6	1.4	57 489
Arts, entertainment, recreation and other services	3.3	1.5	1.9	0.8	5.0	4.7	2.5	4.3	3.3	118 258
Civil Service ^(a)	-1.3	-0.4	0.1	1.1	0.5	0.3	0.2	0.7	0.8	157 656
Others ^(b)	-0.3	0.9	7.0	-1.0	3.1	1.8	1.8	2.2	-2.1	11 044

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> Dec	Mar	<u>2011</u> Jun	Sep
<u>(number)</u>									
Building sites									
Private sector	30 993	29 240	28 899	28 776	28 620	26 327	26 777	28 704	34 248
Public sector ^(a)	7 643	7 767	8 136	10 277	11 463	13 052	14 077	13 139	10 947
Sub-total	38 636	37 007	37 034	39 053	40 083	39 379	40 854	41 843	45 195
Civil engineering sites									
Private sector	1 569	1 674	1 686	1 618	1 544	1 002	1 068	1 220	1 254
Public sector ^(a)	12 661	11 504	10 703	9 831	13 714	15 044	16 885	15 546	17 279
Sub-total	14 230	13 178	12 388	11 449	15 258	16 046	17 953	16 766	18 533
Total	52 865	50 185	49 422	50 501	55 341	55 425	58 807	58 609	63 728
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.8	-5.7	-1.2	-0.4	-0.5	-11.6	-5.8	-4.8	15.8
Public sector ^(a)	-24.6	1.6	4.7	26.3	11.5	16.9	22.1	27.3	*
Sub-total	-7.3	-4.2	0.1	5.5	2.6	-3.8	2.2	3.4	11.6
Civil engineering sites									
Private sector	-28.6	6.7	0.7	-4.0	-4.6	-40.2	-34.7	-26.7	-33.0
Public sector ^(a)	-17.7	-9.1	-7.0	-8.1	39.5	42.8	37.1	16.2	22.4
Sub-total	-19.0	-7.4	-6.0	-7.6	33.3	31.4	28.7	11.4	15.9
Total	-10.8	-5.1	-1.5	2.2	9.6	4.3	9.1	5.6	12.8

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.

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

**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						Q4	Q1	Q2	Q3
(in nominal terms)									
Manufacturing	1.7	2.5	0.9	-3.5	2.6	2.7	9.6	6.2	4.9
Sewerage, waste management and remediation activities	10.4	17.0	-8.6	2.1	-0.1	0.7	4.6	3.7	1.7
Import/export and wholesale trade	3.9	1.8	6.3	-1.6	2.6	4.9	10.0	16.4	12.8
Retail trade	2.1	2.6	8.1	-1.5	3.9	8.8	5.3	15.9	15.3
Transportation, storage, postal and courier services	3.0	3.9	-0.6	-0.2	3.4	1.7	8.3	8.1	-3.1
Accommodation and food service activities	2.6	3.9	2.6	-0.6	3.3	2.0	9.6	12.1	7.3
Information and communications	0.6	-2.9	6.6	0.2	2.6	-0.5	3.8	7.3	7.8
Financial and insurance activities	10.0	9.8	9.0	-3.3	7.2	12.5	16.5	14.1	7.9
Real estate activities	-2.5	-0.4	8.0	-2.4	1.3	-0.1	4.7	10.4	12.8
Professional and business services	3.3	4.8	3.5	0.6	2.4	2.2	-4.8	0.2	7.2
Social and personal services	1.0	1.5	3.1	1.7	-2.4	-1.2	-2.3	-0.2	9.0
All industries surveyed	2.4	4.0	2.6	0.5	2.4	3.1	7.2	6.9	8.3
(in real terms)									
Manufacturing	-0.3	0.5	-3.3	-4.1	0.3	-0.1	5.5	1.1	-1.5
Sewerage, waste management and remediation activities	8.2	14.8	-12.3	1.5	-2.3	-2.0	0.7	-1.3	-4.5
Import/export and wholesale trade	1.8	-0.2	1.9	-2.3	0.2	2.1	5.9	10.8	5.9
Retail trade	0.1	0.6	3.6	-2.1	1.6	5.8	1.4	10.3	8.2
Transportation, storage, postal and courier services	0.9	1.9	-4.7	-0.8	1.1	-1.1	4.3	2.9	-9.0
Accommodation and food service activities	0.6	1.8	-1.7	-1.2	1.0	-0.8	5.5	6.7	0.7
Information and communications	-1.4	-4.7	2.2	-0.4	0.3	-3.2	*	2.1	1.2
Financial and insurance activities	7.9	7.7	4.6	-3.9	4.8	9.5	12.2	8.6	1.3
Real estate activities	-4.4	-2.3	3.5	-3.0	-1.0	-2.8	0.8	5.1	5.9
Professional and business services	1.3	2.8	-0.7	*	0.1	-0.5	-8.3	-4.6	0.6
Social and personal services	-1.0	-0.5	-1.2	1.1	-4.6	-3.9	-5.9	-5.0	2.3
All industries surveyed	0.4	1.9	-1.7	-0.1	0.1	0.3	3.2	1.8	1.6

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						Dec	Mar	Jun	Sep
(in nominal terms)									
Manufacturing	0.2	4.3	2.6	-1.2	-1.0	-1.0	3.0	5.7	7.3
Import/export, wholesale and retail trades ^(a) <i>within which :</i>	1.1	2.3	3.6	-1.1	2.6	4.4	5.8	7.1	9.7
Import/export and wholesale trades:	1.0	2.8	3.1	-1.2	2.7	--	6.1	--	10.3
Retail trade	0.8	-1.7	4.9	-0.2	1.1	--	0.8	--	-1.1
Transportation	0.1	1.5	1.8	*	1.1	1.5	2.0	3.7	5.2
Accommodation and food service activities	1.0	1.4	3.1	-2.3	2.5	3.4	6.5	9.2	10.5
Financial and insurance activities ^(b)	2.1	2.4	2.8	-0.5	3.0	2.2	5.0	7.3	7.5
Real estate leasing and maintenance management	2.3	1.4	2.7	-0.4	2.6	1.9	1.7	10.3	10.6
Professional and business services	2.4	4.8	4.9	0.8	3.4	3.6	5.7	14.1	15.6
Personal services	3.4	8.5	0.5	-0.7	3.4	4.4	3.6	8.6	12.8
All industries surveyed	1.7	2.6	3.4	-0.9	2.4	3.3	4.9	8.0	9.9
(in real terms)									
Manufacturing	-1.5	2.4	-0.1	-1.8	-3.7	-4.2	-1.7	-0.1	2.0
Import/export, wholesale and retail trades ^(a) <i>within which :</i>	-0.6	0.4	0.9	-1.7	-0.2	1.0	1.0	1.1	4.3
Import/export and wholesale trades:	-0.7	1.0	0.4	-1.7	-0.1	--	1.3	--	4.8
Retail trade	-1.0	-3.5	2.2	-0.7	-1.6	--	-3.7	--	-6.0
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	0.1	1.7	3.2	5.0
Financial and insurance activities ^(b)	0.3	0.6	0.2	-1.0	0.2	-1.0	0.2	1.3	2.2
Real estate leasing and maintenance management	0.6	-0.4	0.1	-1.0	-0.2	-1.3	-2.9	4.2	5.2
Professional and business services	0.6	2.9	2.2	0.3	0.6	0.3	0.9	7.7	9.9
Personal services	1.6	6.5	-2.1	-1.2	0.6	1.1	-1.1	2.6	7.2
All industries surveyed	-0.1	0.7	0.7	-1.5	-0.4	*	0.2	2.0	4.4

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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
GDP deflator	-3.5	-6.2	-3.5	-0.1	-0.3	2.9	1.5	-0.6
Domestic demand deflator	-4.9	-4.2	0.1	1.2	1.9	2.1	2.8	-1.0
Consumer Price Indices ^(a) :								
Composite CPI	-3.0	-2.6	-0.4	1.0	2.0	2.0	4.3	0.5
CPI(A)	-3.2	-2.1	*	1.1	1.7	1.3	3.6	0.4
CPI(B)	-3.1	-2.7	-0.5	1.0	2.1	2.2	4.6	0.5
CPI(C)	-2.8	-2.9	-0.9	0.8	2.2	2.7	4.7	0.6
Unit Value Indices :								
Domestic exports	-3.3	0.2	1.5	2.2	-2.1	0.8	5.1	-0.2
Re-exports	-2.7	-1.5	1.1	1.2	1.1	2.4	3.8	1.2
Total exports of goods	-2.7	-1.4	1.2	1.3	1.0	2.3	3.8	1.1
Imports of goods	-3.9	-0.4	2.9	2.7	2.1	2.3	4.4	-0.1
Terms of Trade Index	1.2	-1.0	-1.7	-1.4	-1.1	0.1	-0.5	1.3
Producer Price Index for all manufacturing industries ^(b)	-2.7	-0.3	2.2	0.8	2.2	3.0	5.6	-1.7
Tender Price Indices :								
Public sector building projects	-11.7	-0.3	-1.5	1.4	5.0	20.1	41.9	-15.9
Public housing projects	-9.6	-10.0	3.5	7.7	11.2	19.7	30.8	-6.8

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>2010</u>	<u>2011</u>	<u>2011</u>				<u>Average annual rate of change:</u>	
			Q1	Q2	Q3	Q4	10 years 2001 to 2011	5 years 2006 to 2011
GDP deflator	0.3 #	3.4 #	1.4 #	4.9 #	4.7 #	2.8 #	-0.6 #	1.5 #
Domestic demand deflator	2.1 #	4.3 #	4.8 #	4.6 #	4.7 #	3.1 #	0.4 #	2.0 #
Consumer Price Indices ^(a) :								
Composite CPI	2.4	5.3	3.8	5.2	6.4	5.7	1.1	2.9
CPI(A)	2.7	5.6	4.1	5.5	7.7	5.3	1.1	2.7
CPI(B)	2.3	5.2	3.7	5.1	6.0	6.0	1.1	3.0
CPI(C)	2.1	5.1	3.7	4.8	5.9	6.0	1.1	3.0
Unit Value Indices :								
Domestic exports	5.5	6.4	6.7	6.4	7.6	5.7	1.6	3.5
Re-exports	4.6	8.0	7.6	8.7	8.6	7.5	1.9	4.0
Total exports of goods	4.7	8.0	7.6	8.6	8.6	7.5	1.9	4.0
Imports of goods	6.4	8.1	8.9	8.1	8.6	7.1	2.4	4.2
Terms of Trade Index	-1.7	-0.1 +	-1.2	0.5	*	0.4 +	-0.5 +	-0.2 +
Producer Price Index ^(b) for all manufacturing industries	6.0	N.A.	8.2	9.0	9.5	N.A.	--	3.0 ~
Tender Price Indices :								
Public sector building projects	12.5	N.A.	12.3	13.7	9.6	N.A.	3.1 ^	11.1 ~
Public housing projects	6.7	N.A.	10.8	10.9	N.A.	N.A.	2.9 ^	11.6 ~

Notes (cont'd) : (+) Estimates compiled based on actual figures up to November 2011. Figures will be subject to revision later on as complete data become available.

(^) Average annual rate of change for the 10-year period 2000-2010.

(~) Average annual rate of change for the 5-year period 2005-2010.

Table 22 : Rates of change in Composite Consumer Price Index

(%)								
	Weight	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
All items	100.0	-3.0 (--)	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)	2.0 (2.8)	4.3 (5.6)
Food	27.45	-2.1	-1.5	1.0	1.8	1.7	4.3	10.1
<i>Meals bought away from home</i>	17.07	-1.5	-1.5	0.2	0.9	1.3	2.5	5.9
<i>Food, excluding meals bought away from home</i>	10.38	-3.1	-1.7	2.5	3.2	2.5	7.1	16.8
Housing ^(a)	31.66	-5.7	-4.8	-5.2	0.1	4.7	2.0	4.1
<i>Private housing rent</i>	27.14	-6.5	-6.3	-6.6	-0.1	5.6	4.0	6.8
<i>Public housing rent</i>	2.05	-2.7	9.1	2.5	0.2	0.1	-17.7	-27.2
Electricity, gas and water	3.10	-7.0	1.4	11.4	4.1	2.1	-0.7	-6.5
Alcoholic drinks and tobacco	0.59	2.4	0.1	*	0.4	-3.7	-1.2	0.1
Clothing and footwear	3.45	0.7	-2.7	6.4	2.0	1.0	4.1	0.8
Durable goods	5.27	-6.3	-6.4	-2.2	-3.2	-6.4	-4.7	-2.0
Miscellaneous goods	4.17	1.7	2.3	3.6	1.5	1.7	2.5	5.0
Transport	8.44	-0.6	-0.4	0.4	1.4	0.7	-0.1	2.5
Miscellaneous services	15.87	-2.3	-3.2	-0.2	1.0	1.9	1.7	0.8

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>				<u>Average annual rate of change:</u>	
					Q1	Q2	Q3	Q4	10 years 2001 to 2011	5 years 2006 to 2011
All items	100.0	0.5 (1.0)	2.4 (1.7)	5.3 (5.3)	3.8 (3.7)	5.2 (5.0)	6.4 (6.1)	5.7 (6.4)	1.1 (--)	2.9 (--)
Food	27.45	1.3	2.4	7.0	5.2	6.9	7.8	8.2	2.5	5.0
<i>Meals bought away from</i>	<i>17.07</i>	<i>1.6</i>	<i>1.7</i>	<i>5.2</i>	<i>4.1</i>	<i>5.1</i>	<i>5.7</i>	<i>6.1</i>	<i>1.6</i>	<i>3.4</i>
<i>Food, excluding meals bought away from home</i>	<i>10.38</i>	<i>0.9</i>	<i>3.5</i>	<i>9.9</i>	<i>7.0</i>	<i>9.8</i>	<i>11.3</i>	<i>11.5</i>	<i>4.0</i>	<i>7.5</i>
Housing ^(a)	31.66	3.7	0.4	7.2	3.8	5.9	11.0	8.4	0.5	3.5
<i>Private housing rent</i>	<i>27.14</i>	<i>3.6</i>	<i>0.9</i>	<i>7.2</i>	<i>4.1</i>	<i>6.5</i>	<i>8.4</i>	<i>9.6</i>	<i>0.7</i>	<i>4.5</i>
<i>Public housing rent</i>	<i>2.05</i>	<i>9.5</i>	<i>-7.8</i>	<i>11.9</i>	<i>4.0</i>	<i>2.7</i>	<i>676.7</i>	<i>-1.5</i>	<i>-3.0</i>	<i>-7.5</i>
Electricity, gas and water	3.10	-25.3	43.3	-4.2	7.3	8.0	-16.1	-16.1	0.6	-1.0
Alcoholic drinks and tobacco	0.59	18.7	3.4	17.1	8.1	19.9	20.3	20.0	3.5	7.3
Clothing and footwear	3.45	2.7	1.8	6.8	5.6	6.3	7.8	7.3	2.3	3.2
Durable goods	5.27	-3.0	-2.7	-3.8	-4.4	-4.3	-3.1	-3.1	-4.1	-3.2
Miscellaneous goods	4.17	2.3	2.4	3.8	3.1	4.2	4.5	3.3	2.7	3.2
Transport	8.44	-0.9	2.0	4.4	3.3	4.7	5.0	4.5	0.9	1.6
Miscellaneous services	15.87	-2.1	2.0	3.5	3.3	2.9	4.0	3.8	0.3	1.1

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

(%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Private consumption expenditure	-3.6	-2.5	-0.3	1.8	1.3	3.7	2.8
Government consumption expenditure	-0.5	-2.6	-2.9	-1.4	1.0	2.9	4.9
Gross domestic fixed capital formation	-9.9	-9.4	2.6	1.0	4.2	-2.5	1.7
Total exports of goods	-2.9	-1.8	0.9	0.6	0.3	2.2	3.4
Imports of goods	-4.2	-0.9	2.9	1.9	2.1	1.7	4.1
Exports of services	-2.4	-3.1	0.5	3.3	3.6	2.5	3.4
Imports of services	0.3	2.7	4.1	1.0	0.8	2.9	3.8
Gross Domestic Product	-3.5	-6.2	-3.5	-0.1	-0.3	2.9	1.5
Total final demand	-3.6	-2.8	0.6	1.2	1.2	2.2	3.2
Domestic demand	-4.9	-4.2	0.1	1.2	1.9	2.1	2.8

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>2009</u>	<u>2010[#]</u>	<u>2011[#]</u>	<u>2011</u>				<u>Average annual rate of change:</u>	
				<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>10 years 2001 to 2011[#]</u>	<u>5 years 2006 to 2011[#]</u>
Private consumption expenditure	-1.6	1.0	4.1	3.2	4.7	5.0	3.7	0.6	2.0
Government consumption expenditure	0.2	0.3	4.9	1.8	5.7	6.1	6.0	0.6	2.6
Gross domestic fixed capital formation	0.5	6.6	4.2	9.7	4.1	3.2	0.9	-0.2	2.0
Total exports of goods	0.5	4.6	7.5	6.4	7.6	8.7	7.4	1.5	3.6
Imports of goods	-1.3	6.3	8.1	8.5	7.5	8.8	7.8	2.0	3.7
Exports of services	-7.0	7.4	7.3	6.9	8.1	7.8	6.7	1.5	2.6
Imports of services	-2.3	5.1	6.4	6.7	8.5	6.9	4.0	2.5	3.2
Gross Domestic Product	-0.6	0.3	3.4	1.4	4.9	4.7	2.8	-0.6	1.5
Total final demand	-1.1	4.3	6.5	6.0	6.7	7.3	6.0	1.1	3.0
Domestic demand	-1.0	2.1	4.3	4.8	4.6	4.7	3.1	0.4	2.0

