



2012 Economic Background and 2013 Prospects

Government of the Hong Kong
Special Administrative Region

***2012 ECONOMIC BACKGROUND
AND
2013 PROSPECTS***

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HONG KONG SPECIAL ADMINISTRATIVE REGION

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CALENDAR OF EVENTS OF SIGNIFICANCE FOR THE HONG KONG ECONOMY IN 2012

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2012

Summary

- *The Hong Kong economy saw a modest growth in 2012, mainly dragged by the weak external demand amid an austere global economic environment characterised by the unsettled euro debt crisis and fragile recovery of the major advanced economies. Domestic demand however fared rather well. For the year as a whole, the economy grew by a mere 1.4%, down from the above-trend growth of 4.9% in 2011. Yet in the fourth quarter, economic growth picked up notably to 2.5% year-on-year, thanks to a visible improvement in external trade upon the faster growth in the Mainland economy and some stabilisation of the euro debt crisis.*
- *Total exports of goods in the early part of 2012 were hit by the recession of the eurozone economy and tepid recovery of the US economy, which weighed heavily on the production activity and trade flows of export-dependent Asian economies, including Hong Kong. But as the global environment stabilised somewhat, merchandise exports rebounded visibly in the latter part of 2012, thereby offsetting in large part the setback in the first half to yield a modest growth for 2012 as a whole.*
- *Exports of services also moderated in growth in 2012. While exports of transportation and trade-related services were lacklustre in tandem with the slowdown in goods trade, those of financial and business services slackened on quieter fund-raising activities amid dampened market sentiments. Exports of travel services were still vibrant with notable growth.*
- *The domestic sector stayed rather resilient. Private consumption expenditure grew steadily further, thanks to largely stable employment and improved income conditions. Investment continued to see an appreciable growth, as infrastructure works continued apace, private building and construction activity picked up strongly, and machinery and equipment acquisition sustained notable growth.*
- *The labour market remained in a state of full employment throughout 2012, notwithstanding the tepid economic growth. Job vacancies continued to surge across many sectors, in tandem with the continued notable growth in total employment. Indeed, the pace of job creation picked up again in the fourth quarter, pushing total employment to a fresh record high, with the seasonally adjusted unemployment rate staying low at 3.3%. Amid the generally still-tight job conditions, wages and earnings saw further solid broad-based growth, though the rates of increase narrowed in the latter half of the year amid the less sanguine economic conditions and the waning*

of the boost from statutory minimum wage (SMW) implementation.

- *Local stock prices saw sharp fluctuations during the year, rebounding early in the year before a sell-off in the mid-year on heightened euro debt concerns, then followed by a rally in the second half with some stabilisation of the euro debt situation and the advanced economies' new round of quantitative easing in September. Local property market saw an almost uninterrupted upsurge, only to stabilise somewhat towards the year-end after the Government rolled out demand-management measures including the Buyer's Stamp Duty and enhanced Special Stamp Duty in late October.*
- *Inflation was generally on an easing trend during 2012, thanks to moderated imported inflation and the feed-through of the earlier stabilisation of private housing rentals. In 2012, underlying inflation averaged at 4.7%, down from 5.3% in 2011.*

Overall situation

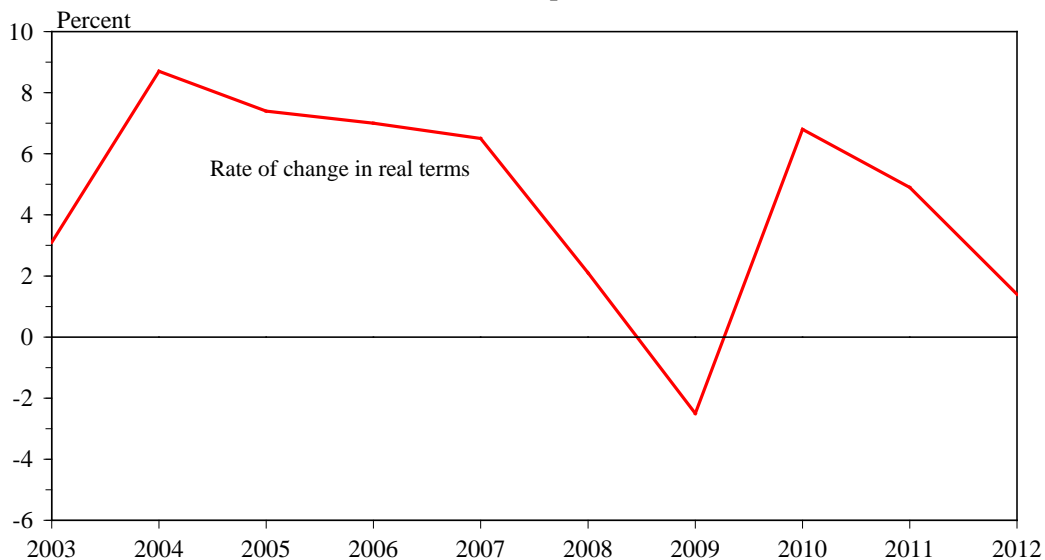
1.1 The Hong Kong economy continued to show a sub-par performance in 2012, having decelerated notably since mid-2011. The external sector remained a key drag to growth, confronted by a challenging trading environment as manifested by an abrupt deterioration of the euro debt situation in mid-2012, recession of the eurozone economy, persistent tepidness in the US economic recovery and uncertainty over the US fiscal cliff, as well as the slowdown of the Mainland and other Asian economies. As such, total exports of goods saw only a modest growth in 2012, with widespread weaknesses seen in both the advanced economies and Asian markets. The highly uncertain global economic climate also dented the exports of services, which slowed quite visibly in the second half of the year. Nevertheless, the domestic sector held up rather well, helping to keep the unemployment rate at a low level. Private consumption grew steadily further, thanks to the positive job and income conditions, and investment expenditure picked up strongly, partly boosted by the intensive infrastructure works and expansion of private sector building activity. Amid the slower local economic growth and subsided external price pressures, inflation tapered progressively in 2012.

1.2 For 2012 as a whole, *Gross Domestic Product (GDP)*⁽¹⁾ expanded by 1.4% in real terms, moderating from the above-trend 4.9% growth in 2011. In terms of the quarterly profile, real GDP posted an anaemic year-on-year growth of 0.8% in the first quarter, before picking up to 1.0%, 1.4% and 2.5% respectively in the second, third and fourth quarters, aided in part by the base effect and in part by the faster growth of the Mainland economy towards the

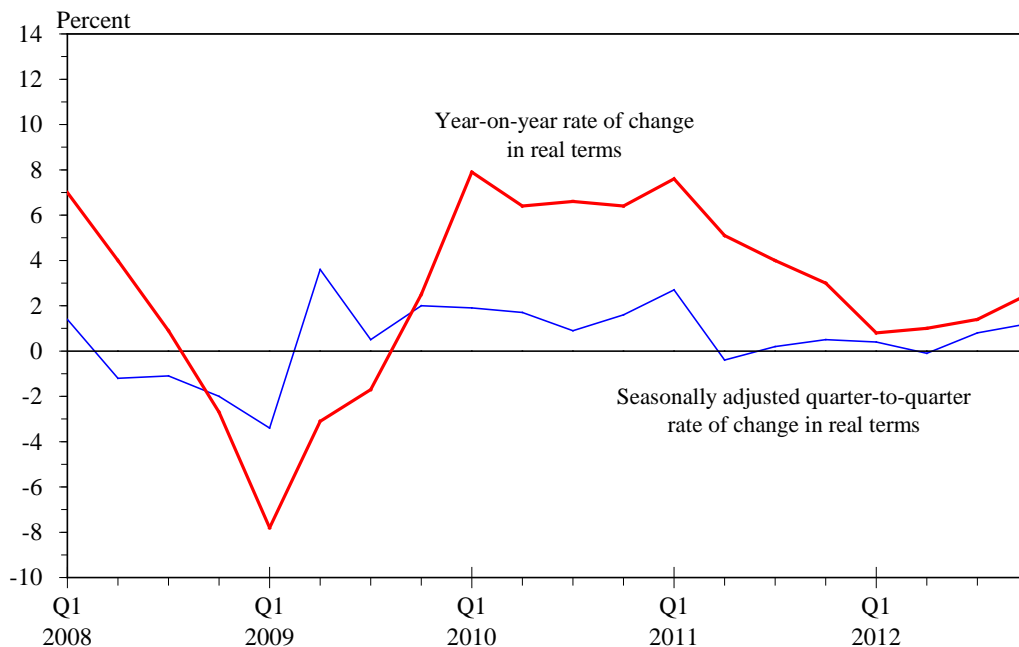
year-end. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP grew by 0.4% in the first quarter, fell back by 0.1% in the second quarter, rebounded by 0.8% in the third quarter and grew further by 1.2% in the fourth quarter.

Diagram 1.1 : The Hong Kong economy decelerated further to show a sub-trend growth in 2012

(a) Annual profile



(b) Quarterly profile



The external sector

1.3 *Total exports of goods* slowed further to a small year-on-year growth of 1.3% in 2012, from the moderate 3.4% in 2011. Amid the euro debt crisis, the eurozone economy slipped back to recession in 2012, and the EU market remained the weakest spot for Hong Kong's exports. Reflecting the weak demand there, exports to the EU contracted at a double-digit rate in 2012, having posted seven straight quarters of year-on-year declines by the fourth quarter of 2012. Exports to the US and Japan, where recoveries were fragile and uneven, were also subdued. The sluggishness of the advanced economies inflicted visible negative spillovers to the Asian economies in 2012, many of which saw a slowdown in their production and export activities. As such, Hong Kong's exports to such Asian markets as India, Korea, Taiwan and Singapore declined visibly in 2012. In the case of exports to the Mainland, there was nonetheless a visible improvement in the latter part of 2012, along with the rebound of economic growth there, leading to a modest increase for the year as a whole. In terms of the quarterly profile, total exports of goods contracted by 5.2% and 0.2% respectively in the first and second quarters over a year earlier, before bouncing up to grow by 4.0% and 6.1% respectively in the third and fourth quarters. On a seasonally adjusted quarter-to-quarter comparison, goods exports fell back in the second quarter, before picking up strongly in the third and fourth quarters.

1.4 *Exports of services* were likewise hit by the difficult external environment. Not only did exports of transportation and trade-related services turn lacklustre amid the setback in merchandise trade, but those of financial and business services also slackened visibly as fund-raising and other commercial activities were hampered by the overcast global economic prospects and more cautious market sentiments. On the other hand, exports of travel services maintained notable growth, thereby rendering the key impetus to overall exports of services, though also with a temporary slowdown in the third quarter on slower per capita tourist spending. Overall, exports of services grew by 1.2% in 2012, still notably down from 4.9% 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>2011[#]</u>	<u>2012[±]</u>	<u>2011</u>				<u>2012</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	9.0	4.0	8.6 (1.7)	10.8 (3.0)	10.1 (1.3)	6.6 (0.3)	6.3 (1.3)	2.8 (*)	2.8 (1.3)	4.1 (1.5)
Government consumption expenditure	2.5	3.7	3.0 (1.2)	1.9 (0.1)	1.9 (0.9)	3.0 (1.0)	3.3 (1.3)	4.1 (0.9)	4.0 (0.8)	3.5 (0.7)
Gross domestic fixed capital formation	10.2	9.1	4.9	9.2	13.5	12.7	12.5	5.7	8.3	10.5
<i>of which :</i>										
Building and construction	15.5	12.3	27.1	3.1	14.0	19.4	15.0	14.1	8.1	12.1
Machinery, equipment and intellectual property products	12.2	10.6	-8.9	15.5	22.7	18.6	21.1	5.1	9.9	9.1
Total exports of goods	3.4	1.3	16.3 (8.4)	-0.3 (-7.4)	-2.2 (0.2)	2.3 (1.1)	-5.2 (0.9)	-0.2 (-1.7)	4.0 (3.0)	6.1 (4.8)
Imports of goods	4.7	2.7	12.1 (8.3)	2.1 (-4.2)	1.6 (-0.6)	4.2 (0.5)	-2.1 (2.3)	0.9 (-0.9)	4.3 (1.5)	7.2 (5.2)
Exports of services	4.9	1.2	6.8 (1.2)	6.4 (1.1)	3.7 (0.5)	3.3 (0.1)	2.1 (0.3)	2.3 (1.1)	-0.6 (-2.1)	1.3 (2.1)
Imports of services	3.5	0.7	6.2 (0.4)	3.5 (0.5)	1.9 (0.3)	2.5 (1.2)	2.9 (0.6)	1.1 (-1.0)	-0.6 (-1.2)	-0.5 (1.2)
Gross Domestic Product	4.9	1.4	7.6 (2.7)	5.1 (-0.4)	4.0 (0.2)	3.0 (0.5)	0.8 (0.4)	1.0 (-0.1)	1.4 (0.8)	2.5 (1.2)
<i>Change in the main price indicators (%)</i>										
GDP deflator	3.9	3.9	1.9 (1.6)	5.3 (1.3)	4.4 (0.9)	4.2 (0.4)	3.7 (1.0)	2.8 (0.7)	4.2 (2.0)	4.6 (0.9)
Composite CPI										
Headline	5.3	4.1	3.8 (1.8)	5.2 (1.7)	6.4 (-0.8)	5.7 (3.0)	5.2 (1.2)	4.2 (0.8)	3.1 (-1.9)	3.8 (3.7)
Underlying[^]	5.3	4.7	3.7 (1.8)	5.0 (1.6)	6.1 (1.6)	6.4 (1.3)	5.9 (1.2)	5.1 (0.9)	4.0 (0.6)	3.8 (1.1)
Change in nominal GDP (%)	9.0	5.4	9.7	10.7	8.5	7.3	4.5	3.9	5.7	7.2

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

(#) Revised figures.

(+) Preliminary figures.

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

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

(*) Change of less than 0.05%.

The domestic sector

1.5 The domestic sector still held up rather well in 2012 and remained the key growth driver to cushion against the weakness in the external sector. Thanks to largely stable employment conditions and broadly improved incomes, *private consumption expenditure* (PCE) grew solidly further by 4.0% in real terms in 2012, even against a high base after the strong 9.0% growth in 2011. On a seasonally adjusted quarter-to-quarter comparison, PCE registered growth almost throughout 2012. *Government consumption expenditure* grew further by 3.7% in real terms in 2012, following the 2.5% growth in 2011.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)					Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
			Food	Durables	Non- durables	Services			
2011	Annual	10.2	5.0	31.9	22.8	3.1	1.9	12.9	9.0
	H1	10.5	6.1	30.6	24.6	3.6	3.6	11.4	9.7
	H2	9.9	4.0	32.9	21.3	2.6	0.4	14.1	8.3
	Q1	9.3	8.4	21.1	21.2	3.4	2.4	9.1	8.6
	Q2	11.6	4.1	41.4	28.1	3.7	4.8	14.0	10.8
	Q3	11.1	4.0	34.3	24.8	3.9	-0.3	9.4	10.1
	Q4	8.9	4.1	31.7	18.5	1.4	1.2	18.7	6.6
2012	Annual	4.7	1.0	17.5	4.0	2.9	5.2	9.1	4.0
	H1	5.3	*	25.1	5.2	2.7	5.5	10.7	4.5
	H2	4.0	2.0	11.7	2.9	3.1	4.8	7.6	3.5
	Q1	6.6	-1.0	30.0	7.5	3.3	6.1	8.6	6.3
	Q2	4.0	0.9	20.2	3.0	2.0	4.9	13.0	2.8
	Q3	3.1	2.7	8.8	1.5	2.4	6.8	6.4	2.8
	Q4	4.9	1.4	14.1	4.1	3.7	2.9	8.7	4.1

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

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

(*) Change of less than 0.05%.

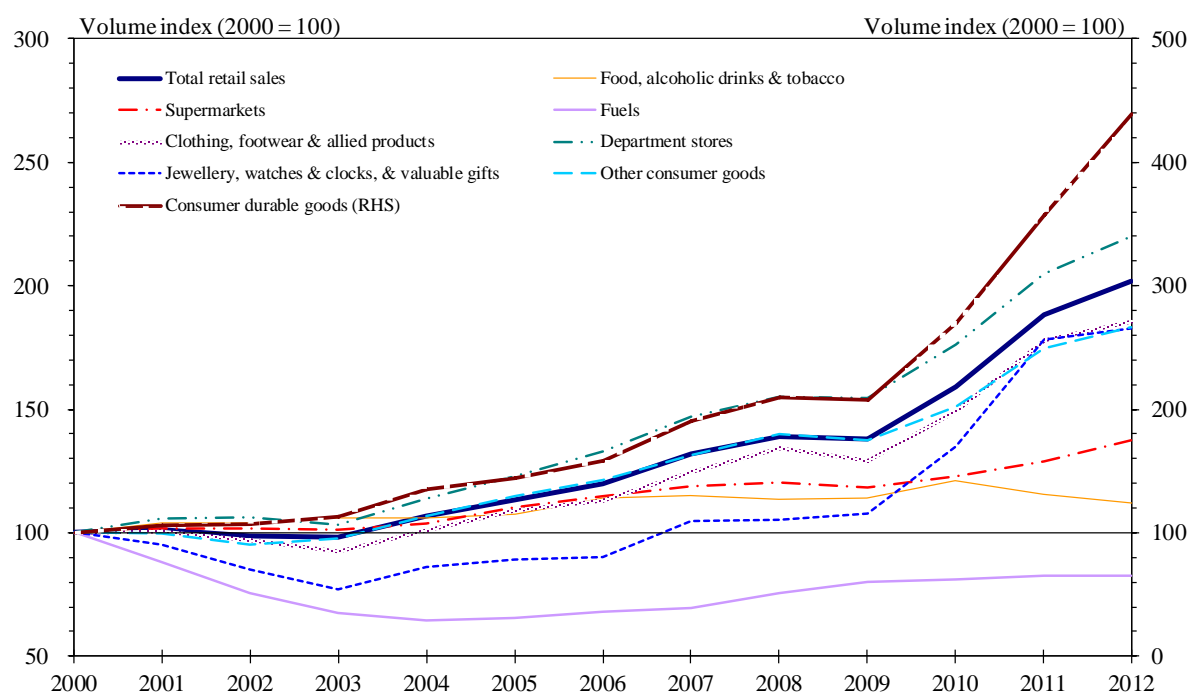
Box 1.1

The performance of Hong Kong's retail trade industry

Retail trade is an important economic sector in Hong Kong, particularly as a key provider of employment opportunities. In 2012, there were about 64 000 establishments in the retail trade industry. Nearly 9% of Hong Kong's total employment, or around 320 000 persons, were engaged in retail trade. Total value-added of the industry amounted to about 4% of Hong Kong's GDP.

The industry has weathered ups and downs over the past decade or so (*Chart 1*). First hit by the economic downturn in 2001 and then the SARS epidemic in 2003, total retail sales volume held virtually flat from 2000 to 2003, with the sales of luxury items and fuels shrinking most. After that, sales across most types of retail outlets enjoyed a period of uninterrupted expansion until the global financial crisis hampered consumer sentiment in late 2008 and early 2009. Even so, most sectors only saw a mild setback during this difficult period. The volume of retail sales then re-accelerated strongly in 2010 and leaped further in 2011, led by the jump in consumer durable goods, thanks conceivably to the launches of new consumer electronic products. Sales of luxury items and sales in department stores also rose appreciably over the same period. In 2012, despite the high base of comparison, the volume of retail sales still attained a notable growth of 7.2%, in line with the trend growth over the past ten years. The sustained expansion has also brought with it ample employment opportunities. Employment in the retail trade industry has grown faster than overall employment in the past several years, making it one of the key sources of job creation.

Chart 1 : Volume of retail sales by broad type of retail outlet

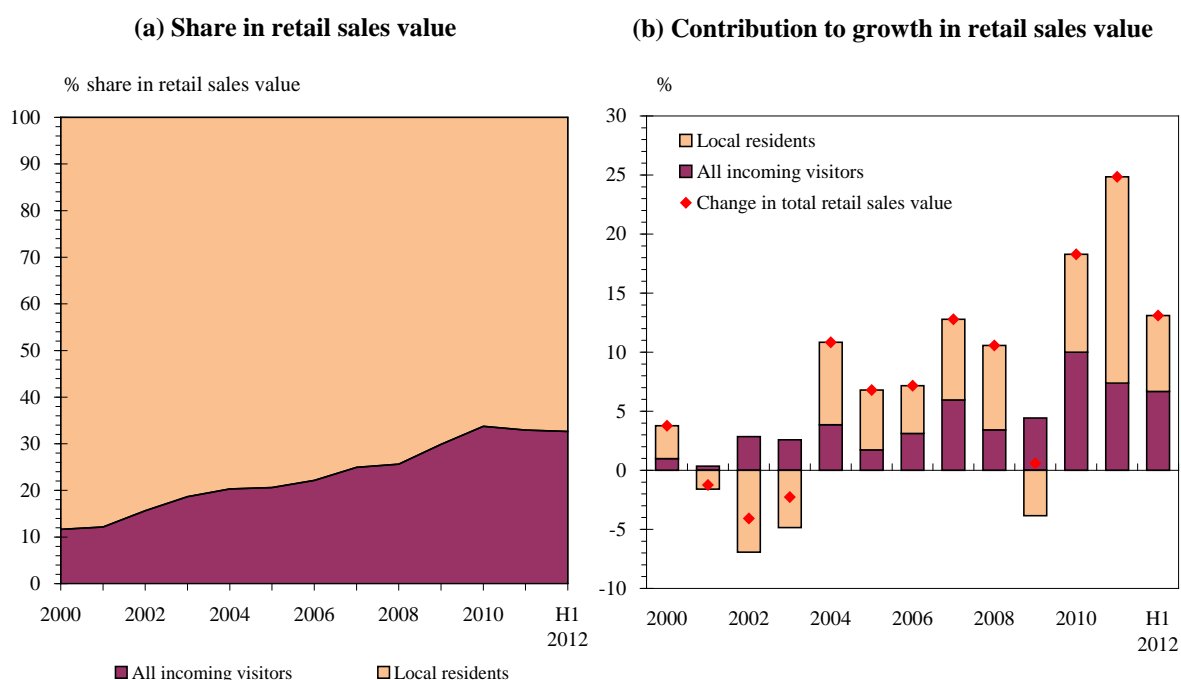


Note : The volume indices of retail sales before 2005 are the 2004/05-based series which follows the Hong Kong Standard Industry Classification (HSIC) Version 1.1, while those since 2005 are the 2009/10-based series which adopts HSIC Version 2.0.

Box 1.1 (Cont'd)

The strong performance of the retail trade industry was in part contributed by the fast growth in inbound tourism, with visitor arrivals increasing at an annual average rate of 11.4% over the past ten years to reach 48.6 million in 2012. Using the shopping expenditure of incoming visitors as a proxy for inbound tourism's contribution to the value of retail sales, it is observed that the proportion of visitor spending in retail sales has been on a steady rise over the past decade, from about 12% in 2001 to about 33% in 2011 and the first half of 2012 (*Chart 2a*). In terms of the contribution to the growth of retail sales, visitor spending has also been playing a notable role (*Chart 2b*). This was especially vital at the time of economic downturns, when domestic consumer sentiment was feeble, as in 2001-2003 and 2009. Yet in many past years local residents remained the key source of growth in terms of retail sales value, most visibly during the surge in 2011.

Chart 2 : Relative importance of inbound tourism to retail sales*



Note : (*) Shopping expenditure by visitors is sourced from the Hong Kong Tourism Board's Departing Visitor Survey, while local residents' expenditure on retail sales is roughly estimated as the difference between total retail sales value and visitors' shopping expenditure.

In terms of contribution to the overall economy, the tourism ratio for the retail trade industry stood at 0.28 in 2009 (the latest figure available), meaning that 28% of value-added generated by the retail industry came directly from inbound tourism consumption⁽¹⁾. Although this ratio is likely to have increased further in recent years, a lion share of economic output from the retail trade industry still relies on local residents, and so the future development of the industry would hinge on favourable local employment and income conditions as well as a further expansion in inbound tourism. To this end, the near-term prospects for the retail business remain positive, as the labour market and consumer confidence have held up fairly well despite a slowed economy, while inbound tourism is likely to benefit from the fast growing Mainland economy as well as the continued development of other Asian economies.

(1) For details, please refer to the feature article in *Hong Kong Monthly Digest of Statistics*, March 2011.

Diagram 1.2 : Private consumption expenditure grew solidly further in 2012

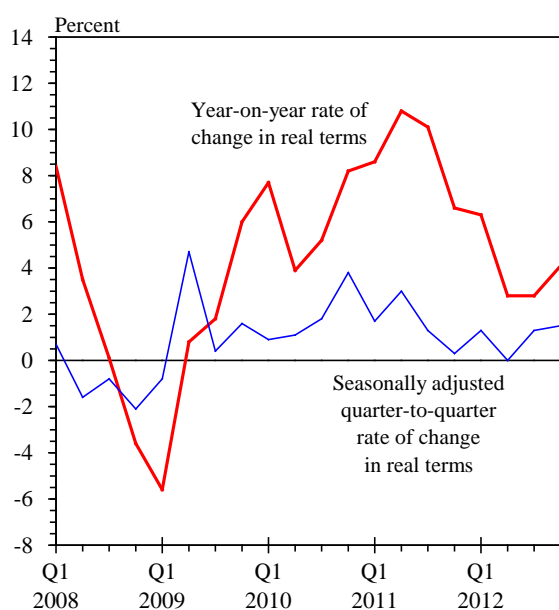
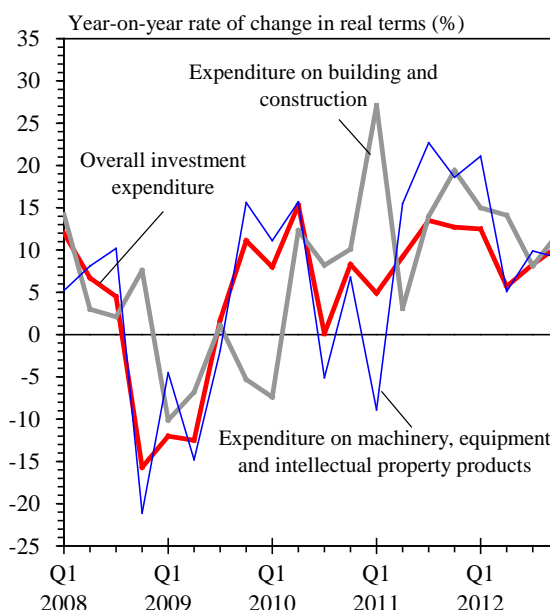


Diagram 1.3 : Investment spending sustained strong growth in 2012



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* sustained a strong growth of 9.1% in 2012, following the 10.2% expansion in 2011. As a number of large-scale infrastructure projects were under way, public sector construction activity remained intensive, growing markedly further. Meanwhile, private sector building activity continued to thrive, picking up to a strong growth during the year. As such, overall building and construction expenditure grew robustly further by 12.3% in real terms in 2012. Machinery and equipment acquisition grew appreciably all through the four quarters, giving a 10.6% growth for 2012 as a whole, in spite of the more cautious business sentiments, as indicated by the results of the Quarterly Business Tendency Survey on large enterprises and diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.2** for details of the consultation on SMEs).

Box 1.2

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 1.3* in the *Third Quarter Economic Report 2012*.

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 has consequently been reduced to around 400.

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. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, 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 remained rather sluggish, though with some relative improvement in the more recent months (*Table 1*). In January 2013, the most visible relative improvement was seen in the real estate sector after a notable setback in November 2012, as well as the import/export trades and logistics sectors, which stabilised somewhat following the better external trade performance in recent months. On the other hand, SMEs in wholesale trade, retail trade and restaurants reported a relatively weak business situation. As to the employment situation, the feedback from SMEs indicated a broadly stable development 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 rose from 46.8 in October 2012 to the boom-bust dividing line of 50.0 in December 2012, before easing back to 49.1 in January 2013, reflecting that external demand conditions, while seeing some relative improvement of late, were still rather unsteady amid the fiscal consolidation in Europe and the US, as well as the uneven performance across the major 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 1.2 (Cont'd)

The proportion of SMEs reporting tight credit access, while rising back slightly from 0.7% in October 2012 to 1.3% in January 2013, was still at a relatively low level, 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>2012</u>												<u>2013</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>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	49.1	50.9	49.1	48.1	49.1	49.1	49.1	51.0	47.1	49.0	48.0	48.4	49.2
Real estate	44.1	60.3	54.4	47.1	42.6	41.2	50.0	55.9	54.4	47.1	39.7	50.0	51.5
Retail trade	48.6	47.9	47.9	47.4	45.3	46.1	46.4	46.8	49.1	47.2	48.6	48.1	46.3
Wholesale trade	47.5	52.5	50.0	47.4	44.7	44.7	47.4	44.7	44.7	42.1	47.2	47.2	47.2
Business services	46.9	51.5	51.5	51.5	48.5	48.5	45.5	48.5	45.5	50.0	45.5	47.0	50.0
<i>External segments</i>													
Import/export trades	47.8	47.8	48.7	48.6	47.7	46.8	47.7	45.9	47.2	47.7	50.5	50.0	50.0
Logistics	41.7	38.9	44.4	44.4	47.1	50.0	50.0	38.2	44.1	41.2	43.8	45.0	50.0
All the above sectors*	47.5	49.1	49.0	48.2	46.7	46.6	47.5	46.9	47.6	47.2	48.2	48.7	48.9

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

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

Table 2 : Diffusion indices on employment situation

	<u>2012</u>												<u>2013</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>	<u>Jan</u>
<i>Local segments</i>													
Restaurants	50.0	50.9	50.0	48.1	49.1	49.1	50.0	50.0	48.1	50.0	48.0	48.4	49.2
Real estate	47.1	50.0	51.5	51.5	50.0	50.0	50.0	52.9	50.0	50.0	47.1	51.5	50.0
Retail trade	50.5	50.0	49.6	50.0	50.0	50.0	50.0	49.5	50.0	50.0	50.0	49.5	50.5
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	50.0
Business services	50.0	50.0	51.5	50.0	48.5	50.0	50.0	50.0	50.0	53.0	51.5	48.5	50.0
<i>External segments</i>													
Import/export trades	49.1	50.0	50.0	50.0	49.5	49.1	50.0	49.5	50.0	50.0	49.1	50.0	49.1
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.1	47.1	50.0	50.0	50.0
All the above sectors*	49.6	50.1	50.1	50.0	49.6	49.6	50.0	49.9	49.7	50.2	49.5	49.7	49.7

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

Table 3 : Diffusion index on current new export orders

	<u>2012</u>												<u>2013</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>	<u>Jan</u>
Import/export trades	48.2	47.8	49.1	50.0	46.4	46.4	46.8	46.4	46.8	46.8	49.1	50.0	49.1

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

	<u>2012</u>												<u>2013</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>	<u>Jan</u>
All selected sectors*	1.3	0.9	0.7	0.7	0.7	1.1	1.1	0.7	0.7	0.7	0.9	1.3	1.3

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

The labour sector

1.7 The labour market remained tight in 2012, despite the tepid economic growth. Thanks to a resilient domestic sector, labour demand remained strong enough to support a virtually full-employment situation. Job vacancies continued to surge across many sectors, giving a boost to total employment, which reached another record high in the fourth quarter. For 2012 as a whole, total employment increased by 2.5%, slightly slower than the 2.9% increase in 2011. During the year, the *seasonally adjusted unemployment rate* reached a low of 3.2% in the second quarter, and only edged up to 3.3% in the final quarter, still comparable to the low level prevailing before the global financial crisis. The *underemployment rate* likewise stayed low at 1.5% in the fourth quarter. Amid the relatively tight labour market conditions, wages and earnings saw further broad-based improvement, although the increase also narrowed in the second half of the year as the boost from SMW implementation waned.

The asset markets

1.8 The *local stock market* went through episodes of ups and downs in 2012. The stock market rebounded on entering 2012 on better-than-expected performance of the US economy, but nosedived since May on an abrupt worsening of the euro debt crisis. The Hang Seng Index (HSI) hit a low of 18 185 on 4 June 2012, the lowest since late-2011. The stock market largely went on a rally since July upon some stabilisation of the euro debt situation following the European Central Bank (ECB) President's pledge to safeguard the euro and the European authorities' efforts to stem the crisis, as well as the advanced economies' fresh round of quantitative easing in September. The HSI closed the year at 22 657, up 23% from end-2011. Against an uncertain global economic outlook and dented market sentiments, the average daily turnover shrank to \$53.9 billion in 2012. Fund-raising activities also turned quieter, with total IPO funds raised shrinking by 65% to \$89.8 billion. Hong Kong ranked as the world's third largest IPO centre in 2012, after taking the lead for three consecutive years.

1.9 *Residential property market* by contrast went on an almost uninterrupted uptrend during 2012, amid the low interest rate environment and fuelled further by the US' quantitative easing in September (commonly known as QE3) and December (QE3.5). Following the 11% increase during 2011, residential property prices surged further by a cumulative 23% during the first ten months of 2012, with those in the mass market rising even more by 25%, prompting the Government to roll out rounds of measures in August to October

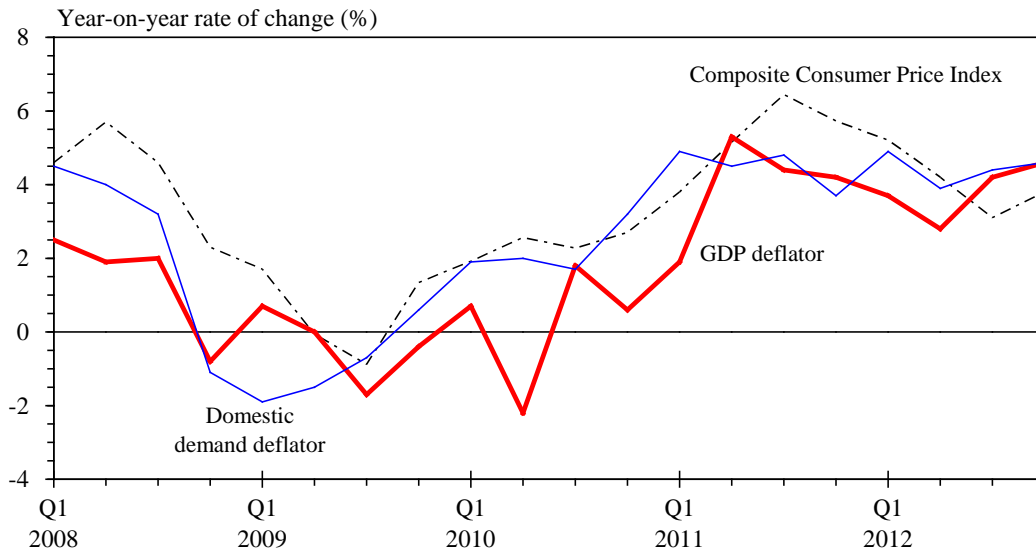
to stabilise the housing market. The housing market stabilised somewhat after the demand-management measures including the Buyer's Stamp Duty and enhanced Special Stamp Duty, but still rose by 25% for 2012 as a whole, surpassing the 1997 peak by some 31%. Transaction volume came down visibly towards the year-end after the latest measures, falling modestly by 4% for 2012 as a whole. Meanwhile, the affordability ratio had risen to around 52% in the fourth quarter, surpassing the long-term average of 49% over 1992-2011. Amid a buoyant housing market, flat rentals saw a renewed pick-up after some stabilisation at end-2011 and early-2012, cumulating to a 11% increase for 2012 as a whole. Rentals for shops and offices likewise rose visibly, by 12% and 7% respectively during 2012.

Inflation

1.10 Consumer price inflation was generally on an easing trend in 2012, thanks to receding external and domestic price pressures. Externally, imported inflation generally tapered over the course of 2012, thanks to the peaking out of global food and commodity prices in early 2011 and slower inflation in Hong Kong's major trading partners. Locally, the progressive feed-through of the earlier stabilisation in fresh letting rentals in late 2011 and early 2012, the fading boost from SMW, as well as slower economic growth all helped lessen domestic cost pressures. Thus with the two largest components in the household consumption basket (i.e. food prices and private housing rentals) both receding, *headline consumer price inflation* came down to 4.1% in 2012, from 5.3% in 2011. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* retreated to 4.7% in 2012, from 5.3% in 2011.

1.11 The *GDP deflator* rose by 3.9% in 2012, similar to the increase in 2011, in line with the moderate increase in domestic prices and a slight deterioration in the terms of trade.

Diagram 1.4 : Consumer price inflation was generally on an easing trend in 2012



GDP by major economic sector

1.12 In tandem with the slower economic expansion, the services sector showed a moderated growth in the first three quarters of 2012. Net output in real terms expanded by 1.8%, 1.5% and 2.2% respectively in the first three quarters of 2012 over a year earlier. Among the major sectors, import/export, wholesale and retail trades, and transportation and storage saw a visible deceleration compared with 2011, reflecting the weak external trade performance. Financing and insurance, professional and business services also saw slower growth, along with quieter financial market and other commercial activities in face of the dimmed global economic prospects. On the other hand, information and communications maintained steady growth. In particular, the real estate sector, which mainly reflects the activity of private sector developers and property agencies, accelerated appreciably, thanks to a strong pick-up in private sector building activity and a buoyant property market. Meanwhile, output in the manufacturing sector relapsed to a modest decline, while the construction sector grew notably further, on the back of intensive public and private sector construction works.

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

	<u>2011</u>	<u>2011</u>				<u>2012</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	0.7	3.5	2.0	0.2	-2.2	-1.6	-2.9	-0.1
Construction	18.1	33.8	8.9	13.6	17.5	13.2	10.0	5.2
Services ^(b)	5.2	7.8	5.6	4.3	3.4	1.8	1.5	2.2
Import/export, wholesale and retail trades	9.1	15.7	8.0	6.5	7.6	0.2	1.1	2.6
Import and export trade	6.3	14.1	4.5	3.5	4.7	-1.7	*	2.6
Wholesale and retail trades	22.2	22.6	24.4	22.1	20.4	8.8	5.7	3.0
Accommodation ^(c) and food services	8.3	5.1	7.2	10.4	10.7	-0.5	1.8	3.2
Transportation, storage, postal and courier services	7.2	10.7	5.3	7.3	5.8	4.3	-1.9	1.7
Transportation and storage	7.3	10.5	5.1	7.4	6.3	4.3	-2.2	1.4
Postal and courier services	5.6	11.5	10.5	1.8	0.6	4.6	3.3	9.2
Information and communications	2.8	4.0	2.4	1.9	3.0	0.8	2.1	3.9
Financing and insurance	6.9	11.3	11.1	6.7	-0.3	2.5	0.4	0.3
Real estate, professional and business services	2.6	3.6	1.8	2.3	2.6	3.3	4.8	3.5
Real estate	1.8	3.4	0.2	1.2	2.4	4.4	7.7	6.0
Professional and business services	3.3	3.9	3.3	3.3	2.6	2.3	2.2	1.3
Public administration, social and personal services	1.5	0.7	2.7	1.1	1.2	2.7	3.0	3.3

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

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

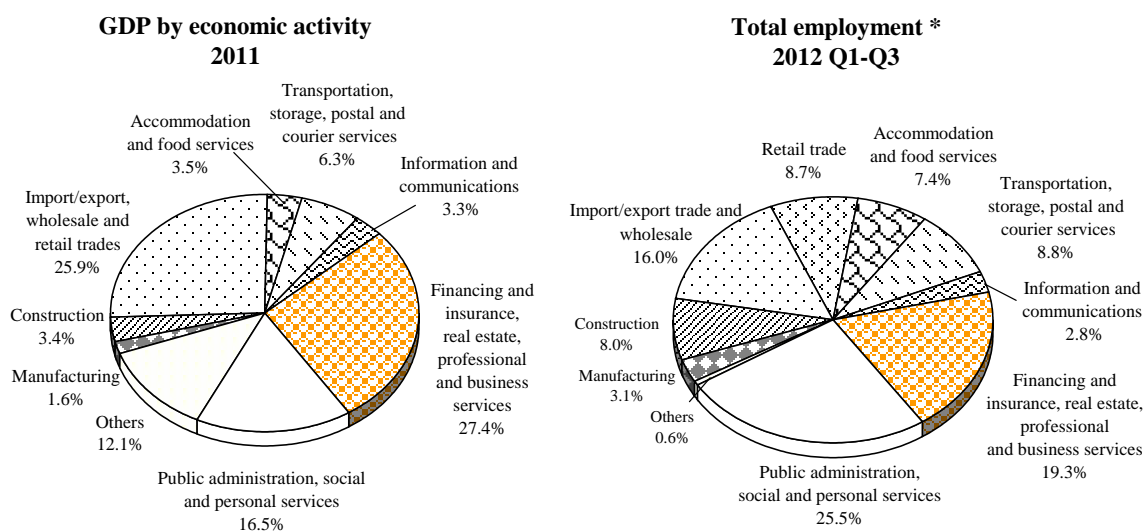
(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.

(c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

1.13 The services sector is the key driver of Hong Kong's economic growth, and features prominently in Hong Kong's economic structure, accounting for 93.1% of GDP in 2011 and 88.4% of total employment in the first three quarters of 2012. With the nation's strategy of economic restructuring and developing the services sector (specifically, to raise the services sector's share in GDP by 4 percentage points by the year 2015), Hong Kong's services sector, which is where our competitive advantage lies, has plenty of room for growth and an important role to play in contributing to the nation's economic development. In particular, Hong Kong will continue to increase its competitiveness as a global financial centre and a regional business hub, by consolidating the strength of the traditional pillar industries, developing new industries with growth potential, and upgrading 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 30.5% in 2007 to 34.1% in 2012.

Diagram 1.5 : The services sector is 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 2012 are averages for the first three quarters of the year.

Other economic developments

1.14 The year 2012 was a challenging year, with the weak fundamentals of the advanced economies weighing heavily on our exports and overall economic growth on the one hand, and asset price bubble risks being fueled by a protracted loose global monetary environment on the other. In anticipation of the growth moderation, at the start of the year the Government unveiled in the 2012-13 Budget a package of measures amounting to some \$80 billion, estimated to lift the 2012 GDP by about 1.5 percentage points, to counter the external headwinds and provide relief to enterprises and the people. The employment situation managed to stay largely stable, thereby lending support to domestic demand to cushion against the sluggish trade performance.

1.15 Amid a sustained low interest rate environment, the year 2012 also saw the local property market go on an upsurge, with increasing signs of exuberance. To ensure a stable and healthy development of the housing market, the Government in August 2012 unveiled ten measures to expedite the sale of subsidised and private residential units to meet public demand, and a two-tier structure was formed to review Hong Kong's long term housing strategy. In September, the Hong Kong Monetary Authority issued guidelines to banks, tightening further underwriting criteria for mortgage loans to strengthen banks' risk management in its fifth round of macroprudential measures since 2009. In October, the Government rolled out demand side management measures, including the Buyer's Stamp Duty and enhanced Special Stamp Duty, to alleviate the supply-demand imbalance. Following the rounds of measures, the housing market saw some initial signs of stabilisation towards the end of 2012, with decelerated increases in flat prices and a sharp fall in transaction volume.

1.16 Besides the short-term counter-cyclical measures, the Government works proactively to spur social and economic development. On the social front, the Chief Executive announced a package of initiatives in July 2012 to improve people's livelihood. Specific measures include extending the arrangement for the sale of second-hand Home Ownership Scheme flats without premium payment from Green-form applicants to White-form applicants (subject to a quota of 5 000 per year), formulating a long-term housing strategy to increase public housing supply, subsidising non-governmental organisations to build youth hostels, introducing an Old Age Living Allowance Scheme with an expanded monthly allowance of \$2,200, doubling the amount of the Elderly Health Care Voucher to \$1,000 per year, and setting up the Social Enterprise Development Fund.

1.17 On economic development, the Government strives to play a proactive role to provide the favourable conditions for the economy to prosper. These include maintaining our sound institutions, safeguarding financial and macroeconomic stability, nurturing talents, building on infrastructure, and developing the industries. On the latter, Hong Kong continues to consolidate its strength in the four pillar industries and develop new industries with growth potential. For example, offshore renminbi business achieved further development, and a bill conducive to the development of Islamic finance was gazetted at end-2012.

1.18 Hong Kong's institutional strength is well recognised internationally, ranking as the world's freest economy by the Heritage Foundation for the 19th year in a row and as the world's most competitive economy by the Institute for Management Development (IMD) in Switzerland for the second year in a row. With a view to providing a legal framework to maintain fair and free market competition and to curb anti-competitive conduct, the Competition Bill was passed in June 2012 by the Legislative Council, marking a milestone in the development of competition policy in Hong Kong.

1.19 Given our competitive edge in market institutions and the services sector, an important part of our growth strategy is to deepen our economic integration with the Mainland, both at the regional and national levels, via the platforms of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and the early and pilot implementation of service areas under the Pearl River Delta Planning document. At the regional level, a co-operation agreement was signed in September 2012 between Hong Kong and Guangdong with a view to achieving the liberalisation of trade in services by 2014. At the national level, Supplement IX to CEPA was signed on 29 June 2012, broadening the number of beneficial service sectors to 48. In addition, Hong Kong will complement the National 12th Five-Year Plan in providing high quality services to the Mainland, and through the process, further strengthen its role as an international financial, trade and shipping centre.

1.20 Internationally, Hong Kong continues to foster trade ties with new and emerging markets. The free-trade agreement (FTA) between Hong Kong and European Free Trade Association (Iceland, Liechtenstein, Switzerland and Norway) came into force in October 2012, the first of its type with European economies. Hong Kong signed its first FTA with a Latin American country Chile in September, and exchanged views with Russia on strengthening bilateral trade and cooperation in service trade.

1.21 The Chief Executive delivered the 2013 Policy Address titled “Seek Change, Maintain Stability, Serve the People with Pragmatism” on 16 January 2013, which laid out his vision and measures to tackle the key issues of housing and land supply, poverty, ageing population and the environment on the basis of achieving sustained economic growth and promoting economic development:

- Because sustained economic growth is the prerequisite for tackling other social and livelihood issues, the Government’s primary goal is to promote economic development. To this end, the Government will adopt an “appropriately proactive” approach in its drive to formulate a holistic industrial policy to deepen and expand our industries. Specifically, the Economic Development Commission has been established to spearhead efforts to broaden Hong Kong’s economic base and identify industries which present opportunities for economic growth, with working groups on transportation, convention and exhibition industries and tourism, manufacturing industries, innovation technology, cultural and creative industries, and professional services. A Financial Services Development Council has also been formed to develop the financial services industry and explore ways to complement the internationalisation of the country’s financial market development.
- An important part of our economic development strategy is to leverage on the trends of the East-ward shift in global economic gravity and the Mainland’s further development under the National 12th Five-Year Plan. The Government will strengthen Hong Kong’s external trade and economic co-operation through enhanced Government-to-Government (G2G) collaboration. These include efforts to extend the “early and pilot implementation” approach beyond Guangdong to other provinces and municipalities in the Pan-Pearl River Delta region and maximise benefits from CEPA by setting up an additional joint working group to provide targeted assistance to sectors that have encountered relatively more entry barriers, with emphasis on assisting SMEs. Hong Kong will also continue to press its case for joining the China-ASEAN Free Trade Area and explore other new markets.
- The resources created by economic development will enable the Government to address the most pressing needs of the community, including housing, poverty and people’s livelihood. The Government laid out a strategy along the directions of increasing land and housing supply over the short, medium and long term to assist grassroots families to move into public housing and middle-income families to buy their own homes;

charging the Commission on Poverty with poverty alleviation; setting a poverty line; supporting the underprivileged and promoting education and training to encourage self-reliance; caring for the elderly; and protecting the environment. These measures serve to provide a better living environment for the people, enable them to share the fruits of economic progress, and to give them opportunities to realise their potential.

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.

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2013 AND THE MEDIUM TERM

Summary

- *The global economy has stabilised and financial conditions have improved since the latter part of 2012, but the global economic outlook remains challenging. The major advanced economies as a whole, being constrained by structural problems, are likely to stay on a slow-growing path in 2013. While market concerns about the euro debt crisis have abated somewhat, the eurozone has yet to emerge from recession and further strong policy actions will be required to lower the crisis risks. The fragile fiscal position of the US will continue to weigh on its pace of recovery, and political disputes over the fiscal issues may also affect market sentiments. Nevertheless, Asian and emerging economies, especially the Mainland, with their sounder fundamentals and increased efforts to shore up domestic demand, are expected to see faster growth in 2013, though their external sectors would remain susceptible to the vicissitudes of the advanced economies.*
- *With the Mainland economy regaining faster momentum and the imminent risks of a full-blown crisis in the advanced economies somewhat receded, Hong Kong's merchandise trade is poised to see a relative improvement in 2013, though the chance of a sharp rebound still seems rather remote as global economic growth should still be sub-par. Exports of services should likewise see better growth in 2013, thanks to vibrant inbound tourism and the likely recovery in financial and commercial as well as transportation and trade-related service activities.*
- *Locally, private consumption should continue to be underpinned by solid job and income growth, aided further by the positive wealth effect from the bounce-back in the stock market, granting no abrupt relapse in the external environment. As for investment, while machinery and equipment acquisition tends to be volatile, building and construction should continue to benefit from the hectic public infrastructure works and an expected further notable growth in private building activity.*
- *Taking together the relatively sanguine domestic demand and the envisaged improvement on the trade front, and barring any abrupt external shocks, the Hong Kong economy is forecast to grow by 1.5-3.5% in 2013. This, if realised, would represent a pick-up from the 1.4% growth in 2012, though still below the average trend growth of 4.5% over the past ten years.*

- *Inflationary pressures should remain contained in the early part of 2013 amid the still slow economic growth and moderate increases in import prices. However, inflation is subject to upside risks, especially those arising from the possible volatility in global food and commodity prices fuelled by the liquidity glut and the feed-through of higher rentals during 2012. Underlying consumer price inflation is forecast at 4.2% in 2013, as compared to 4.7% in 2012.*
- *The medium term prospects for the Hong Kong economy remain positive. Riding on the economic strength of the region, Hong Kong will continue to deepen its economic integration with the Mainland while striving to maintain and enhance its competitive edge as a knowledge-based, high value-added economy. In addition to consolidating our strength in the traditional pillar industries, new growth areas will be identified and new markets explored, so as to diversify and broaden our economic base. The continued investment in human capital and infrastructure should bolster productivity and ensure sustainable development in the longer run. The trend GDP growth rate in real terms is forecast at 4% per annum from 2014 to 2017, and the trend rate of underlying consumer price inflation at 3.5% per annum.*

Major external factors

2.1 The performance of the Hong Kong economy, being small and open, has been, and will continue to be susceptible to the changing external economic conditions. The downside risks to the global economy, while diminishing, remain significant in 2013. Of particular note is the euro debt crisis. Although the financial strains arising from the crisis have mitigated somewhat since the latter part of last year, further decisive policy actions over the course of 2013 will be required to lower the crisis risks further.

2.2 Equally important to our economic performance in 2013 is the economic health of Hong Kong's trading partners. The eurozone and Japan have yet to emerge from recession, while the debt and fiscal issues would still weigh on the recovery in the US. As such, the fragility of the major advanced economies will continue to put a drag on the global economy. In contrast, the Mainland economy, Hong Kong's largest trading partner, has regained momentum in the latter part of 2012, and will remain the key propeller of global economic growth this year. With sounder fundamentals and increased efforts to support domestic demand, other emerging economies should also see some improvement in 2013.

2.3 The developments on the global monetary front will also have a strong bearing on the Hong Kong economy. Global financial conditions have improved, as evidenced by the lowering of borrowing costs facing the eurozone peripheral economies and the rallies across major stock markets, following the announcement of the Outright Monetary Transactions (OMTs) programme by the European Central Bank (ECB) and the launch of a new round of quantitative easing (QE3) by the US Federal Reserve in September 2012. However, the aggressive quantitative easing measures conducted by the advanced economies would intensify the global liquidity glut and add to financial, currency and commodity market gyrations, which may undermine the macroeconomic stability worldwide. Specifically of direct relevance to Hong Kong and Asian economies will be the increased likelihood of substantial capital inflows, as well as higher inflation and asset market bubble risks.

2.4 Apart from the economic factors, the heightening of geopolitical tensions in many parts of the world as well as the rise of protectionist sentiments may also affect Hong Kong's external environment. The following provides a more detailed analysis of the major external factors.

Eurozone sovereign debt crisis

2.5 The eurozone sovereign debt crisis has entered its fourth year. It started with the fiscal problems of certain peripheral economies, and spilt over to the larger eurozone members to the extent of stressing the banking systems and undermining confidence in the region's fiscal sustainability and even the viability of the euro. The crisis represented the largest downside risk to the global economy and financial market stability in the past year and will remain so in 2013. In mid-2012, political uncertainties in Greece and the heightened risks of contagion to Italy and Spain, the third and fourth largest eurozone economies, had triggered bouts of financial market gyrations worldwide and severely hampered the already-fragile economic confidence in Europe. This, coupled with the vigorous ongoing austerity measures, sent the unemployment rate to successive record highs and tipped the region into recession. Although the ECB promptly announced the Outright Monetary Transactions (OMTs) programme in September 2012, which helped mitigate the financial strains, the fluidity of the crisis continued to overshadow the region's economic prospects.

2.6 Trapped in this difficult condition of unsustainably large sovereign debt, fragile banking sector and moribund economic activities, Europe's policy leaders worked out a series of policy actions with a view to regaining market confidence in the single currency bloc (for details, see **Box 2.1**). Apart from

the second bailout programme and other financial aids for Greece, visible progress was made in narrowing the budget deficits of other debt-ridden peripheral economies and a loan of up to €100 billion was approved to help re-capitalise Spain's banking sector. More importantly, the European Stability Mechanism with an expanded capacity of €700 billion was formally launched, which could re-capitalise eurozone banks directly without putting additional debt burden on the sovereigns once a single eurozone banking supervisory authority is in place, thus helping to break the negative feedback loop between the sovereigns and the banks. In the June 2012 summit the European Council also agreed to mobilise €120 billion to boost the region's growth.

2.7 Although the eurozone sovereign debt crisis had mitigated somewhat in the more recent period, the road to a genuine Economic and Monetary Union (EMU) and a full-fledged economic recovery is bound to be long and bumpy. Despite the recent stabilisation, the crisis remains far from resolved. Strong policy actions will be required from the European authorities. Apart from the imminent task of setting up the single banking supervisor in the eurozone, further efforts need to be geared towards further fiscal and economic integration and restoring growth and competitiveness. Also, a number of issues that could potentially destabilise the situation, particularly in the absence of economic growth, also warrant due attention in 2013. These include the possible social resistance stemming from the deep recessions in Greece and Spain, the progress of fiscal consolidation in highly-indebted members, and the elections in Italy in February and in Germany in September.

2.8 Being the world's largest economic bloc and a major trading partner of Hong Kong, Europe's torpid economic performance had already dealt a visible blow to Hong Kong's external sector last year, both directly and indirectly through its negative impacts on other Asian economies. As the sovereign debt crisis was embedded in deeply-rooted structural problems, it will take time to resolve, likely with some jitteriness along the way. As such, the eurozone economy should stay sluggish in 2013, with the debt crisis continuing to be a key source of risks to global financial stability, thereby adversely affecting Hong Kong through the trade and financial channels. As far as the financial channel is concerned, the direct exposure of Hong Kong's banks to PIIGS debts (including Portugal, Ireland, Italy, Greece, and Spain) is very limited and so gyrations in European sovereign debt markets have not undermined Hong Kong's financial stability in any significant way. Nonetheless, should the crisis escalate further, the possible spillovers to Hong Kong banks warrant due vigilance in face of the highly integrated global banking systems.

Box 2.1

Summary of recent major events pertinent to the euro debt crisis (an update)*

2012

7 Aug	S&P downgraded Greece's outlook from stable to negative, with credit rating unchanged at CCC
31 Aug	Spanish government announced to create an asset management company to help clean up its troubled banking sector, grant its central bank more power to intervene in troubled banks, and toughen rules on complex financial products
3 Sep	Moody's kept the European Union's (EU) provisional AAA rating, but lowered its outlook from stable to negative. In Spain, the Fund for Orderly Bank Restructuring injected €4.5 billion into ailing lender Bankia
6 Sep	The European Central Bank (ECB) decided to launch the Outright Monetary Transactions (OMTs) programme and to implement measures to preserve collateral availability
11 Sep	The troika agreed to relax Portugal's budget deficit targets for 2012, 2013 and 2014 from 4.5%, 3% and 2.3% to 5%, 4.5% and 2.5% respectively
12 Sep	The European Commission (EC) proposed a single euro area banking supervisor for which the ECB will be granted power to monitor eurozone banks. The German Constitutional Court found that injunctions against the European Stability Mechanism (ESM) and fiscal compact were unfounded, but further liability increases will require parliament's approval
25 Sep	The finance ministers of Germany, the Netherlands and Finland said direct bank recapitalisation by the ESM should not apply to legacy assets, such that Ireland and Spain may not be able to shift their current bank bailout costs to the ESM
27 Sep	Spain unveiled a package of regulatory overhauls, tax increases and spending cuts amounting to €13 billion in its 2013 budget, targeted to lower its budget deficit to 6.3% of GDP in 2012, 4.5% in 2013 and 2.8% in 2014. France unveiled an austerity budget saving of €30 billion for 2013, aimed at narrowing the deficit to 3% of GDP from 4.5% in 2012
28 Sep	Spain's banking sector audit showed a less-than-estimated capital shortfall of €3.75 billion, which will be the basis for the €100 billion bailout from the EU. The bank aid will inflate the 2012 budget deficit from 6.3% of GDP to 7.4%
1 Oct	Greece's budget for 2013 projected the general government deficit to decline to 4.2% from 6.6% of GDP in 2012, while GDP will shrink for a sixth year
8 Oct	The ESM was launched with a fresh lending capacity of €500 billion, and Moody's assigned it an Aaa credit rating with a negative outlook
9 Oct	11 eurozone countries agreed to levy taxes on bonds, shares and derivatives trading
10 Oct	S&P cut Spain's credit rating from BBB+ to BBB-, outlook negative. Italy announced a tax cut for low-income earners and a smaller increase in value-added tax
15 Oct	Portugal unveiled a budget proposal for 2013 that includes a spending cut of €1 billion and tax hikes of €4.3 billion
18 Oct	The European Council agreed to adopt a legal framework for a single banking supervisor by 1 January 2013, but it will not be operational until later in 2013
31 Oct	Portugal's government won parliamentary approval for the 2013 budget
1 Nov	Spain extended a short-selling ban on stocks for another three months
6 Nov	The French government announced a tax rebate to improve competitiveness
7 Nov	The Greek parliament approved a €13.5 billion austerity package
11 Nov	The Greek parliament further approved the 2013 budget

Box 2.1 (Cont'd)

12 Nov	Fitch affirmed Portugal's credit rating at BB+, outlook negative
14 Nov	Fitch affirmed Ireland's credit rating at BBB+, and raised its outlook to stable
19 Nov	Moody's downgraded France's credit rating from Aaa to Aa1 and the outlook remained negative, given the weakness of its economy
23 Nov	EU leaders ended a two-day summit without a deal on the Multiannual Financial Framework (MFF) for the period 2014-2020
25 Nov	Four separatist parties in Spain's Catalonia won a majority in regional elections
26 Nov	The Eurogroup agreed to launch procedures for the next aid tranche to Greece, and will take initiatives, including reduction of interest rates, extension of maturities and return of Securities Market Programme profits to Greece, to bring Greece's debt ratio back to a sustainable level
28 Nov	The EC approved restructuring plans of four Spanish banks, clearing the way for them to receive aid from the ESM
30 Nov	Moody's downgraded both the EFSF and ESM's credit rating by one notch to Aa1 and maintained a negative outlook
3 Dec	Spain requested the disbursement of €9.5 billion of European funds to recapitalise its banking sector. Greece launched a €10 billion offer to retire roughly half of the debt the country owes to private creditors, paving the way for the release of the next aid tranche from its European partners
5 Dec	S&P downgraded Greece's credit rating from CCC to selective default
11 Dec	Investors offered to sell back to Greece €1.9 billion of their holdings of sovereign bonds, better than its target to unlock its next tranche of aid
13 Dec	EU finance ministers agreed on a single supervisory mechanism for banks. The ECB is expected to assume the supervisory role on 1 March 2014 at the earliest. The Eurogroup formally approved the disbursement of €9.1 billion in several tranches under the second adjustment programme for Greece
18 Dec	S&P raised Greece's rating from selective default to B- with a stable outlook
19 Dec	The ECB will again accept Greek government bonds as collateral for loans to banks. Spain's Catalonia region agreed to form a new government and hold a referendum on independence in 2014
21 Dec	Italian Prime Minister Monti resigned after the parliament passed 2013 budget
28 Dec	France's Constitutional Council rejected a top 75% income tax rate to be introduced in 2013, but the government could redraft the proposal to address their concerns

2013

1 Jan	Fiscal compact entered into force after ratification by 12 eurozone members
2 Jan	Portugal's government sent the 2013 budget to Constitutional Court for review
6 Jan	The Basel Committee agreed to relax the full implementation of its liquidity rule until 2019
11 Jan	S&P affirmed Ireland's BBB+ credit rating and negative outlook. French unions and employers' organisations reached an agreement to enhance labour market flexibility, pending parliamentary approval
16 Jan	European parliament passed a law that tightens restrictions on credit rating agencies and increases their potential liabilities
18 Jan	An IMF report estimated Greece might face a funding gap of €5.5 to €9.5 billion during 2015 to 2016 and require further assistance from its European partners
22 Jan	The Ecofin adopted a decision authorising 11 member states to proceed with the introduction of financial transaction tax through enhanced cooperation

Box 2.1 (Cont'd)

23 Jan	Portugal successfully sold €2.5 billion five-year bond as a first step to regain access to long-term debt markets
25 Jan	ECB announced that 278 banks will repay €137.2 billion on 30 January, the first opportunity for early repayment of first three-year LTRO, indicating somewhat stabilising conditions in the European financial system
1 Feb	The Netherlands nationalised the fourth largest bank, SNS Reaal at a cost of €3.7 billion
5 Feb	Fitch affirmed its AAA rating of the Netherlands, but changed the outlook from stable to negative
8 Feb	The EU leaders agreed on the next Multiannual Financial Framework (MFF) for 2014 to 2020
11 Feb	The Eurogroup discussed direct recapitalisation of banks by ESM, delayed a decision on a bailout programme for Cyprus and noted the Greek programme was on track

Note : (*) Please see **Box 2.1** of the *Half-yearly Economic Report 2012* for earlier developments.

At the European Council Summit in June 2012, an integrated framework was set out for four broad building blocks for future eurozone integration: (1) the financial sector, (2) fiscal matters, (3) economic policy, and (4) democratic legitimacy. In the December Summit, progress was made on the timeline for a single banking supervisor, but other aspects such as a single resolution authority, a deposit guarantee scheme and a single rulebook will need to be worked out. Working towards a banking union is only a first step towards the smooth running of the EMU, and the process towards fuller integration is bound to be lengthy. Separately, while the Eurogroup has agreed on initiatives to help Greece bring its debt back to a more sustainable level, further assistance cannot be ruled out to ensure its debt-to-GDP ratio to reach 175% in 2016 and 124% in 2020. At this moment, the euro debt situation is still fluid as EU leaders plough through their differences in rectifying the structural issues, thereby continuing to pose uncertainty to the global economic outlook.

Global economic outlook

2.9 The US, accounting for over one-fifth of the world's output, is still a key player in the global economy. Economic growth was subdued in 2012, as the deleveraging process weighed on household demand and as the government debt and fiscal issues hurt investor confidence. These unfavourable factors may continue to trouble the US economy in 2013. Although the US had partially averted the "fiscal cliff", the higher tax rates reinstated may drag on private consumption demand, which was a major source of growth last year. Furthermore, at the time of writing this report in mid-February, the issue of raising the federal debt ceiling was only temporarily postponed to mid-May while the political gridlock on implementing the automatic spending cuts has yet to be resolved. Satisfactory resolution of these issues would avoid the risks of excessive near-term fiscal consolidation and lay out a credible medium-to-longer-term plan to bring down the debt-to-GDP ratio to a sustainable level, thereby helping boost confidence and remove the uncertainty over the fiscal and economic outlook. Failing that, the downside risks to economic growth would increase significantly. Nevertheless, the gradual recovering of the labour market and housing market since the latter part of last year, if continued, would also help repair the household balance sheets and hence support private demand growth. The latest round of monetary easing by the Federal Reserve, keeping interest rates at super-low levels, should also be conducive to economic growth, though the effects might be rather marginal.

2.10 Economic prospects of Europe are dim. Against the background of the unresolved debt crisis, on-going austerity programmes, damaged banking sector and record high unemployment, the eurozone economy is likely to see stagnation, if not recession, in 2013. In the absence of growth, fiscal and economic reforms, which are needed to boost competitiveness in the peripheral economies and enhance the integration of the eurozone, would meet with greater social resistance and political uncertainty, and therefore would become even more difficult to be carried through. Thus 2013 is another challenging year for the European leaders, who must strike a balance between consolidating fiscal positions to regain market confidence and resuscitating growth to bring down unemployment.

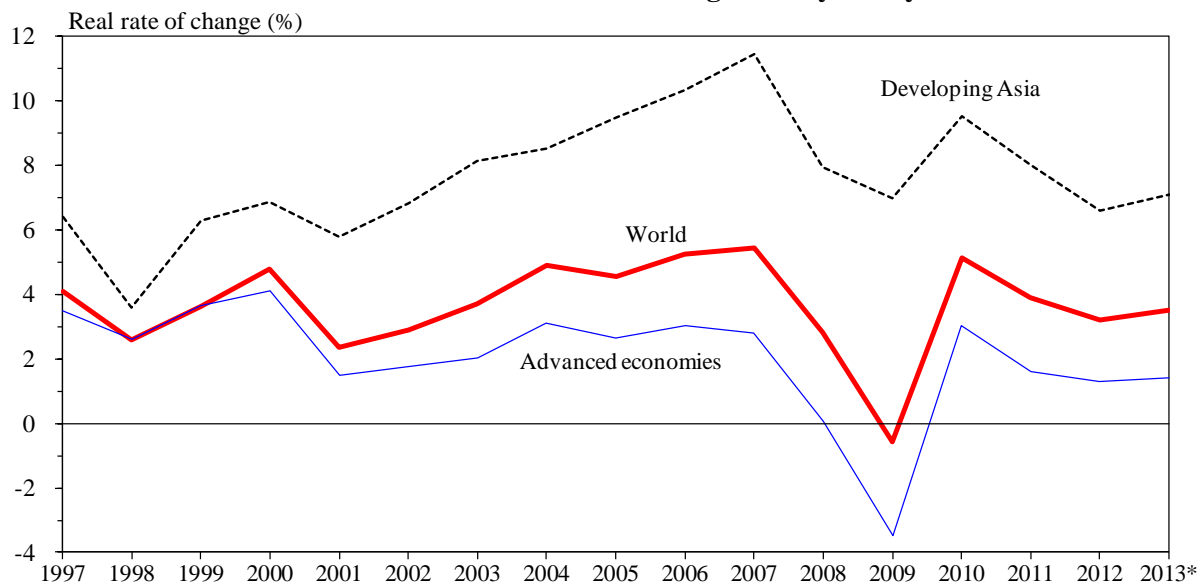
2.11 The Japanese economy slipped into recession in the latter half of 2012 and would face a challenging year in 2013 as the boost from reconstruction works continue to fade. While fiscal austerity would envelop most advanced economies this year, Japan is a clear exception despite its very high debt ratio. The new government unveiled a substantial fiscal package to

stimulate growth and the Bank of Japan was pressured to expand further its asset purchase programme. Whether these stimulus measures, together with the substantial depreciation of the yen over the recent past, would help revive the economy or damage market confidence in its fiscal sustainability remains to be seen. But in any case economic growth in Japan should still be constrained by its long-standing structural problems, including an ageing population and the declining competitiveness of its enterprises.

2.12 In 2013, the advanced economies as a whole would likely continue their slow-growing trend. In January, the International Monetary Fund (IMF) projected that the advanced economies would grow by 1.4% in 2013, similar to the sub-par 1.3% pace of expansion in 2012.

2.13 In contrast, with sounder economic fundamentals, the emerging economies, particularly the developing Asian economies, should see some improvement in 2013. The sluggishness in the advanced economies had hampered global trade flows and hence dented the growth of the export-dependent emerging economies in 2012. In response, many Asian and other emerging economies loosened their policy stance to counter the external headwinds. The gradual feed-through of the supportive measures, alongside the stabilisation of the euro debt crisis that created a more stable trading environment, had already translated into some relative improvement in some emerging economies towards the end of last year. If there is no abrupt deterioration in the demand conditions in the advanced economies, pressures weighing on their external sector should recede further over the course of 2013. Together with their relatively resilient domestic demand and ample policy space, emerging economies should see faster growth in 2013. Specifically on Asian developing economies, in January the IMF projected their economic growth at 7.1% this year, up from 6.6% last year.

Diagram 2.1 : The Asian region is likely to see faster growth in 2013, while the advanced economies will grow only slowly



Source : IMF World Economic Outlook Update, January 2013.
 Note : (*) Forecasts from the IMF.

2.14 For the Mainland economy in particular, growth momentum looks set to pick up in 2013 as encouraging signs of re-acceleration already emerged towards the end of 2012. Consumption demand in the Mainland held up very well over the past year despite the slower economy, and should be able to maintain a faster growth in the period ahead, particularly with the Central Government’s long-term support on re-engineering the economic structure towards domestic demand. The fast-tracked infrastructure works would also render additional boost to growth. However, the domestic asset market developments and the ensuing upside risks to inflation are areas to watch over, and hence targeted cooling measures and a renewed tightening of monetary policy cannot be ruled out. All in all, save for any unforeseen negative shocks from the advanced economies, the Mainland economy should expand at a stronger pace in 2013 and remain the world’s growth engine, thereby benefiting Hong Kong and other Asian peers. In January, the IMF projected the Mainland economy to grow by 8.2% in 2013, up from 7.8% in 2012.

2.15 Taking the advanced and emerging economies together, the global economy should strengthen up somewhat in 2013, though again with most of the growth momentum coming from the emerging economies. The IMF in January projected that world GDP would grow by 3.5% in 2013, up slightly from 3.2% in 2012. Nevertheless, this would still be slower than the average annual growth rate of 3.8% over the past ten years.

Table 2.1 : Growth forecasts for major economies in 2013

	2013		
	<u>2012</u>[*] (%)	<u>IMF</u>[*] (%)	<u>Private sector</u> <u>forecast</u>[^] (%)
World (PPP ^{##} weighted)	3.2	3.5	-
Advanced economies	1.3	1.4	-
US	2.2 [#]	2.0	1.9
Eurozone	-0.5 [#]	-0.2	-0.2
Japan	1.9 [#]	1.2	1.2
Newly Industrialised Asian Economies [@]	1.8	3.2	-
Emerging market and developing economies	5.1	5.5	-
Developing Asia	6.6	7.1	-
Mainland China	7.8 [#]	8.2	8.2
India	4.5	5.9	6.3
Middle East and North Africa	5.2	3.4	-

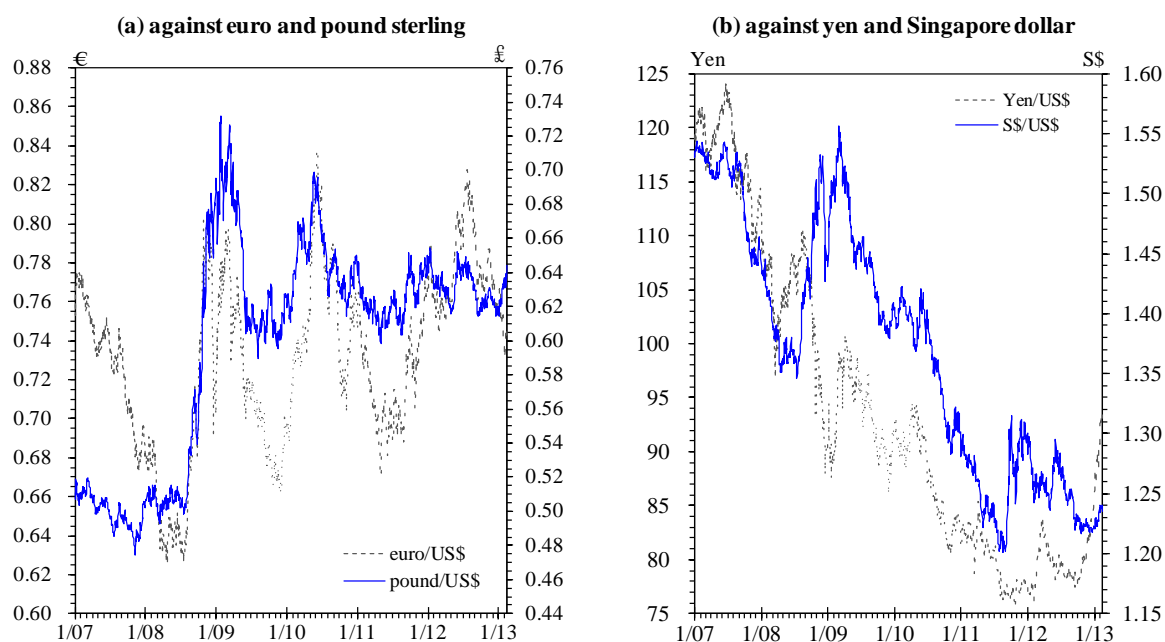
- Notes : (*) World Economic Outlook Update, IMF, January 2013.
 (^) Average forecast as in February 2013.
 (-) Not available.
 (#) Actual figures.
 (@) Includes Hong Kong, Korea, Taiwan, and Singapore.
 (##) PPP refers to purchasing power parity.

Monetary conditions, exchange rates and price competitiveness

2.16 The global monetary conditions would likely remain highly accommodative in 2013. The US Federal Reserve expanded its asset purchase to US\$85 billion a month at the start of 2013 and pledged to continue its exceptionally low federal funds rate until the unemployment rate falls below 6.5% in the context of price stability. Monetary policies in most other advanced economies are also widely expected to remain ultra-loose in 2013. This would further exacerbate the global liquidity glut, increasing the risks of financial and exchange rate market volatility. While economies with better growth prospects, including Hong Kong, may face stronger capital inflows under the circumstances, possible risk aversion stemming from such causes as the unsettling euro debt crisis and the US bipartisan political gridlock may lead to another round of capital flights to safety assets and hence reversed fund flows, threatening the macroeconomic and financial stability of these economies. Thus there is a need to stay vigilant to these developments.

2.17 On the exchange rate front, the movements of the Hong Kong dollar were range-bound during 2012, alongside the US dollar under the linked exchange rate system, against a basket of major currencies. After weakening somewhat at the start of 2012, the Hong Kong dollar strengthened noticeably in tandem with the US dollar in the second quarter amid heightened global risk aversion, and softened again in the remainder of the year as the global economic environment tended to stabilise. The nominal trade-weighted effective exchange rate index of the Hong Kong dollar only fell slightly by 0.9% in December 2012 from a year earlier. The direction of exchange rate movements in 2013, as it has always been, is subject to considerable uncertainty, and especially so in the current environment of aggressive quantitative easing measures by many advanced economies. Yet in any case, as far as Hong Kong is concerned, the exchange rate factor is likely to feature less prominently when compared with the income factor in the major trading partners in determining Hong Kong's export growth prospects under a scenario of relatively weak global trade flows.

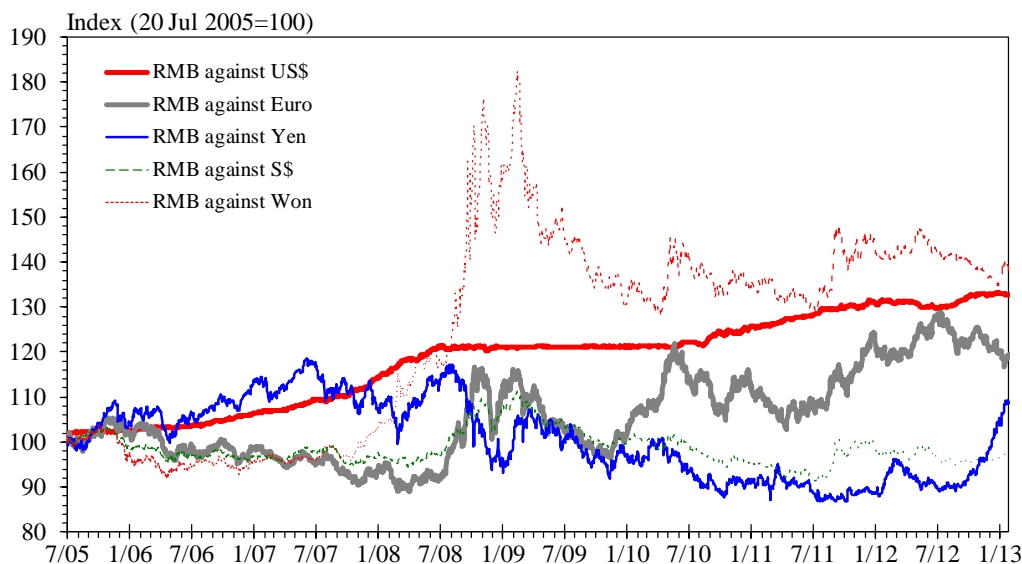
Diagram 2.2 : The foreign exchange market is likely to remain highly volatile in 2013



2.18 Given Hong Kong's close economic relations with the Mainland, the movement of the renminbi (RMB) is a key factor affecting the performance of Hong Kong's external sector, including both trade in goods and services. The renminbi depreciated against the US dollar in the first half of 2012, before resuming a strengthening trend in the latter part of the year, and appreciated only mildly against the US dollar by about 1% during 2012. 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 2.3 : 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.

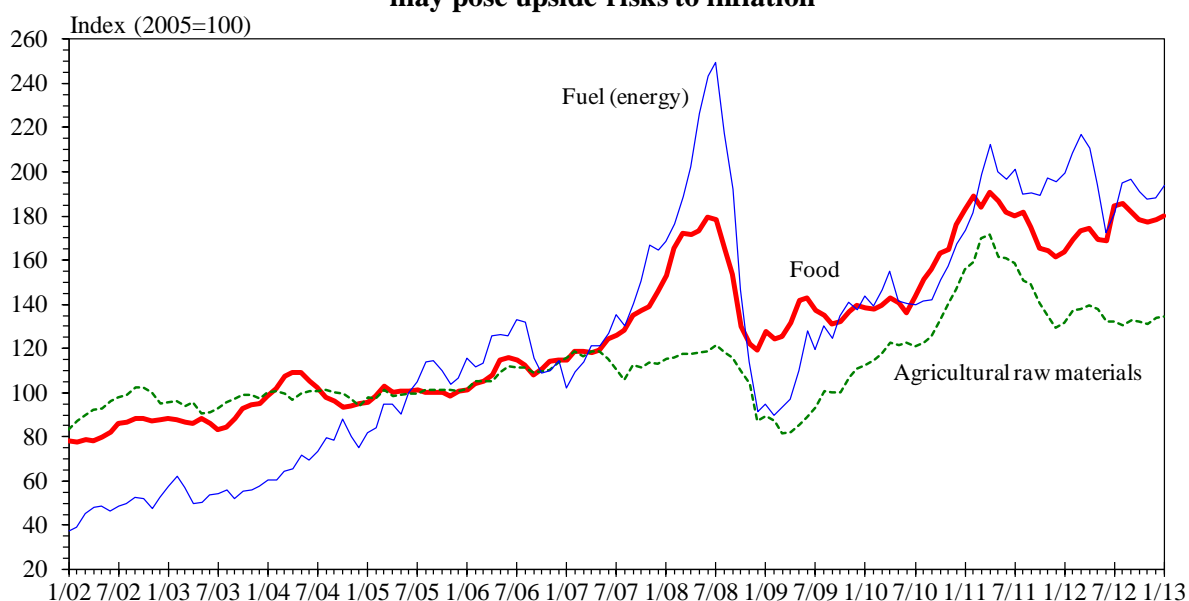
World inflation and global commodity prices

2.19 Inflationary pressures were contained in the advanced economies given their tepid growth, while trending down in many emerging markets since early 2012, alongside the favourable development in global food and commodity prices. However, the early signs of heating up in inflation in Asia towards the end of 2012 warrant due attention. The global liquidity glut may also fuel capital inflows into Asia, given its better economic prospects and solid fundamentals, and in turn add to inflationary pressures and asset market bubble risks in the region. Given the envisaged improvement in growth, Asian economies would gradually give greater emphasis on safeguarding macroeconomic and price stability.

2.20 The movements of international food and commodity prices would add uncertainty to the inflation outlook around the world, particularly in Asia given the relatively large weighting of food in the household consumption baskets. Although the prices of many manufacturing-related commodities, including agricultural raw materials, industrial materials and metals eased back during 2012, food prices only softened modestly for 2012 as a whole after surging visibly in each of the two preceding years, and energy prices held largely flat. According to the Food and Agriculture Organisation (FAO) of the

United Nations, global food prices fell by an average of 7.0% in 2012 after leaping by 18.1% and 22.8% respectively in 2010 and 2011. The potential volatility in food and other commodity prices cannot be taken lightly, particularly in face of the abundant global liquidity. Another key factor would be geopolitical tensions, which had loomed large in many parts of the world over the past year. Of particular note would be the situation in the Middle East, for the possible disruption to global oil supplies and the dampening effect of a surge in oil prices on global economic growth.

Diagram 2.4 : Volatile world commodity prices, especially food and energy, may pose upside risks to inflation



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

Major sources of uncertainty

2.21 2013 is expected to be another year full of challenges and uncertainties. *First*, the advanced economies should continue to see low growth, weighed by their debt burdens and structural problems that take time to solve. While this on its own would already pose a drag to global growth and trade flows, any renewed relapse of these economies would undermine economic sentiments to the detriment of the global trading environment. Notwithstanding the relative stabilisation of late, the eurozone sovereign debt crisis remains a notable threat to the global economy, with no clear-cut solution as yet to tackle the root problems of the crisis. Financial market stress arising from the fragility of individual member states may haunt the global financial markets from time to time, and the record high unemployment would also increase political uncertainty. *Second*, lingering uncertainty over the US fiscal situation may also swing market sentiments, and excessive fiscal consolidation in the short run would put a notable drag on economic growth. *Third*, as

unemployment in the US and Europe is expected to stay at uncomfortably high levels, this could breed protectionist sentiments and trade conflicts. *Fourth*, the possibility of a “currency war”, in the sense of economies engaging in competitive depreciation of their currencies, cannot be ruled out, particularly in view of the aggressive quantitative easing measures among the advanced economies and the recent large depreciation of the yen. *Fifth*, the heightened geopolitical tensions might deter intra-regional trade flows, which would in turn disrupt the highly interconnected regional production chains. *Sixth*, the unstable political environment in the Middle East would pose a threat to oil prices and international cargo flows. At this juncture, downside risks to the global economic outlook for 2013 are still notable. Nevertheless, efforts made by Europe’s policy leaders last year had already put some cornerstones in place for stemming the sovereign debt crisis. Should they step up their efforts further and come up with a comprehensive package to address solvency and liquidity concerns as well as to stimulate growth, a key risk to the global economy could be removed. Moreover, if the US Congress can clear the fiscal uncertainties in time and deliver a credible package to restore long-term fiscal sustainability, private demand in the US and also global economic confidence should receive a further boost. There could also be some upside potential if the domestic sector in the Mainland and other Asian economies could strengthen more rapidly than expected, thereby providing stronger growth impetus to the global economy.

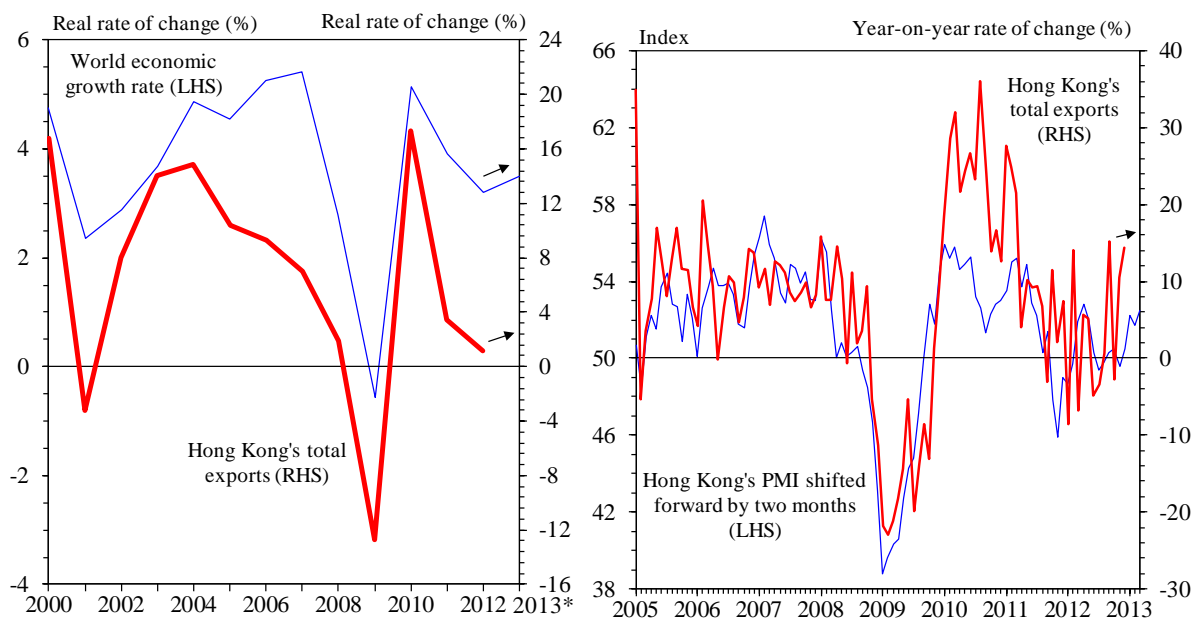
Outlook for the Hong Kong economy in 2013

2.22 With the strong headwinds on the external front in mid-2012 by and large subsided towards the latter part of the year, the downside risks should abate somewhat in 2013 when compared with the unusually austere situation in 2012. Indeed, global economic conditions were more sanguine than earlier expected on entering 2013, with improved financial conditions in Europe, sustained revival in the housing market and partial aversion of the fiscal cliff in the US, firmer momentum in the Mainland, and signs of some pick-up in production and export activities in many Asian economies. Hong Kong as a highly externally-oriented economy should benefit from these developments, and barring any abrupt deterioration in the demand conditions of the advanced economies, our *total exports of goods* are poised to see some improvement in 2013.

2.23 Nevertheless, the fundamentals of the advanced economies remain weak, with growth still heavily constrained by high unemployment, fiscal uncertainty, and structural problems. On the other hand, the Mainland

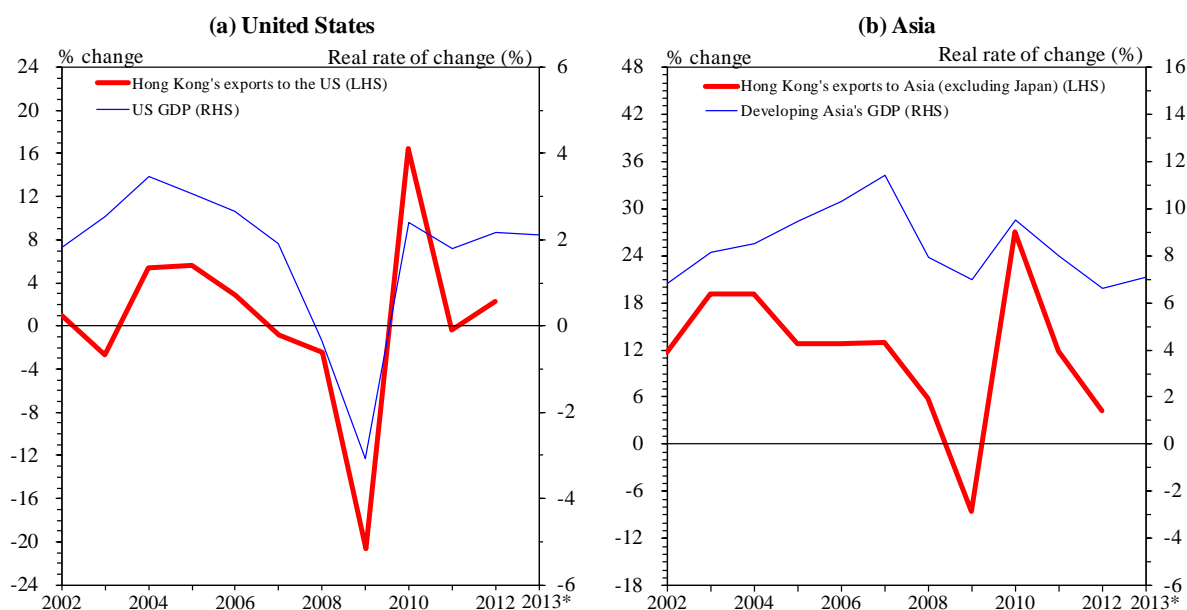
economy has resumed faster growth and would render a stabilising force to intra-regional trade flows going forward. In sum, the global economy, and hence global trade flows, will likely see another year of modest growth. In view of the still rather fluid external environment, Hong Kong's export performance is not envisaged at this juncture to see a sharp rebound in 2013, and indeed could still see rather uneven performance over the course of the year.

Diagram 2.5 : Hong Kong's exports of goods should see some improvement in 2013



Source : IMF World Economic Outlook Update January 2013.
 Note : (*) Forecast from the IMF.

Diagram 2.6 : The Mainland's faster growth momentum should benefit regional trade

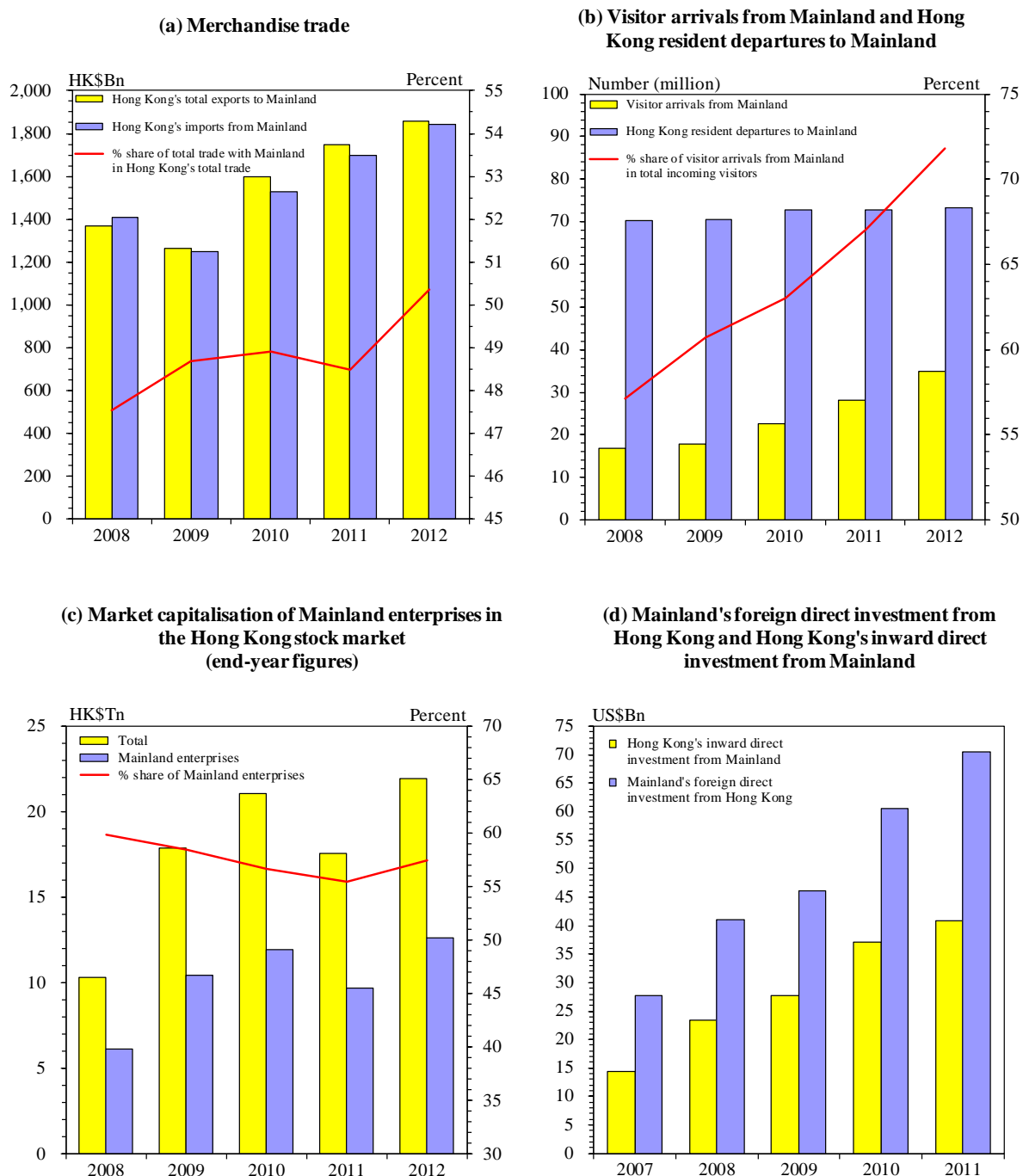


Note : (*) Forecasts from the IMF World Economic Outlook Update, January 2013.

2.24 *Exports of services* experienced a visible slowdown during 2012. Looking ahead, service exports should likewise see some pick-up in growth in 2013. In particular, exports of trade-related services and transportation services

should fare better in tandem with the somewhat improved trade and cargo flows. Exports of financial and business services should also regain some momentum thanks to the further development of RMB business, the expected revival of fund-raising activities, as well as the better growth prospects of the Mainland economy, thereby spurring investment flows and cross-border financing activities. In addition, exports of travel services should continue to see solid growth, along with the sustained vibrancy of inbound tourism.

Diagram 2.7 : The Mainland factor will remain supportive to the Hong Kong economy



2.25 *Domestic demand* stayed resilient in 2012 and remained the key driver of overall economic growth. In 2013, local consumer sentiment should still be underpinned by the solid employment growth and broad-based income improvement, as well as the positive wealth effect from the asset markets fuelled in part by the loose monetary stance in the advanced economies. Indeed, the latest Quarterly Business Tendency Survey and consultation on small and medium-sized enterprises (SMEs) indicated generally positive and stable hiring sentiments among large enterprises and SMEs respectively. This should be favourable to private consumption spending, granting no abrupt deterioration in the external environment to the extent of severely denting local sentiment and willingness to spend. As for investment, while machinery and equipment acquisition tends to be volatile, the building and construction component should be well sustained by the high level of public infrastructure works under way, as well as the expected notable pick-up in private building activity. All in all, the domestic sector is expected to hold up generally well in 2013.

Diagram 2.8 : Private consumption should be well underpinned by job and income growth

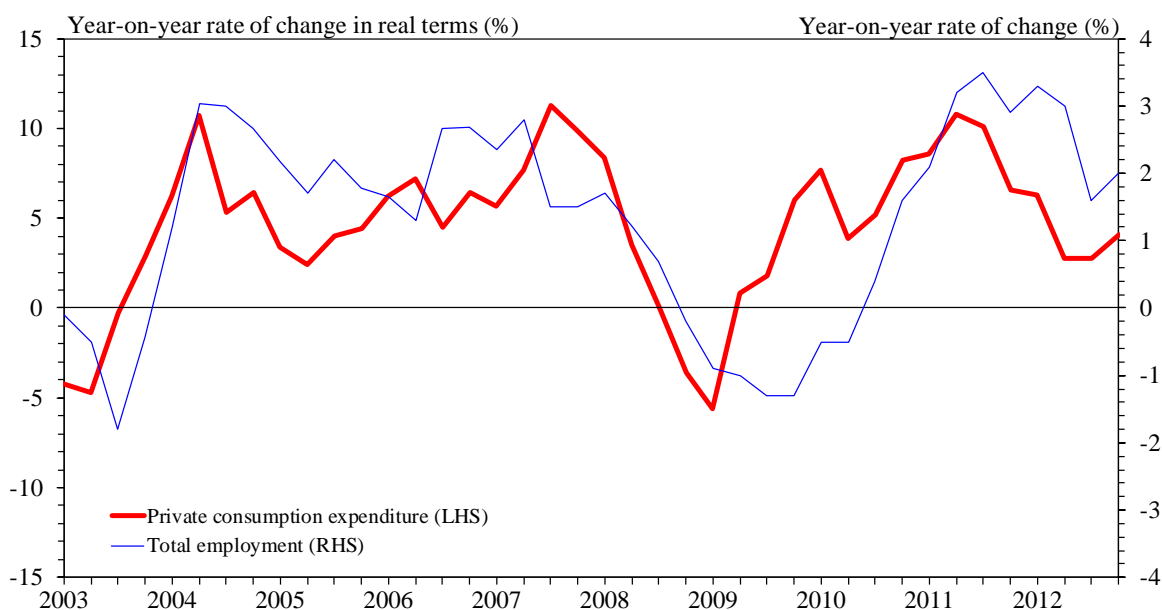


Diagram 2.9 : Consumer sentiment may also be affected by asset market performance

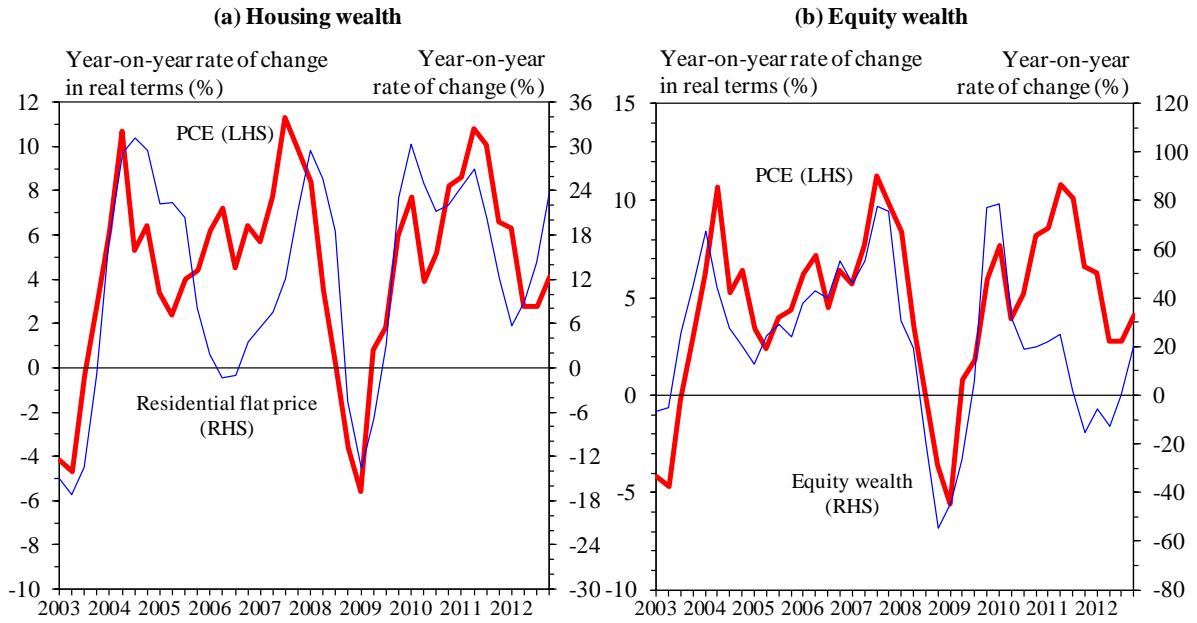
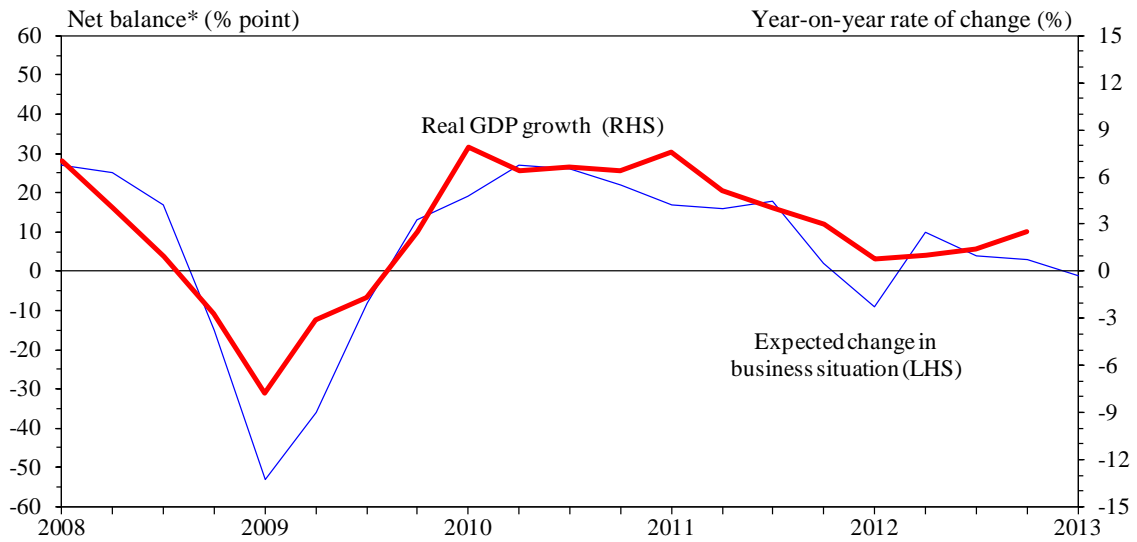
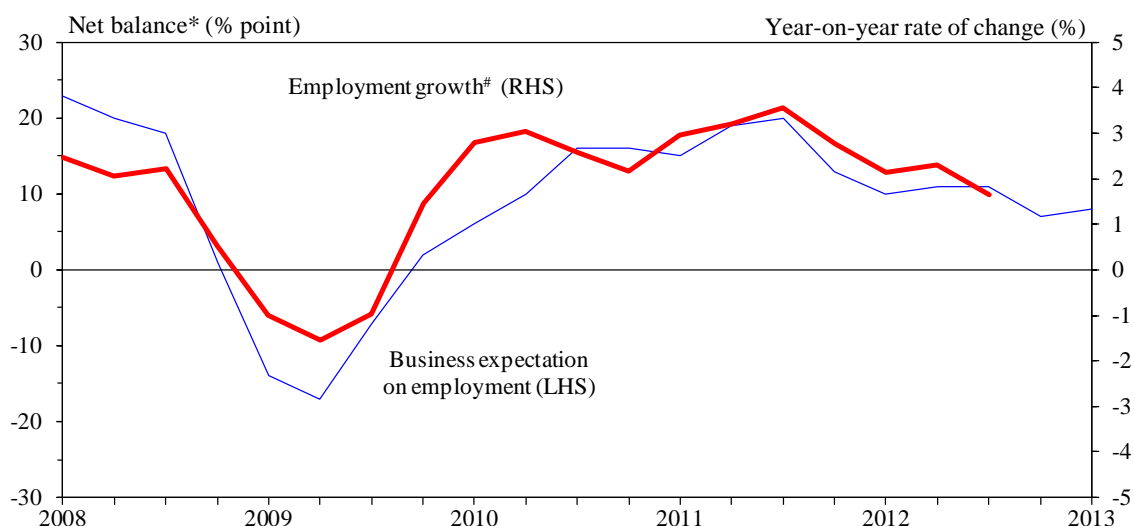


Diagram 2.10 : Business sentiment remains generally cautious



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.

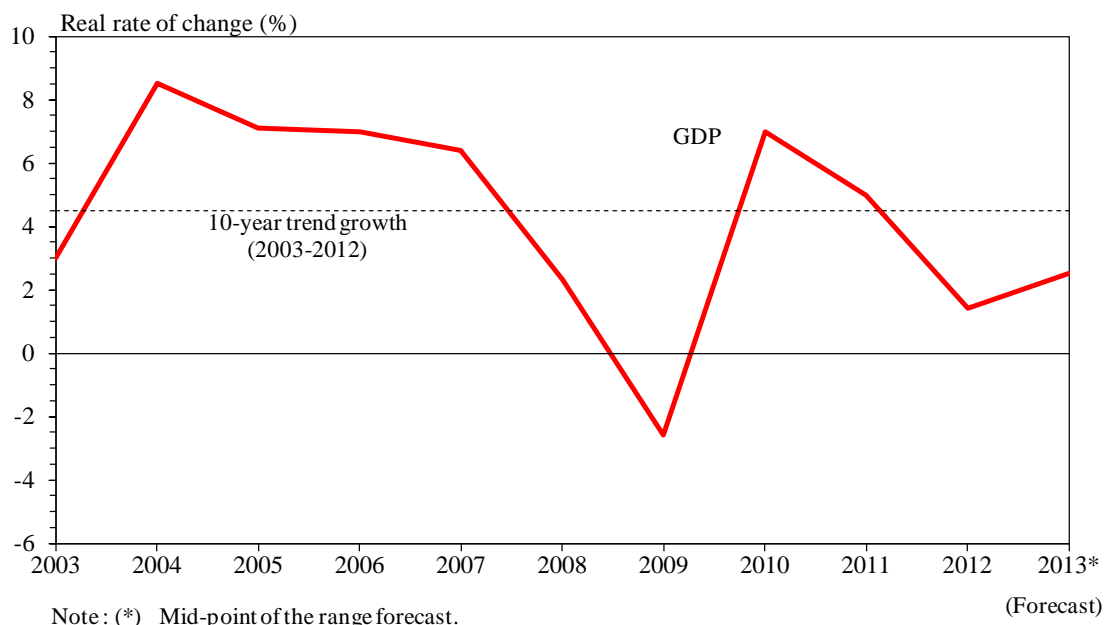
Diagram 2.11 : Yet hiring sentiment is still largely positive



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.

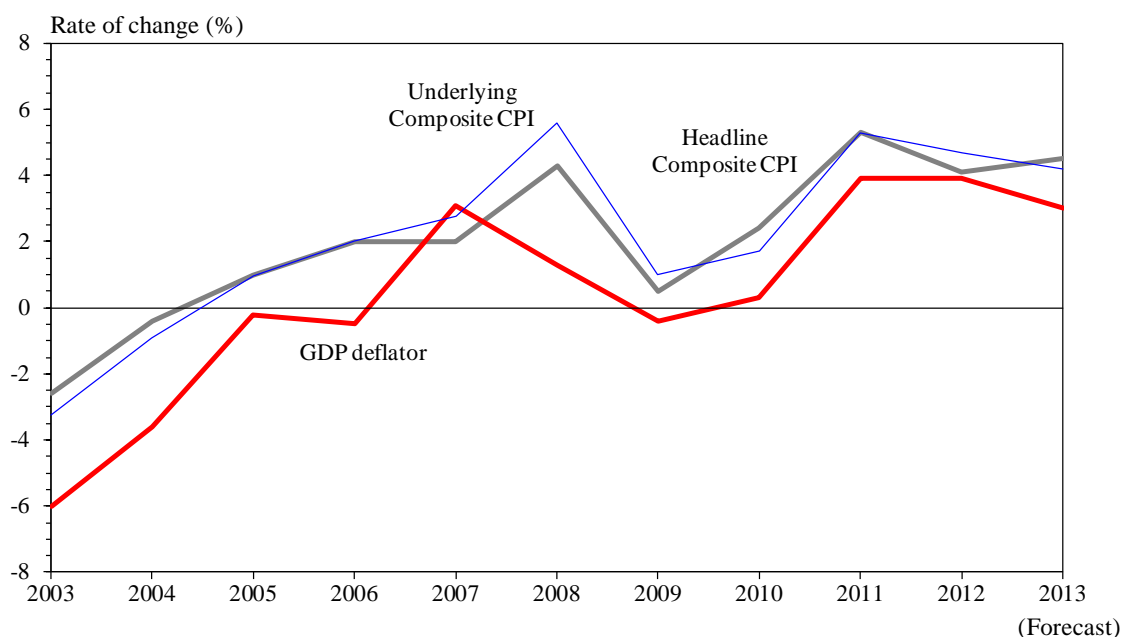
2.26 Taking into account the further steady growth in domestic demand and likely improvement in external trade, the Hong Kong economy is projected to expand modestly by 1.5-3.5% in 2013, somewhat faster than the 1.4% growth in 2012. Yet, this would still be slower than the trend growth of 4.5% in the past ten years, largely due to the continued headwinds from a sub-par, below-trend pace of expansion in the advanced economies. As in the previous year, the range forecast is wider than usual, as the global economic outlook is still subject to a high degree of uncertainty in 2013. The prevailing forecasts by private sector analysts mostly fall within the range of 2.5-4.7%. The official forecast is predicated on the assumption that the euro debt crisis would remain contained with ongoing progress towards reforms at the national and eurozone levels, that the US debt ceiling and fiscal issues would be largely resolved without derailing the ongoing economic recovery, and that the Mainland economy would sustain a faster momentum. Downside risks for 2013, while diminishing, are still prominent, as renewed strains arising from fragilities in the advanced economies cannot be ruled out. On the other hand, there could also be some upside potential to the forecast, should Asian domestic demand prove to be more impervious to the sluggishness in the advanced economies, or should the economic recovery in the US, Japan and EU regain firmer-than-expected footing.

Diagram 2.12 : Economy expected to grow slightly faster, albeit still at a sub-trend rate



2.27 Inflation in Hong Kong was largely on an easing trend in 2012, though the pace of tapering slowed towards the year-end. While inflationary pressures will likely remain contained in the near term amid the sub-par local economic growth and moderated imported inflation, the room for further easing will be increasingly limited. Recent developments also suggest that there may be renewed upside risks to inflation further down the road. Externally, global food prices, after peaking in early 2011, have shown signs of bottoming out of late, and the global liquidity glut may induce another round of global commodity price surge, thereby posing upward pressure to imported inflation. Locally, the renewed pick-up in fresh letting flat rentals since early 2012 will feed through to consumer price inflation over the course of 2013. Wage pressure, while moderated of late, may emerge again after the implementation of the new statutory minimum wage rate in May 2013. This, coupled with the rise in commercial rentals over the past year, may entail higher local business costs. That said, given the subdued economic growth, the risk of a sharp resurgence in inflation is not high. Overall, *underlying Composite CPI* is forecast to increase by 4.2% for 2013 as a whole, still lower than the average of 4.7% in 2012. Taking into account the effects of the Government's one-off measures, *headline Composite CPI* is forecast to increase by 4.5% in 2013. The *GDP deflator* is forecast to rise by 3.0%, in line with the expected increase in domestic prices as well as the likely change in the terms of trade.

Diagram 2.13 : Inflation may face some upside risks in 2013



Forecast rate of change in 2013 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	1.5 to 3.5
<i>Nominal GDP</i>	4.5 to 6.5
<i>Per capita GDP, in real terms</i>	0.7 to 2.7
<i>Per capita GDP at current market prices</i>	HK\$295,600-301,300 (US\$37,900-38,600)

Composite Consumer Price Index

<i>Headline</i>	4.5
<i>Underlying</i>	4.2

GDP Deflator **3.0**

**Forecast on Hong Kong's GDP growth in 2013
recently made by other selected parties**

	(%)
The University of Hong Kong	3.5 to 4.3
Average forecast by private sector analysts [#]	3.4

Note : (#) Forecast GDP growth by private sector analysts mostly falls between 2.5% and 4.7%.

Medium-term outlook for the Hong Kong economy

2.28 Beyond the short-term volatilities in the external environment, the medium-term outlook for the Hong Kong economy remains positive. Hong Kong is in the best position to leverage on the economic strength of Asia, especially the Mainland, in moving towards a high value-added, knowledge-based economy. The ongoing large-scale infrastructure works will also help support domestic demand over the medium term and improve our economic efficiency and production capacity over the longer run.

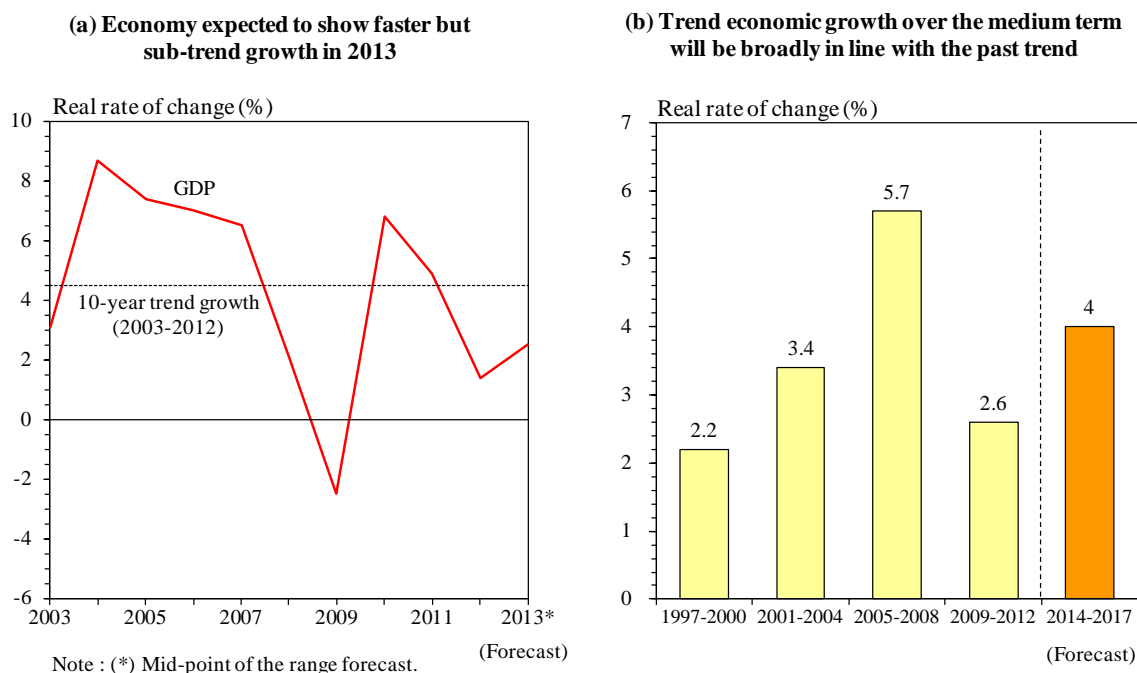
2.29 Deepening our economic integration with the Mainland is an important part of our growth strategy. The nation's development strategy of growth rebalancing and fostering the service industry should offer ample opportunities for our service sectors, through the CEPA platform and other regional cooperation channels. The Government will strive to extend the "early and pilot implementation" arrangement beyond Guangdong to other provinces and municipalities in the Pan-Pearl River Delta region, in addition to exploring new and emerging markets overseas. Further, the development of Hong Kong into a premier offshore RMB business centre and asset management centre as laid out in the National 12th Five-Year Plan has been making good progress. We will continue to strengthen our pillar industries while nurturing new industries with growth potential. The newly established Economic Development Commission and Financial Services Development Council are precisely charged with identifying new engines for Hong Kong's economic growth so as to diversify its economic base while consolidating our competitive edge.

2.30 On the supply side, the Government will continue to upgrade our human capital and build on infrastructure to raise our productivity and competitiveness. The productivity growth achieved in the process will help the economy attain a 4% growth per annum from 2014 to 2017, broadly in line with the average annual growth rate that Hong Kong has achieved over the past decade.

2.31 While inflation pressures should remain moderate in the near term amid the earlier stabilisation of local and external price pressures, we shall stay alert to the upside risks to inflation over the medium term, in view of the super-loose monetary environment and volatile US dollar exchange rate and commodity prices. The continued productivity gain should nonetheless provide some offset to local cost pressures. Taking these factors together, the trend rate of change in the underlying CCPI in Hong Kong for the four years from 2014

to 2017 is forecast at 3.5% per annum.

Diagram 2.14 : Economic prospects remain positive over the medium term



2.32 Over the medium and longer term, there will be challenges on both the external and domestic fronts. Externally, the resolution of the euro debt crisis and fiscal problems in the advanced economies, as well as the withdrawal of the abundant global liquidity, could be long drawn-out processes, posing downside risks to the global economy. Also, the threat from geopolitical tensions in many parts of the world should not be underestimated. Domestically, the structural shift of the Hong Kong economy towards higher value-added and knowledge-based activities, though important to the sustainable development of our economy, has raised concerns in the community over the widening income and wealth disparities. At the same time, the issue of an ageing population and resulting labour shortage has become increasingly imminent, plus its profound ramifications on our healthcare and social welfare systems. In view of these challenges, it is important to exercise fiscal prudence, so as to preserve our ability and ensure sufficient public resources to invest in infrastructure and education to drive the economy and also to tackle the social issues through various programmes.

CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *Hong Kong's external sector faced a difficult and unsteady trading environment in 2012. The recession of the eurozone economy and slow recovery of the US economy, together with their adverse ramifications for the Asian markets, weighed heavily on Hong Kong's export performance. The conditions were particularly tough around mid-2012, when the euro debt crisis escalated. Nevertheless, the trading environment improved in the latter part of the year, leading to a pick-up in exports, amid the faster economic growth in the Mainland and a more stable euro debt situation.*
- *Merchandise exports entered the year with a soft note, and shrank further in the second quarter as the euro debt crisis re-ignited and the US economy lost steam. Merchandise exports then improved gradually amid some revival in regional trade, but for 2012 as a whole there was virtually no change in real terms⁽¹⁾. Exports to the US and EU were subdued throughout the year. Those to most major Asian markets also slackened, due to the fallouts from the renewed weakness in the advanced economies. Exports to the Mainland were likewise hit in the first half of the year, but as its economy regained momentum, exports to this market staged a visible rebound in the latter part of the year.*
- *Exports of services also slowed, and attained only a tepid growth in 2012. Exports of travel services continued to outperform the other service exports, thanks to vibrant inbound tourism. Exports of trade-related services and transportation services stayed rather subdued during most of the year due to the sluggish regional trade and cargo flows. Exports of financial and other business services also shrank mildly as fund raising activities turned quieter.*
- *Hong Kong continued to strengthen economic ties with both traditional and new trading partners around the world in 2012. Supplement IX to the Mainland and Hong Kong Closer Economic Partnership Arrangement as well as the newly signed co-operation agreements with Shanghai and Guangdong would further expedite our economic integration with the Mainland. Meanwhile, the Government's continuous efforts in building Hong Kong's free trade network had also borne fruits, as our free trade network extended to Europe and Latin America for the first time. Separately, a co-operative wine deal was signed with Germany to support wine-trading businesses in Hong Kong, and the number of economies signing facilitative tax agreements with Hong Kong increased to 27.*

Visible trade

Total exports of goods

3.1 The global trading environment was challenging during most of 2012, with some improvement in the latter part of the year, when the Mainland economy regained momentum and the euro debt situation stabilised. *Merchandise exports* (comprising re-exports and domestic exports) fell by 7.1% in real terms in the first quarter of 2012 over a year earlier against a high base of comparison in the same quarter of 2011. They fell further by 2.2% in the second quarter, before returning to growth at 2.5% and 6.0% respectively in the third and fourth quarters. For 2012 as a whole, merchandise exports fell only marginally by 0.1% in real terms. On the seasonally adjusted quarter-to-quarter profile, it was more obvious that the main external shock actually came in the second quarter last year when both the US and EU economies slackened amid the deterioration of the euro debt crisis. Following the 1.9% expansion in the first quarter, merchandise exports fell sharply by 2.3% in the second quarter, then quickly rebounded by a similar magnitude of 2.6% in the third quarter, and grew strongly further by 4.9% in the fourth quarter.

3.2 The external environment in 2012 was dominated by the fragile and unsteady situations in the major advanced economies. After a relatively sanguine start of the year, the eurozone sovereign debt crisis re-ignited in May and June by the fluid political situation in Greece as well as the banking problem in Spain. In response to the ensuing surges in Spanish and Italian government bond yields, the European Central Bank (ECB) announced the Outright Monetary Transactions (OMTs) programme in early September, which led to some relief in financial strains. The eurozone economy, however, was still mired in recession amid the austere policies and weak economic sentiments. In the US, the recovery was slow and uneven, with an elevated unemployment rate, leading to the Federal Reserve's launch of its third round of quantitative easing (QE3) in mid-September. In Asia, the drag from sluggish import demand in the advanced economies had translated into a region-wide slowdown in industrial and trading activities during most of 2012. Some major Asian economies eased their monetary policies and stepped up supportive measures to boost economic growth. Specifically in the Mainland, economic growth bottomed out in the third quarter, and the pick-up in the fourth quarter provided some support to regional trade. Against this background, the International Monetary Fund (IMF) estimated that global economic growth decelerated to 3.2% in 2012, from 3.9% in 2011.

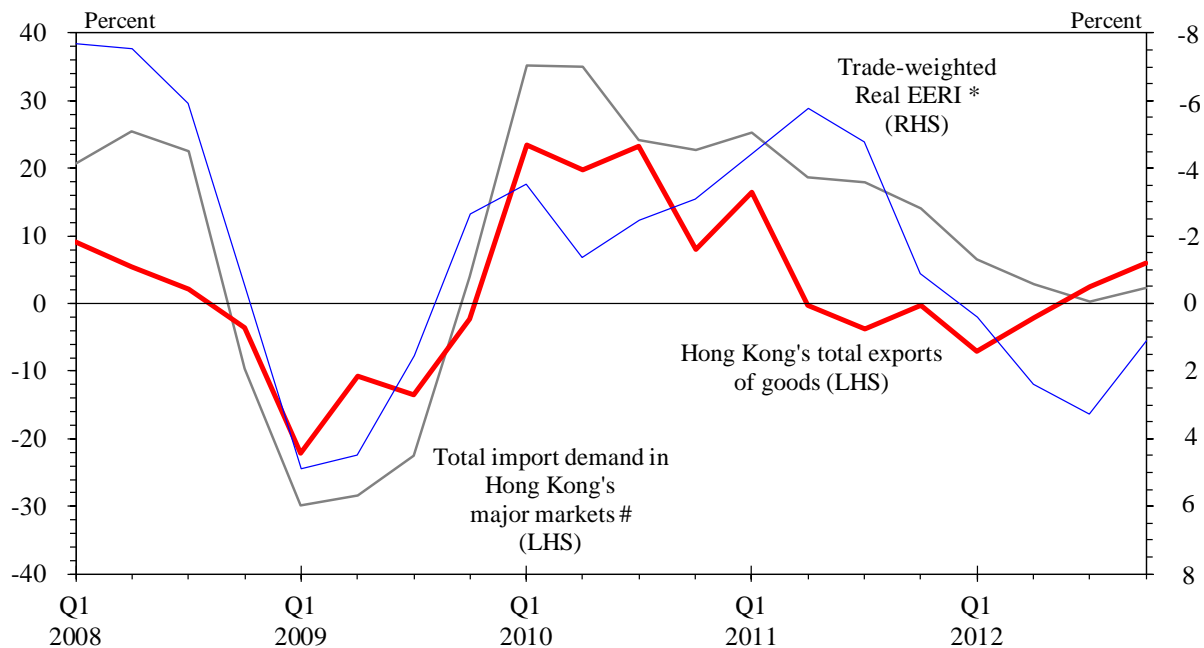
3.3 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports accounting for 98.3% of total exports by value, expanded marginally by 0.1% in real terms in 2012, following a 2.7% growth in 2011. *Domestic exports*, which constitute the remaining 1.7% of total exports, declined by 13.0% in real terms in 2012, further to a 11.9% fall in the preceding 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>
2011 Annual	10.1	2.4	8.0	10.5	2.7	8.0	-5.5	-11.9	6.4
Q1	24.6	16.5 (9.0)	7.6	24.9	16.9 (9.1)	7.6	11.9	3.9 (2.1)	6.7
Q2	7.7	-0.3 (-8.0)	8.6	7.9	-0.2 (-8.0)	8.7	1.2	-5.2 (-10.5)	6.4
Q3	4.2	-3.7 (-0.9)	8.6	4.6	-3.4 (-0.6)	8.6	-12.3	-19.0 (-14.6)	7.6
Q4	6.9	-0.2 (-0.1)	7.6	7.5	0.4 (-0.1)	7.7	-19.5	-24.7 (-3.8)	5.8
2012 Annual	2.9	-0.1	3.4	3.2	0.1	3.4	-10.4	-13.0	2.5
Q1	-1.5	-7.1 (1.9)	6.2	-1.0	-6.7 (1.9)	6.2	-24.1	-26.9 (-0.4)	3.0
Q2	1.9	-2.2 (-2.3)	4.4	2.3	-1.9 (-2.4)	4.4	-14.8	-17.6 (1.2)	2.6
Q3	3.8	2.5 (2.6)	1.8	3.9	2.6 (2.6)	1.8	0.5	-1.2 (2.9)	1.4
Q4	7.0	6.0 (4.9)	1.4	7.1	6.2 (5.1)	1.3	-1.2	-3.8 (-6.0)	2.7

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

Diagram 3.1 : Merchandise exports were weak in 2012 amid an austere global economy (year-on-year rate of change)

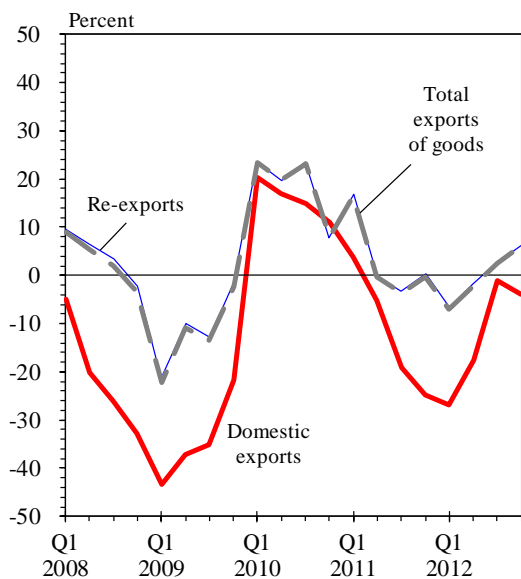


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

- (*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.
- (#) Import demand figure for the fourth quarter of 2012 is based on statistics for October and November 2012.

Diagram 3.2 : Both re-exports and domestic exports slackened in 2012

(a) Year-on-year rate of change in real terms



(b) Seasonally adjusted quarter-to-quarter rate of change in real terms

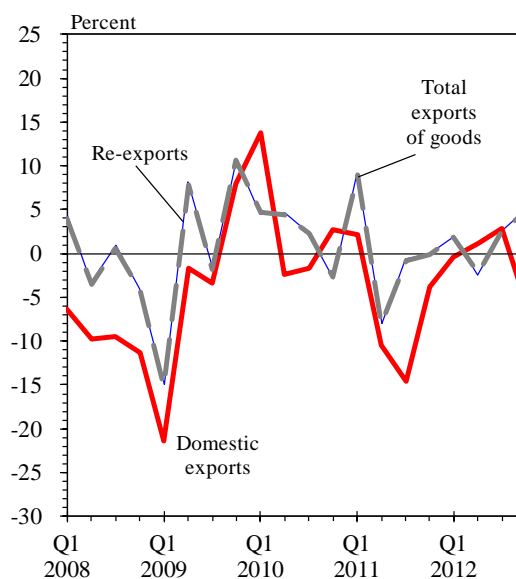


Diagram 3.3 : Asian markets continued to feature prominently in Hong Kong's exports

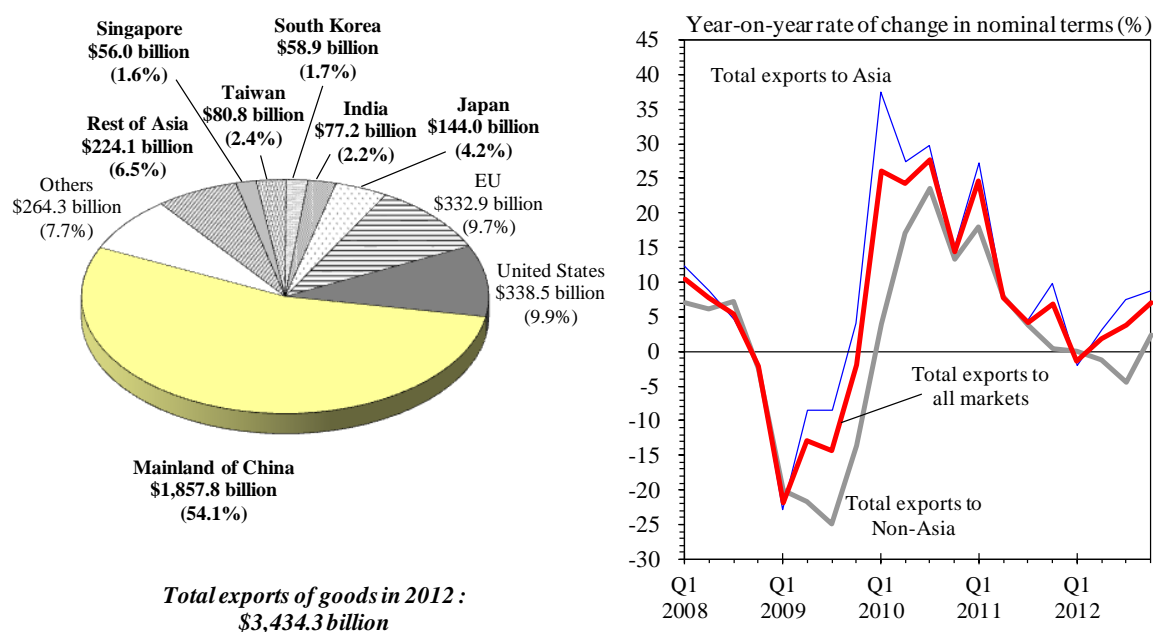


Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

	<u>Annual</u>	<u>2011</u>				<u>2012</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>
Mainland of China	2.5	19.3	-2.5	-6.2	2.8	3.4	-7.8	-0.6	9.7	12.1
United States	-9.2	5.4	-12.0	-15.1	-11.0	-1.3	-7.1	0.1	-0.1	1.4
European Union	-2.2	6.6	-0.9	-4.3	-8.3	-10.4	-9.7	-12.5	-14.1	-4.8
Japan	-2.2	4.1	-5.9	-4.1	-2.3	0.9	-1.5	1.5	3.3	0.4
India*	15.7	38.5	14.8	9.4	2.6	-22.5	-23.8	-23.7	-22.3	-20.0
Taiwan	14.7	14.5	18.8	19.0	6.9	-7.9	-21.4	-2.1	-10.7	2.4
South Korea	7.1	15.1	9.8	4.8	-0.5	-4.0	-5.2	-5.7	-2.2	-2.8
Singapore	4.7	19.2	7.4	-0.4	-4.9	-3.3	-14.1	2.1	-0.3	-0.8

Note : (*) 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 Analysed by major market, Hong Kong's total exports to the Mainland, after falling sharply in the first quarter against the exceptionally high base of comparison, picked up gradually in the ensuing quarters, and posted a solid growth of 3.4% in real terms for 2012 as a whole. This was in line with the stronger performance of the Mainland economy in the latter part of the year. Total exports to Japan only showed a marginal increase, initially supported by the continued reconstruction works but later on constrained by the weakened consumer demand amid the recession of the Japanese economy. Total exports to South Korea, Taiwan, Singapore and India fell by varying degrees in 2012, ranging from 3.3% to 22.5%. The generally weak performance of these and other Asian markets mainly reflected the sluggishness of the advanced economies, which visibly hampered Asia's intra-regional trade flows, particularly those of raw materials which are closely related to final demand in the advanced economies. As Hong Kong plays an important role in the regional supply chains, Hong Kong's exports to the Asian markets inevitably feel the pinch from the setback in the global economy. With Asian economies likewise slowing in 2012, weaker demand for consumer goods in these markets posed an additional drag on Hong Kong's exports.

3.5 Total exports to the US and the EU continued to be the weak spots throughout 2012. In the US, import demand was constrained by its feeble fundamentals. High unemployment, on-going household deleveraging and uncertain fiscal policy outlook have weighed heavily on private demand there. As such, exports to the US dropped in real terms for the second consecutive year in 2012, by 1.3%. The performance of the EU market fared even worse. Plagued by the recession, high unemployment and fragile economic sentiments there, exports to the EU recorded sharp year-on-year declines in all four quarters of 2012, shrinking by 10.4% in real terms for the year as a whole. As a result, total exports to the EU fell below the preceding trough reached after the onset of the global financial crisis in 2009.

Diagram 3.4 : Exports to the Mainland bounced back strongly in the latter part of 2012, as the Mainland economy regained momentum

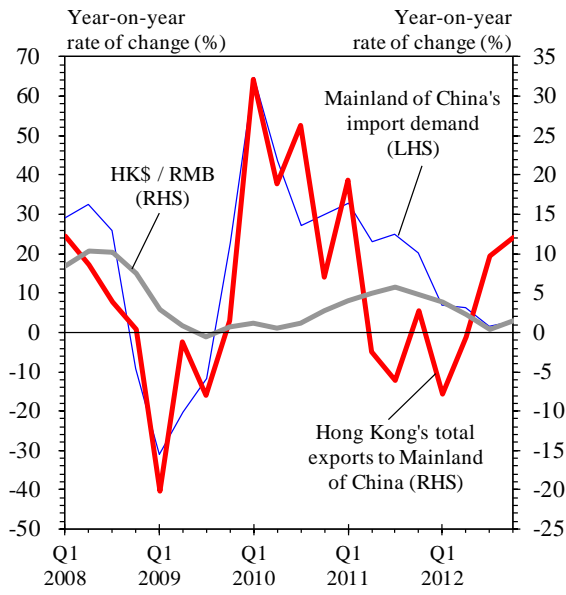


Diagram 3.5 : Exports to the EU remained on a distinct downtrend throughout 2012

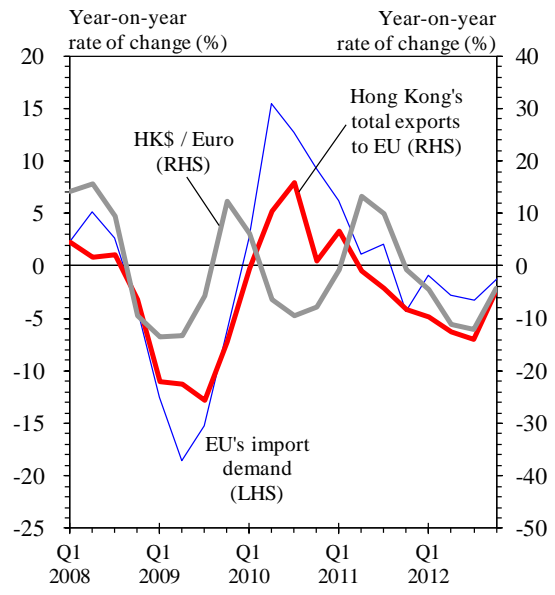


Diagram 3.6 : Exports to the US stayed weak

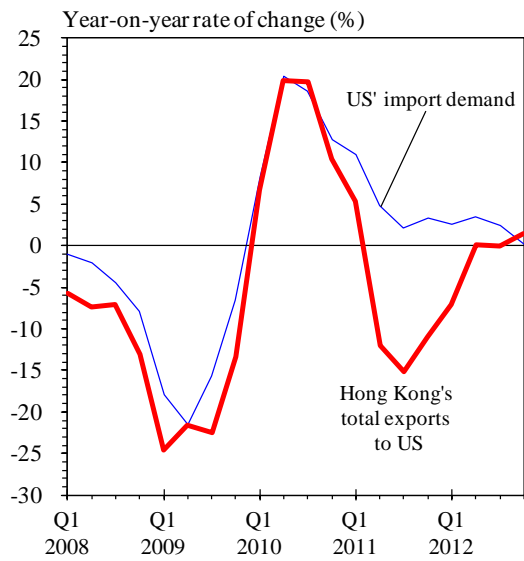


Diagram 3.7 : Exports to Japan were volatile during the year

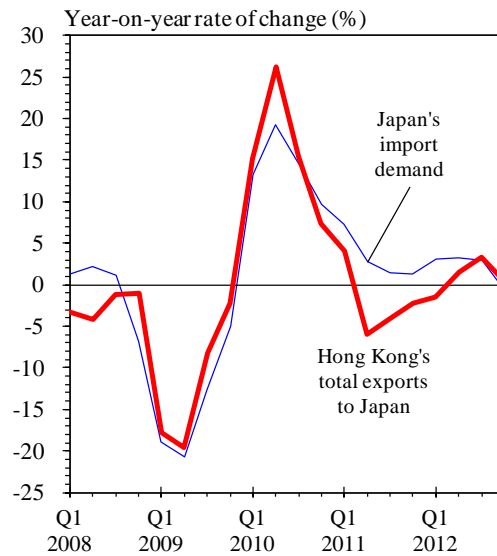


Diagram 3.8 : Exports to India plummeted throughout the year

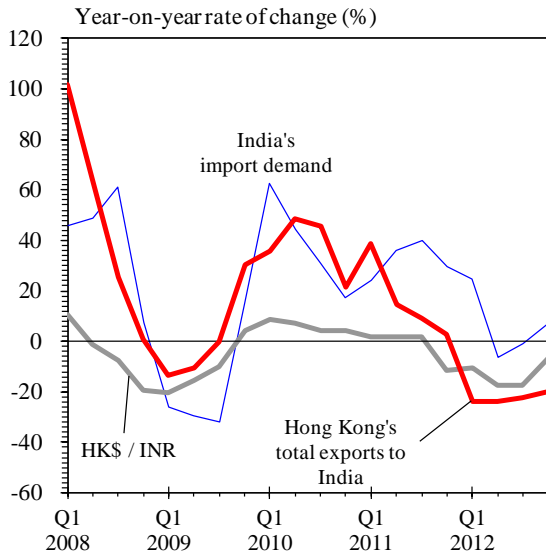


Diagram 3.9 : Exports to Taiwan also shrank visibly

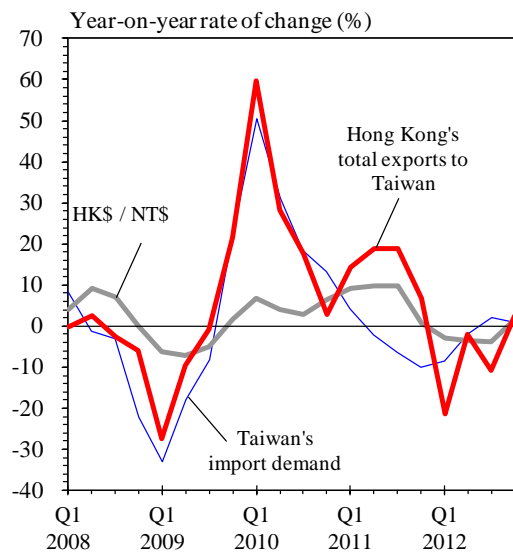


Diagram 3.10 : Exports to South Korea were hit by a fall-off in intra-regional trade

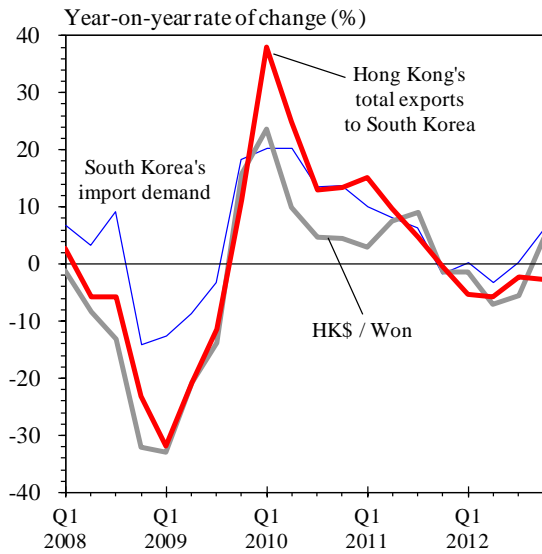
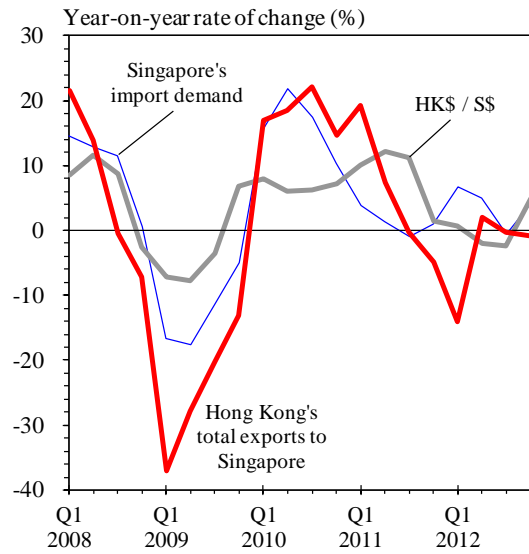


Diagram 3.11 : Exports to Singapore were weak, though with a rebound after the first quarter



Imports of goods

3.6 *Imports of goods* grew mildly by 1.0% in real terms in 2012. The slowdown from the moderate growth of 4.1% in 2011 mainly reflected the fall-off in import intake related to re-exports. *Retained imports*, which accounted for more than a quarter of total imports, nevertheless maintained a solid growth of 3.5% in real terms in 2012, though also moderated from the 7.8% growth in 2011. Analysed by end-use category, retained imports of consumer goods maintained a notable growth of 6.4% even against the distinctly high base in 2011, thanks to the resilient consumption market. Those of capital goods accelerated further, reflecting the relatively sanguine local business sentiments during most of the year. Retained imports of foodstuffs posted a mild growth. On the other hand, retained imports of raw materials dropped for the second consecutive year, alongside the general economic slowdown. Retained imports of fuels also fell for another year, probably due partly to the slower transport activity and partly to the continued energy-saving efforts.

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

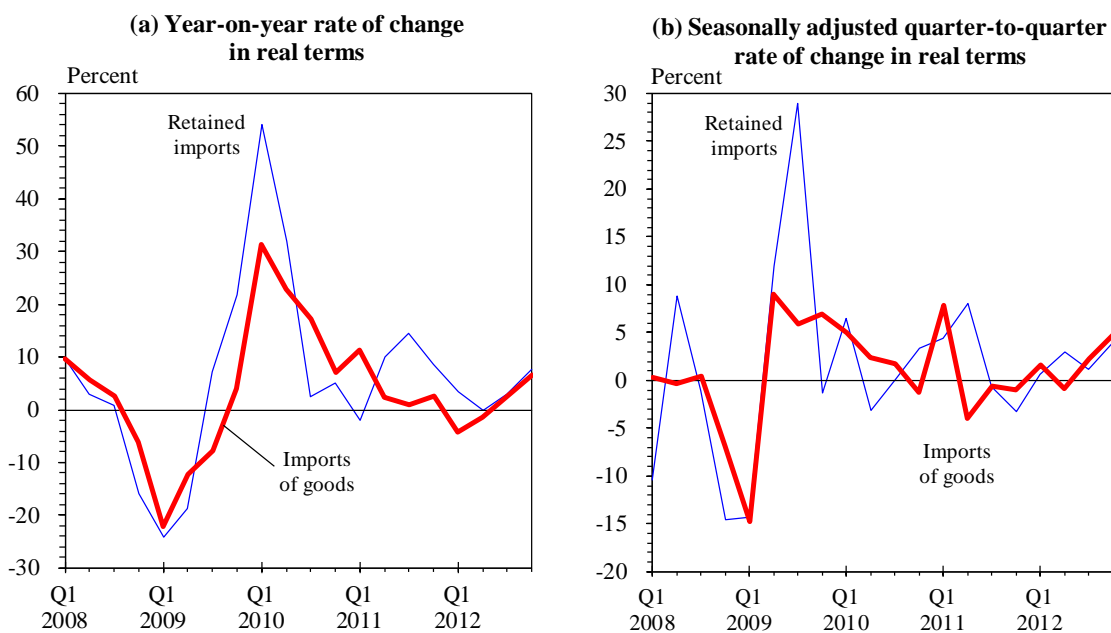
		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2011	Annual	11.9	4.1	8.1	17.3	7.8	9.5	
	Q1	20.6	11.4	(7.9)	8.9	11.0	-2.1 (4.4)	13.8
	Q2	10.3	2.5	(-4.0)	8.1	18.1	10.1 (8.1)	7.7
	Q3	8.9	0.9	(-0.6)	8.6	24.2	14.4 (-0.7)	9.8
	Q4	9.3	2.5	(-1.0)	7.1	15.6	8.7 (-3.3)	6.9
2012	Annual	3.9	1.0	3.3	5.9	3.5	3.0	
	Q1	0.7	-4.1	(1.6)	5.0	5.4	3.5 (0.6)	1.7
	Q2	2.1	-1.3	(-0.9)	3.9	1.5	* (3.0)	2.5
	Q3	4.5	2.7	(2.2)	2.3	6.0	2.9 (1.1)	3.5
	Q4	8.1	6.6	(4.7)	2.1	10.6	7.7 (4.0)	4.1

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.

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

Diagram 3.12 : Imports edged up, while retained imports grew solidly further



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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2011	Annual	32.9	5.7	14.8	-3.7	-9.6
	Q1	25.3	-5.7	-25.6	-7.2	4.0
	Q2	46.3	6.7	19.4	-0.2	-21.3
	Q3	48.6	18.9	28.1	-2.7	-12.2
	Q4	14.2	5.0	39.8	-4.8	-5.1
2012	Annual	6.4	1.6	21.7	-6.4	-6.6
	Q1	16.1	4.8	50.7	-19.8	-6.9
	Q2	0.5	2.5	6.6	-5.1	-4.0
	Q3	-5.4	-5.6	20.0	1.6	-4.3
	Q4	17.1	4.8	19.9	-2.3	-11.2

Invisible trade

Exports of services

3.7 *Exports of services*, while also decelerating visibly over the course of 2012, still managed to attain a modest growth of 1.2% in real terms for the year as a whole. This was nevertheless sharply lower than the 4.9% growth in 2011. Exports of travel services saw the strongest performance and provided the key support. Exports of trade-related services (comprising mainly offshore trade activities) and exports of transportation services stayed sluggish throughout the year, mainly reflecting the slackened trade and cargo flows amid the austere trading environment. Exports of financial and business services were likewise weak, as fund raising and other commercial activities turned quieter against the highly uncertain global economic environment.

Diagram 3.13 : Trade-related and transportation services accounted for over half of service exports, reflecting Hong Kong's position as a trading hub

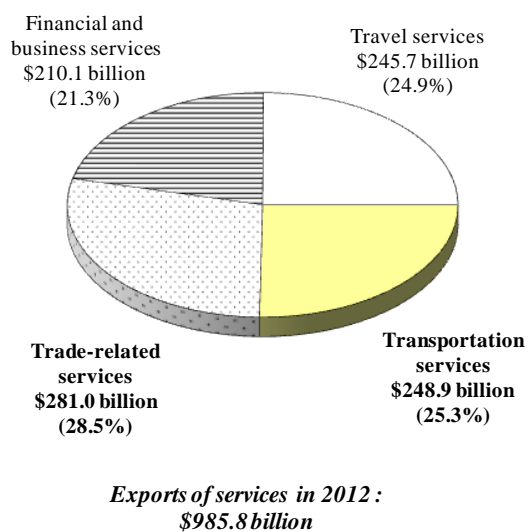
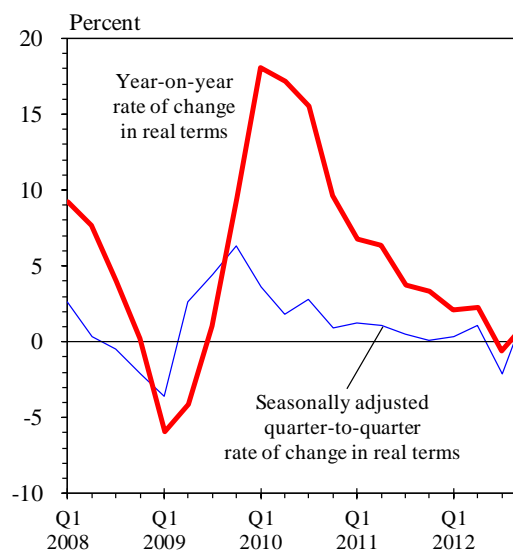


Diagram 3.14 : Exports of services slowed noticeably in 2012



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

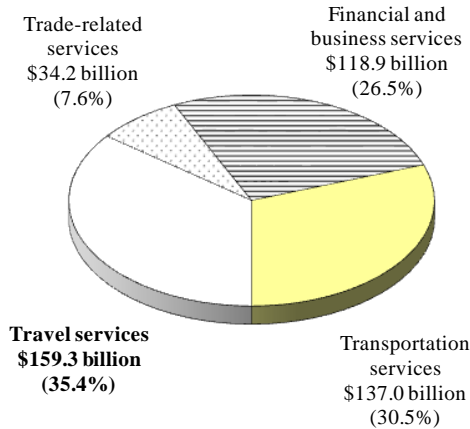
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2011	Annual	4.9	2.7	1.0	12.9	5.3
	Q1	6.8 (1.2)	9.8	-0.3	9.0	10.7
	Q2	6.4 (1.1)	2.0	3.5	13.9	7.0
	Q3	3.7 (0.5)	1.0	0.4	9.5	6.1
	Q4	3.3 (0.1)	0.2	0.4	19.3	-2.5
2012	Annual	1.2	0.6	-3.2	9.4	-1.0
	Q1	2.1 (0.3)	-1.6	2.5	8.9	-0.2
	Q2	2.3 (1.1)	0.6	-3.6	13.5	1.4
	Q3	-0.6 (-2.1)	1.1	-5.8	6.8	-4.0
	Q4	1.3 (2.1)	1.8	-5.2	9.0	-0.8

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

Imports of services

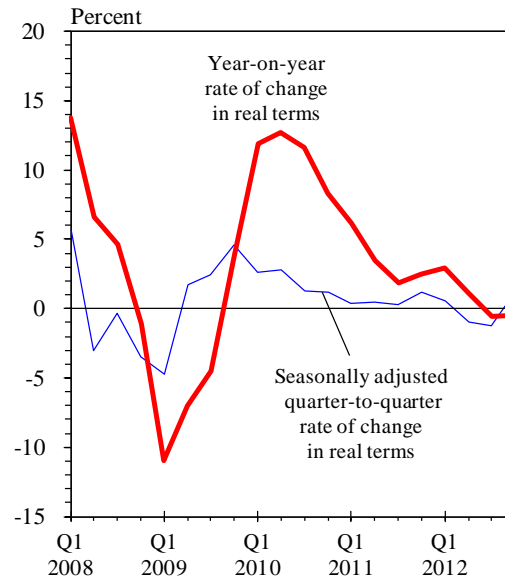
3.8 *Imports of services* likewise grew marginally by 0.7% in real terms in 2012, further to a 3.5% expansion in 2011. Imports of transportation and trade-related services both shrank in 2012, due to the strong headwinds in the trading environment. Those of financial and business services also weakened visibly in 2012. In contrast, imports of travel services picked up and attained appreciable growth in 2012, thanks to favourable local consumer sentiments and improved incomes.

Diagram 3.15 : Travel services had the largest share in imports of services



**Imports of services in 2012 :
\$449.4 billion**

Diagram 3.16 : Imports of services grew marginally



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

Of which :

		<i>Of which :</i>				
		Imports of services	Travel services ⁽⁺⁾	Transportation services	Trade-related services	Financial and business services
2011	Annual	3.5	3.0	7.0	-2.8	2.0
	Q1	6.2 (0.4)	3.7	9.7	6.0	5.9
	Q2	3.5 (0.5)	4.2	6.6	-0.6	-0.6
	Q3	1.9 (0.3)	1.7	5.5	-5.9	0.4
	Q4	2.5 (1.2)	2.7	6.4	-7.3	1.8
2012	Annual	0.7	5.3	-2.5	-0.1	-1.3
	Q1	2.9 (0.6)	6.0	3.8	*	-0.7
	Q2	1.1 (-1.0)	5.3	-2.3	-1.4	0.5
	Q3	-0.6 (-1.2)	6.1	-4.8	-0.8	-4.2
	Q4	-0.5 (1.2)	4.0	-6.1	1.3	-0.6

Notes : (+) Comprising mainly outbound travel spending.

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

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

Visible and invisible trade balance

3.9 Against a difficult external environment and reflecting the resilient domestic demand, the visible trade deficit widened visibly in 2012, only to be roughly offset by the invisible trade surplus. As a result, the combined visible and invisible trade account in 2012 was virtually in balance, with a marginal surplus of \$1 billion (equivalent to a trivial share of the total value of imports of goods and services). This compared to the combined trade balance of \$60 billion surplus in 2011 (or 1.4% of the total value of imports of goods and services).

**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>impo</u> <u>rts</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2011	Annual	3,411	937	3,848	440	-437	497	60	1.4
	Q1	797	220	890	104	-92	115	23	2.3
	Q2	834	213	959	104	-125	109	-16	-1.5
	Q3	891	248	993	115	-103	133	30	2.7
	Q4	889	256	1,006	117	-117	140	23	2.0
2012	Annual	3,581	986	4,116	449	-536	536	1	*
	Q1	803	238	933	111	-130	127	-3	-0.3
	Q2	876	229	1,028	106	-152	124	-28	-2.5
	Q3	943	252	1,059	114	-116	138	22	1.9
	Q4	958	266	1,096	119	-138	148	10	0.8

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

(*) Less than 0.05%.

Other developments

3.10 Economic integration between Hong Kong and the Mainland continued to deepen throughout 2012. Supplement IX to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in June 2012 to introduce a total of 43 services liberalisation and trade and investment facilitation measures, including 37 liberalisation measures in 22 service sectors, strengthening co-operation in areas of finance and trade and investment facilitation, and further promoting the mutual recognition of professional qualifications of the two places. The new measures will further facilitate Hong Kong's service industries to tap the Mainland market and foster integration and professional exchanges between the service industries of both

sides. Including the measures in Supplement IX, a total of 338 measures had been announced in 48 service sectors under CEPA, expanding rapidly from only 17 service sectors when CEPA was first signed in 2003.

3.11 More specifically, Hong Kong's economic linkages with some major Mainland provinces and cities also strengthened. In the Second Plenary Session of the Hong Kong/Shanghai Economic and Trade Co-operation Conference in January 2012 and then the 15th Plenary meeting of the Hong Kong/Guangdong Co-operation Joint Conference in September, the Governments signed agreements to tighten co-operation on various fronts and to proceed with the measures under CEPA. In particular, the Guangdong Province will press ahead with the implementation of CEPA to achieve basic liberalisation of trade in services between Hong Kong and Guangdong by 2014. During his duty visit to Beijing in December last year, the Chief Executive proposed to the Central Government to extend the "early and pilot implementation" approach currently adopted in Guangdong to other provinces and municipalities in the Pan-Pearl River Delta region, so as to enhance our service suppliers' access to the Mainland market, and positive feedback had been received from the Central Government.

3.12 2012 was a fruitful year for the extension of Hong Kong's free trade network to other parts of the world as well. In Asia, the possibility of Hong Kong joining the China-ASEAN Free Trade Area (CAFTA) was actively explored. In Europe, our Free Trade Agreement (FTA) with the European Free Trade Association (EFTA) finally came into force in October, our first free trade relationship with European economies. Hong Kong's free trade network also extended to Latin America, as marked by the FTA signed with Chile in September. Moreover, during the Financial Secretary's visit to Russia in September, both sides agreed to strengthen co-operation on various fronts, including exports of agricultural products, transport and infrastructure, financial investment, and tourism.

3.13 Hong Kong has also been actively nurturing new businesses. In May 2012, Hong Kong and Germany signed a Declaration of Intent on Co-operation in Wine-related Businesses to consolidate Hong Kong's position as a world-class wine-trading hub. Separately, to facilitate funds and investment flows so as to expedite Hong Kong's development into an international asset management centre, Hong Kong has already signed agreements for avoidance of double taxation with 27 economies around the globe, with Jersey, Malaysia, Mexico, Canada and Italy being the newest partners.

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

- *Amid the low interest rates and a tight demand-supply balance of flats, the residential property market was buoyant in most part of 2012. Market sentiment reached a high in September upon the announcement of further monetary easing measures in the major advanced economies, before showing some cool-off in November after the Government introduced further measures to combat speculation and manage demand from non-local buyers. Overall flat prices surged by a cumulative 25% during the year.*
- *Raising flat supply through increasing land supply has been the Government's top policy priority in ensuring a healthy and stable property market. Much work has also been done in 2012 to manage demand and reduce the possible risks to financial stability arising from an exuberant property market. In the 2013 Policy Address the Chief Executive outlined a number of measures to increase housing and land supply.*
- *The commercial and industrial property markets were likewise buoyant. Prices showed hefty gains, along with a rebound in trading activities especially in the latter part of the year. Rentals also recorded solid gains, particularly for shop rentals which were well underpinned by vibrant inbound tourism and ongoing strength in the local consumption market.*
- *Inbound tourism continued to record sturdy performance in 2012, with the Mainland market remaining the major growth impetus. Total visitor arrivals surged by another 16.0% to a record high of 48.6 million.*
- *The logistics sector was generally subdued, but showed some improvement towards the year-end along with the pick-up in external trade. Container throughput declined by 5.2% while air freight throughput expanded by a modest 2.2% for 2012 as a whole.*

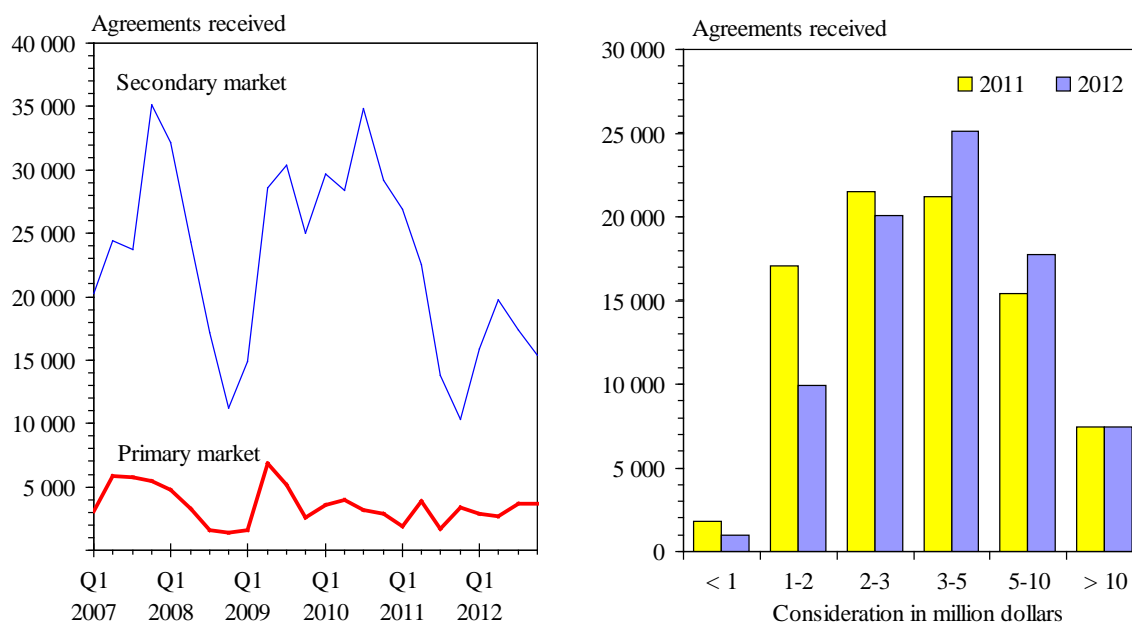
Property

4.1 Amid the environment of abundant liquidity with exceptionally low interest rates and a tight demand-supply balance of flats, the *residential property market* was buoyant in most part of 2012. After entering the year on a soft note, the market picked up momentum starting February, with sentiment reaching a high in September upon the announcement of another round of

monetary easing measures by the US Federal Reserve and other central banks in the major advanced economies. The market then showed some cool-off since November after the Government announced the enhanced Special Stamp Duty (SSD) to further curb speculation, and the Buyer's Stamp Duty (BSD) to manage demand from non-local buyers.

4.2 Trading activities gradually gathered momentum since February, before plummeting to very subdued levels after November. For the year as a whole, there were 81 333 sale and purchase agreements for residential property received by the Land Registry, slightly lower than the year before by 4%. Among the total, primary market transactions rebounded by 19% over the low base in 2011, while secondary market transactions fell by 7%. Yet total consideration edged up by 2% to \$452.3 billion due to rising property prices.

Diagram 4.1 : Trading activities gathered momentum over the course of the year before plunging in November

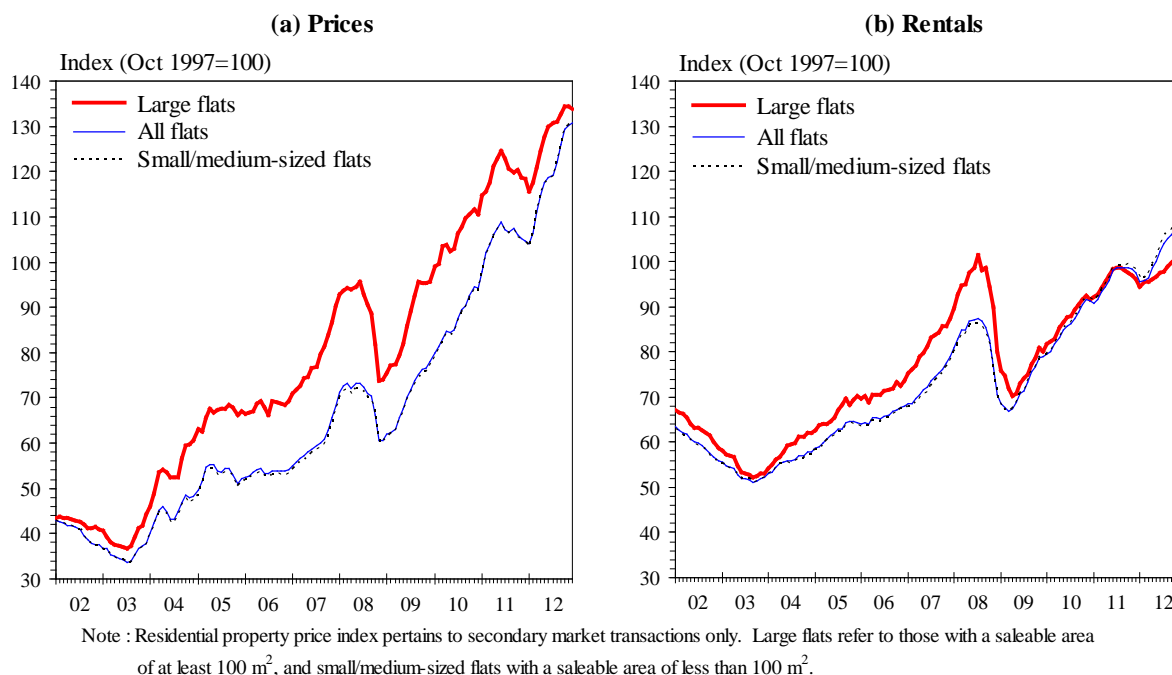


4.3 Overall flat prices surged by 25% in December 2012 over a year earlier, though the monthly increase has decelerated since November along with the plunge in transaction. Prices of small/medium-sized flats soared by 25% while prices of large flats also rose by a rapid 13%. Following the rally over the past few years, overall flat prices have surpassed the 1997 peak by a rampant 31%.

4.4 The leasing market was also buoyant, with overall flat rentals recording a marked gain of 11% in December 2012 over a year earlier. Rentals of small/medium-sized flats rose by 12%, faster than the 5% increase in rentals of large flats. Overall flat rentals have exceeded the 1997 peak by 9%.

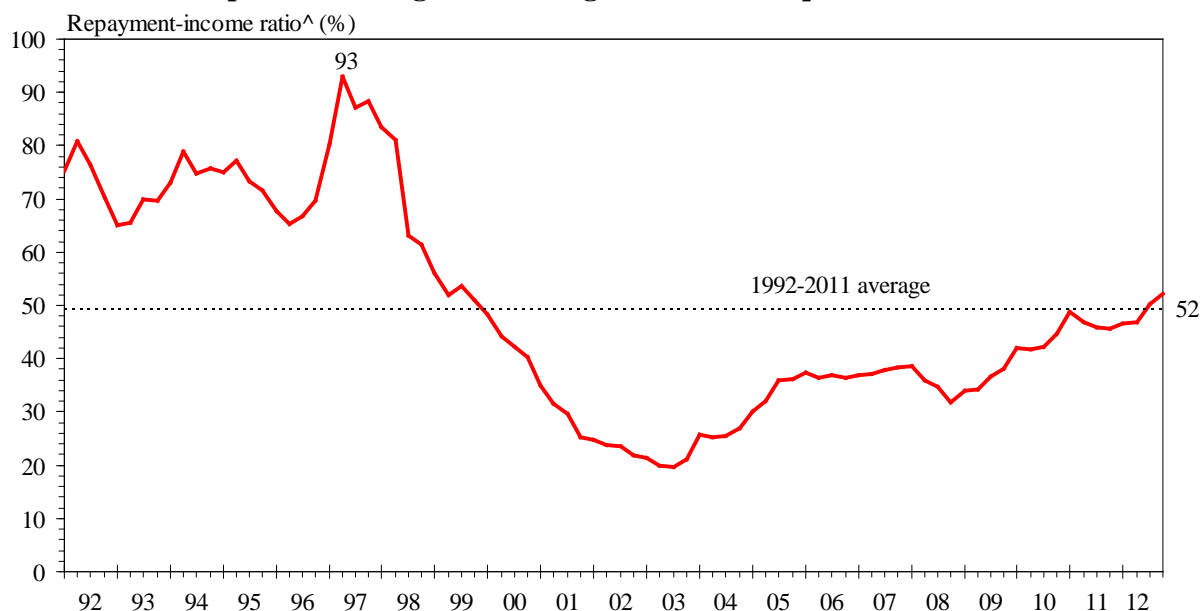
Reflecting the faster increase in prices than in rentals, the average rental yield for residential property declined further from 3.4% in December 2011 to 3.1% in December 2012.

Diagram 4.2 : Both flat prices and rentals surged further



4.5 As the surge in flat prices continued to outpace income growth, 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) worsened from 46% a year earlier to 52% in the fourth quarter of 2012, exceeding the long-term average of 49.3% over 1992-2011. The risks of a housing market bubble thus remained elevated, especially so in face of the accommodative monetary policies of the major central banks and the resulting liquidity glut and possible capital inflow into Hong Kong.

Diagram 4.3 : The mortgage payment to income ratio surpassed the long-term average in the fourth quarter of 2012



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

4.6 The relatively tight supply of flats has been a major factor underpinning the buoyant property market. Completion of private residential flats was at a modest 10 100 units in 2012, though it was already 7% higher than in 2011. Completion net of demolition, at 7 600 units, was similar to the take-up of 7 800 units⁽¹⁾. As a result, the vacancy rate stayed at a low 4.3% at end-2012, same as a year earlier but below the long-term average of 5.0% over 1992-2011.

4.7 Raising flat supply through increasing land supply is the Government’s top policy priority in ensuring a healthy and stable development of the property market. To step up efforts in this direction, in August and September the Government rolled out a series of measures to increase land and flat supply, such as changing the use of various sites to residential use (**Box 4.1**)⁽²⁾. 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 62 000 units as estimated at end-2011 to 67 000 units as estimated at end-2012, the highest since 2007. In addition, another 9 000 units could be added to the supply after conversion of a number of residential sites into “disposed sites” and the completions of auction/tendering of some sites in the months ahead. In the 2013 Policy Address, the Chief Executive also announced a number of short, medium and long term measures to raise housing and land supply (**Box 4.2**).

4.8 Before the supply side measures can fully redress the tight demand-supply balance of flats, the Government also puts strong emphasis on

managing demand and reducing the possible risks to financial stability arising from an exuberant property market. In September the Hong Kong Monetary Authority (HKMA) introduced the fifth round of macro-prudential measures to strengthen the risk management of the banking sector's mortgage lending business. In October the Government announced an enhancement of the SSD to further curb speculative activities and the introduction of a BSD to accord priority to the housing needs of Hong Kong permanent residents (HKPRs)⁽²⁾.

Box 4.1

Key Government measures on the property market in 2012

To ensure a healthy and stable development of the property market, the Government rolled out several rounds of measures in 2012.

(1) Ensure sufficient and steady land and flat supply

- In August and early September the Government announced a series of short and medium-term measures, such as selling flats under the My Home Purchase Plan at discounted prices, selling unsold Home Ownership Scheme flats, expediting the approval for pre-sale applications for uncompleted flats and changing the use of various sites to residential uses.
- In September the Government announced the implementation of the Hong Kong Property for Hong Kong People measure to give priority to the housing needs of Hong Kong permanent residents (HKPRs). For selected land sale sites, the sale and re-sale of flats built on these sites will be restricted to HKPRs for 30 years through land sale conditions.
- The Government established a two-tier institutional framework for the Long Term Housing Strategy, comprising the Steering Committee and the inter-departmental Working Group. The Government planned to publish a report and consultation paper in the second half of 2013 with recommendations for measures.

(2) Prevent excessive growth in mortgage lending

- To strengthen the risk management of the banking sector's mortgage lending business, the HKMA introduced a further package of macro-prudential measures, the fifth since October 2009, immediately following the US Federal Reserve's announcement of another round of quantitative easing measure in mid-September. These measures included standardising the maximum loan tenor for all new property mortgage loans to 30 years and further tightening debt servicing ratio and loan-to-value ratio for mortgage loan applicants with outstanding mortgage loans.

(3) Combat speculative activities

- In October the Government announced an enhancement of the SSD to further curb speculative activities. The restriction period was extended from two years to three years. The SSD rates were raised to 20% for resale within six months; 15% for resale for more than six months but 12 months or less; and 10% for resale more than 12 months but 36 months or less.

(4) Manage demand from non-HKPR buyers

- Together with the enhancement of the SSD, in October the Government also introduced the BSD targeting at non-HKPR buyers to ensure that the housing needs of HKPRs are accorded priority in a tight supply situation. A rate of 15% would be charged for all residential properties acquired by any person or entity except a Hong Kong permanent resident.

Box 4.2

Latest Government measures on housing and land supply (January 2013)

In the 2013 Policy Address, the Chief Executive stated the objectives of the Government's housing policy, and announced a number of measures regarding housing and land supply.

(I) *Housing Policy*

The four objectives of housing policy are to: (i) assist grassroots families to secure public housing to meet their basic housing needs; (ii) assist the public to choose accommodation according to their affordability and personal circumstances, and encourage those who can afford it to buy their own homes; (iii) provide subsidised home ownership flats on top of public rental housing (PRH) so as to build a progressive housing ladder; and (iv) maintain the healthy and steady development of the private property market, with priority to be given to meet Hong Kong permanent residents' needs. The following paragraphs summarise the key measures to achieve these objectives.

(1) Increasing supply of subsidised housing in short to medium term

- As a target, build at least 100 000 units of PRH over the five years starting 2018.
- Set aside a site in Sha Tin for the Hong Kong Housing Society (HKHS) to develop a subsidised housing project, and allocate a site in Sha Tau Kok for rental housing development by the HKHS, together providing about 1 000 units.
- Examine all projects in the pipeline and increase the plot ratio as appropriate.
- The Housing Department will step up its efforts to combat the abuse of PRH resources. Together with the PRH flats surrendered voluntarily by tenants, on average a net number of about 7 000 units will be recovered every year. With another 15 000 or so new flats completed, there will be more than 22 000 PRH flats available for allocation a year.
- Offer about 2 100 new home ownership scheme (HOS) flats for pre-sale in end-2014.
- Earmark four pieces of land in Tai Po, Diamond Hill, Choi Hung and Ma On Shan originally reserved for the My Home Purchase Plan for new HOS development.

(2) Long-term Housing Strategy

The Long Term Housing Strategy Steering Committee is undertaking a comprehensive review of public and private housing demand, including the demand for rental housing and home ownership, and devising a new long-term housing strategy. Also, the Committee will assess the medium and long-term housing needs of different social strata and groups, set priorities and make long-term plans. The Committee will publish a public consultation paper in mid-2013.

(II) *Land Supply*

The Government will continue to adopt a multi-pronged approach to expand the land resources and step up its efforts to meet housing and other needs. The Government will take a number of strong measures to increase housing land supply in the short to medium term and take forward a number of long-term land supply projects.

(1) Increasing supply of housing land in short to medium term

The Chief Executive announced 10 measures to increase residential land supply in the short to medium term. Among these, the seven measures below would make available over 300 hectares of land for the construction of about 128 700 residential flats in the

Box 4.2 (Cont'd)

short to medium term, based on already known information.

- Use 36 Government, Institution or Community (GIC) sites and other Government sites measuring 27 hectares for housing development to provide about 11 900 flats.
- Rezone 13 sites measuring 57 hectares which are devegetated, deserted or formed in Green Belt areas for residential use to provide about 23 000 units.
- Rezone 16 sites measuring 30 hectares of industrial land for residential use to provide about 20 400 units.
- Take forward the planning for residential development at Kam Tin South West Rail Kam Sheung Road Station and Pat Heung Maintenance Depot, with about 33 hectares of land to provide about 8 700 flats.
- The Urban Renewal Authority will supply approximately 4.9 hectares of land under its development projects, which will be mainly used for residential development to provide about 4 700 flats.
- Over the past three years, the Town Planning Board has approved 57 Planning applications relating to residential development. Excluding two sites identified in the last round of review of industrial land, the remaining 55 applications involve a total area of about 130 hectares and are expected to provide over 45 000 flats when the projects are fully implemented.
- Expedite four development projects, including the former Diamond Hill Squatter Areas, former Cha Kwo Ling Kaolin Mine, former Lamma Quarry and Anderson Road Quarry, to provide about 27 hectares of residential land for the construction of about 15 000 public and private residential units.

(2) Long-term Land Supply

The Government will take forward the following large-scale new development projects as soon as possible.

- The North East New Territories New Development Areas (NDAs) to provide about 533 hectares of developable land, including housing land for 53 800 units.
- The Hung Shui Kiu NDA to provide over 400 hectares of developable land according to preliminary assessment.
- Study the feasibility of taking forward further development of the New Territories North, with a view to developing a modern new town on a similar scale of the Fanling or Sheung Shui New Towns.
- Expedite the review of agricultural land in North District and Yuen Long which is currently used mainly for industrial purposes or temporary storage, or is deserted, for housing development.
- Explore the potential of developing Tung Chung into a new town with more comprehensive and better developed community facilities, and continue to explore the development potential of Lantau Island and areas along the trunk routes in New Territories West.
- Reclaim on an appropriate scale outside Victoria Harbour to build up the land reserve and make available around 2 000 to 3 000 hectares of land.
- Explore the feasibility of using rock cavern and underground space development as sources of land supply.

These measures should help achieve the Government's housing objectives and increase the land supply. The Government will continue to monitor the situation and introduce further measures when necessary.

4.9 These measures have yielded noticeable results. On *speculative activities*, there were on average only 25 confirmor transactions per month in 2012, representing a meager 0.3% of total transactions. This was much lower than the average of 318 cases or 2.4% in January to November 2010. Resale within 24 months after assignment also decreased through the year, to an average of only 315 cases per month or 4.6% of total transactions in the fourth quarter, much lower than the average of 2 343 cases or 17.6% in January to November 2010. Reflecting the effects of the BSD, *purchases by overseas individuals and overseas companies* plunged to 61 cases in December, 83% lower than the monthly average of 365 cases in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new residential mortgages in 2012, at 55%, was lower than the average of 64% in January to October 2009 before the first round of prudential measures for residential property mortgage lending was introduced by the HKMA.

Diagram 4.4 : Speculative activities were sharply curtailed

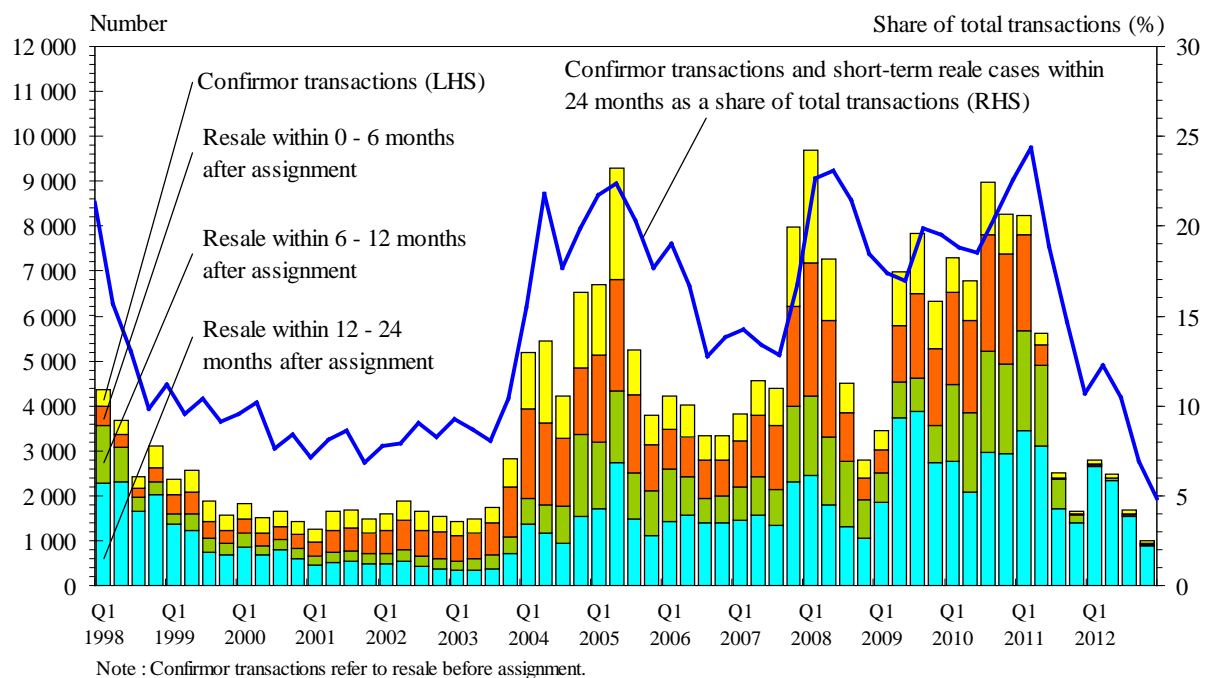
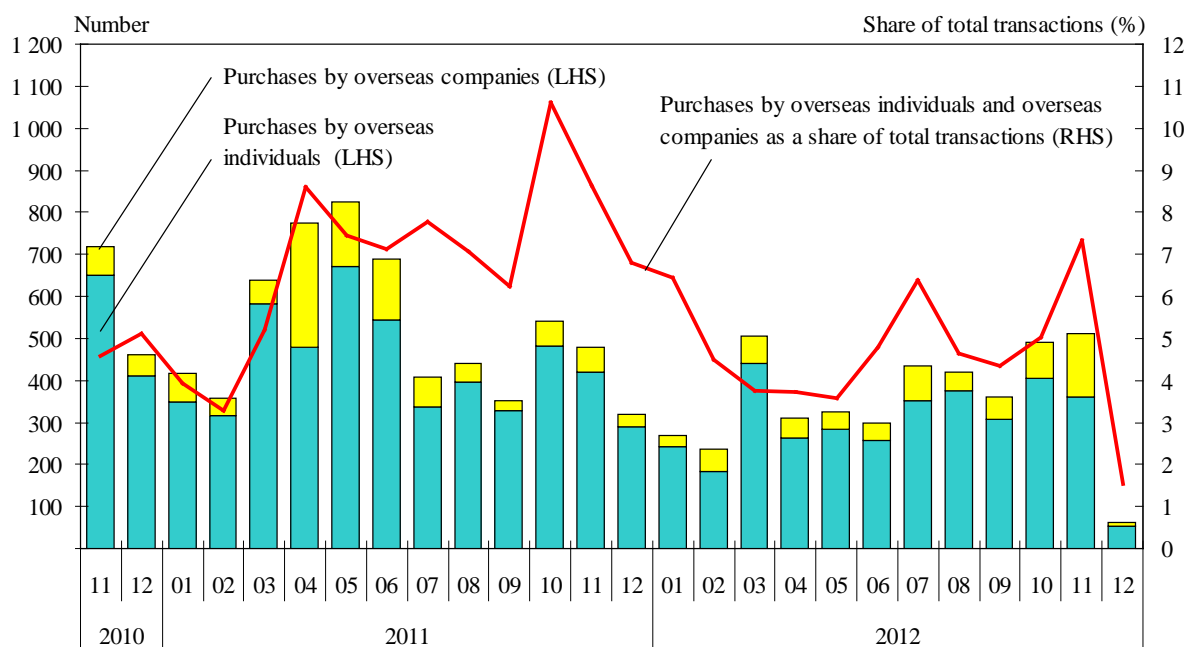


Diagram 4.5 : Purchases by overseas buyers plunged after the introduction of BSD



4.10 Much work has also been done in improving the *transparency of the residential property market*. The Residential Properties (First-hand Sales) Ordinance was enacted in July 2012. The Government is setting up an enforcement authority under the Transport and Housing Bureau. The enforcement authority will start enforcing the legislation in end of April 2013.

4.11 The *commercial and industrial property markets* were generally buoyant in 2012. Sale prices of *retail shop space* soared by 39% between December 2011 and December 2012 while rentals rose by 12%. As a result of the much faster rise in prices than in rentals, the average rental yield for retail shop space fell further from 2.9% in December 2011 to a record low of 2.3% in December 2012. As to trading, average transactions for retail shop space rebounded by 23% to an average of 615 cases per month in 2012⁽³⁾, mostly attributable to the surge in the latter part of the year. Yet this was still 5% lower than the average monthly transactions in January to November 2010 (i.e. before the introduction of the SSD on residential property). Take-up of retail shop space amounted to 165 000 m² in 2012, much higher than the completion of 90 100 m². As a result, the vacancy rate declined visibly from 8.0% at end-2011 to 6.9% at end-2012, the lowest level since 1994.

4.12 Overall prices of *office space* surged by another 23% between December 2011 and December 2012. Prices of Grade A, B and C office space surged by 17%, 23% and 29% respectively. Overall office rentals increased by a less rapid 7% over the period, with Grade A, B and C office space registering similar gains of 7%, 9% and 9% respectively. The average rental yield for

Grade A and B office space both declined from 3.3% in December 2011 to 3.0% in December 2012, and that for Grade C office space from 3.4% to 2.9%. Thanks to the buoyant trading in the second half, transactions for office space rebounded by 9.4% to an average of 280 cases per month for 2012 as a whole. This was however still 7% lower than the level in January to November 2010. Take-up and completion of office space amounted to 182 600 m² and 135 700 m² respectively in 2012. The vacancy rate declined further from 6.5% at end-2011 to 6.0% at end-2012, the lowest level since 1989.

4.13 Similarly, prices of *flatted factory space* surged by 44% between December 2011 and December 2012 while rentals rose by 13%. The average rental yield plunged from 3.7% to a record low of 3.0%. Transactions for flatted factory space increased sharply by 30% to an average of 824 cases per month in 2012. This was also 21% higher than the average in January to November 2010. Take-up of flatted factory space, at 150 600 m² in 2012, much exceeded completion, at 46 200m². In consequence, the vacancy rate of flatted factory space fell further from 6.0% at end-2011 to 5.0% at end-2012, the lowest level since 1988.

Diagram 4.6 : Prices and rentals of non-residential properties surged further

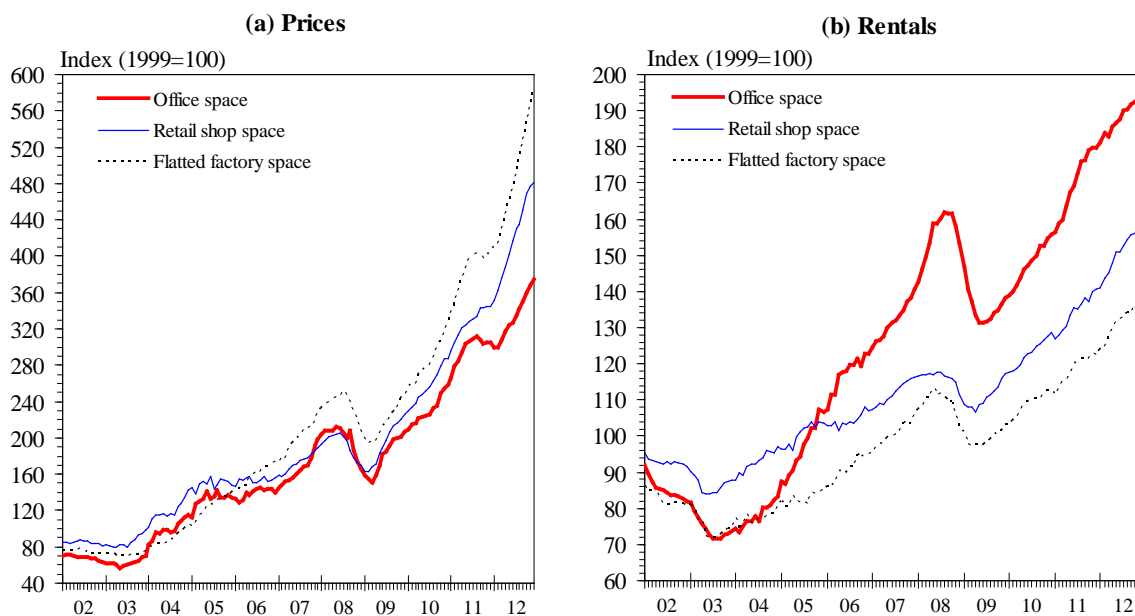
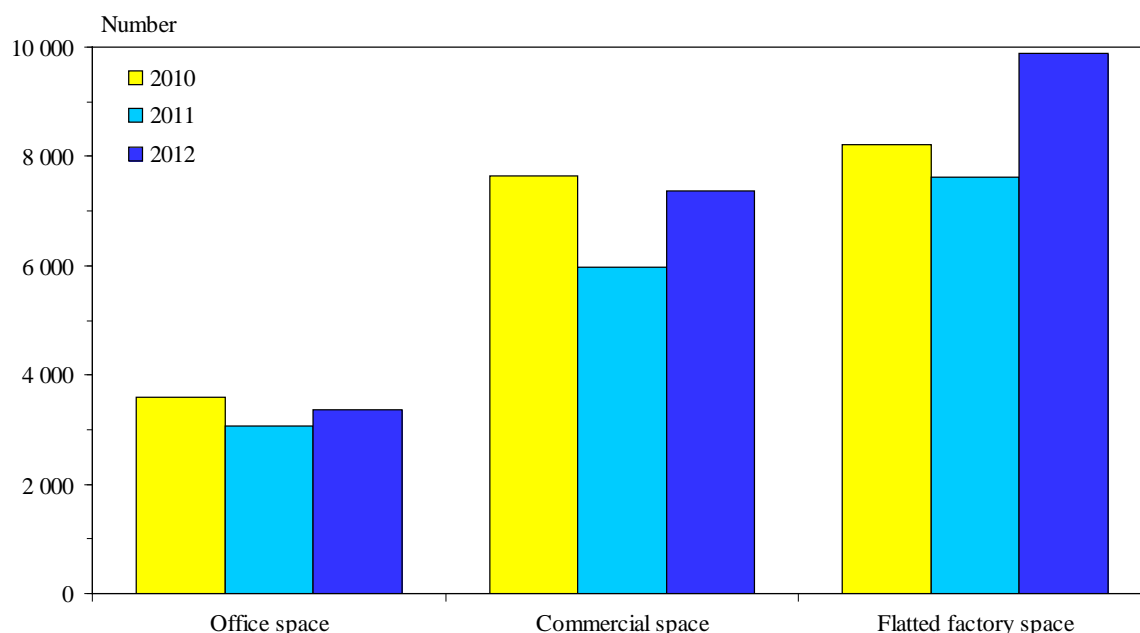


Diagram 4.7 : Transactions for commercial and industrial properties rebounded



Land

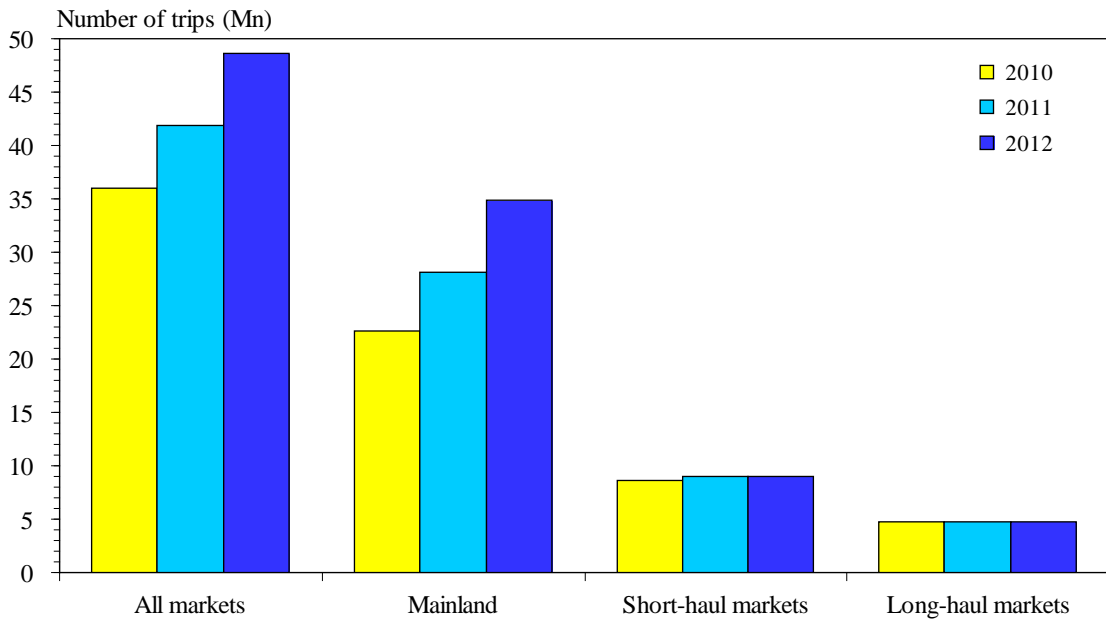
4.14 Reflecting the Government efforts to increase land supply, 27 sites with a total area of about 29.7 hectares were disposed in 2012, fetching land premium of \$45.1 billion in total. Among these sites, there were 20 residential sites, two residential and commercial sites, one business site, one commercial site and three sites for other uses. In November and December, the tender exercises for three residential sites in Sha Tin, Sai Kung and Tuen Mun also commenced.

4.15 Regarding exchange of land, 13 sites with a total area of about 12.2 hectares were approved in 2012, of which four were residential sites. As to lease modifications, a total of 66 sites were approved.

Tourism

4.16 The inbound tourism sector remained sturdy in 2012, though performance varied across different market segments. Overall *visitor arrivals* grew by another 16.0% to a record high of 48.6 million. Visitor arrivals from the Mainland remained the major source of growth, surging by another 24.2% to 34.9 million and accounting for 71.8% of all visitor arrivals. Meanwhile, visitor arrivals from the short-haul and long-haul markets recorded declines of 1.0% and 0.6% respectively⁽⁴⁾. Analysed by the length of stay, same-day visitors grew by 26.7%, faster than the 6.5% growth in overnight visitors. As a result, the share of same-day visitors rose further from 46.8% to 51.1%, while the share of overnight visitors declined from 53.2% to 48.9%.

Diagram 4.8 : Mainland market remained the principal growth impetus to inbound tourism



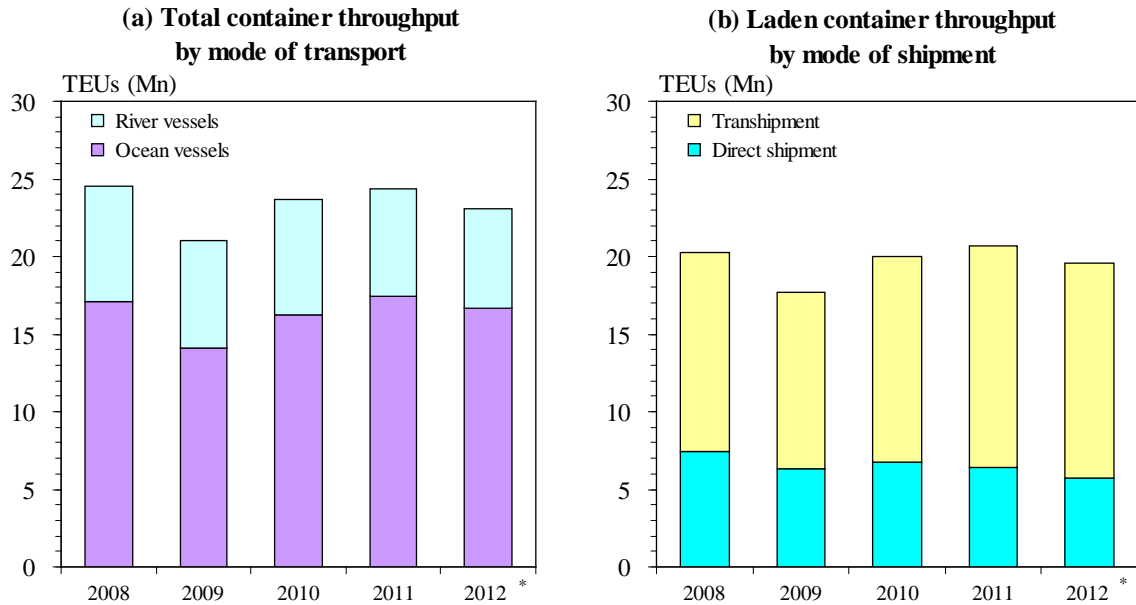
Note : (*) See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

4.17 Supported by the strong growth in visitor arrivals, the hotel room occupancy rate stayed at a high 89% in 2012, same as in the preceding year. Over the period, the average achieved hotel room rate rose by 9.8% to \$1,489⁽⁵⁾.

Logistics

4.18 The logistics sector was subdued in most part of 2012, but showed some improvement towards the year-end along with the pick-up in external trade. Taking the year as a whole, *total container throughput* declined by 5.2% to 23.1 million TEUs. Within the laden container throughput, transshipment edged down by 2.1% while direct shipment fell by 11.9%. The value of trade handled at the Hong Kong Port fell by 4.6%, leading to a further decline in its share in overall trade value, from 26.7% in 2011 to 24.6% in 2012.

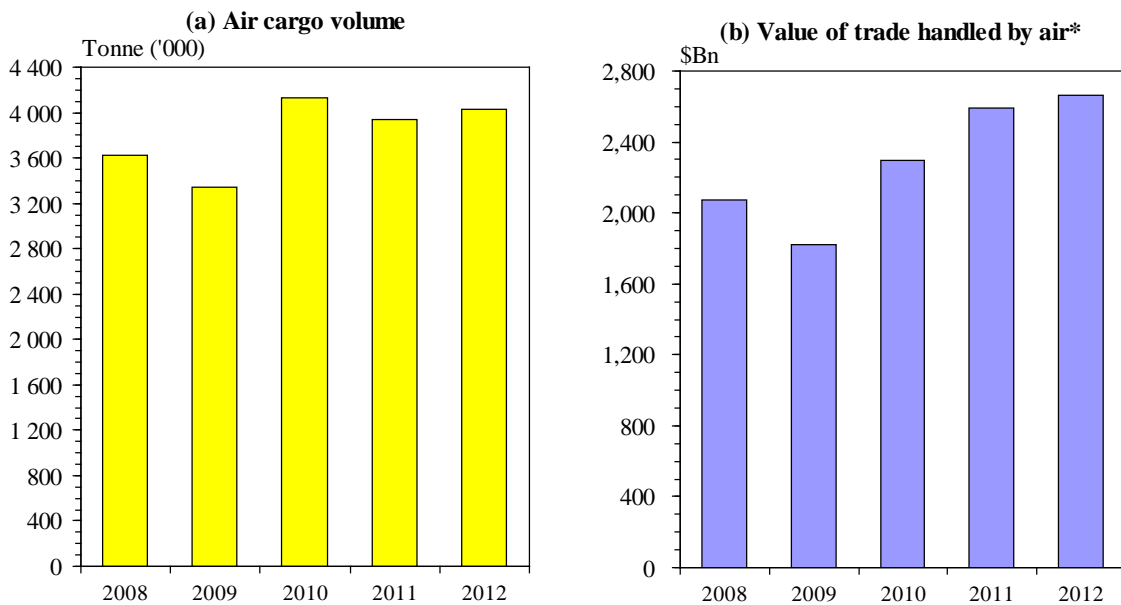
Diagram 4.9 : Container throughput showed some decline



Note : (*) Total container throughput for 2012 is the preliminary estimate by Hong Kong Port Development Council. Its breakdowns by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2012.

4.19 Air cargoes had a slightly better performance by comparison. Thanks to the rebound in the fourth quarter, *air freight throughput* expanded by a modest 2.2% to 4.0 million tonnes for 2012 as a whole. The total value of trade by air expanded by 2.9%, though its share in overall trade value edged down from 36.4% to 36.2%.

Diagram 4.10 : Both air cargo volume and the value of trade by air recorded modest growth



Note : (*) Not including transshipment.

Transport

4.20 Traffic flows for major modes of transport showed mixed performance in 2012. Air passenger traffic increased by 4.7% to 56.5 million while water-borne passenger trips were little changed at 27.4 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 6.3% to 553 500 while average daily vehicular movements edged down by 0.5% to 42 400.

4.21 The Government has undertaken to review the Fare Adjustment Mechanism (FAM) of the MTR Corporation Limited (MTRCL). To gauge public views on the subject, the Government conducted a public consultation exercise from September to November. The Government plans to complete the review and discussions with MTRCL in early 2013, so that the new FAM can be applied in the MTR fare adjustment in 2013.

Environment

4.22 In November the Hong Kong-Guangdong Joint Working Group on Sustainable Development and Environmental Protection (JWGSDEP) endorsed a major air pollutant emission reduction plan for up to 2020 for the Pearl River Delta region. To achieve the emission reduction targets for 2015 and 2020 and bring continuous improvement to the regional air quality, the two governments will implement additional emission reduction measures focusing on major emission sources, such as tightening of vehicle emission standards. The JWGSDEP also agreed on other key environmental co-operation areas for 2013, including promoting cleaner production, protecting the water environment and managing forestry and marine resources.

4.23 To improve air quality, in the 2013 Policy Address the Chief Executive proposed to set aside \$10 billion as subsidies to owners of over 80 000 heavily polluting pre-Euro and Euro I to III diesel commercial vehicles in order to progressively phase out these vehicles. The scheme will significantly reduce the emissions of particulates and nitrogen oxides from the vehicle fleet by 80% and 30% respectively. The Government also proposed to set a service life limit for newly registered diesel commercial vehicles at 15 years.

Notes :

- (1) Take-up figures represent the net increase in the number of units occupied. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers.
- (2) 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, Box 3.1 in the Third Quarter Economic Report 2011. For further details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 of this report.
- (3) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (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 2012, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 72%, 18% and 10% of total visitor arrivals.
- (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 continued through 2012 amid the ongoing accommodative monetary policy in the United States. The Hong Kong dollar interest rates at both the interbank and retail levels continued to hover at low levels.*
- *The Hong Kong dollar exchange rate moved within a narrow range against the US dollar during the year, and experienced some upward pressure since October due to inflow of funds. With the strong-side Convertibility Undertaking repeatedly triggered, the Hong Kong Monetary Authority (HKMA) passively purchased a total of US\$13.8 billion in the market with Hong Kong dollar in the fourth quarter.*
- *The monetary aggregates expanded firmly in 2012. In contrast, the growth in total loans and advances decelerated along with the slowdown in the domestic economy.*
- *After staying range-traded in the first seven months of 2012, the local stock market revived in late July along with the stabilisation of the eurozone debt crisis, and staged a rally in September to December upon another round of monetary easing measures in the major advanced economies. The Hang Seng Index recorded a hefty gain of 22.9% over a year earlier to 22 657 at end-2012. Nevertheless, trading and fund raising activities were quiet in most of 2012.*

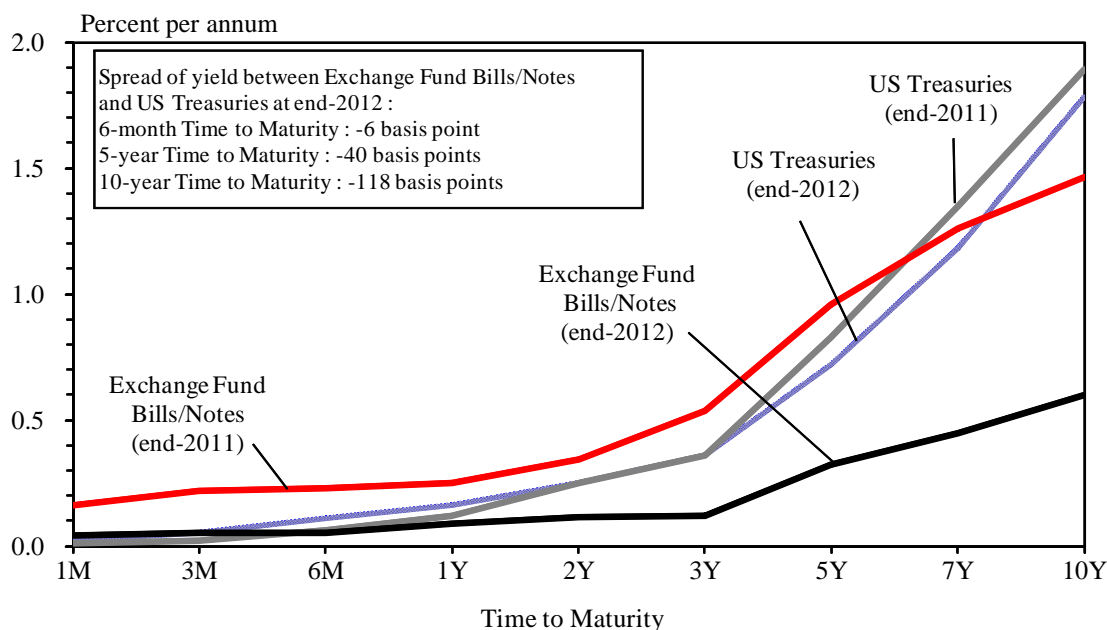
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

5.1 The low interest rate environment in Hong Kong continued through 2012 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate staying at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA held unchanged at 0.5% during the year⁽¹⁾. The *Hong Kong dollar interbank interest rates* also stayed low, with the overnight and three-month HIBOR hovering at around 0.10% and 0.40% respectively at the end of the year.

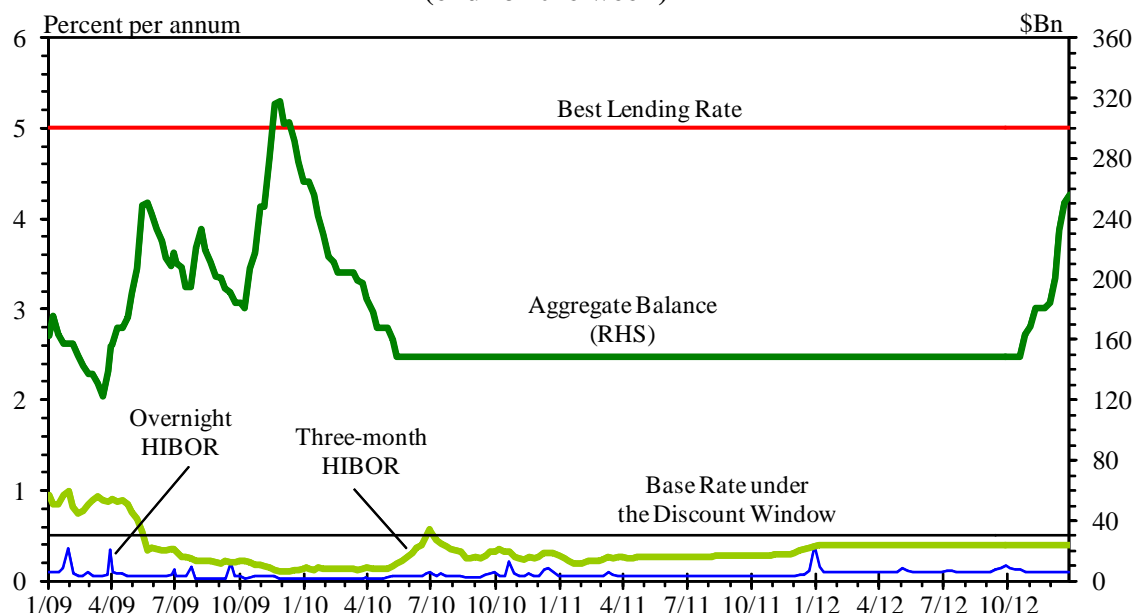
5.2 The *US dollar yields* showed some marginal pick-up at the short end but declined at the long end during 2012, largely reflecting the impact of the monetary measures of the Federal Open Market Committee⁽²⁾, including the extension of the Maturity Extension Program in June and the third round of quantitative easing measures (QE3) in September. Meanwhile, the *Hong Kong dollar yields* shifted downward noticeably, especially at the longer end. As a result, the yield spread between 6-month Exchange Fund Notes and 6-month US Treasury Bills turned from a positive 17 basis points a year earlier to a negative six basis points at end-2012, while the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes widened noticeably from 43 basis points to 118 basis points.

Diagram 5.1 : The US dollar yield curve flattened while the Hong Kong dollar yields shifted downward noticeably



5.3 Interest rates on the retail front held steady at low levels. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% through 2012. The *average savings deposit rate* remained at 0.01% at end-2012, and the *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 edged down by one basis point over a year earlier to 0.15%. Reportedly banks have gradually withdrawn the preferential interest rates previously offered to new customers with large and longer-term deposits. The *composite interest rate*, which indicates the average cost of funds for banks, thus declined from 0.53% to 0.32%⁽³⁾.

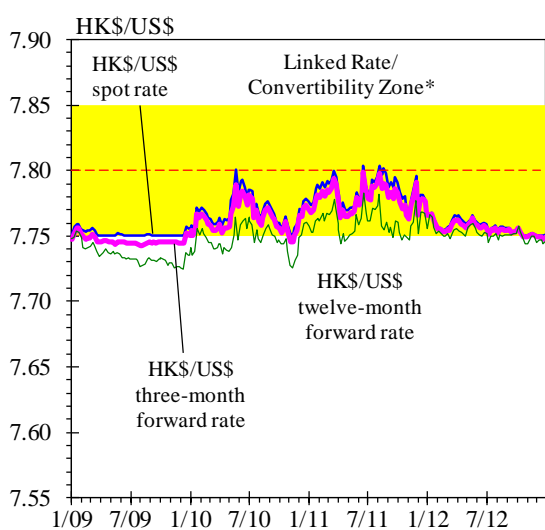
Diagram 5.2 : Hong Kong dollar interest rates generally remained low through 2012 (end for the week)



5.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range of around 7.750 to 7.770 against the US dollar in 2012, and experienced some upward pressure in the fourth quarter due to inflow of funds. The Hong Kong dollar spot exchange rate has generally stayed around 7.750 since October and closed at 7.751 at end-2012, up from 7.766 a year earlier. The strong-side Convertibility Undertaking was repeatedly triggered, and in response to banks' offers of US dollar in the market, the HKMA passively purchased a total of US\$13.8 billion in the fourth quarter. As a result, the Aggregate Balance rose from \$148.7 billion a year earlier to \$255.9 billion at end-2012. Meanwhile, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* to the spot rates narrowed from 31 and 138 pips (each pip equivalent to HK\$0.0001) a year earlier to 20 and 47 pips at end-2012 respectively.

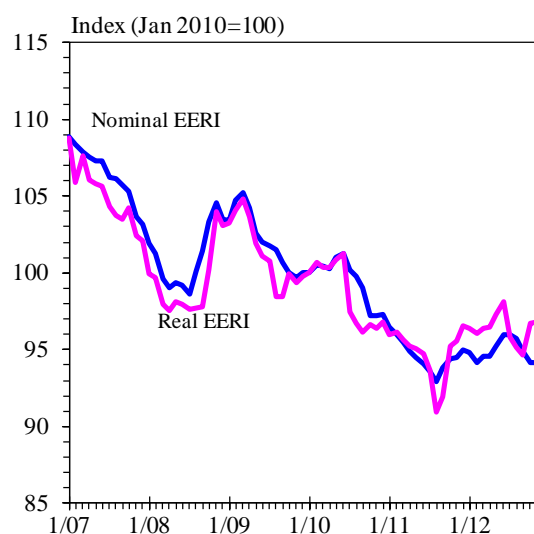
5.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. The US dollar strengthened slightly against most major currencies in the first half of 2012, but depreciated again in the second half. For the year as a whole, the *trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index* declined by 0.9% while the *Real Effective Exchange Rate Index* edged up by 0.4%⁽⁴⁾.

Diagram 5.3 : Hong Kong dollar remained stable against the US dollar before strengthening towards the end of 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 rose in the first half but declined in the second half (average for the month)



Money supply and banking sector

5.6 The monetary aggregates expanded firmly in 2012. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) increased notably by 15.8% over a year earlier to \$909 billion at end-2012, and the broad money supply (HK\$M3) by 12.1% to \$4,546 billion⁽⁵⁾. *Total deposits* with authorised institutions (AIs) also grew by 9.3% to \$8,297 billion, within which Hong Kong dollar deposits and foreign currency deposits recorded respective growth of 11.7% and 7.0%⁽⁶⁾.

Diagram 5.5 : The monetary aggregates expanded firmly in 2012

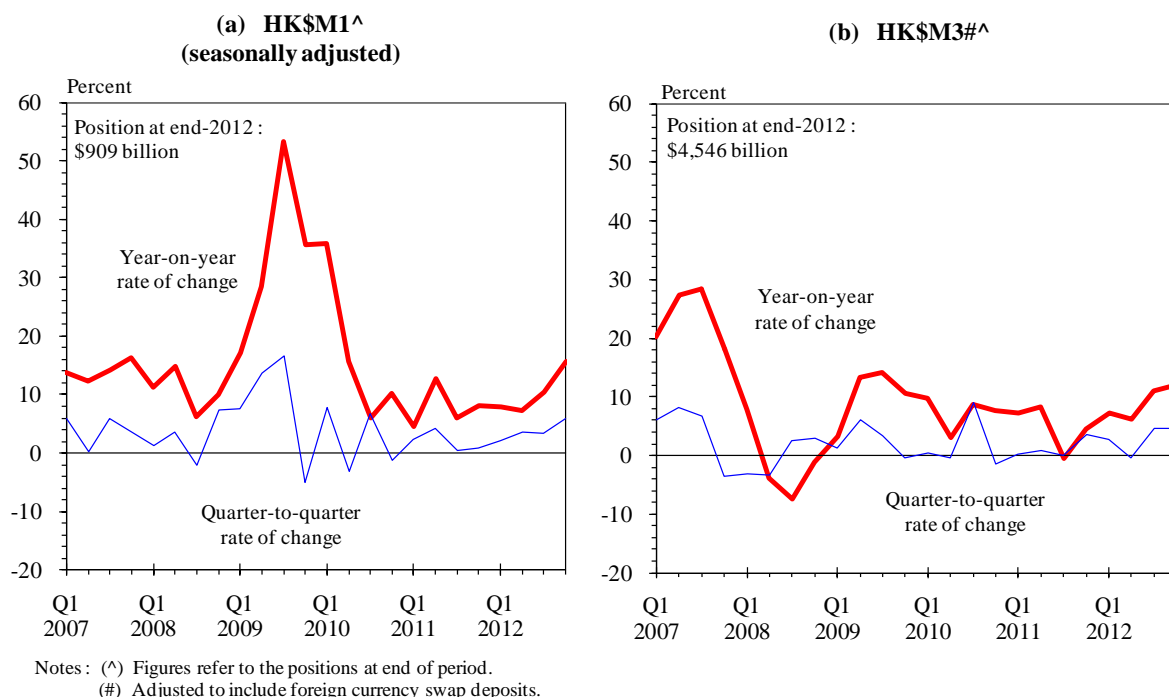


Table 5.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		HK\$ [^]	Total	HK\$ ^(a)	Total	HK\$ ^(a)	Total
2011	Q1	2.4	2.9	0.1	3.3	0.1	3.4
	Q2	4.3	4.4	0.8	3.4	0.7	3.4
	Q3	0.4	2.3	0.1	1.9	0.1	1.8
	Q4	0.8	0.7	3.6	3.7	3.6	3.8
2012	Q1	2.1	4.6	2.8	2.5	2.7	2.4
	Q2	3.6	3.2	-0.3	0.7	-0.3	0.7
	Q3	3.4	6.4	4.6	3.2	4.6	3.2
	Q4	5.8	6.4	4.6	4.3	4.7	4.3
Total amount at end-2012 (\$Bn)		909	1,377	4,537	8,951	4,546	8,971
% change over a year earlier		15.8	22.2	12.1	11.1	12.1	11.0

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

5.7 The growth in *total loans and advances* decelerated in 2012 along with the moderating domestic economy, though showing a small rebound towards the end of the year. Total loans expanded by 9.6% over a year earlier to \$5,569 billion at end-2012. Among the total, Hong Kong dollar loans

increased by a modest 5.5% to \$3,333 billion, while foreign currency loans grew by a sturdy 16.4% to \$2,236 billion. Reflecting the relative movements in deposits and loans, the Hong Kong dollar loan-to-deposit ratio declined gradually from 84.5% a year earlier to 79.8% at end-2012.

5.8 Analysed by type, loans for use in Hong Kong rose by 7.3% over a year earlier to \$3,981 billion at end-2012, and loans for use outside Hong Kong by a sharper 15.9% to \$1,589 billion. Within the former, loans to different economic sectors showed mixed performance. Loans to wholesale and retail trade and trade financing registered strong growth of 12.6% and 10.0% respectively, while loans for purchase of residential property also grew by 7.6%. On the other hand, loans to stockbrokers decreased by 3.5%, with the change showing sharp fluctuation from quarter to quarter along with the performance of the stock market.

Table 5.2 : Loans and advances

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Wholesale	Building,	Purchase	Financial	Stock-	Total ^(b)	All loans	Total
		finance	facturing	and	construction,	of	concerns	brokers		and advances	loans
				retail	and	residential				for use	and
				trade	investment	property ^(a)				outside	advances
										Hong Kong ^(c)	
%											
change											
during											
the											
quarter											
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	4.3	3.3	3.1	1.1	10.4	-20.1	2.4	10.5	4.4
	Q4	-3.0	-1.5	-3.0	1.0	*	-8.5	1.8	-0.6	5.8	1.0
2012	Q1	7.4	-0.1	3.0	-1.5	0.1	3.1	-14.6	1.5	4.5	2.3
	Q2	5.0	-2.4	2.9	-0.9	2.3	-3.5	-1.4	1.6	4.4	2.3
	Q3	5.7	-2.1	4.4	1.9	2.0	-2.4	-16.1	1.6	2.6	1.9
	Q4	-7.7	-0.3	1.8	1.9	2.9	7.9	36.7	2.5	3.6	2.8
Total amount at end-2012 (\$Bn)		383	181	353	930	915	277	20	3,981	1,589	5,569
% change over a year earlier		10.0	-4.8	12.6	1.3	7.6	4.7	-3.5	7.3	15.9	9.6

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

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

(c) Also include loans where the place of use is not known.

(*) Change of less than 0.05%.

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", or "Basel 2.5" following the enhancements issued by the Committee in 2009⁽⁷⁾), the capital adequacy ratio (CAR) of these institutions stayed high at an average of 16.1% at end-September 2012. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

5.10 Following the release of the Basel III rules⁽⁸⁾ text by the Basel Committee in December 2010, the HKMA intends to fully implement the regulatory capital and liquidity standards in accordance with the Committee's transitional timetable, commencing on 1 January 2013 until the standards are fully phased in on 1 January 2019. The Banking (Amendment) Ordinance 2012, which was passed by the Legislative Council in February 2012, sets out the broad legal framework for implementing Basel III in Hong Kong, empowering the HKMA to make rules to prescribe the detailed capital and liquidity standards as well as the associated disclosure requirements under the framework.

5.11 The HKMA has taken steps to amend the Banking (Capital) Rules and the Banking (Disclosure) Rules for the first phase of Basel III implementation from 1 January 2013. To help inform its rule-making, since January 2012 the HKMA has issued three packages of detailed implementation proposals covering key areas of Basel III capital, liquidity and disclosure standards for industry consultation. The HKMA then issued the draft text of the Banking (Capital) (Amendment) Rules 2012 in August for statutory consultation, and the Rules was subsequently passed by the Legislative Council in December. As regards the proposed amendments to the Banking (Disclosure) Rules, the statutory consultation was conducted in November. The HKMA aims at submitting the legislative amendments to the Legislative Council in April 2013, with a view to having the revised Rules taking effect from end-June 2013 in accordance with the Basel Committee's implementation timeline.

5.12 Based on the results of the local Quantitative Impact Study (QIS) on the Basel III consultative proposals conducted by the HKMA in early 2012, 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. To inform its policy decisions on

implementation, the HKMA has commenced in July 2012 a new round of data collection of selected AIs' positions as at end-June 2012 to assess the impact of the new Basel III requirements on AIs.

5.13 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans decreased from 0.59% at end-2011 to a record-low of 0.50% at end-September 2012. While the delinquency ratio for credit card lending edged up from 0.19% at end-2011 to 0.21% at end-September 2012, the ratio remained low by historical standard. The delinquency ratio for residential mortgage loans was at a very low level of 0.02% at end-2012, though slightly up from 0.01% at end-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 (gross)</u>
2011 Q1	98.17	1.17	0.66
Q2	98.20	1.19	0.61
Q3	98.21	1.19	0.60
Q4	98.28	1.13	0.59
2012 Q1	98.17	1.27	0.57
Q2	98.19	1.28	0.52
Q3	98.19	1.31	0.50

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".

5.14 Offshore renminbi (RMB) business in Hong Kong grew further in 2012. The scope of business expanded with banks in Hong Kong starting to offer personal RMB services to non-Hong Kong residents since August.

5.15 The total outstanding amount of *RMB deposits* and certificates of deposit issued rose by 9% over a year earlier to RMB720 billion at end-2012. *RMB trade settlement handled by banks in Hong Kong* surged by 37% to RMB2,633 billion in 2012. RMB financing activities also showed distinct growth. The outstanding amount of *RMB loans* soared from RMB31 billion a year earlier to RMB79 billion at end-2012. Total *RMB bond issuance* increased from RMB108 billion in 2011 to RMB112 billion in 2012.

5.16 The provisional administrative rules for RMB cross-border bank lending in respect of Qianhai were released in December 2012. Qianhai corporates can borrow RMB loans from banks in Hong Kong for uses relating to the development of Qianhai. This arrangement would further facilitate the circulation of RMB funds between Hong Kong and the Mainland, and provide banks in Hong Kong with more business opportunities in developing RMB lending business, thereby strengthening the position of Hong Kong as an offshore RMB business centre.

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

<u>As at end of period</u>		Demand and savings <u>deposits</u> (RMB Mn)	Time <u>deposits</u> (RMB Mn)	Total <u>deposits</u> (RMB Mn)	<u>Interest rates on</u> ^(a)		Number of AIs engaged in RMB <u>business</u>	Amount of cross-border RMB <u>trade settlement</u> ^(c) (RMB Mn)
					Savings <u>deposits</u> ^(b) (%)	Three-month <u>time deposits</u> ^(b) (%)		
2011	Q1	137,454	313,965	451,419	0.46	0.66	118	311,279
	Q2	180,346	373,256	553,602	0.28	0.52	128	492,727
	Q3	191,528	430,708	622,236	0.26	0.52	131	525,425
	Q4	176,398	412,132	588,529	0.25	0.52	133	585,488
2012	Q1	156,788	397,528	554,317	0.25	0.52	135	571,176
	Q2	136,616	421,094	557,710	0.25	0.52	133	641,907
	Q3	118,997	426,703	545,701	0.25	0.52	136	716,946
	Q4	123,542	479,453	602,996	0.25	0.52	139	702,474
% change over a year earlier		-30.0	16.3	2.5	N.A.	N.A.	N.A.	20.0

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

5.17 On the back of a strong growth in private sector issuance⁽⁹⁾, the Hong Kong dollar debt market expanded further in 2012. Total gross issuance of Hong Kong dollar debt securities rose by 2.8% to \$2,130.4 billion in 2012. Within the total, private sector debt issuance surged by 31.6%, with new debt issued by AIs and non-MDB overseas borrowers recording distinct increases. In contrast, public sector debt issuance, at \$1,889.6 billion in 2012, was little changed from the preceding year. At end-2012, the total outstanding amount of Hong Kong dollar debt securities rose modestly by 3.8% over a year earlier to a record level of \$1,308.8 billion, equivalent to 28.8% of HK\$M3 or 24.0% of Hong Kong dollar-denominated assets of the entire banking sector⁽¹⁰⁾.

5.18 As to the Government Bond (“GB”) Programme, a total of \$16 billion institutional GBs, with tenors ranging from two to ten years, were issued in 2012. For the retail part, in June 2012 the Government issued another \$10 billion of inflation-linked retail bonds (i.e. iBonds) in accordance with the 2012-13 Budget. As at end-2012, the outstanding size of bonds issued under the GB Programme amounted to \$67 billion, including nine institutional issues for \$47 billion, and two retail issues (iBonds) for \$20 billion.

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

	Exchange Fund paper	Statutory bodies/govern ment-owned c orporations	Government	Public sector total	AIs	Local corpo rations	Non-MDBs overseas bor rowers ^(a)	Private sector total	MDBs ^(a)	Total
New Issuance										
2011 Annual	1,841.3	20.2	27.5	1,889.0	136.3	28.3	17.8	182.4	-	2,071.3
Q1	452.9	4.8	3.5	461.2	32.4	6.1	5.4	43.8	-	505.0
Q2	459.4	4.4	2.5	466.4	39.9	10.5	3.9	54.3	-	520.7
Q3	462.0	6.5	16.0	484.5	35.4	3.6	2.8	41.8	-	526.3
Q4	467.0	4.4	5.5	476.9	28.7	8.1	5.6	42.4	-	519.3
2012 Annual	1,851.6	12.0	26.0	1,889.6	190.1	27.7	22.2	240.0	0.8	2,130.4
Q1	455.6	3.4	5.0	464.0	66.9	10.0	5.4	82.2	0.4	546.6
Q2	462.3	2.9	14.5	479.7	40.8	4.1	8.3	53.1	0.4	533.2
Q3	464.6	3.7	3.5	471.9	48.4	8.8	2.7	59.9	-	531.7
Q4	469.0	2.0	3.0	474.0	34.0	4.8	5.9	44.7	-	518.8
% change in 2012 over 2011	0.6	-40.4	-5.5	*	39.4	-2.1	25.0	31.6	-	2.8
Outstanding (as at end of period)										
2011 Q1	653.8	58.6	29.0	741.4	234.9	87.5	186.0	508.4	15.1	1,264.8
Q2	654.4	52.6	31.5	738.5	245.3	95.3	175.9	516.5	14.7	1,269.7
Q3	654.8	52.8	44.0	751.6	245.5	96.3	169.4	511.2	14.7	1,277.5
Q4	655.4	51.0	49.5	755.9	229.2	97.3	163.7	490.3	14.7	1,260.9
2012 Q1	655.9	50.6	51.0	757.5	250.9	102.3	157.8	511.0	12.4	1,280.9
Q2	656.4	46.8	65.5	768.8	245.6	104.8	151.4	501.7	10.6	1,281.1
Q3	656.8	45.8	65.5	768.1	258.6	112.1	150.7	521.4	10.6	1,300.0
Q4	657.4	45.2	68.5	771.0	263.6	116.2	147.7	527.5	10.3	1,308.8
% change over a year earlier	0.3	-11.5	38.4	2.0	15.0	19.4	-9.8	7.6	-30.3	3.8

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

(a) MDBs : Multilateral Development Banks.

(*) Change of less than 0.05%.

The stock and derivatives markets

5.19 Performance of the *local stock market* largely tracked the developments of the global financial market and external economic environment in 2012. The *Hang Seng Index* (HSI) stayed range-bound in the first seven months, trading between a low of 18 186 and a high of 21 680. It picked up in late July in tandem with the stabilisation of the eurozone debt crisis, and received a boost in September upon another round of monetary easing measures in the major advanced economies. Closing at 22 657 at end-2012, the HSI recorded a hefty gain of 22.9% over a year earlier. *Market capitalisation* of the Hong Kong stock market also expanded by 25.3% to \$22.0 trillion, the highest since October 2007. It was the sixth largest stock exchange in the world and second largest in Asia according to the World Federation of Exchanges⁽¹¹⁾.

5.20 Overall trading activities were quiet in most of 2012, though there was a sharp rebound in the fourth quarter alongside the rally in stock prices. For 2012 as a whole, *average daily turnover* in the securities market fell by 22.8% to \$53.9 billion. As to *derivatives products*, the average daily trading volume of futures and options dwindled by 14.7%⁽¹²⁾. Within the total, trading of H-shares Index futures rose by 6.1%, while trading of stock options, HSI options and HSI futures declined by 24.5%, 13.5% and 11.8% respectively. The average daily trading value of securitised derivatives products plummeted by 29.3%, within which trading of derivative warrants and callable bull/bear contracts tumbled by 37.7% and 17.6% respectively.

Diagram 5.6 : The Hang Seng Index revived in late July and staged a rally since September

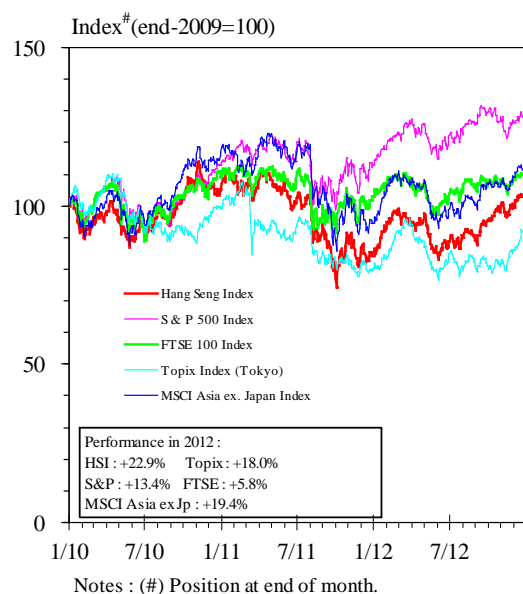


Diagram 5.7 : Market capitalisation expanded but trading activities shrank further

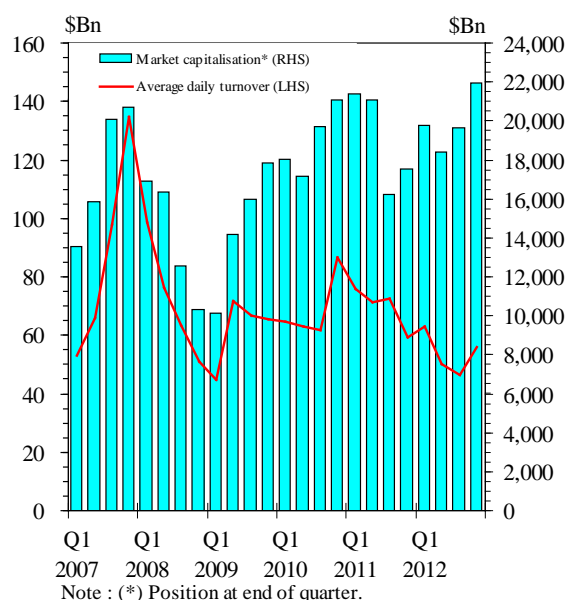


Table 5.6 : Average daily turnover of derivatives products of the Hong Kong market

		Hang Seng Index <u>fu</u> <u>es</u>	Hang Seng Index <u>optio</u> <u>ns</u>	H-shares Index <u>fu</u> <u>es</u>	Stock <u>optio</u> <u>ns</u>	Total futures and options <u>tra</u> <u>ded</u> *	Derivative warrants (\$Mn)	Callable bull/bear contracts (<u>\$Mn</u>)	Total securitised derivatives traded (<u>\$Mn</u>) [^]
2011	Annual	94 036	43 452	61 116	302 750	572 275	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
2012	Annual	82 905	37 597	64 863	228 438	487 994	6,666	6,207	12,873
	Q1	84 278	35 475	63 286	238 445	493 555	8,621	7,612	16,234
	Q2	88 614	43 634	65 131	225 266	501 374	6,274	6,317	12,590
	Q3	77 549	36 050	60 055	211 479	454 782	5,558	5,748	11,307
	Q4	81 372	35 255	71 281	239 438	503 888	6,264	5,174	11,438
% change in 2012 Q4 over 2011 Q4		-11.8	-5.4	8.7	-15.7	-9.3	-23.8	-50.0	-38.4
% change in 2012 over 2011		-11.8	-13.5	6.1	-24.5	-14.7	-37.7	-17.6	-29.3

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.

5.21 Fund raising activities were subdued in 2012. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM), plunged by 37.7% to \$305.4 billion⁽¹³⁾, the lowest level since 2005. Within the total, the amount of funds raised through initial public offerings (IPOs) plummeted by 65.3% to \$90.0 billion, the lowest level since 2008. Notwithstanding the challenging market conditions, Hong Kong Stock Exchange remained in the top five globally in terms of funds raised through IPOs in 2012 after staying in the first place in the previous three years.

5.22 Mainland enterprises continued to play a prominent role in the Hong Kong stock market. At end-2012, a total of 721 Mainland enterprises (including 176 H-share companies, 108 “Red Chips” companies and 437 private enterprises) were listed on the Main Board and GEM, accounting for 47% of the

total number of listed companies and 57% of total market capitalisation. In 2012, Mainland-related stocks accounted for 70% of equity turnover and 71% of total equity fund raised in the Hong Kong stock exchange.

5.23 In December 2012 the Securities and Futures Commission (SFC) published the consultation conclusions on the regulation of IPO sponsors. Aiming at ensuring sponsors' thorough understanding of a company before a listing application is made, the proposals covered such aspects as prospectus liability, publication of application proof, reliance on experts and meaningful Management Discussion and Analysis, and initiatives to enhance sponsors' role. The SFC has taken into account respondents' comments collated in the public consultation and refined a number of original proposals while adopting most of the key proposals. Through incentivising sponsors to take a responsible, proactive and constructive role when leading IPOs, the proposals would help maintain investor confidence in Hong Kong's IPO market and benefit the long-term development of the equity market. The new requirements will apply to listing applications submitted on or after 1 October 2013.

5.24 In November the SFC launched a one-month consultation on proposals to enhance the regulatory regime for non-corporate entities, such as business trusts and partnerships, which are listed on the Hong Kong stock exchange. Currently, some provisions under the Securities and Futures Ordinance regarding market misconduct and disclosure of interest only apply to listed entities that are in corporate form, and the proposed enhancements would promote consistency of regulation and enhance market transparency for all listed entities.

Fund management and investment funds

5.25 The fund management business generally recorded solid growth in 2012, thanks to the revival of the equity market in the second half. Supported by the spectacular growth in September to December, gross retail sales of *mutual funds* surged by 46.1% to US\$54.9 billion for 2012 as a whole⁽¹⁴⁾, the highest level since the record started in 2005. In parallel to the rise in equity prices, aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* expanded by a sharp 23.5% over end-2011 to \$440 billion at end-2012⁽¹⁵⁾. Yet the amount of net assets managed by *retail hedge funds* declined⁽¹⁶⁾.

5.26 The Employee Choice Arrangement (ECA), which provides over two million MPF employee members the right to transfer the accrued benefits

derived from their own mandatory contributions in their contribution account during the current employment to an MPF trustee and scheme of their own choice on a lump-sum basis once a year, commenced on 1 November 2012. ECA gives employees greater autonomy in the selection of MPF trustees and schemes and would encourage them to actively manage their MPF investment. In addition, a statutory regime for MPF intermediaries came into effect in November with enhanced regulation of the sales and marketing activities of MPF intermediaries. This would further strengthen protection of scheme members' interests and minimise the risks of mis-selling.

5.27 Separately, in November the Mandatory Providence Fund Schemes Authority (MPFA) put forward several long-term proposals to the Government to reform the MPF System with a view to driving down MPF fees. The proposals include capping the fees of MPF funds, mandating various types of low-fee funds in each MPF scheme, providing a type of simple and low-fee default fund arrangement, and introducing a not-for-profit operator to operate a simple and low-fee MPF scheme. Meanwhile, the MPFA will work on the recommendations of the Consultancy Study on MPF Trustees' Administration Costs and has launched various programmes in order to drive the fees down in the short- to medium-term.

Insurance sector

5.28 The *insurance sector* re-gathered momentum in the third quarter of 2012⁽¹⁷⁾. Gross premium income from long-term business rose by 8.5% over a year earlier. Within the total, premium income from non-investment linked plans surged by 19.5% though that from investment-linked plans fell by 20.0%. Meanwhile, the gross and net premium for general business rose notably by 18.0% and 14.5% respectively, but the underwriting profit plunged by 27.7%.

5.29 Having considered the views gathered from an earlier consultation, in October the Government launched another three-month public consultation on the key legislative amendments for the establishment of an independent Insurance Authority (IIA). The establishment of IIA as a financial regulator independent of the Government operationally and financially is in line with the international practice, and would help facilitate the stable development of the industry and provide better protection for policy holders. The proposed legislative amendments cover various aspects including the functions and governance structure of the IIA, licensing regime for insurance intermediaries, regulatory powers of the IIA and regulatory arrangements for banks' insurance intermediary activities. Subject to the views solicited, the Government would

introduce the relevant bill into the Legislative Council in 2013, with a view to establishing the IIA in 2015.

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	
2011 Annual	34,717	23,798	2,996	49,409	20,794	53	250	70,506	105,223
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
Q4	7,298	4,825	902	10,012	3,896	6	25	13,939	21,237
2012 Q1	10,924	7,608	853	15,056	3,961	16	79	19,112	30,036
Q2	9,328	6,593	735	14,697	3,924	28	50	18,699	28,027
Q3	10,264	6,930	464	15,351	3,998	26	115	19,490	29,754
% change over a year earlier	18.0	14.5	-27.7	19.5	-20.0	62.5	11.7	8.5	11.6

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

5.30 In November the Government announced the consultation conclusions of the detailed legislative proposals on the trust law reform, and has subsequently introduced the Trust Law (Amendment) Bill into the Legislative Council. The reform seeks to facilitate effective administration of trusts through enhancing trustees' powers, whilst providing for appropriate checks and balances so that trustees will exercise the new powers properly. This will help bolster the competitiveness of Hong Kong's trust services industry and attract settlors to set up trusts in Hong Kong, in turn enhancing Hong Kong's status as an international asset management centre.

5.31 To provide a taxation framework for some common types of Islamic bonds (sukuk) comparable with that for conventional bonds, the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Bill 2012 was gazetted in late December 2012 and subsequently submitted to the

Legislative Council in January 2013. The amendments would provide for tax and stamp duty relief for transactions underpinning issuance of relevant Islamic bond products, which often involves transfer of underlying assets and setting up of special purpose vehicle. They would provide a platform for the development of Islamic finance and, through diversifying the types of products and services available, consolidate Hong Kong's status as an asset management and international financial centre.

5.32 In the 2013 Policy Address the Chief Executive announced to establish the Financial Services Development Council (FSDC). FSDC would provide a high-level and effective platform for stakeholders to explore ways to complement the internationalisation of the financial market in the Mainland and help facilitate the further development of Hong Kong's financial services industry, including advising the Government on areas relating to diversifying the financial services industry and enhancing Hong Kong's positions as an international financial centre.

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) For 2012 as a whole, the major monetary measures announced by the Federal Open Market Committee (FOMC) were as follows:

On 20 June 2012, the FOMC extended the maturity extension program to end-2012.

On 13 September 2012, the FOMC introduced the third round of quantitative easing measures by purchasing US\$40 billion of agency mortgage-backed securities per month. The FOMC also agreed to continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ other policy tools as appropriate, until the labour market conditions in the United States improve substantially in a context of price stability.

On 12 December 2012, the FOMC announced that it would purchase US\$45 billion long-term Treasury securities per month after the completion of maturity extension program. The FOMC expected that a highly accommodative stance of monetary policy will remain appropriate at least as long as the unemployment rate remains above

6.5%, inflation rate is projected to be no more than 2.5% between one and two years ahead, and longer-term inflation expectations continue to be well anchored.

- (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 15 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 2009 and 2010.

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) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-2012, there were 155 licensed banks, 21 restricted licence banks and 24 deposit-taking companies in Hong Kong. Altogether, 200 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (7) Basel 2.5 was introduced by the Basel Committee in July 2009 to strengthen 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. Hong Kong implemented Basel 2.5 on 1 January 2012 in line with the Basel Committee's timetable.
- (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%; 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. It introduces a supplementary leverage ratio as a backstop to risk-weighted capital measures and enhances the transparency of the capital base. In addition, Basel III 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 AIs 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) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 58 securities exchanges, covering almost all globally recognised stock exchanges.
- (12) At end-2012, there were 63 classes of stock options contracts and 38 classes of stock futures contracts.
- (13) At end-2012, there were 1 368 and 179 companies listed on the Main Board and GEM respectively.
- (14) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-2012, the survey covered a total of 1 305 active authorised funds.
- (15) At end-2012, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 464 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 260 000 employers, 2.38 million employees and 220 000 self-employed persons have participated in MPF schemes.
- (16) At end-2012, there were five SFC-authorised retail hedge funds with combined net asset size of US\$630 million. The amount of net assets under management represented a 10.5% decrease from the end-2011 level, yet still an increase of more than three times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (17) At end-2012, there were 155 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 92 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 6 : THE LABOUR SECTOR

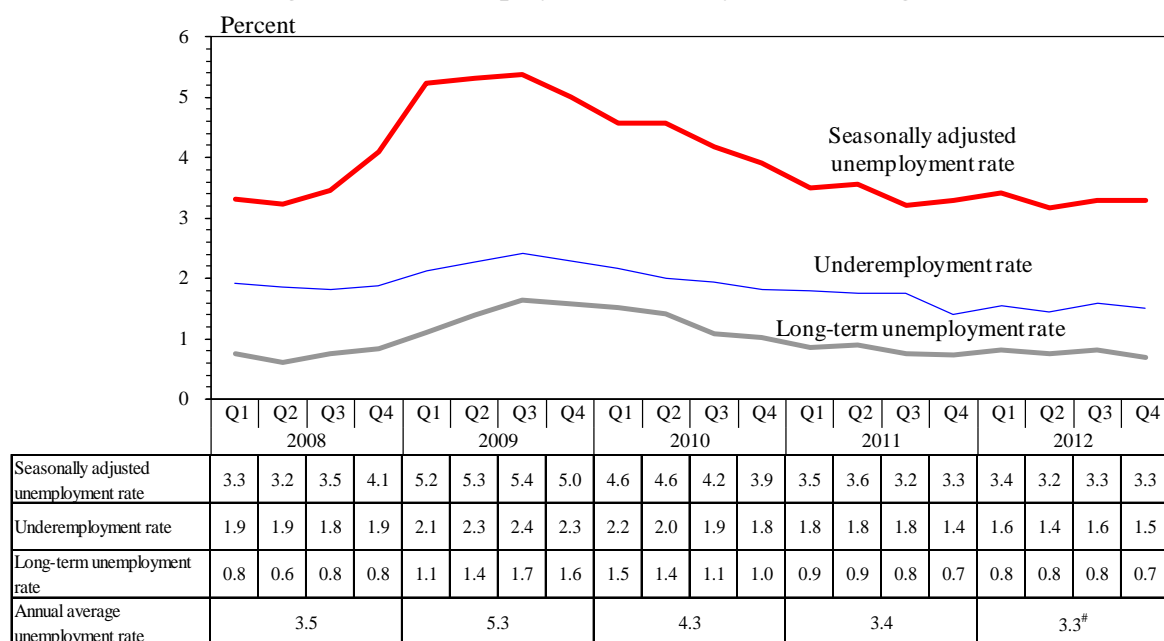
Summary

- *The labour market remained tight in 2012, signifying another year of full employment. Thanks to the strength in labour demand supported by vibrant domestic business activity, total employment rose to record high. The unemployment rate hovered at low levels throughout the year, in tandem with solid growth in wages and earnings.*
- *Labour demand grew briskly in 2012, with total employment up notably by 90 900 (or 2.5%) to a historical high of 3 667 400. As manifested by a generally positive job and income prospects, labour force likewise saw a visible expansion of 2.4%.*
- *The unemployment situation enjoyed a broad-based improvement despite the subdued economic growth, with the seasonally adjusted unemployment rate staying at a low level of 3.3% in the fourth quarter. For 2012 as a whole, the unemployment rate edged down further to a 15-year low of 3.3% from 3.4% in 2011.*
- *Tight labour market conditions were also evident in the sustained uptrend of both wages and earnings in 2012, even though not as marked as in 2011 as the remaining boosting effect of statutory minimum wage (SMW) dissipated and labour demand for higher-skilled workers slackened.*

Overall labour market situation⁽¹⁾

6.1 The labour market continued to enjoy broad-based improvements for the third consecutive year. Thanks to the buoyant domestic economic activity, labour demand remained robust. Job gains were notable and almost across-the-board despite the below-trend economic growth, which were also matched by a similarly visible labour force expansion. The number of job vacancies stood high throughout the year. As a result, the *unemployment rate*⁽²⁾ improved further in 2012, hitting a 15-year low of 3.3% after 3.4% in 2011 and signifying another year of full employment. Meanwhile, the *underemployment*⁽³⁾ rate hovered at low levels, finishing the year at 1.5%. With the tight labour market, manpower shortage was increasingly apparent in some sectors and occupations. In tandem, wages and earnings rose further over the course of 2012, albeit moderating in the second half of the year as the SMW effect dissipated and demand for workers in the higher-skilled segment slackened.

Diagram 6.1 : Unemployment rate stayed low throughout 2012



Note: # Provisional figure.

Total employment and labour force

6.2 Labour demand sustained a strong performance in 2012 on the back of vibrant business activity. Despite the continued subdued growth in the economy, employment gains stayed strong. After a visible slowdown in the third quarter, the pace of employment growth regained its momentum towards the year-end. During the fourth quarter of 2012, *total employment*⁽⁴⁾ hit a new historical high at 3 689 600. For the year 2012 as a whole, the number of employed persons surged notably by 2.5% (or 90 900), after an already respectable increase of 2.9% in 2011.

6.3 Job expansion was broad-based across sectors in 2012. With the hectic public sector infrastructure works, job creation was particularly notable in the construction sector. Employment in the domestically-oriented sectors such as retail, accommodation and food services, and wholesale also maintained solid year-on-year growth through all the four quarters, thanks to buoyant local consumption and inbound tourism. Meanwhile, job generations in the professional and business services, and financing and insurance sectors were visible in the first half of 2012, despite moderating somewhat towards the year-end.

6.4 The breakdown by occupational category also revealed a broadly similar picture, with strong demand for lower-skilled segment throughout 2012, contrasting with a progressive slowdown in demand in the higher-skilled segment over the course of the year. For 2012 as a whole, notable job gains were still observed in both the higher-skilled and lower-skilled segments (up by 40 700 or 3.0% and 50 300 or 2.2% respectively). As regards other socio-economic characteristics, persons aged 50 and over, females, and those with upper secondary and tertiary education tended to benefit more from the favourable job prospects over the year.

6.5 On the supply side, the *labour force*⁽⁵⁾ expanded by 2.4% in 2012, even faster than the visible growth of 2.0% in 2011. Better job opportunities coupled with improved income prospects following SMW implementation continued to attract more people to enter the labour market, especially females and those aged 50 and over. For 2012 as a whole, the labour force participation rates for those aged 50-59, and 60 and over rose distinctly by 1.3 and 1.4 percentage points to 69.3% and 16.9% respectively. That of females also went up further by 0.7 percentage point to 53.7%. In 2012, with more fresh graduates (comprising both secondary 6 and 7 students) entering the labour market under the new Secondary School System, the labour force participation rate of the youth (aged 15-19) increased visibly by 0.7 percentage point to 10.2%.

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

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> ^(a)	<u>Persons underempl</u> <u>oyed</u>
2011	Annual	3 703 100 (2.0)	3 576 400 (2.9)	126 700	63 300
	Q1	3 658 200 (1.0)	3 534 200 (2.1)	124 000	65 600
	Q2	3 701 700 (2.1)	3 564 000 (3.2)	137 600	65 000
	Q3	3 725 800 (2.4)	3 599 900 (3.5)	125 900	65 300
	Q4	3 733 000 (2.3)	3 616 900 (2.9)	116 000	52 400
2012	Annual [#]	3 792 300 (2.4)	3 667 400 (2.5)	124 900	57 300
	Q1	3 773 700 (3.2)	3 649 600 (3.3)	124 100	58 600
	Q2	3 796 900 (2.6)	3 671 400 (3.0)	125 500	54 600
	Q3	3 791 800 (1.8)	3 658 900 (1.6)	132 900	59 200
	Q4	3 806 600 (2.0)	3 689 600 (2.0)	117 000	56 800
		<0.5>	<0.6>		

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

() % change over a year earlier.

Seasonally adjusted quarter-to-quarter % change for the fourth quarter of 2012.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.2 : Employment and labour force growths generally stayed strong in 2012

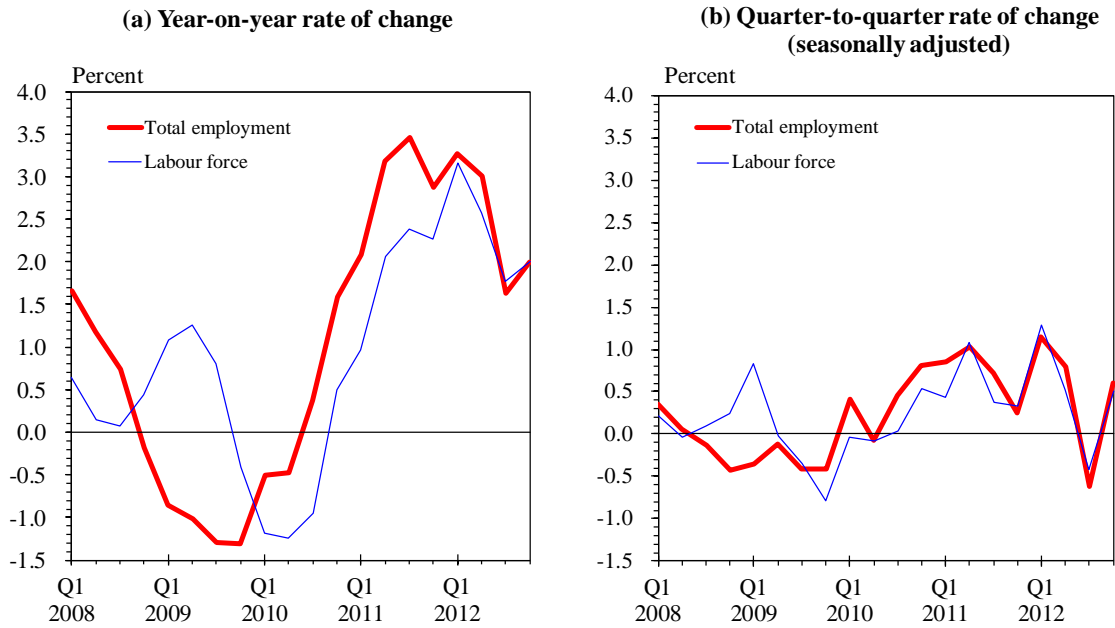


Diagram 6.3 : Lower-skilled employment grew noticeably in 2012, also significantly outpacing that in the higher-skilled segment during the second half of the year

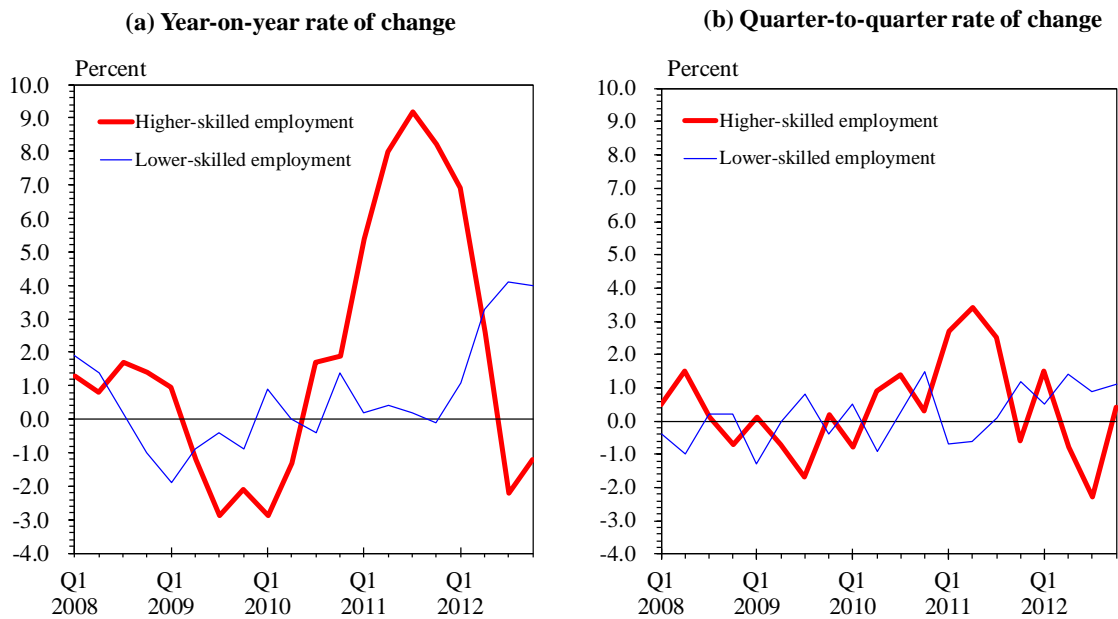


Table 6.2 : Labour force participation rates by gender and by age group (%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012[#]</u>
<u>Male</u>						
15-19	14.7	13.0	12.5	10.2	9.9	10.5
20-24	67.6	65.5	64.1	60.6	61.1	61.8
25-29	94.8	94.2	94.7	94.0	93.9	94.2
30-39	97.1	96.6	96.4	96.5	96.5	96.7
40-49	95.5	95.2	95.1	95.0	95.1	95.4
50-59	83.1	83.9	84.3	84.4	84.9	85.4
≥ 60	19.5	19.9	21.3	22.0	23.4	25.3
Overall	70.4	69.7	69.4	68.5	68.4	68.8
<u>Female</u>						
15-19	13.5	12.4	11.3	9.2	9.1	9.8
20-24	71.6	69.3	66.0	61.4	62.1	62.5
25-29	87.3	87.4	87.0	86.6	87.5	87.3
30-39	76.4	77.0	77.3	75.6	76.8	78.0
40-49	66.6	66.6	68.8	68.2	69.9	70.9
50-59	46.6	48.6	48.9	49.0	51.6	54.0
≥ 60	5.1	5.6	6.6	6.8	8.1	9.0
Overall	53.1	53.1	53.2	51.9	53.0	53.7
<u>Both genders combined</u>						
15-19	14.1	12.7	11.9	9.7	9.5	10.2
20-24	69.7	67.5	65.1	61.0	61.6	62.1
25-29	90.6	90.4	90.3	89.8	90.2	90.3
30-39	85.2	85.2	85.3	84.3	84.9	85.6
40-49	80.1	79.8	80.8	80.2	81.0	81.5
50-59	64.8	66.1	66.5	66.5	68.0	69.3
≥ 60	12.1	12.5	13.7	14.1	15.5	16.9
Overall	61.2	60.9	60.8	59.6	60.1	60.6

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

6.6 Against the backdrop of solid labour demand, the overall unemployment situation improved further in 2012. For the year as a whole, the unemployment rate averaged at a 15-year low of 3.3%, 0.1 percentage point lower than that in 2011, and signified another year of full employment for the local workforce. The average number of unemployed also fell from 126 700 in 2011 to 124 900 in 2012, reaching the lowest since 1997.

6.7 Echoing the favourable employment situation, the annual average unemployment rates of different economic sectors dropped almost across-the-board in 2012, with that in construction and real estate seen more visible decreases (down by 0.7 and 0.5 percentage point respectively). Analysed by skill segment, the unemployment rate of higher-skilled workers edged up by 0.1 percentage point to 1.8%, while that for lower-skilled workers fell progressively throughout the year, with the annual average figure down noticeably by 0.3 percentage point to a post-1997 low of 3.5%. In terms of age profile, the unemployment rates of 15-19 and 50-59 declined most, by 1.8 and 0.3 percentage points respectively. This also suggested that the labour market was able to fully absorb the supply upsurge in these groups.

6.8 As for the quarter-to-quarter trend, the seasonally adjusted unemployment rate once fell to 3.2% in the second quarter from 3.4% in the first quarter, then held stable at 3.3% in the last two quarters. During the fourth quarter of 2012, unemployment rates in retail, manufacturing, and accommodation and food services showed more discernible improvements from the previous quarter. The unemployment rate of the *low paying sectors*⁽⁶⁾ as a whole stayed low in the second year of SMW implementation and decreased markedly by 0.4 percentage point to 2.8% in the fourth quarter of 2012. As for other socio-economic attributes, the unemployment rates of workers aged 15-24, those with upper secondary and above education or engaging in occupations like service and sales workers, and clerical support workers saw most visible decreases in the fourth quarter.

Table 6.3 : Unemployment rate by major economic sector

	<u>2011</u>					<u>2012</u>				
	<u>Annual</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>
Import/export trade and wholesale	3.1	3.2	3.4	2.8	2.7	2.8	2.5	3.1	2.9	2.8
Retail	4.3	4.3	4.5	4.6	3.8	4.1	4.3	4.1	4.6	3.6
Accommodation and food services	5.0	4.6	6.1	5.1	4.4	4.7	4.5	5.4	4.7	4.2
Transportation, storage, postal and courier services	3.1	3.1	3.6	2.9	3.0	2.7	3.3	2.4	2.6	2.7
Information and communications	2.6	2.7	2.8	2.5	2.3	2.7	2.9	3.2	2.2	2.7
Financing and insurance	2.0	2.1	2.1	1.8	2.2	2.4	2.4	2.4	2.3	2.4
Real estate	2.7	2.9	3.1	2.8	2.4	2.2	2.5	1.9	2.3	2.2
Professional and business services	3.0	3.2	3.5	2.9	2.4	2.9	2.7	3.1	3.1	2.7
Public administration, social and personal services	1.5	1.3	1.6	1.3	1.4	1.4	1.4	1.2	1.5	1.4
Manufacturing	4.0	3.7	3.4	4.9	3.8	3.9	4.3	3.7	4.3	3.3
Construction	5.6	6.5	5.7	4.4	5.4	4.9	6.1	4.6	3.9	4.9
Overall	3.4	3.4 (3.5)	3.7 (3.6)	3.4 (3.2)	3.1 (3.3)	3.3	3.3 (3.4)	3.3 (3.2)	3.5 (3.3)	3.1 (3.3)

Notes : () Seasonally adjusted unemployment figures.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.4 : Unemployment rate of lower-skilled workers declined further in 2012, resulting in a low level of overall unemployment rate

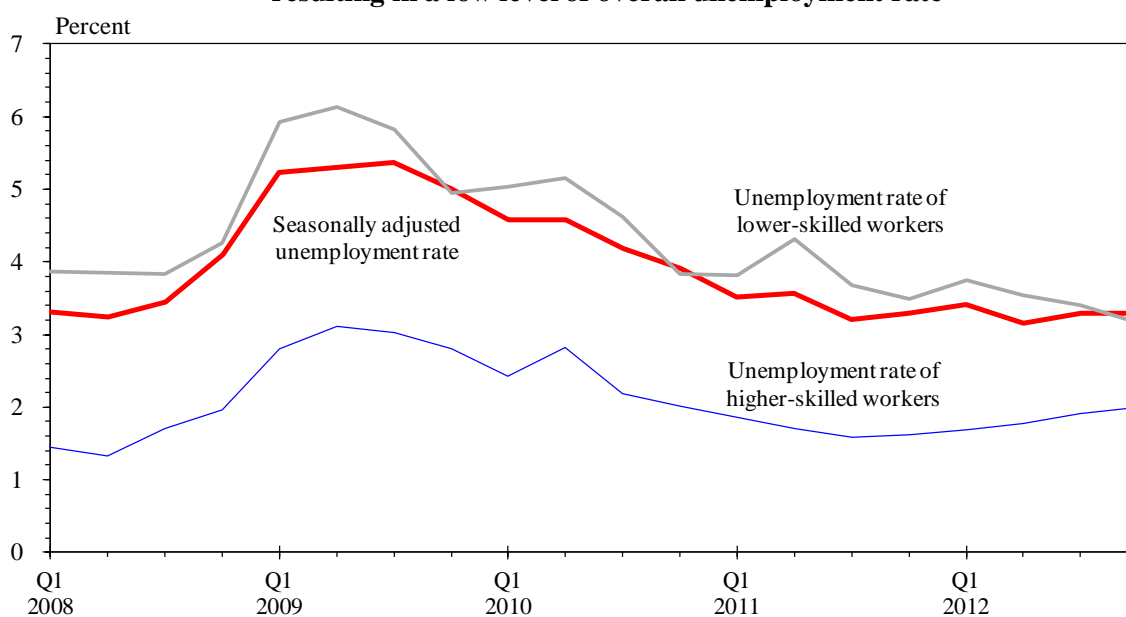


Table 6.4 : Unemployment rate* by skill segment

	<u>2011</u>					<u>2012</u>				
	<u>Annual</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>
<u>Higher-skilled segment</u>	1.7	1.9	1.7	1.6	1.6	1.8	1.7	1.8	1.9	2.0
Managers and administrators	1.3	1.5	1.2	1.4	1.2	1.4	1.1	1.4	1.4	1.8
Professionals	1.2	1.2	1.1	1.2	1.2	1.5	1.7	1.3	1.6	1.5
Associate professionals	2.1	2.3	2.2	1.9	2.0	2.2	2.0	2.2	2.3	2.3
<u>Lower-skilled segment</u>	3.8	3.8	4.3	3.7	3.5	3.5	3.7	3.5	3.4	3.2
Clerical support workers	3.5	3.4	4.3	3.2	3.1	3.1	2.9	3.1	3.5	2.9
Service and sales workers	4.5	4.2	4.8	4.8	4.1	4.1	4.1	4.3	4.4	3.5
Craft and related workers	4.9	5.1	5.6	4.0	4.8	4.8	6.2	4.7	4.0	4.2
Plant and machine operators and assemblers	2.2	2.4	2.7	1.9	2.2	2.0	2.6	1.6	1.6	2.2
Elementary occupations	3.5	3.6	3.8	3.4	3.1	3.1	3.4	3.3	2.8	3.0

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

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Table 6.5 : Unemployment rate* by age and educational attainment

<u>Age</u>	<u>2011</u>					<u>2012</u>				
	<u>Annual</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>
15-19	15.8	17.7	19.0	16.6	11.1	14.0	12.6	14.8	15.4	12.7
20-24	8.4	7.5	9.2	9.4	7.4	8.6	7.7	9.0	10.9	7.0
25-29	3.5	3.4	3.8	3.5	3.1	3.4	3.3	3.8	3.3	3.2
30-39	2.5	2.6	2.7	2.3	2.3	2.4	2.4	2.4	2.6	2.1
40-49	2.7	3.0	2.9	2.6	2.4	2.7	2.8	2.8	2.7	2.7
50-59	3.3	3.1	3.7	3.0	3.4	3.0	3.2	2.8	2.9	3.1
≥ 60	2.0	2.1	2.0	1.9	2.0	1.9	2.7	1.8	1.5	1.8
<u>Educational attainment</u>										
Primary education and below	3.6	3.8	3.6	3.2	3.7	3.4	3.8	3.6	3.0	3.2
Lower secondary education	4.7	4.9	5.2	4.7	4.2	4.1	4.3	4.3	3.7	4.2
Upper secondary education [^]	3.4	3.4	3.9	3.3	3.1	3.2	3.4	3.2	3.4	2.7
Post-secondary education	2.8	2.6	2.9	3.0	2.4	3.0	2.5	2.9	3.7	3.0

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

^ Including craft courses.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

6.9 The intensity of unemployment was broadly stable in 2012 as compared to a year earlier. The number of long-term unemployed persons (i.e. unemployed for six months or longer) moved down marginally from 30 500 in 2011 to 29 600 in 2012, with the long-term unemployment rate standing low at 0.8% in both years. Meanwhile, the median duration of unemployment shortened from 74 days in 2011 to 72 days in 2012 amidst improved job opportunities. As regards the reason of unemployment, the proportion of dismissal or lay-offs among the total number of unemployed persons remained by and large stable, up only slightly from 51.2% to 52.4% over the same period.

Profile of underemployment

6.10 The underemployment situation portrayed by the annual figures remained broadly favourable, with the underemployment rate falling to a 15-year low of 1.5% in 2012 as against 1.7% in 2011. Over the same period, the number of underemployed persons decreased by 6 000 to 57 300. As for the latest trend, the underemployment rate in the fourth quarter of 2012 went down to 1.5%, from 1.6% in the preceding quarter. On a quarter-to-quarter basis, the underemployment rates declined visibly in construction, accommodation and food services, warehousing and support activities for transportation, and arts, entertainment and recreation, reflecting tighter labour conditions in these sectors. Analysed by occupational group, underemployment notably improved in the lower-skilled segment, in particular craft and related workers, and workers in elementary occupations.

Profile of employment in establishments

6.11 The statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to September 2012. Attempts have been made where possible to bring the analysis more up-to-date, by drawing reference to information from supplementary sources.

6.12 Total employment in private sector establishments reached a new high of 2 661 500 in September 2012, although its year-on-year growth rate moderated to 1.6% from 2.3% in June 2012. The construction sector sustained its strong employment growth (up 13.4% year-on-year) amid the ongoing infrastructure works. Thriving commercial activity, vibrant local consumption and inbound tourism rendered some support to employment gains in services, particularly in information and communications (up 6.3%), accommodation and food services (up 2.8%), retail (up 2.7%), and financing, insurance, real estate, professional and business services (up 2.4%). These gains actually more than offset the secular downtrend in manufacturing (down 4.3%) as well as the employment loss in import/export trade and wholesale (down 1.6%). Analysed by establishment size, around 75% of the job creation was contributed by larger enterprises, with the number of headcounts up by 2.3% over a year earlier. In contrast, employment in small and medium-sized enterprises (SMEs)⁽⁷⁾ registered a meagre growth of 0.9%. For the first nine months of 2012 as a whole, total employment in private sector establishments increased by 2.0% year-on-year. As for the civil service, employment grew steadily by 0.9% in September 2012, and by 1.2% in the first nine months of 2012 over a year earlier.

Table 6.6 : Employment by major economic sector

	<u>2011</u>					<u>2012</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	562 400 (-0.2)	565 000 (0.1)	560 800 (-0.2)	564 300 (0.1)	559 600 (-0.9)	557 200 (-1.4)	558 300 (-0.4)	555 400 (-1.6)
Retail	252 800 (4.0)	251 300 (4.5)	252 000 (4.7)	252 900 (4.2)	255 000 (2.7)	256 800 (2.2)	259 400 (2.9)	259 700 (2.7)
Accommodation ^(a) and food services	265 400 (6.5)	263 000 (6.3)	266 100 (7.5)	266 300 (7.8)	266 300 (4.3)	269 000 (2.3)	272 300 (2.3)	273 700 (2.8)
Transportation, storage, postal and courier services	163 600 (2.0)	162 100 (1.6)	163 100 (1.7)	163 800 (2.4)	165 500 (2.4)	165 600 (2.2)	166 700 (2.2)	166 900 (1.9)
Information and communications	91 300 (3.4)	89 300 (2.1)	91 100 (3.0)	91 700 (3.6)	93 300 (4.9)	95 200 (6.6)	95 900 (5.3)	97 500 (6.3)
Financing, insurance, real estate, professional and business services	646 500 (6.1)	632 900 (6.1)	642 300 (6.2)	652 500 (6.6)	658 400 (5.6)	662 200 (4.6)	664 700 (3.5)	668 200 (2.4)
Social and personal services	439 300 (2.4)	436 200 (2.0)	438 700 (2.8)	440 600 (2.7)	441 700 (2.1)	444 600 (1.9)	450 600 (2.7)	450 800 (2.3)
Manufacturing	112 700 (-5.6)	115 100 (-6.1)	113 800 (-5.0)	111 500 (-5.2)	110 400 (-6.1)	108 000 (-6.2)	107 600 (-5.4)	106 800 (-4.3)
Construction sites (manual workers only)	62 600 (13.2)	58 800 (9.1)	58 600 (5.6)	63 700 (12.8)	69 400 (25.2)	70 600 (20.1)	71 700 (22.4)	72 200 (13.4)
All establishments surveyed in the private sector ^(b)	2 607 700 (3.1)	2 584 700 (3.0)	2 597 600 (3.2)	2 618 500 (3.6)	2 630 200 (2.8)	2 639 700 (2.1)	2 657 700 (2.3)	2 661 500 (1.6)
		<1.2>	<0.6>	<0.8>	<0.2>	<0.5>	<0.8>	<0.2>
Civil service ^(c)	157 600 (0.7)	156 900 (0.2)	157 300 (0.7)	157 700 (0.8)	158 500 (1.2)	159 200 (1.5)	159 200 (1.2)	159 100 (0.9)

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) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

(b) 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.

(c) 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

6.13 Reflecting an increasing tightness in the labour market, job vacancies in the private sector establishments continued to stand high across economic sectors and occupations in September 2012. The number of private sector vacancies jumped by 20.4% over a year earlier to 69 500 in September 2012. Taking the first nine months of 2012 together, job vacancies surged by 22.6% year-on-year.

6.14 Analysed by economic sector, substantial increases in job vacancies in September 2012 were observed in accommodation and food services (up 62.0% year-on-year), retail (up 45.9%), and transportation, storage, postal and courier services (up 45.7%). As for the size of establishments, SMEs and large enterprises posted similar vacancy growths of 21.5% and 19.4% respectively over a year earlier. Lower-skilled job openings surged significantly faster (up 33.8%) than higher-skilled vacancies (down 1.2%), particularly in the occupational categories of elementary occupations (up 44.1%), and service and sales workers (up 37.8%). For the first nine months of 2012, higher-skilled and lower-skilled vacancies increased by 4.5% and 34.3% respectively over a year earlier. With regard to the civil service, the number of job openings held at around 6 600 in September 2012, down only marginally by 0.5% over a year earlier.

6.15 Different indicators showed that manpower shortage turned increasingly evident in some sectors and occupations amidst the tight labour market. Although the ratio of the number of job vacancies in private sector establishments to that of 100 unemployed persons decreased from 56 in June to 52 in September 2012, the latest figure was still notably above the 46 seen in the same month in 2011. Moreover, in some sectors such as human health services, residential care and social work services, and arts, entertainment and recreation, labour shortages still prevailed, with the corresponding ratios far exceeding 100. Analysed by occupational group, manpower shortage was more prominent in professionals and associate professionals, with the corresponding ratio staying high at 98. That of service and sales workers, and workers in elementary occupations also increased visibly from June to September 2012 (up from 73 to 80 and 50 to 58 respectively). When measured in terms of the percentage of job openings to total employment opportunities, the vacancy rate for private sector establishments edged down from 2.6% to 2.5% over the same period, yet it was still visibly above 2.2% in September 2011. Specifically, the vacancy rates in retail, and accommodation and food services saw some increases in September 2012 as compared to three months ago.

Table 6.7 : Vacancies by major economic sector and skill segment

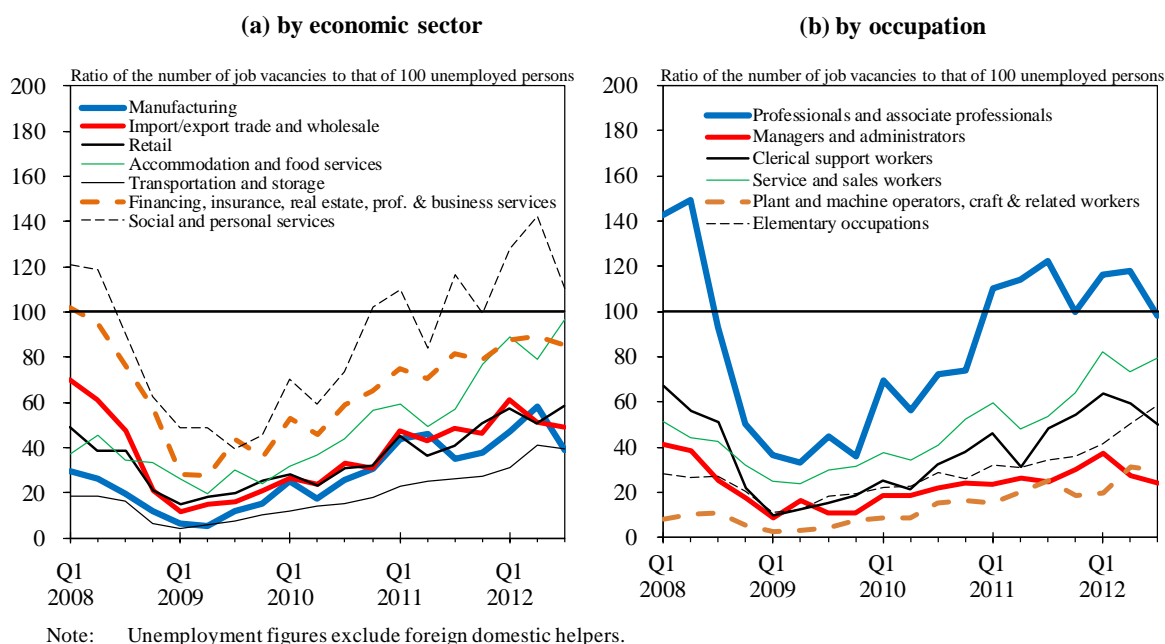
<u>Economic sector</u>	<u>Annual average</u>	<u>Number of vacancies</u>							<u>Vacancy rate in Sep 2012 (%)</u>
		<u>2011</u>			<u>2012</u>				
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Import/export trade and wholesale	7 800 (20.0)	8 300 (26.5)	8 300 (35.7)	7 700 (10.4)	7 100 (8.9)	8 900 (7.8)	9 100 (10.6)	8 200 (6.4)	1.5
Retail	5 900 (19.6)	6 000 (23.9)	5 200 (18.2)	6 100 (10.3)	6 300 (27.2)	8 200 (35.7)	6 900 (32.7)	9 000 (45.9)	3.3
Accommodation ^(a) and food services	8 200 (17.8)	7 700 (26.0)	8 100 (22.4)	8 000 (9.7)	9 000 (15.1)	11 000 (42.7)	12 300 (51.1)	12 900 (62.0)	4.5
Transportation, storage, postal and courier services	2 600 (33.0)	2 500 (52.4)	3 000 (51.8)	2 400 (13.2)	2 500 (20.2)	3 200 (26.1)	3 400 (13.2)	3 500 (45.7)	2.1
Information and communications	2 300 (1.0)	2 700 (19.1)	2 200 (-4.8)	2 200 (-13.9)	2 200 (6.6)	2 500 (-7.4)	2 400 (8.6)	2 200 (-4.0)	2.2
Financing, insurance, real estate, professional and business services	14 100 (13.5)	14 100 (19.5)	14 600 (19.6)	14 300 (10.8)	13 300 (4.7)	16 200 (14.8)	16 600 (14.0)	15 800 (10.6)	2.3
Social and personal services	13 100 (20.8)	13 200 (19.9)	12 700 (26.5)	13 900 (17.6)	12 400 (19.9)	16 300 (23.1)	16 500 (29.5)	14 800 (6.6)	3.2
Manufacturing	2 200 (42.7)	2 400 (52.7)	2 200 (49.8)	2 300 (44.9)	1 900 (24.2)	2 900 (21.1)	3 000 (37.2)	2 400 (2.6)	2.2
Construction sites (manual workers only)	300 (434.6)	100 (217.0)	300 (411.9)	500 (641.7)	300 (385.3)	700 (347.0)	600 (94.7)	500 (-4.3)	0.7
<i>All establishments surveyed in the private sector^(b)</i>	56 700 (19.0)	57 200 (24.4)	56 600 (25.3)	57 700 (12.9)	55 100 (14.6)	70 000 (22.3)	70 800 (25.1)	69 500 (20.4)	2.5
		<3.3>	<2.2>	<-1.4>	<10.0>	<10.2>	<4.5>	<-4.6>	
<i>Civil service^(c)</i>	6 300 (9.7)	6 000 (13.2)	6 200 (8.5)	6 600 (11.8)	6 200 (5.4)	5 900 (-2.5)	6 300 (1.8)	6 600 (-0.5)	4.0
<u>Skill segment</u>									
Higher-skilled segment	21 600 (22.5)	22 500 (26.7)	22 800 (26.4)	22 100 (21.8)	19 100 (14.5)	24 400 (8.4)	24 200 (6.2)	21 800 (-1.2)	N.A.
Lower-skilled segment	35 100 (17.0)	34 700 (23.0)	33 900 (24.5)	35 600 (8.0)	36 000 (14.6)	45 600 (31.4)	46 600 (37.7)	47 700 (33.8)	N.A.

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

- (a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
- (b) 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.
- (c) 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.
- N.A. Not available.

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

Diagram 6.5 : Manpower shortage became more evident in some sectors and occupations



6.16 The vacancy registration figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some hints on the latest developments in the labour market. In December 2012, around 78 500 private sector job vacancies were posted by LD, down modestly by 2.4% from a year earlier. Comparing the fourth quarter with the third quarter, the average number of vacancies also decreased by 10.2%. However, as the vacancy figures stayed strong throughout most of the year, the monthly average number of private sector vacancies for 2012 as a whole surged by 27.1% over 2011, reaching an all-time high of 95 400.

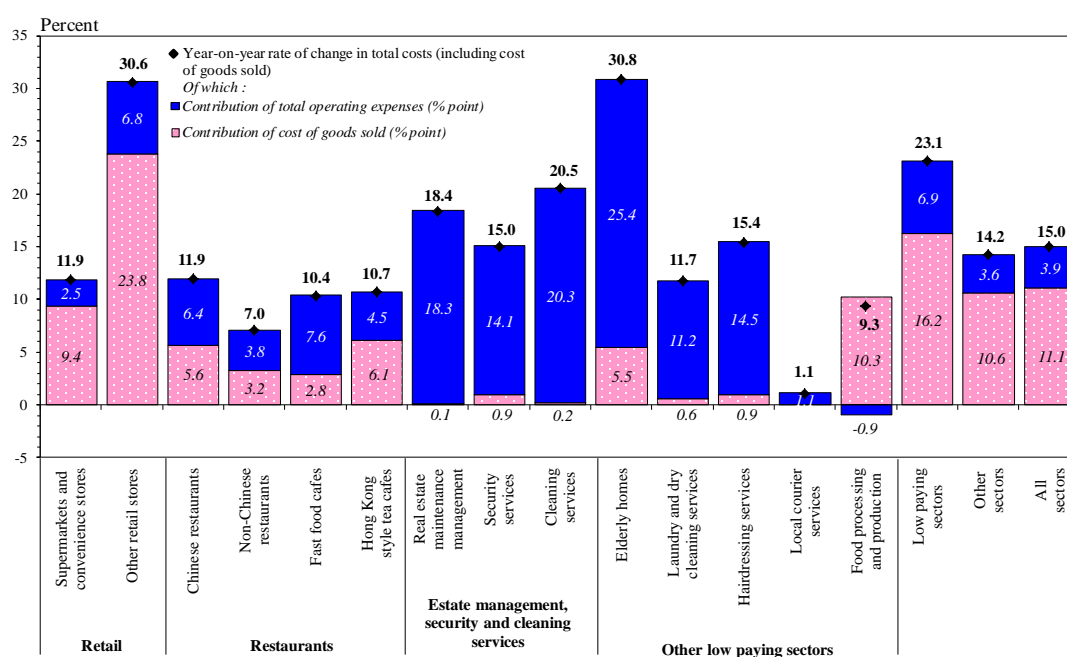
Box 6.1

Business performance after the implementation of statutory minimum wage (SMW)

After the implementation of SMW in May 2011, there were many concerns in the business sector about whether the new policy had led to a substantial increase in labour costs, which in turn impacted on the business environment. The results of the 2011 Annual Survey of Economic Activities⁽¹⁾, recently released by the Census and Statistics Department, are useful in examining the business performance of different sectors, in particular the low paying sectors (LPS) and small and medium enterprises (SMEs) which were expected to be more affected by SMW implementation.

Thanks to the notable economic expansion in 2011, almost all sectors registered increases in business receipts. Specifically, business receipts of LPS and other sectors (i.e. non-LPS) rose by 24.3% and 12.5% respectively. Nevertheless, total costs pressures were likewise pronounced, up by 23.1% and 14.2% correspondingly. In other retail stores and elderly homes, for example, total costs even surged by over 30%. Analysed by costs nature, LPS like retail, restaurants, and food processing and production were particularly hard hit by the upsurge in costs of goods sold (*Chart 1*). The visible increases in import cost in 2011 conceivably played a significant role in pushing up the material costs, especially so for food costs. In contrast, cost pressures of service-oriented sectors such as estate management, security and cleaning services mainly came from total operating expenses (viz. staff costs; rent, rates and government rent; and other operating expenses).

Chart 1 : Contribution of cost of goods sold to the upsurge of total costs was prominent in some LPS



Sources : 2010 and 2011 Annual Survey of Economic Activities, Census and Statistics Department.

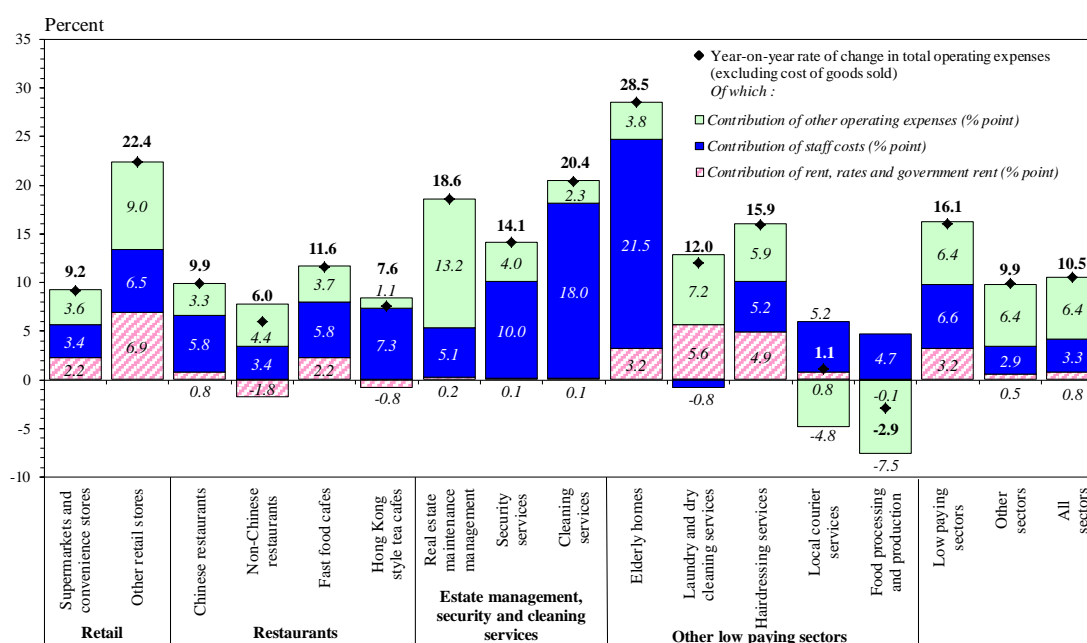
Total operating expenses

Further decomposing the change in total operating expenses across LPS, it was obvious that staff costs were the key factors in explaining the increases in total operating expenses in most sectors, conceivably due to their labour-intensive nature (*Chart 2*). Indeed, staff costs accounted for over 40% of the total operating expenses of LPS, even more in security services (81.5%), cleaning services (80.4%) and elderly homes (66.7%). On average, staff costs per employee in LPS as a whole surged by 11.4% in 2011, as against only 3.3% in other sectors. Corresponding growths in cleaning services, hairstressing services and elderly homes were even higher at 18.7%, 17.4% and 13.9% respectively.

(1) The statistics discussed in this article pertain to those enterprises with employees only.

Box 6.1 (Cont'd)

Chart 2 : Rising staff costs accounted for a significant portion of increases in total operating expenses among most LPS in 2011



Sources : 2010 and 2011 Annual Survey of Economic Activities, Census and Statistics Department.

Apart from the increase in staff costs as partly boosted by the implementation of SMW, domestic cost pressures also went up visibly in 2011 as a result of strong economic upswing early in the year. With greater pricing power amid a buoyant domestic economy, most enterprises were able to pass on the additional costs to consumers and business clients. In other words, enterprises might face higher costs arising from the increase in prices of products and services provided by other sectors (e.g. advertisement and business promotion expenses, management fee or payments for outsourced services etc.). As reflected in part by the distinct rise in other operating expenses, the statistics indeed showed that some LPS were more susceptible to the rise in business costs. For example, other operating expenses in real estate maintenance management actually contributed more to its increase in total operating expenses than staff costs did, as mainly manifested by the payments for outsourced security and cleaning services etc.

Finally, as for rent, rates and government rent, its contributions to the rise in total operating expenses were more significant in other retail stores, laundry and dry cleaning services, hairstressing services, and elderly homes. On the one hand, this could be partly explained by a notable sector expansion with higher proportion of fresh leases at higher market rentals, e.g. the number of enterprises in other retail stores and elderly homes rose visibly by 26.1% (or 4 660) and 18.3% (or 110) respectively. On the other hand, it might also suggest that it was less feasible for these sectors to adopt different location strategies to mitigate the rise in rentals.

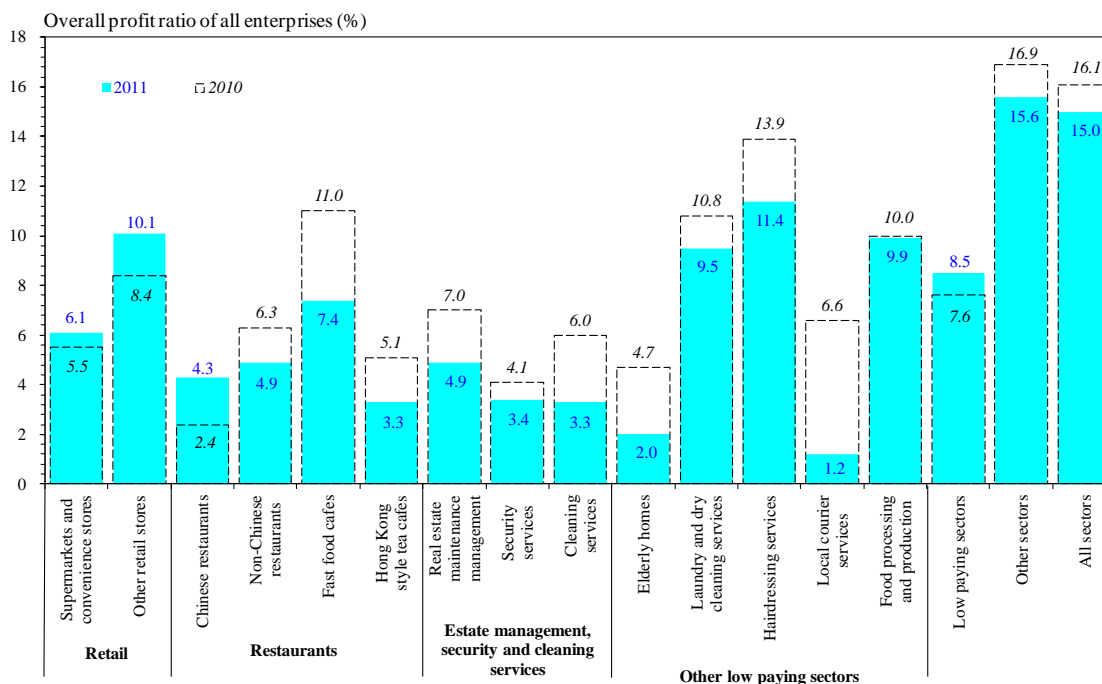
Profitability

With all these cost pressures compounded together, the operating environment for most LPS was understandably challenging in 2011. The overall profit ratios (i.e. ratio of profit⁽²⁾ to business receipts) for most LPS, except that of supermarkets and convenience stores, other retail stores and Chinese restaurants, actually deteriorated as compared to the situations in 2010. Among LPS, local courier services (down 5.4 percentage points), fast food cafés (down 3.6 percentage points), elderly homes and cleaning services (both down by 2.7 percentage points) saw most substantial declines in the overall profit ratios (*Chart 3*).

(2) Earnings before tax (abbreviated as profit) refer to profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation; provisions; etc. in the 2010 survey results; in the 2011 survey results, amortisation was also deducted from profit.

Box 6.1 (Cont'd)

Chart 3 : Profit ratios of most LPS dropped in 2011 as compared to 2010

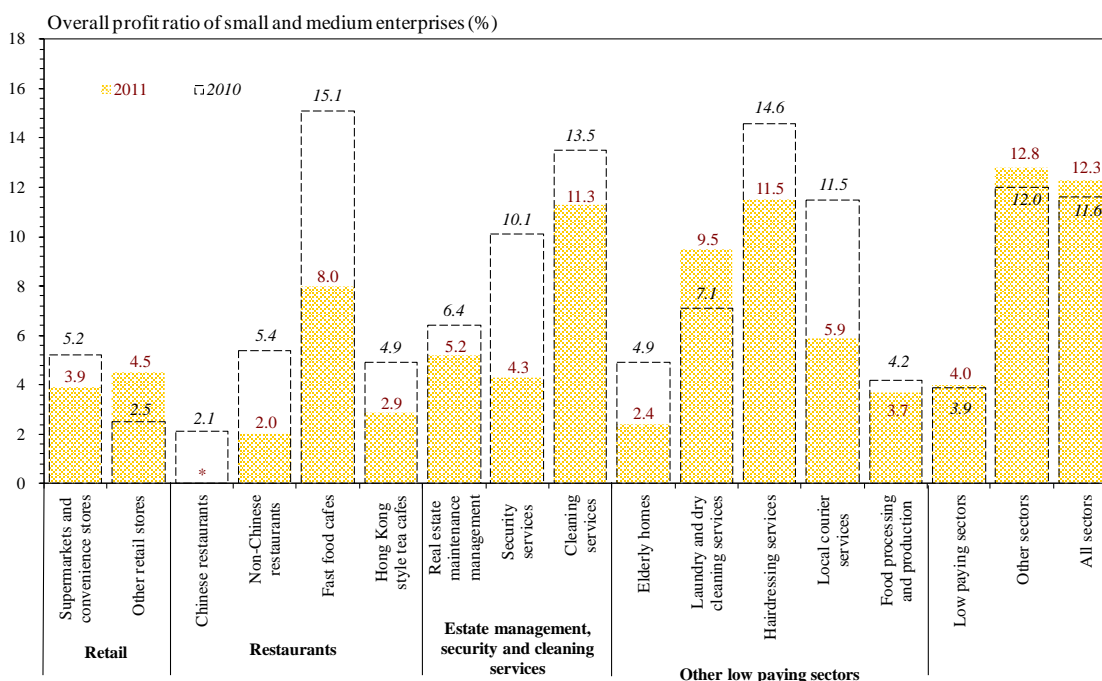


Sources : 2010 and 2011 Annual Survey of Economic Activities, Census and Statistics Department.

Small and medium enterprises

As regards most SMEs, while their profit ratios on average were even lower, their profitability in 2011 was similarly weakened, with the most noticeable decrease by 3.0 percentage points in restaurants, followed by 1.9 and 0.9 percentage points declines in estate management, security and cleaning services, and other LPS respectively. Meanwhile, an increase of 1.9 percentage points was recorded in retail (*Chart 4*).

Chart 4 : Declines in profit ratios of SMEs were particularly notable among restaurants



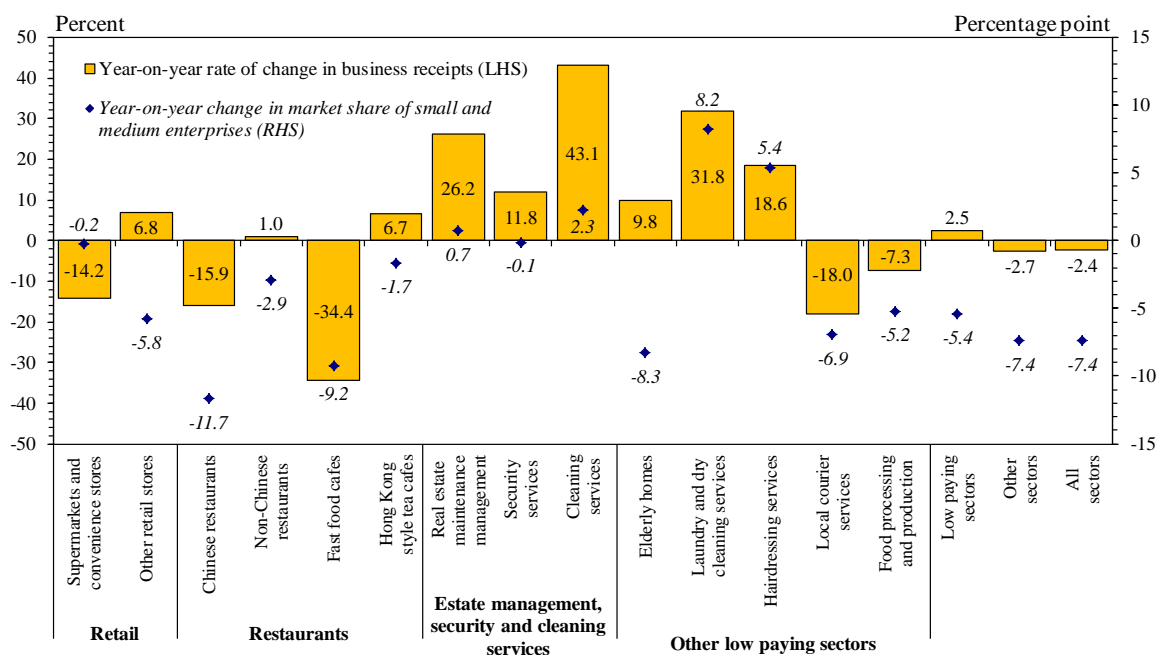
Note : (*) In between -0.05 and 0.05.

Sources : 2010 and 2011 Annual Survey of Economic Activities, Census and Statistics Department.

Box 6.1 (Cont'd)

However, the vulnerability of SMEs might not only come from costs hike. In fact, despite a largely broad-based business expansion in 2011, the business receipts of SMEs in some sectors shrank as compared to a year earlier, for example fast food cafes (down 34.4%), local courier services (down 18.0%), Chinese restaurants (down 15.9%), supermarket and convenience stores (down 14.2%), and food processing and production (down 7.3%). Further analysis showed that the market shares of SMEs (i.e. share of business receipts of SMEs among all enterprises⁽³⁾) dwindled in most LPS, even for those sectors with SMEs registering overall business expansion in 2011 (*Chart 5*).

Chart 5 : Business receipts of SMEs in some sectors recorded visible declines, while the market shares of SMEs fell across almost all sectors



Sources : 2010 and 2011 Annual Survey of Economic Activities, Census and Statistics Department.

Final remarks

In overall terms, the launch of SMW, coupled with the tight labour market, entailed notable additional labour costs for most LPS in 2011. Added to this, rises in import cost, domestic business costs and rentals, to a different extent, had also brought extra cost pressures to these sectors. Consequently, the profitability of some LPS deteriorated visibly. As for SMEs, some of them may have benefited from the buoyant economy and expanded their businesses accordingly. However, for those with thinner profit margins, they might not be as resourceful as the larger enterprises in adopting different mitigation measures (such as introducing automation and centralising production process) to cope with rising costs from different fronts. Their operating environment was in general even more challenging, as manifested by the lower profitability, falling business volume and losing market share. While the above statistics only presented a broad picture of business performance over two years only, whether market consolidation, especially among LPS, would persist and how it would shape the development of different sectors require close monitoring over a longer period of time.

(3) Market share may alternatively be expressed in terms of the number of SMEs among all enterprises. Using this measurement, the picture of changes in SME's market share among LPS was broadly similar as the measurement based on business receipts.

Wages and earnings

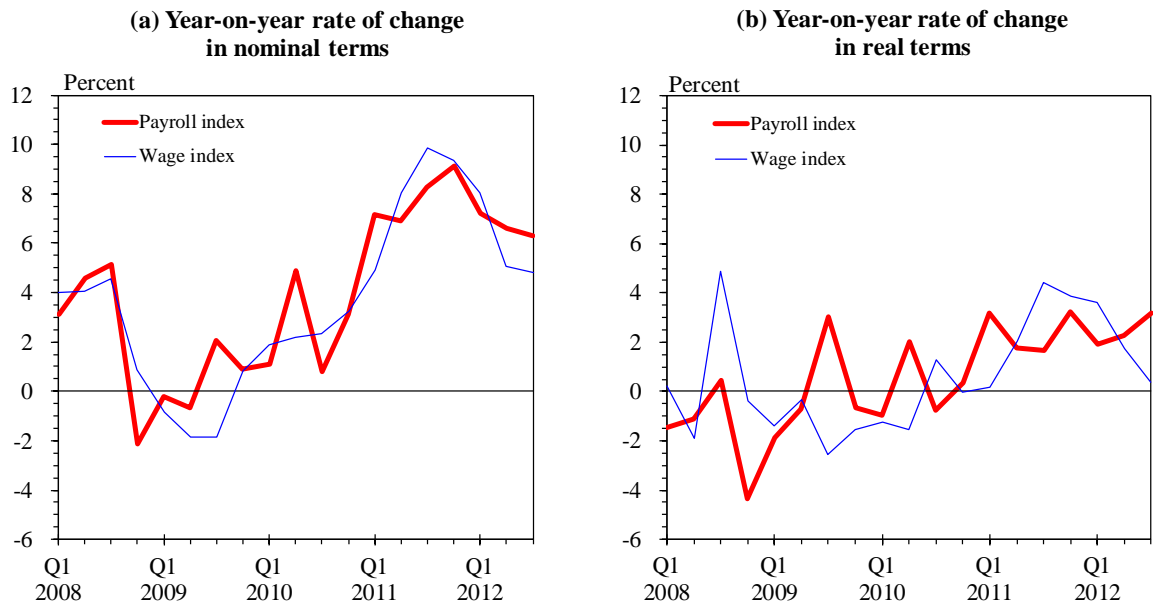
6.17 Thanks to the buoyant labour market and the remaining boosting effect of SMW, wages and earnings sustained visible growth in 2012. Specifically, the *wage index*, as a measure of regular payment to employees at the supervisory level or below, increased further by 4.8% year-on-year in September, yet slightly slower than the 5.1% in June. After adjusting for inflation⁽⁸⁾, real wages in September posted a modest gain of 0.4% over a year earlier. Taking the first nine months of 2012 together, labour wages grew solidly by 5.9% in nominal terms and 1.9% in real terms over a year earlier.

6.18 Nominal wage index in September 2012 saw broad-based improvements across economic sectors and occupations. Year-on-year increases were more prominent in personal services (up 9.0%), accommodation and food service activities (up 7.7%), real estate leasing and maintenance management (up 6.7%), and professional and business services (up 5.3%) on the back of buoyant domestic economic activities. Analysed by occupational category, supervisory and technical workers (up 6.3%), service workers (up 5.9%) and miscellaneous non-production workers (up 5.3%) registered more significant rises over the same period.

6.19 Similarly, *labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged in the private sector, maintained a notable growth at 6.3% year-on-year in the third quarter of 2012, further to a 6.6% increase in the previous quarter. After discounting for inflation, there was a real growth of 3.2%. For the first three quarters of 2012 as a whole, labour earnings grew by 6.7% in nominal terms and 2.5% in real terms.

6.20 Nominal payroll rose further in all major sectors in the third quarter of 2012. Among them, earnings of workers engaged in information and communications (up 9.0% year-on-year), followed by manufacturing (up 8.6%), retail trade (up 8.1%), and social and personal services (up 7.4%) increased more noticeably.

Diagram 6.6 : Labour earnings and wages continued to improve in both nominal and real terms



6.21 Latest statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, showed that the median employment earnings (excluding foreign domestic helpers) rose by 8.3% in nominal terms in the fourth quarter of 2012 over a year earlier, representing an increase of 4.4% in real terms after discounting inflation. As for the grassroots workers, the average employment earnings of full-time employees in the lowest decile group went up visibly by 6.7% in nominal terms and 2.4% in real terms over the same period. This was remarkably slower than the double-digit growth of 13.4% and 10.4% in the first two quarters of the year, as the boosting effect of SMW implementation waned. However, for 2012 as a whole, preliminary estimates suggested that the earnings growth for full-time employees in the lowest decile group were still notable at around 10% in nominal terms and 6% in real terms.

Recent labour-related measures

6.22 In 2012, LD held 17 large-scale job fairs. A total of 444 organisations conducted on-the-spot recruitment in the job fairs, offering over 37 000 vacancies. Ten training bodies also received applications in two of these job fairs. LD will continue to organise large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on-the-spot. Apart from large-scale job fairs, district-based job fairs are regularly organised at LD's Job Centres and Employment in One-stop to assist job-seekers. Recruitment activities are also staged by catering and retail employers at the two industry-based recruitment centres regularly for interviewing job-seekers on the spot.

6.23 The Labour and Welfare Bureau together with LD also took the initiative to advance the mid-term review of the Work Incentive Transport Subsidy (WITS) Scheme, which aims at relieving low-income earners' burden of work-related travelling expenses and promoting sustained employment. Starting from the claim month of January 2013, applicants may apply for WITS on an individual basis, as an alternative to household-based applications, and the income and asset limits for the subsidy have been raised. These enhancement measures are conducive to benefitting the working poor.

6.24 Besides, the Government accepted the Minimum Wage Commission's recommendation to increase the SMW rate from its prevailing level of \$28 per hour to \$30 per hour, up by \$2 or 7.1%. The revised SMW rate will come into force on 1 May 2013. Prior to implementation, LD will organise extensive publicity activities to enhance public awareness of the new rate and assist employers and employees in understanding their respective obligations and entitlements.

Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. These statistics have been revised and backcasted to the three-month period of May – July 2006 to take into account the results of the 2011 Population Census which provided a benchmark for revising the population figures compiled since the 2006 Population By-census.

The classification of occupation adopted by the Census and Statistics Department follows the International Standard Classification of Occupations (ISCO), which is used to classify the occupation of an employed person or the previous occupation of an unemployed person. After the implementation of the new ISCO, 2008 (ISCO-08), the General Household Survey has been enhanced to adopt the ISCO-08 in compiling labour force statistics by occupation, with statistics backcasted to the quarter of January to March 2011. Starting from the reference quarter of January to March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

- (2) 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.

- (3) 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.

- (4) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).

- (5) 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.
- (6) The low paying sectors as identified by the 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.
- (7) 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.
- (8) 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.
- (9) 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.

CHAPTER 7 : PRICES

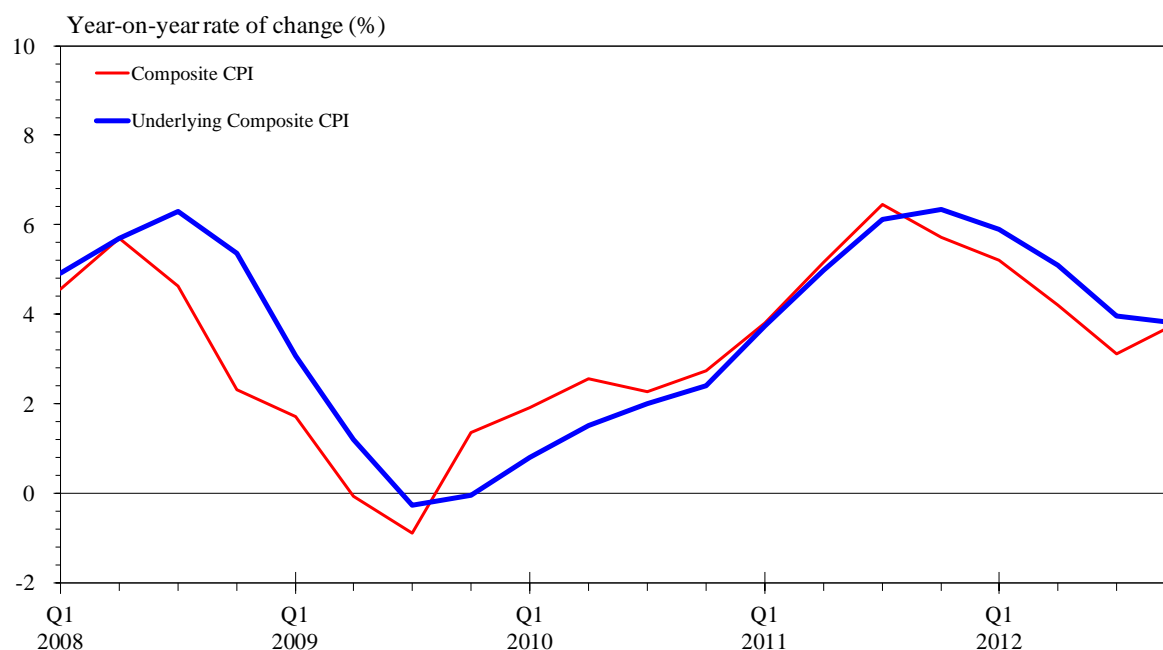
Summary

- *Inflation displayed a general easing trend in 2012, thanks to receding price pressures on both the external and domestic fronts. The prices of food and other major commodities in the international markets retreated from their peaks in 2011. Domestic price pressures, while still visible amid a resilient domestic sector, also eased somewhat alongside a sub-par overall economic performance.*
- *Externally, imported inflation tapered progressively, thanks to the relative stabilisation of global food and commodity prices since mid-2011, as well as slower inflation in Hong Kong's major trading partners. Indeed, many Asian and emerging economies generally saw a tapering trend in inflation in 2012 on slower economic growth.*
- *Domestically, the rising trend in commercial rental costs continued during most of 2012, though with some slight moderation towards the end of the year. The rise in wage costs slowed after the first quarter, in tandem with the less sanguine economic conditions, and also the fading boost of statutory minimum wage (SMW) implementation. Similarly, the private housing rental component of the Composite Consumer Price Index (CPI)⁽¹⁾, which was a major driver of inflation in 2011, recorded decelerated year-on-year increases over the course of the year, upon the feed-through of the relative stabilisation in fresh-letting flat rentals in late 2011 and early 2012.*
- *For 2012 as a whole, the Composite CPI rose by 4.1%, down from 5.3% in 2011. Netting out the effects of the Government's one-off relief measures, underlying Composite CPI inflation came down to 4.7% in 2012, from 5.3% in 2011.*
- *Yet, with the rebound of global food prices in July and August, coupled with the new round of quantitative easing in the advanced economies and the renewed pick-up in local housing rentals, local inflation receded at a slower pace towards the end of 2012. These developments, if not arrested, may pose some upside risks to inflation going forward.*

Consumer prices

7.1 Inflation came down gradually over the course of 2012, having peaked in the latter part of 2011. Import prices rose at a more moderate pace, thanks to the peak-out of global food and commodity prices in early 2011 as well as the easing inflation in the Mainland and other import suppliers. Locally, the year-on-year increase in the private housing rental component of the Composite CPI tapered progressively, reflecting the gradual feed-through of the relative stabilisation in fresh-letting residential rentals during the second half of 2011 and the early months of 2012. Furthermore, labour costs rose at a slower pace in the latter part of 2012, due to the fading boost from SMW implementation and the subdued growth of the local economy. Nevertheless, with global food prices rising back in the third quarter following the drought in the US, coupled with the new round of quantitative easing in the advanced economies and the renewed pick-up in local housing rentals, the room for further inflation tapering had become more limited towards the year-end. Indeed, the inflation situation in a number of Asian and emerging market economies was broadly similar, with a slower pace of easing, or even a modest pick-up, of headline inflation towards the year-end⁽²⁾.

Diagram 7.1 : Underlying consumer price inflation eased during 2012

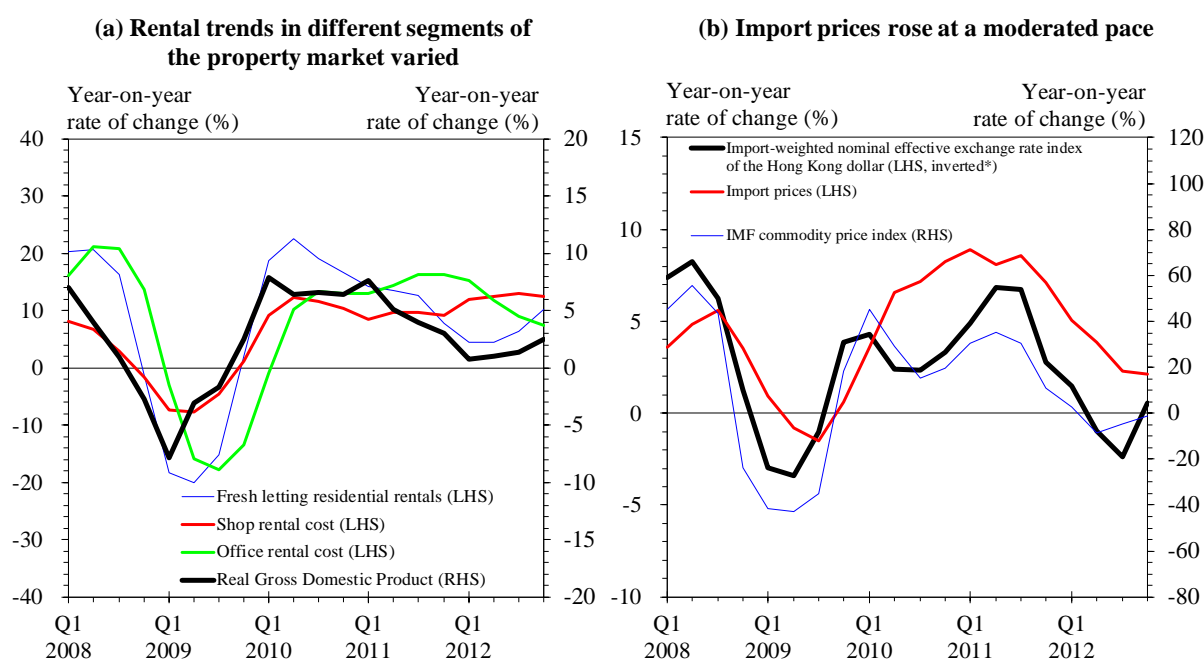


Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the indices to maintain continuity.

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, eased progressively over the course of 2012, from 5.9% in the first quarter to 5.1% and 4.0% respectively in the second and third quarters, and slightly further to 3.8% in the fourth quarter. For 2012 as a whole, underlying inflation averaged at 4.7%, down from 5.3% in 2011. Meanwhile, headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, receded to an average of 4.1% in 2012 from 5.3% in 2011.

7.3 On a year-on-year basis, the price increases for most of the major components in the underlying Composite CPI, foodstuffs and housing in particular, were on a tapering trend during 2012. Thanks to the relative stabilisation of global food prices earlier on and slower inflation in the Mainland, local food inflation (including costs of dining out) eased continuously over the past few quarters, from a peak of 8.2% in the fourth quarter of 2011 to 4.2% in the fourth quarter of 2012. Meanwhile, the increase in the private housing rental component also moderated visibly, from 9.5% to 5.3% over the same period, reflecting the gradual feed-through of the earlier stabilisation in fresh-letting residential rentals. The prices of many other CPI components also saw moderated year-on-year increases in 2012, amid slower local economic growth and milder increases in import prices. Separately, the prices of durable goods continued their secular downtrend.

Diagram 7.2 : Inflation pressures eased on both domestic and external fronts



Note : (*) An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The nominal EERI series in this graph is inverted for easier comprehension.

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>			
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
2012	Annual	4.7	4.1	3.6	4.3	4.1
	H1	5.5	4.7	4.2	5.0	4.9
	H2	3.9	3.5	3.1	3.7	3.4
	Q1	5.9	5.2	4.6	5.5	5.4
	Q2	5.1	4.2	3.7	4.5	4.4
	Q3	4.0	3.1	1.9	3.7	3.4
	Q4	3.8	3.8	4.2	3.6	3.3

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

2011	Q1	1.8	1.8	2.0	1.8	1.6
	Q2	1.6	1.7	1.7	1.7	1.8
	Q3	1.6	-0.8	-4.2	0.4	1.3
	Q4	1.3	3.0	6.0	2.0	1.2
2012	Q1	1.2	1.2	1.3	1.3	1.1
	Q2	0.9	0.8	0.8	0.8	0.7
	Q3	0.6	-1.9	-5.9	-0.3	0.4
	Q4	1.1	3.7	8.5	1.8	1.1

Note : (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.

Diagram 7.3 (a) : Food and several other major components in the underlying Composite CPI showed narrower price increases in 2012

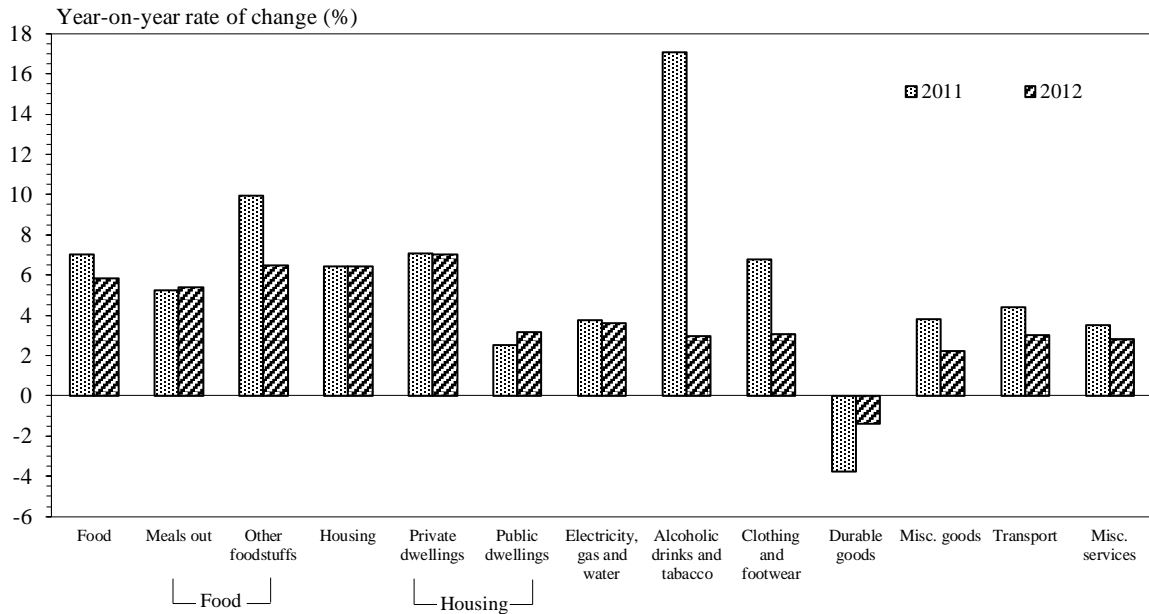
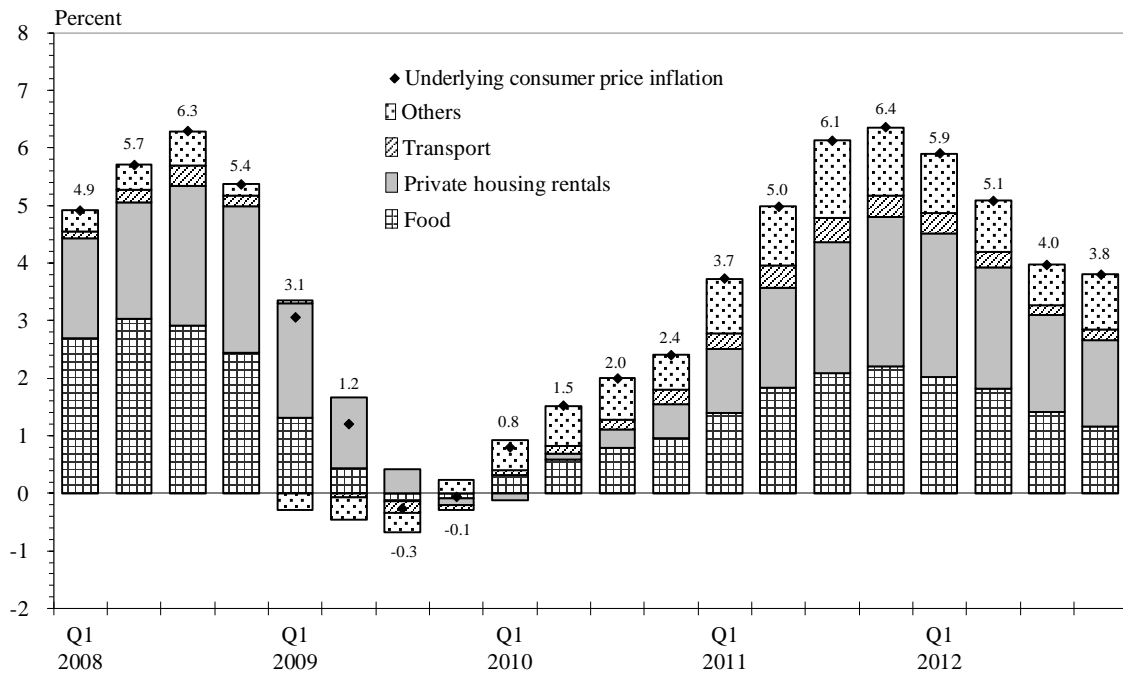


Diagram 7.3 (b) : Contribution to underlying consumer price inflation by major component



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>2011</u>	<u>2012</u>	<u>2012</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	27.45	7.0	5.8	7.4	6.6	5.1	4.2
<i>Meals bought away from home</i>	17.07	5.2	5.4	6.1	5.7	5.3	4.6
<i>Other foodstuffs</i>	10.38	9.9	6.5	9.4	8.1	5.0	3.6
Housing ^(a)	31.66	7.2 (6.4)	5.6 (6.4)	8.1 (8.1)	6.4 (6.7)	2.8 (5.5)	5.2 (5.4)
<i>Private dwellings</i>	27.14	7.2 (7.1)	6.8 (7.0)	9.2 (9.1)	7.3 (7.7)	5.8 (6.0)	5.1 (5.3)
<i>Public dwellings</i>	2.05	11.9 (2.5)	-7.1 (3.2)	-1.5 (-0.1)	-1.1 (0.1)	-87.8 (3.2)	9.7 (9.5)
Electricity, gas and water	3.10	-4.2 (3.8)	-8.2 (3.6)	-17.2 (4.0)	-18.3 (3.9)	3.6 (2.8)	4.6 (3.6)
Alcoholic drinks and tobacco	0.59	17.1	3.0	11.6	0.1	0.5	0.6
Clothing and footwear	3.45	6.8	3.1	4.9	3.2	2.3	1.9
Durable goods	5.27	-3.8	-1.4	-1.8	-0.9	-1.2	-1.7
Miscellaneous goods	4.17	3.8	2.2	3.4	2.2	1.4	2.0
Transport	8.44	4.4	3.0	4.4	3.3	2.2	2.2
Miscellaneous services	15.87	3.5 (3.5)	2.8 (2.8)	2.8 (2.8)	3.1 (3.1)	2.3 (2.3)	2.9 (3.0)
All items	100.00	5.3 (5.3)	4.1 (4.7)	5.2 (5.9)	4.2 (5.1)	3.1 (4.0)	3.8 (3.8)

Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

(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

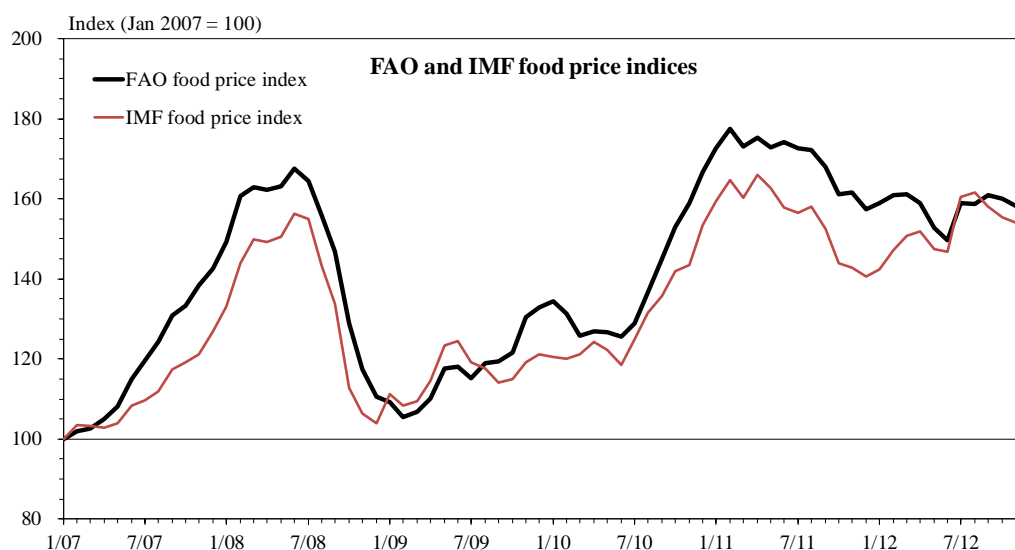
Recent movements of food and commodity prices in the international markets

International commodity prices, particularly those of foodstuffs and fuels, can have a direct bearing on Hong Kong's inflation. They are well-known to be volatile, influenced by a multitude of factors, including economic prospects, global monetary conditions, policy changes in the suppliers, and other specific factors affecting demand and supply conditions. This note reviews the recent trends of global food and commodity prices, and discusses their possible implications for Hong Kong's imported inflation.

Recent trend of global food prices

According to the Food and Agriculture Organization of the United Nations (FAO) and the International Monetary Fund (IMF), global food prices have eased in the second half of 2011 and the first half of 2012, due partly to improving demand-supply balance and partly to dimmer global economic prospects amid the re-intensification of the eurozone sovereign debt crisis (**Chart 1**). Yet, a number of adverse supply shocks, including notably the drought in the US, arrested the downtrend and resulted in a jump in food prices during the summer of 2012. Nevertheless, global food prices tended to soften again towards the end of the year. For 2012 as a whole, the FAO Food Price Index was still 7% lower than in 2011.

Chart 1 : Global food prices followed an easing trend in 2011 and 2012 amid some fluctuations



According to the FAO⁽¹⁾, the latest demand/supply conditions in different food markets are diverse. Global cereal supply/demand balance is forecast to tighten considerably in the near term due mainly to declines in wheat and maize production. Nevertheless, for rice, which is the main staple food in Hong Kong, world production is still supported by favourable growing conditions, but its future price movements can be affected by the high price policy implemented by some supplier countries and the conditions in the wheat and maize markets. The global supply of meat has been growing only slowly, being affected by rising feed prices. As to fish and sugar, the global supply conditions are still favourable relative to demand.

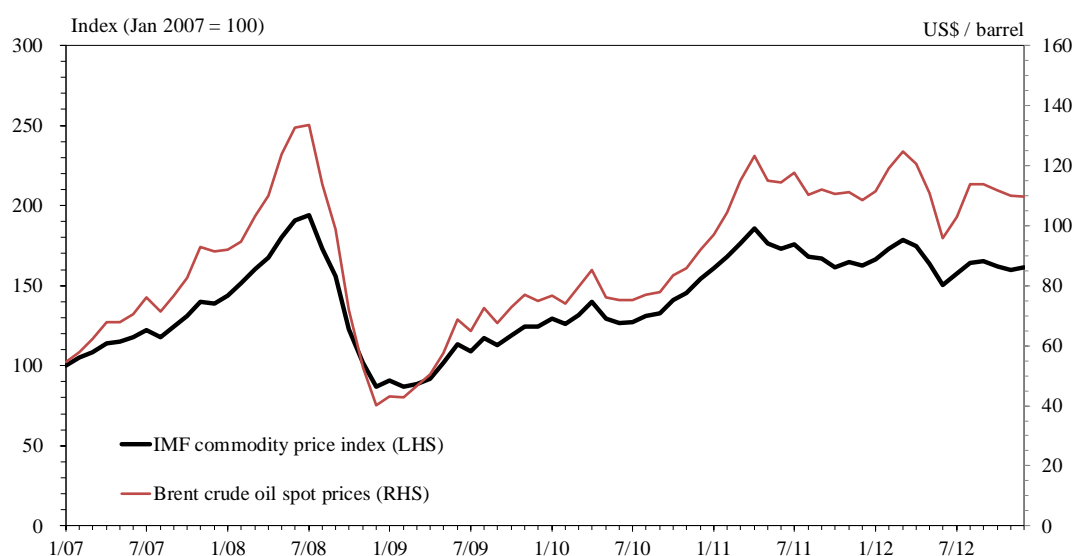
(1) Food Outlook, Global Market Analysis (November 2012 issue), FAO

Box 7.1 (Cont'd)

Recent trend of international commodity prices

Major commodity prices in the international markets exhibited significant gyrations in recent years (**Chart 2**). According to IMF's Primary Commodity Price Index, global commodity prices embarked on an uptrend in early 2009, peaking out during the second quarter of 2011. Since then, commodity prices displayed a general downtrend, though with significant volatility. Take the monthly average of the spot price of North Sea Brent Oil as an example. It rose steadily from the recent trough at US\$40.3 per barrel in December 2008 to a peak of US\$123.3 in April 2011, followed by some easing to US\$108.3 in December 2011. Oil prices continued to exhibit much gyration in 2012, rising rapidly to US\$124.7 per barrel by March but then fell sharply to US\$95.9 per barrel in June, before recovering to US\$109.6 in December.

Chart 2 : Global commodity prices displayed much volatility in recent years



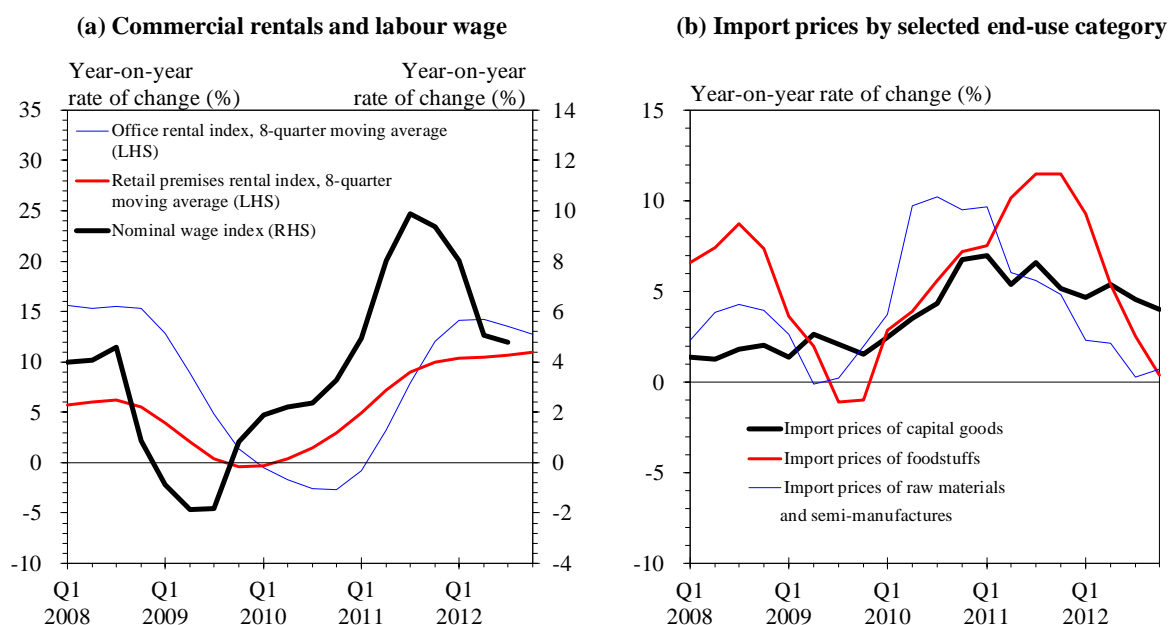
The evolving eurozone sovereign debt crisis and quantitative easing measures by the major central banks in 2012 have conceivably contributed to the notable gyrations in international commodity prices, in addition to other factors such as demand-supply dynamics. With the US Federal Reserve anticipating the prevailing ultra-low interest rates to be maintained so long as the unemployment rate stays above 6.5% in the context of inflation expectations staying anchored, the exceptionally loose global monetary environment will likely continue for an extended period. The resulting global liquidity glut can be expected to fuel further volatility in international commodity prices.

As a small and open economy, Hong Kong is highly dependent on the imports from overseas, particularly foodstuffs and fuels, and hence Hong Kong's imported inflation is susceptible to the movements of global food and commodity prices. The expected increase in volatility in the global food and commodity markets will pose upside risks to Hong Kong's imported inflation going forward. The Government will continue to closely monitor the developments.

Costs of factor inputs and import prices

7.4 Domestic cost pressures, except in some specific segments of the economy, abated moderately in 2012 following several quarters of sub-trend economic growth. On labour costs, while wages rose further amid a resilient labour market, the rate of increase moderated in the second half of 2012 as economic growth slowed and the boost from SMW implementation waned. The increase in office rentals also decelerated towards the latter part of 2012, in tandem with the less sanguine economic environment. Shop rentals, however, still posted notable increases throughout the year, underpinned by the further solid growth in retail businesses on the back of stable consumer sentiment and vibrant inbound tourism.

Diagram 7.4 : Domestic cost pressures in many economic segments eased, while import prices rose at a moderated pace



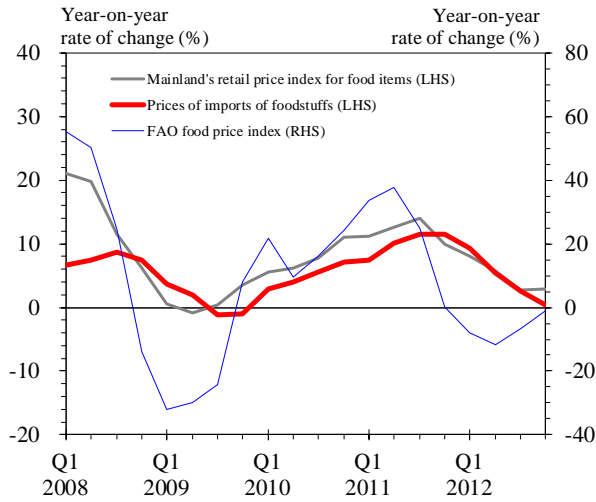
7.5 On the external front, upward pressures on import prices generally eased during 2012. For the year as a whole, overall import prices rose by 3.3%, down visibly from 8.1% in 2011. Analysed by major end-use category, import prices of foodstuffs and raw materials showed slower increases of 4.1% and 1.4% respectively in 2012, thanks to the earlier retreat in global food and commodity prices and lower inflation in the supply sources. Import prices of fuels rose moderately by 2.6% in 2012 after a sharp increase in 2011, mirroring the softer crude oil prices in the international markets. Meanwhile, the increases in import prices of other major categories also saw varying degrees of deceleration.

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

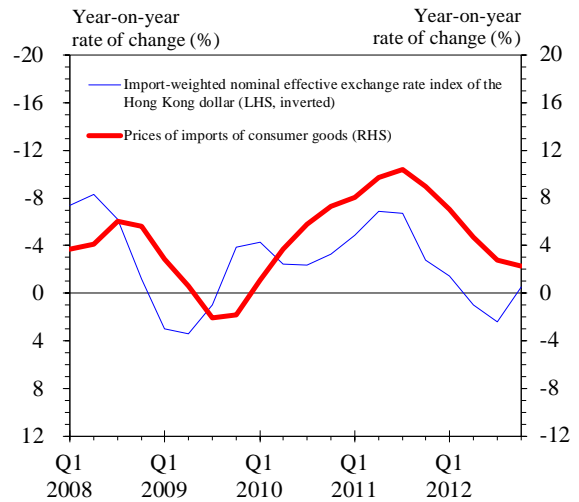
		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2011	Annual	10.3	9.2	6.4	35.2	5.9	8.1
	H1	8.9	8.9	7.6	33.1	6.1	8.4
	H2	11.4	9.7	5.2	37.1	5.9	7.9
	Q1	7.5	8.0	9.7	24.8	7.0	8.9
	Q2	10.2	9.7	6.1	41.0	5.4	8.1
	Q3	11.5	10.4	5.6	42.8	6.6	8.6
	Q4	11.5	9.0	4.8	31.6	5.1	7.1
2012	Annual	4.1	4.1	1.4	2.6	4.7	3.3
	H1	7.3	5.8	2.2	8.0	5.0	4.4
	H2	1.3	2.6	0.5	-2.3	4.3	2.2
	Q1	9.3	7.1	2.3	16.5	4.6	5.0
	Q2	5.4	4.7	2.1	0.8	5.4	3.9
	Q3	2.5	2.8	0.3	-2.6	4.6	2.3
	Q4	0.4	2.3	0.7	-2.0	4.0	2.1

Diagram 7.5 : Import prices by end-use category

(a) The earlier easing of global food prices helped alleviate imported food inflation

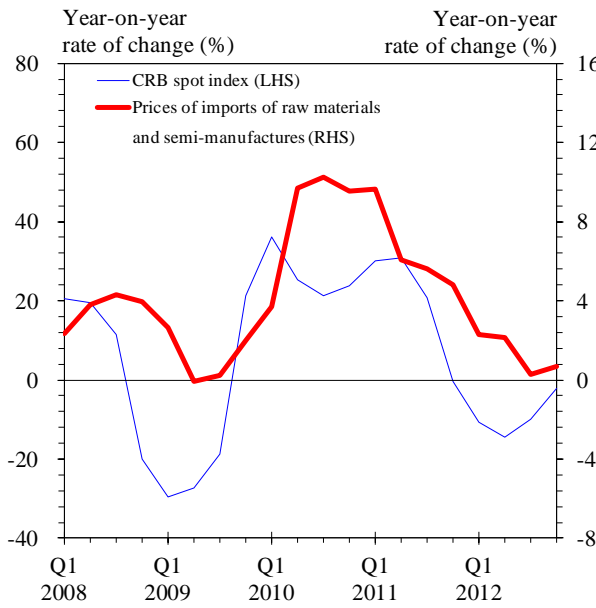


(b) Import prices of consumer goods rose at a moderated pace

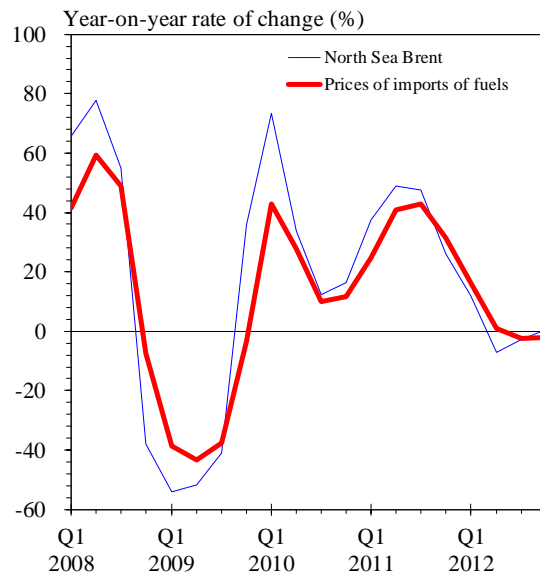


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials stayed broadly stable amid weaker global commodity prices



(d) Import prices of fuels eased in the second half of 2012, in tandem with softer crude oil prices



Output prices

7.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, exhibited diverse trends across different sectors in the first three quarters of 2012. Output prices for the manufacturing sector posted a slight year-on-year increase following some sharp rise in 2011. Among the services sectors, output prices for accommodation services continued to rise visibly on the back of buoyant inbound tourism. The increases in output prices for courier services and land transport were relatively moderate all through the first three quarters of 2012. The rise in output prices for water transport was more notable due to increases in ocean freight rates. Separately, output prices for telecommunications services stayed on a downtrend amid technological breakthroughs and intense competition, and those for air transport showed little change.

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>2011</u>					<u>2012</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	8.3	8.2	9.0	9.5	6.6	0.5	3.6	-0.6	-1.4
Selected services sector ^(a)									
Accommodation services	13.2	12.7	13.3	12.8	13.7	9.6	12.1	8.2	8.3
Land transport	2.1	1.6	2.0	2.2	2.5	1.7	2.1	1.8	1.3
Water transport	-11.6	-2.3	-12.6	-21.1	-8.9	6.8	-4.3	18.5	6.3
Air transport	0.7	8.8	5.5	-2.1	-8.2	-0.4	-3.3	1.2	1.0
Telecommunications	-2.5	-0.6	-2.9	-2.6	-3.9	-2.5	-4.4	-1.6	-1.6
Courier services	3.0	2.2	2.6	3.4	3.8	2.1	3.1	2.0	1.2

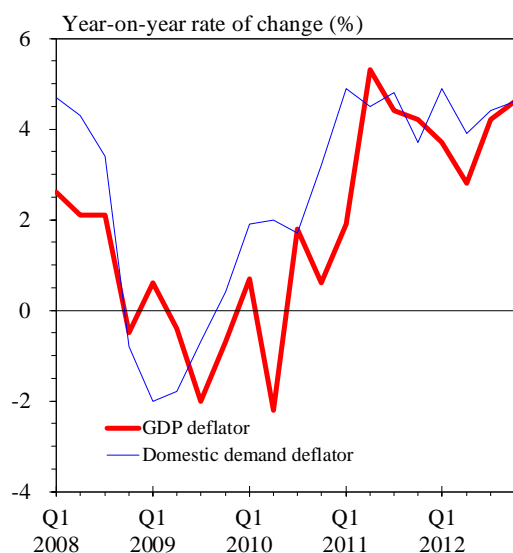
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

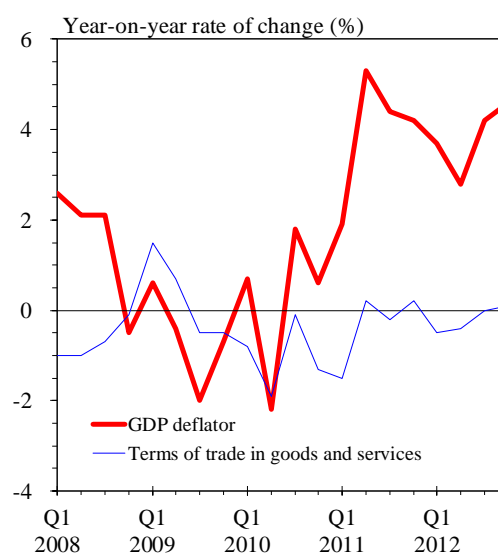
7.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 3.9% in 2012, same as that in 2011. Within the GDP deflator, the *terms of trade*⁽⁵⁾ continued to see a slight deterioration in 2012, reflecting possibly the pressure on profit margin in the trade-related sectors amid the difficult external environment. Taking out the external components, the domestic demand deflator went up by 4.5% in 2012, also same as that in 2011.

Diagram 7.6 : GDP deflator

(a) GDP deflator rose at the same pace in 2012 as in 2011



(b) Terms of trade deteriorated mildly in 2012



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

	<u>Annual</u> [#]	<u>2011</u>				<u>2012</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	3.7	2.8	4.1	4.2	3.5	2.8	3.8	2.7	2.3	2.3
Government consumption expenditure	4.5	1.6	4.9	5.5	6.1	6.1	6.1	6.0	6.1	6.2
Gross domestic fixed capital formation	6.8	11.4	5.9	6.2	4.2	8.2	6.3	6.7	9.3	10.0
Total exports of goods	7.8	7.0	8.1	8.7	7.5	3.6	6.3	5.2	1.8	1.6
Imports of goods	8.2	8.9	7.8	8.9	7.6	4.2	7.2	6.2	2.2	1.6
Exports of services	7.6	7.4	7.7	7.9	7.5	4.0	6.1	5.3	2.5	2.5
Imports of services	6.4	6.3	8.4	7.3	4.1	1.5	3.1	0.5	0.3	2.2
Gross Domestic Product	3.9	1.9	5.3	4.4	4.2	3.9	3.7	2.8	4.2	4.6
		<1.6>	<1.3>	<0.9>	<0.4>		<1.0>	<0.7>	<2.0>	<0.9>
Total final demand	6.7	6.5	7.0	7.3	6.3	3.9	5.8	4.8	2.7	2.6
Domestic demand	4.5	4.9	4.5	4.8	3.7	4.5	4.9	3.9	4.4	4.6
Terms of trade in goods and services	-0.3	-1.5	0.2	-0.2	0.2	-0.2	-0.5	-0.4	*	0.1

Notes : Figures are derived based on the series of chain volume measures of GDP. They are subject to revision later on as more data become available.

(#) Revised figures.

(+) Preliminary figures.

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

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

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>2011</u>					<u>2012</u>				
	<u>Annual</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>
Selected developed economies										
US	3.2	2.1	3.4	3.8	3.3	2.1	2.8	1.9	1.7	1.9
Canada	2.9	2.6	3.4	3.0	2.7	1.5	2.3	1.6	1.2	0.9
EU	3.1	2.9	3.2	3.1	3.2	2.6	2.9	2.6	2.6	2.4
Japan	-0.3	-0.5	-0.4	0.1	-0.3	0.0	0.3	0.2	-0.4	-0.2
Major emerging economies										
Mainland China	5.4	5.0	5.7	6.3	4.6	2.6	3.8	2.9	1.9	2.1
Russia	8.4	9.5	9.5	8.1	6.7	5.1	3.9	3.8	6.0	6.5
India	8.9	9.0	8.9	9.2	8.4	9.3	7.2	10.1	9.8	10.1
Brazil	6.6	6.1	6.6	7.1	6.7	5.4	5.8	5.0	5.2	5.6
Selected Asian economies										
Hong Kong	5.3	3.8	5.2	6.4	5.7	4.1	5.2	4.2	3.1	3.8
Singapore	5.2	5.2	4.7	5.5	5.5	4.6	4.9	5.3	4.2	4.0
Taiwan	1.4	1.3	1.6	1.3	1.4	1.9	1.3	1.7	2.9	1.8
South Korea	4.0	3.8	4.0	4.3	4.0	2.2	3.0	2.4	1.6	1.7
Malaysia	3.2	2.8	3.3	3.4	3.2	1.7	2.3	1.7	1.4	1.3
Thailand	3.8	3.0	4.1	4.1	4.0	3.0	3.4	2.5	2.9	3.2
Indonesia	5.4	6.8	5.9	4.7	4.1	4.3	3.7	4.5	4.5	4.4
Philippines	4.7	4.5	5.0	4.8	4.7	3.1	3.1	2.9	3.5	3.0
Vietnam	18.7	12.8	19.4	22.5	19.8	9.0	15.9	8.6	5.6	6.5
Macao	5.8	5.0	5.2	6.2	6.7	6.1	6.3	6.6	6.0	5.6

- (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 2012

- 1 Jan The number of products with rules of origin agreed under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was increased to 1 732.
- 5 Jan The Chief Executive (CE) attended the Second Plenary Session of the Hong Kong/Shanghai Economic and Trade Co-operation Conference in Shanghai. At the Conference, the two sides discussed co-operation in various areas and signed four co-operation agreements.
- To ensure adequate protection for investors, the Hong Kong Monetary Authority (HKMA) issued a circular to authorized institutions (AIs) to provide further guidance on conduct-related issues in relation to the sale of investment products.
- 9 Jan The Government announced the tendering of 10-year Government Bonds, totalling \$1.5 billion, through the re-opening of an existing 10-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 12 Jan The Heritage Foundation and the Wall Street Journal released the 2012 Index of Economic Freedom. Hong Kong was rated the freest economy in the world for the 18th consecutive year.
- 15 Jan The Chief Secretary for Administration (CS) officiated at the opening ceremonies of the HKSAR Government Chongqing Liaison Unit and the “Chongqing-Hong Kong Week 2012” held in Chongqing.
- 16 Jan The HKMA and the UK Treasury announced the launch of a joint private-sector forum, to be facilitated by both authorities, to enhance cooperation between Hong Kong and London on the development of offshore renminbi (RMB) business.
- 16 – 17 Jan The Government and the Hong Kong Trade Development Council (HKTDC) co-organised the 5th Asian Financial Forum, a high-level platform which brought together influential members of the global financial community to discuss developments and trends in the dynamic markets of Asia. Carrying the theme “Asia: Driving Sustainable Growth”, the Forum attracted an audience of over 2 000 from 32 countries and regions.
- 17 Jan The Government announced the adoption of a set of proposed new Air Quality Objectives, together with a package of air quality improvement measures, to better protect public health.
- The HKMA announced the relaxation of two supervisory requirements on RMB business of AIs with immediate effect, including the calculation of RMB risk management limit and an increase in the limit for RMB net open position (NOP).
- 27 – 29 Jan CE attended the World Economic Forum Annual Meeting in Davos, Switzerland. During his stay in Switzerland, CE met with political and business leaders and the Director-General of the World Trade Organization to discuss the global economic condition and outlook and update them on Hong Kong’s latest developments.

- 30 Jan The Government announced the consultation conclusions and detailed proposals for the establishment of a Policyholders' Protection Fund.
- 1 Feb The Financial Secretary (FS) presented the Budget for the financial year 2012-13 to the Legislative Council (LegCo), focusing on supporting enterprises to preserve employment and promoting economic development to protect people's livelihood.
- To support enterprises by lowering their operating costs and to promote development of industries, FS proposed a number of measures, including increasing the maximum loan guarantee ratio to 80% under the SME Financing Guarantee Scheme, waiving business registration fees for 2012-13, reducing profits tax for 2011-12 by 75% subject to a ceiling of \$12,000, issuance of inflation-linked retail bond (iBond) worth not more than \$10 billion and providing \$1 billion to help Hong Kong enterprises tap the Mainland market. To provide suitable employment support and training for the working population, FS also proposed to earmark additional funding to enhance various employment and training programmes.
- To safeguard people's livelihood, FS put forward a number of one-off relief measures, including providing an extra month's allowance to recipients of various social security schemes, paying two months' rent for public housing tenants, granting each residential electricity account a subsidy of \$1,800, waiving rates for 2012-13 (subject to a ceiling of \$2,500 per quarter for each rateable property) and reducing salaries tax and tax under personal assessment for 2011-12 by 75% (subject to a ceiling of \$12,000). FS also proposed a number of measures to enhance education, social welfare, medical and health services, including, among others, injecting \$10 billion into the Samaritan Fund to assist patients in need.
- FS confirmed the Government's intention to maintain a steady and adequate supply of Grade A offices, and strived to develop new high-grade office clusters through land use planning, urban design, area improvement and the provision of better transport networks. FS also invited the Urban Renewal Authority (URA) to launch redevelopment projects of industrial buildings in the form of a pilot scheme.
- To reinforce the research culture among business enterprises and encourage co-operation between enterprises and local public research institutions, FS announced an increase in the level of cash rebate under the Research and Development (R&D) Cash Rebate Scheme from 10% to 30%. Enhancements would also be made to the Small Entrepreneur Research Assistance Programme under the Innovation and Technology Fund with effect from April 2012.
- The 2011 Economic Background and 2012 Prospects were published along with the 2012-13 Budget. Hong Kong's Gross Domestic Product (GDP) was forecast to grow moderately by 1-3% in real terms in 2012, as the expected setback in external demand should be cushioned by a resilient domestic sector. The headline and underlying Composite Consumer Price Indices (CPI) were forecast to increase by 3.5% and 4.0% respectively for 2012.
- 2 Feb The Government launched a public engagement exercise on Environmentally Friendly Linkage System for Kowloon East to enhance the connectivity of Kowloon East and facilitate its transformation into another attractive Central Business District.
- The Government announced the 2012-13 Land Sale Programme. The Programme offers a total of 47 residential sites with a capacity to produce about 13 500 units. In addition, it contains four commercial/business sites and two hotel sites.

- 4 – 5 Feb The HKMA co-hosted an informal meeting of central bank governors with the Bank for International Settlements in Hong Kong, participated by a total of 22 central banks and monetary authorities. The meeting provided an opportunity for central bank governors to review the global economic and financial situation, with specific emphasis on developments in Asia and the Pacific.
- 6 Feb The Government successfully conducted an auction of a total of 90 MHz of radio spectrum in the 2.3GHz band, with spectrum acquired by two existing mobile network operators and one new entrant.
- 8 Feb The Financial Stability Board (FSB) published the peer review report on deposit insurance systems (DIS), showing that the key features of the Deposit Protection Scheme in Hong Kong compared favourably with other major DIS. Chaired by the HKMA, the peer review took stock of DIS in FSB member jurisdictions and drew lessons on the effectiveness of reforms in response to the global financial crisis.
- 13 Feb The preparatory team of the Kowloon East Development Office (now renamed as Energizing Kowloon East Office) under the Development Bureau was set up to embark on the immediate tasks of transforming Kowloon East into another attractive Central Business District.
- 14 Feb The Government extended the Information and Consultation Agreement (ICA) with The Hong Kong and China Gas Company Limited (Towngas) for a period of three years with effect from 3 April 2012. The ICA was first signed in April 1997 to increase transparency in the Towngas' tariff setting mechanism and provide justification in the event of tariff adjustments, and had been extended five times since then.
- The first RMB-denominated gold Exchange Traded Fund (ETF) was listed in Hong Kong.
- 22 Feb The HKSAR Government and the Government of Jersey signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income.
- 27 Feb To capitalise on opportunities in the Haixi Economic Zone on the West Coast of the Taiwan Strait, the HKSAR Government established a Fujian Liaison Unit in Fuzhou.
- 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.
- 29 Feb The Airport Authority unveiled the \$2.2 billion West Apron development project to bolster Hong Kong International Airport's capacity in meeting medium-term demand for additional parking stands.
- 1 Mar Hong Kong International Airport ranked top in the "Airports Asia – 1 000 000 or more tonnes" category of the "Air Cargo Award of Excellence" for the third time.
- Hong Kong International Airport was named "Best Airport in Asia" by financial publication "FinanceAsia".

- 2 Mar The Hong Kong Association of Banks (HKAB) announced the industry's implementation of the third, and the last, batch of credit card reform measures to further improve consumer protection and promote good credit card practices.
- 5 Mar The Central Government announced a 7.5% growth target for 2012, lower than the 8% target in the previous year, mainly to tally with the National 12th Five-Year Plan promulgated in March 2011.
- 8 Mar The Government announced the award of the tenancy for operating and managing the Kai Tak Cruise Terminal to Worldwide Cruise Terminals Consortium. The terminal building and the first berth are expected to be commissioned in mid-2013.
- 9 Mar The Banking (Amendment) Ordinance 2012 was gazetted, providing for the framework for implementing in Hong Kong the revised regulatory capital and liquidity standards promulgated by the Basel Committee on Banking Supervision, commonly known as "Basel III".
- 13 Mar The HKMA, Bank Negara Malaysia and Euroclear Bank jointly announced the launch of a pilot platform for the cross-border investment and settlement of debt securities on 30 March to enhance cross-border debt securities settlement efficiency and strengthen the capacity for debt securities issuance activities in the Asian region.
- 19 Mar – 15 Apr The eighth edition of Entertainment Expo Hong Kong, Asia's leading entertainment industry gathering, was held and featured 9 events covering films, television, music and digital entertainment.
- 20 Mar The Government gave in-principle approval for the Airport Authority to adopt, for planning purposes, the three-runway option as the future development direction for Hong Kong International Airport.
- 22 Mar The Hong Kong Mortgage Corporation Limited (HKMC) hosted a signing ceremony for the successful launch of its inaugural public issue of 5-year AUD500 million notes, making it the first Hong Kong issuer of a public Kangaroo bond.
- The Government launched public consultation on the detailed legislative proposals for the trust law reform.
- 23 Mar "Hong Kong Design Year @ apm" event was held to formally kick-start the promotion of Hong Kong Design Year 2012, a year-long programme with an array of signature events and promotional activities to propel the development of Hong Kong as Asia's design hub.
- 30 Mar The existing frequency assignments in the 1.9 – 2.2 GHz band for the provision of 3G mobile services will expire in October 2016. The Secretary for Commerce and Economic Development and the Communications Authority jointly issued a consultation paper on arrangements for the spectrum re-assignments. The decision on the way forward will be made by October 2013.
- 1 Apr To meet the regulatory challenges brought about by rapid technological advancements and the convergence of telecommunications and broadcasting, the Communications Authority (CA) was established under the Communications Authority Ordinance as an independent statutory unified regulator for the entire electronic communications sector in

Hong Kong.

The liberalisation measures under Supplement VIII to CEPA came into effect. Hong Kong service suppliers (HKSS) enjoyed preferential access to the Mainland market in 47 service areas, including 23 new liberalisation measures in 16 service sectors. Both sides also agreed to enhance origin criteria under trade in goods, and relax the definition and related requirements of HKSS.

The Anti-Money Laundering and Counter-Terrorist Financing (Financial Institutions) Ordinance came into effect.

- 2 Apr The HKMA, after taking into account the HKAB's suggestions, issued a guidance note on the key elements of the know-your-customer and due diligent procedures for RMB position squaring by AIs participating in RMB business in Hong Kong to ascertain the genuineness of the underlying cross-border merchandise trade transactions.
- 3 Apr The Office of the Government Chief Information Officer, in collaboration with the information and communications technology (ICT) industry, organised the Awards Presentation Ceremony of the Hong Kong ICT Awards 2012. The Awards encouraged local ICT professionals and organisations to develop innovative ICT solutions and helped uplift the image of Hong Kong's ICT industry both locally and internationally.
- 4 Apr Data centre solution provider Savvis and Digital Realty Trust announced to launch a new data centre in Hong Kong.
- 9 – 18 Apr CE visited New Zealand, Chile and Brazil. During the visit, CE met with political and business leaders to advance Hong Kong's economic and trade relations with the three countries, promote Hong Kong's advantage as China's global financial centre and encourage businesses there to use Hong Kong as a platform to develop their renminbi portfolios, as well as to tap business opportunities in the Mainland.
- 23 – 26 Apr Led by the Chief Executive of the HKMA, the HKMA conducted in Brazil and Chile its fifth in a series of overseas roadshows to showcase Hong Kong as the offshore RMB business centre.
- 23 – 27 Apr FS visited Vietnam, Malaysia and Thailand to strengthen economic and trade ties between Hong Kong and these three countries.
- 24 Apr The Government granted new ten-year franchises to New World First Bus Services Limited, Long Win Bus Company Limited, and Citybus Limited in respect of its franchise for the Airport and North Lantau bus network.
- 25 Apr Cushman & Wakefield and hurleypalmerflatt published the Data Centre Risk Index 2012 Report. Hong Kong continued to be the lowest risk location for data centres in Asia Pacific for two consecutive years, and ranked the seventh lowest in the world.

The Securities and Futures (Amendment) Bill 2011 was passed by the LegCo. The Securities and Futures Commission (SFC) was empowered to implement various new regulatory initiatives, including the establishment of a statutory disclosure regime; the authority to directly institute proceedings before the Market Misconduct Tribunal; and the establishment of the Investor Education Centre by SFC. Provisions establishing a statutory regime for disclosure of price sensitive information by listed corporations would commence operation on 1 January 2013.

The HKSAR Government and the Government of Malaysia signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income in Putrajaya.

27 Apr The Government announced the tendering of 3-year Government Bonds, totalling \$3 billion, under the Institutional Bond Issuance Programme of the Government Bond Programme.

3 May The Finance Ministers and Central Bank Governors of the ASEAN Member States, China, Japan and Korea (ASEAN + 3) agreed to enhance the Chiang Mai Initiative Multilateralisation, including an increase of its total size from US\$120 billion to US\$240 billion and the introduction of a crisis prevention function. Hong Kong's commitment would increase from US\$4.2 billion to US\$8.4 billion, and the amount that Hong Kong is eligible to borrow would increase from US\$2.1 billion to US\$6.3 billion accordingly.

The European Commission published its 14th 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.

5 May The Kowloon East Development Office organized its first public forum to engage the stakeholders and the public on the initiatives of Energizing Kowloon East.

7 May The 8th meeting of the Hong Kong-Shenzhen Joint Task Force on Boundary District Development (JTF) was convened in Shenzhen. The JTF noted the marked progress of the Liantang/Heung Yuen Wai Boundary Control Point project and the study on the development of the Lok Ma Chau Loop.

8 May The Airport Authority and 40 business partners pledged to make Hong Kong International Airport the world's greenest airport – the first commitment of its kind worldwide.

11 May The Government released the preliminary GDP figures for the first quarter of 2012. The Hong Kong economy slowed further to post a slight year-on-year growth of 0.4%, mainly dragged by the lull in exports amid a difficult external environment.

In the May update of the economic forecast for 2012, the forecast growth rate in real terms of GDP was maintained at 1-3%. The forecast rates of increase in the headline and underlying Composite CPI were also maintained at 3.5% and 4% respectively.

The Finance Committee of the LegCo approved an additional funding of \$275.3 million to extend the operation of four R&D centres. It also approved the funding application for the Shatin to Central Link project.

14 – 16 May FS, in his capacity as the Honorary Chairperson of the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council (ECCPC), led a delegation to visit Taipei and officiated at the opening ceremony of the Hong Kong Economic, Trade and Cultural Office.

- 15 May The HKMA, together with the HKTDC, conducted in Tokyo its sixth in a series of overseas roadshows to showcase Hong Kong as the offshore RMB business centre, attracting over 200 representatives from corporates, banks, fund managers and government agencies in Japan.
- 18 May The Banking Ordinance (Amendment of Seventh Schedule) Notice 2012 was gazetted. The Notice sought to remove the licensing requirements under which an applicant for a bank licence must have total customer deposits of not less than \$3 billion and total assets of not less than \$4 billion, and the impediments which restrict foreign banks from entering the Hong Kong market through establishing a locally incorporated subsidiary. The amendments came into operation on 12 July.
- 21 May The Hong Kong/Guangdong Joint Liaison Group on Combating Climate Change held its first meeting in Guangzhou. Both sides agreed on the work plan on combating climate change for 2012-13.
- 22 May The HKMA announced the replacement of the 20% standard RMB NOP limit applicable to AIs with a mechanism whereby AIs are allowed to set their own internal RMB NOP in consultation with the HKMA, taking into account the nature and scale of their RMB businesses. The HKMA also reminded all AIs to continue to adopt prudent measures in managing their foreign exchange and liquidity risk when engaging in RMB activities.
- The SFC became a member of the Board of the International Organization of Securities Commissions (IOSCO). The SFC was appointed as Chair of IOSCO's Asia Pacific Regional Committee commencing May 2013.
- 23 – 25 May CS visited Sichuan to officiate at a ceremony to commemorate the completion of post-quake reconstruction projects funded by the HKSAR and the signing of cooperation agreements between Hong Kong and Sichuan, to co-host a high-level meeting with officials of the Sichuan Provincial Government and to inspect reconstruction projects funded by the HKSAR.
- 25 May The HKMA released the report of the mystery shopping programme on compliance with the Code of Banking Practice and required AIs to give due regard to the issues identified when monitoring sales process and providing training to frontline staff. The Programme covered 21 AIs' services to retail customers in respect of savings accounts, unsecured personal loans and credit cards.
- The Government announced the tendering of 5-year Government Bonds, totalling \$1.5 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 – 29 May FS attended the opening ceremony and summit forum of the China (Beijing) International Fair for Trade in Services held in Beijing and spoke at the opening ceremony of the Mainland-Hong Kong Services Industry Symposium organised by the HKTDC.
- 29 – 31 May Vinexpo Asia-Pacific, a major international wine exhibition, was successfully held in Hong Kong for the fifth time. It attracted more than 1 050 exhibitors and 15 000 trade visitors.

- 31 May The HKMC introduced an 80% loan guarantee product under the SME Financing Guarantee Scheme at a concessionary level of guarantee fee, with an application period of nine months. The product was launched as part and parcel of the package of support measures for small and medium-sized enterprises announced in the 2012-13 Budget.
- 1 Jun Hong Kong started the implementation of Euro V vehicle emission standards for newly registered vehicles in two phases.
- The maximum level of relevant income for making Mandatory Provident Fund (MPF) mandatory contributions was increased from \$20,000 to \$25,000 per month.
- The Companies Ordinance (Amendment of Eighth Schedule) Order 2012 which abolishes capital duty levied under the Companies Ordinance on Hong Kong companies came into effect. The initiative would encourage investors to set up companies in Hong Kong to raise capital and expand their business.
- 7 Jun The Energizing Kowloon East Office under the Development Bureau was formally set up to steer, supervise, oversee and monitor the transformation of Kowloon East into another attractive Central Business District. Conceptual Master Plan 2.0 was published.
- 12 Jun The HKMA issued a circular to provide further guidance and clarification to facilitate the private banking industry's compliance with regulatory requirements for the sale of investment products whilst ensuring an appropriate degree of investor protection following consultation with the SFC and the HKAB.
- FS attended the fifth Hong Kong Macao Co-operation High Level Meeting in Macao to review the progress and future direction of co-operation between the two places.
- 13 Jun The Hong Kong Science and Technology Parks Corporation (HKSTPC) Board approved the Main Works Contract for the construction of Hong Kong Science Park Phase 3. The development of Phase 3, valued \$4.9 billion, is one of Hong Kong's major technology infrastructure developments in recent years. The facilities, which will be available between 2014 and 2016, could accommodate 150 additional firms and provide 4 000 jobs.
- 14 Jun The HKMA announced the replacement of the risk management limit with an RMB liquidity ratio for monitoring AIs' RMB liquidity position.
- The Competition Bill was passed by the LegCo. The Competition Ordinance provides a legal framework to curb anti-competitive conduct in various sectors, and to set up the Competition Commission and the Competition Tribunal responsible for enforcement of the legislation.
- 15 Jun With the gazettal of the Fisheries Protection (Amendment) Ordinance, the Government introduced a series of fisheries management measures to protect fisheries resources in Hong Kong and promote sustainable fisheries development.
- The HKMA launched an RMB liquidity facility to provide RMB term funds to individual AIs participating in RMB business in Hong Kong at their request against eligible collaterals. The facility makes use of the currency swap arrangement between the People's Bank of China and the HKMA.
- 16 – 21 Jun FS attended the G20 summit in Los Cabos as a member of the Chinese delegation.

- 18 Jun The Government announced two incentive measures to encourage the conversion of industrial buildings for data centre use and the development of high-tier data centres on industrial lots respectively.
- The Securities and Futures (Short Position Reporting) Rules took effect. In order to increase transparency of short selling activities, market participants are required to report short positions to the SFC. The SFC started to post weekly on its website the aggregated reportable short positions of specified shares from September 2012.
- The HKSAR Government and the Government of the United Mexican States signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income in Los Cabos.
- 19 Jun The Financial Dispute Resolution Centre, aimed at resolving financial disputes between financial institutions and their clients, opened in Hong Kong to further improve investor protection in the wake of the global financial crisis.
- 20 Jun The HKMA signed bilateral agreements with Euroclear Bank and J.P. Morgan Worldwide Securities Services respectively, to cooperate in delivering an innovative cross-border collateral management service on 25 June. The arrangement aims to develop and promote a cost effective and efficient repo market in Hong Kong, which helps enhance financial stability through the greater use of collateral to cover exposures in secured lending and borrowing. It also opens an efficient channel for financial institutions to widen their liquidity sources and obtain offshore RMB liquidity from Hong Kong.
- The Government announced the receipt of a total of 332 467 valid applications for a total of \$49.83618 billion in principal amount in launching a further issuance of iBond under the Retail Bond Issuance Programme of the Government Bond Programme, both setting records in the local retail bond market. A total of \$10 billion of iBond, with a tenor of three years, was issued on 22 June and listed on the Stock Exchange of Hong Kong on 25 June.
- 21 Jun The Ministry of Science and Technology approved the establishment under the Applied Science and Technology Research Institute (ASTRI) the “Hong Kong Branch of the National Engineering Research Centre for Application Specific Integrated Circuit System” in collaboration with the Southeast University in Nanjing.
- “The Issuance of PRC RMB Sovereign Bond and the Development of Hong Kong Bond Market” seminar, jointly organised by the Ministry of Finance of the Central Government, the Financial Services and the Treasury Bureau and the HKMA, and co-organised by the Bank of Communications Co., Ltd. Hong Kong Branch, was held in Hong Kong.
- 22 Jun Ground breaking ceremony for the Shatin to Central Link project was held. The project was scheduled for completion in 2020.
- 25 Jun The Environment Bureau, the Guangdong Province Housing and Urban-Rural Development Department and the Macao Secretariat for Transport and Public Works jointly announced the Regional Cooperation Plan on Building a Quality Living Area. This is the first regional plan jointly compiled by Hong Kong, Guangdong and Macao to transform the Greater Pearl River Delta region into a low-carbon, high-technology and

low-pollution city cluster of quality living, with a view to enhancing the overall competitiveness and attractiveness of the region.

The operating hours of the RMB Real Time Gross Settlement (RTGS) system in Hong Kong was extended from 10 hours a day to 15 hours, i.e. from 8:30 a.m. to 11:30 p.m. Hong Kong time. The extended operating window covers both the Asian and European business hours and the early US business hours, bolstering the competitiveness of the RMB clearing platform in Hong Kong and enabling it to better serve different regions.

The Government launched the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) of \$1 billion to encourage Hong Kong enterprises to move up the value chain through developing brands, upgrading and restructuring as well as promoting domestic sales, so as to enhance their competitiveness and facilitate their business development in the Mainland.

27 Jun The Personal Data (Privacy) (Amendment) Ordinance 2012 was passed by the LegCo. The Amendment Ordinance introduced a number of amendments to the Personal Data (Privacy) Ordinance, inter alia, to regulate the use of personal data in direct marketing and the provision of personal data for use in direct marketing; to create a new offence against disclosure of personal data obtained from a data user without the data user's consent; and to increase the penalty for non-compliance with an enforcement notice.

The Government announced the establishment of the Preparatory Task Force (PTF) on the Financial Services Development Council to recommend on the goals, terms of reference, operational model and composition of the proposed Financial Services Development Council (FSDC) which will aim to enhance and consolidate the status of Hong Kong as a globally significant international financial centre and promote the long term development of the financial services industry in Hong Kong. After months of study, consultation and deliberation, PTF submitted a report on setting up FSDC to the Chief Executive by the end of 2012.

28 Jun The Ministry of Finance launched the fourth issue of RMB sovereign bonds in Hong Kong, including the use of a new channel of issuance — placement to central banks and monetary authorities outside Mainland China through the “HKMA CMU Central Bank Placement Co-ordinating Window”.

Representatives of 12 Hong Kong higher education institutions and 17 Mainland higher education institutions signed a Letter of Intent on behalf of the participating institutions of the two places, to further strengthen exchange and collaboration between the higher education institutions of the two places.

29 Jun The HKMC collaborated with six banks and five non-governmental organisations to launch the Microfinance Scheme on a self-sustaining basis for a trial period of three years. The Scheme offers three categories of loans, i.e. Micro Business Start-up Loan, Self-employment Loan and Self-enhancement Loan.

The HKSAR Government and the Central People's Government signed Supplement IX to CEPA.

The Residential Properties (First-hand Sales) Bill was passed by the LegCo. The Ordinance will come into operation by end of April 2013.

The SFC authorized the world's first Renminbi Qualified Foreign Institutional Investors Scheme (RQFII) A-share ETF for listing in Hong Kong.

The China Securities Regulatory Commission (CSRC) approved two Hong Kong Stock ETFs. The two ETFs were subsequently listed on Shenzhen Stock Exchange and Shanghai Stock Exchange separately on 22 October.

30 Jun President Hu Jintao led a delegation to visit Hong Kong. The Central Government announced 39 supporting policies and measures to further strengthen co-operation between Hong Kong and the Mainland, covering a wide range of economic areas including economic and trade co-operation, tourism, financial co-operation and Hong Kong-Guangdong co-operation.

In particular, the Central Government announced a series of measures that support the development of offshore RMB business in Hong Kong. They include further issuing RMB sovereign bonds in Hong Kong; arranging for Mainland banks and enterprises to issue further RMB bonds in Hong Kong; further expanding the use of RMB outside the Mainland; supporting the use of the Hong Kong platform by parties from other places to settle trade and investment transactions in RMB, developing the offshore RMB lending market and further enriching the variety of offshore RMB products in Hong Kong; and further increasing the investment quotas, enlarging the range of participating entities, enriching the product variety and relaxing the investment restrictions in relation to be RMB Qualified Foreign Institutional Investors scheme.

1 Jul The HKSTPC commissioned a study in July 2012 to explore the feasibility of expanding the Yuen Long Industrial Estate by about 16 hectares. A decision on whether to proceed with the extension will be made by mid-2014.

The number of products with CEPA rules of origin agreed was increased to 1 739.

The Financial Reporting Council (FRC) completed the first review cycle of its risk-based financial statements review programme and commenced the second review cycle. In the second review cycle, the FRC selects 75 sets of financial statements of Hong Kong listed entities for review. The programme aims at promoting high quality financial reporting and sound corporate governance in Hong Kong by proactively identifying possible non-compliance with accounting requirements on the part of listed entities.

6 Jul Hong Kong was ranked the world's fourth largest recipient of Foreign Direct Investment (FDI) flows in 2011, according to the World Investment Report 2012 released by the United Nations Conference on Trade and Development (UNCTAD). Hong Kong had been ranked second in Asia, after Mainland China, for 14 consecutive years.

9 Jul Equinix, Inc., a provider of global data centre services, announced that it has completed the acquisition of Hong Kong-based data centre provider Asia Tone Limited.

11 Jul The HKMA and the SFC jointly published the Consultation Conclusions on the Proposed Regulatory Regime for the Over-the-counter (OTC) Derivatives Market in Hong Kong. Respondents were generally supportive of the proposed regulatory regime and recognised the need for Hong Kong to develop and implement measures in line with the G20 Leaders' objectives of improving transparency, regulatory monitoring and reducing counterparty and systemic risk in the OTC derivatives market. The HKMA and the SFC also issued a supplementary consultation paper on the proposed scope of the new and expanded regulated activities and the oversight of systematically important players. The consultation period ended on 31 August.

Hong Kong and Australia jointly announced the launch of a private-sector led annual dialogue to consider how to capture opportunities in relation to the wider use of RMB in trade and investment among Mainland China, Australia and Hong Kong. The dialogue, to be facilitated by the HKMA, the Australian Treasury and the Reserve Bank of Australia, would comprise representatives from the banking sector and firms participating in cross-border trade and investment.

12 Jul The \$5.55 billion Master Redevelopment Plan of the Ocean Park was completed upon the opening of its last new attraction “Polar Adventure”. The Park is now a world-class marine themed park featuring more than 70 attractions.

The LegCo passed the Companies Bill, which was subsequently published in the gazette on 10 August as the new Companies Ordinance to provide a modernised legal framework for the incorporation and operation of companies in Hong Kong. Its objectives are to enhance corporate governance, improve regulation, facilitate business and modernise the law with a view to strengthening Hong Kong's competitiveness as a corporate domicile and enhancing its status as a major international commercial and financial centre.

13 Jul The Finance Committee of the LegCo approved the 2012-13 Civil Service Pay Adjustment. The adjustment rates ranged from 5.26% to 5.80%, and took retrospective effect from 1 April 2012.

16 Jul The HKMA assumed the chairmanship of the Monetary and Financial Stability Committee of the Executives’ Meeting of East Asia-Pacific Central Banks (EMEAP) for a two-year term. The Committee is the main EMEAP platform for reviewing economic and financial developments in the region, identifying areas of vulnerability and recommending broad policy options in the areas of regional macro-monitoring and crisis management.

To address the pressing home ownership needs of the community, CE announced an interim measure to allow people with White Form status, with an annual quota of 5 000, to purchase Home Ownership Scheme (HOS) flats with premium not yet paid on the HOS Secondary Market before the completion of the first batch of new HOS flats in 2016-17. The Subsidised Housing Committee (SHC) of the Hong Kong Housing Authority (HA) approved the interim measure on 12 September.

17 Jul The Trade Descriptions (Unfair Trade Practices) (Amendment) Ordinance 2012, which prohibits commonly seen unfair trade practices, was enacted by the LegCo. It enhances the protection of consumer interests.

The “Hong Kong/Guangdong Expert Committee on Cloud Computing Services and Standards” was established to facilitate expert exchanges between Hong Kong and the Mainland to develop good practices and guidelines in respect of security and privacy on the provision and use of cloud services and to drive cloud computing adoption.

The first RQFII A-share ETF was listed in Hong Kong.

18 Jul Octopus Cards Ltd and Lingnan Tong Co Ltd launched a co-named card “Octopus-Lingnan Pass”.

The Securities and Futures Ordinance (Amendment of Schedule 1) Notice 2012 came into effect. The lists of recognized stock exchanges and futures exchanges under the

Securities and Futures Ordinance have been updated so as to extend the application of tax exemption for offshore funds engaged in futures trading.

19 Jul The Treasury Markets Association (TMA) held the Treasury Markets Forum on cooperation between Hong Kong Shenzhen and Qianhai and the ensuing business opportunities, attracting more than 60 participants from regulatory bodies, banks and financial institutions in both Mainland China and Hong Kong.

24 Jul The Hong Kong Institute of Certified Public Accounts (HKICPA) and the Chinese Institute of Certified Public Accountants (CICPA) signed an implementation agreement to specify the detailed arrangements for Hong Kong certified public accountants to apply for exemption from four examination papers of the Uniform Certified Public Accountants Examination of the People's Republic of China, in accordance with the Agreement on the Mutual Examination Paper Exemptions for Mainland and Hong Kong Accountants and its Supplements under the CEPA framework.

25 Jul The HKMA issued a circular setting out that AIs would be allowed to open RMB accounts for non-Hong Kong residents and offer them a full range of RMB services starting from 1 August.

31 Jul Readers of online publication "Frequent Business Traveller" voted Hong Kong International Airport as the "Best Airport in Asia Pacific".

The Political Bureau of the Communist Party of China Central Committee reaffirmed the priority towards stable economic growth. The Central Government would continue to implement a pro-active fiscal policy and a prudent monetary policy, expand domestic demand, optimise investment structure while increasing effective investment, pursue further reforms in areas such as taxation and finance, and to unswervingly implement the property market control policy.

10 Aug The Government released the preliminary GDP figures for the second quarter of 2012. While merchandise exports remained sluggish in the second quarter amid the severe external headwinds, the domestic sector was still relatively resilient, thereby providing a buffer to overall economic performance. Real GDP increased slightly by 1.1% in the second quarter over a year earlier.

In the August update of the economic forecast for 2012, the forecast growth rate in real terms of GDP was revised to 1-2%. The forecast rates of increase in the headline and underlying Composite CPI were slightly revised upwards to 3.7% and 4.3% respectively.

The Office of the Government Chief Information Officer of Hong Kong and the Economic and Information Commission of Guangdong Province jointly announced the standing arrangement for the "Mutual Recognition of Electronic Signature Certificates Issued by Hong Kong and Guangdong". This would facilitate secure cross-boundary electronic commerce.

14 Aug China Mobile, China's largest mobile operator, laid the foundation stone for its Global Network Centre in Hong Kong.

17 Aug The HKMA announced the re-appointment of the Standard Chartered Bank (Hong Kong) Limited as the Settlement Institution for the Euro RTGS system in Hong Kong for a third five-year period commencing in March 2013.

Standard & Poor's Financial Services LLC affirmed Hong Kong's long-term local-currency and foreign-currency sovereign ratings at "AAA", with "Stable" outlook.

- 21 Aug After considering TVB Pay Vision Limited's commitments to improve and further develop its pay television service, CE in Council accepted the recommendations of the former Broadcasting Authority and approved the application for renewal of the domestic pay television programme service licence of TVB Pay Vision Limited for a validity period of 12 years from February 2013 to February 2025.
- 22 Aug Invest Hong Kong organised a major conference entitled "Going Global Seminar - Sharing the Business Advantages of Hong Kong" in collaboration with the Central People's Government Liaison Office Economic Affairs Department to promote Hong Kong as the ideal platform for Mainland companies to "go global".
- 27 Aug The Government announced the tendering of 2-year Government Bonds, totalling \$3.5 billion, through the re-opening of an existing 5-year Government Bond issue under the Institutional Bond Issuance Programme of the Government Bond Programme.
- 28 – 31 Aug FS attended the APEC Finance Ministers' Meeting in Moscow.
- 30 Aug CE announced a package of ten short and medium term housing and land supply measures, with a view to addressing community aspirations.
- 1 Sep A new facilitation arrangement was launched to allow Taiwan visitors who wish to make leisure or business trips to Hong Kong to make online pre-arrival registration free of charge.
- The New Academic Structure was smoothly implemented in the tertiary education sector under which undergraduate study has changed to a 4-year curriculum. With the parallel development of the publicly-funded and self-financing sectors, it is expected that in two years, over one-third of the relevant age cohort will have the opportunity to pursue degree-level education; taking sub-degree places into account, nearly 70% of young people will have access to post-secondary education.
- 4 Sep The HKMA announced the strategy of enhancing the retail payment infrastructure and instruments in Hong Kong. The strategy include moving from paper-based and semi-electronic payment instruments (such as bill and cheque payments) to a fully electronic platform; exploring the possibility of developing a common interface for Near Field Communication mobile payment; and enhancing the legislative framework to cover innovative payment instruments.
- 5 Sep Japan Credit Rating Agency, Ltd. affirmed Hong Kong's long-term local-currency and foreign-currency sovereign ratings at "AA+", with "Stable" outlook.
- The Pacific Economic Co-operation Council published its State of the Region Report 2012-2013. The Report recognised Hong Kong as one of the economies most highly integrated with the Asia-Pacific region.
- The World Economic Forum released its Global Competitiveness Report 2012-13. Hong Kong ranked ninth, advanced by two places over the last year.
- 5 – 11 Sep FS attended, on behalf of CE, the APEC Economic Leaders' Meeting and APEC CEO Summit held in Vladivostok.

- 6 Sep CE announced the implementation of the Hong Kong Property for Hong Kong People (HKPHKP) scheme through land sale conditions. This will be implemented as pilot in two land sale sites at Kai Tak, which are targeted for sale in the first quarter of 2013.
- 7 Sep Hong Kong and Chile signed a Free Trade Agreement (FTA). The FTA is the first one Hong Kong signs with a Latin American economy. It is comprehensive and of high quality, encompassing trade in goods and services, investment, and other related areas. The FTA will provide Hong Kong with better access to the Chilean market which may potentially serve as a gateway to the Central and South American markets.
- 8 – 9 Sep FS attended the 20th Economic Leaders’ Meeting of the Asia-Pacific Economic Cooperation in Vladivostok, Russia, amongst Leaders of 20 other Asia-Pacific economies. Leaders’ discussions focused on issues including supporting the multilateral trading system, trade and investment liberalisation, regional economic integration, strengthening food security, establishing reliable supply chains, intensive co-operation to foster innovative growth, and enhancing emergency preparedness.
- 11 Sep Octopus Cards Ltd and Shenzhentong Co Ltd launched a co-named card “Hu Tong Xing”.
- 12 Sep The SHC of the HA decided to release all of the remaining 832 Surplus HOS flats for sale in early 2013.
- 14 Sep In order to strengthen risk management in property mortgage lending business, the HKMA issued guidelines requiring AIs to lower the maximum loan-to-value ratio and debt servicing ratio for mortgage applicants with multiple property mortgages, and limit the maximum loan tenor of all new property mortgage loans to 30 years.
- CE and the Governor of Guangdong Province co-chaired the 15th Plenary of the Hong Kong/Guangdong Co-operation Joint Conference in Guangzhou. At the meeting, the two sides agreed to focus on the promotion of the early achievement of liberalisation of trade in services between Hong Kong and Guangdong in 2014. The two sides also agreed to enhance the overall competitiveness of the region through closer co-operation in various aspects, including commerce and trade, financial services, innovation and technology, cross-boundary infrastructure, travel facilitation, cross-boundary clearance, environmental protection, education and culture.
- 17 Sep The Hong Kong Exchanges and Clearing Limited (HKEx) launched the first RMB currency futures.
- 18 Sep Hong Kong remained the freest economy in the world, according to the 2012 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 80 other research institutes around the world.
- 24 Sep Fitch Ratings affirmed Hong Kong’s long-term local-currency and foreign-currency sovereign ratings at “AA+”, with “Stable” outlook.
- 25 Sep The ECCPC and its Taiwanese counterpart, Taiwan-Hong Kong Economic and Cultural Co-operation Council, held their third joint meeting in Taipei. Both sides agreed to take forward new co-operation areas in environmental protection, heritage conservation, testing and certification industries and notification of unsafe consumer goods, and

exchanges between investment promotion agencies of both places.

- 26 Sep The Government launched a three-year Port Facilities and Light Dues Incentive Scheme, under which ocean going vessels that switch to the use of low sulphur fuel while berthing in Hong Kong would enjoy a 50% reduction in port facilities and light dues.
- 28 Sep To prepare for implementation of the new Companies Ordinance, the Government published consultation documents to seek public views on the draft provisions of the subsidiary legislation to be made under the new Ordinance.
- 1 Oct The FTA between Hong Kong and the Member States of the European Free Trade Association entered into force in relation to the part between Hong Kong, Iceland, Liechtenstein and Switzerland.
- 4 Oct Hong Kong International Airport was named the “Best Airport” in the annual TTG Travel Awards.
- 11 – 13 Oct FS attended the Annual Meetings of the International Monetary Fund and the World Bank Group held in Tokyo as a member of the Chinese delegation.
- 12 Oct The HKMA and the TMA jointly organised the Treasury Markets Summit 2012 in Hong Kong, attracting over 300 participants, including representatives from regulatory authorities, treasury markets practitioners, and senior executives and professionals from banks and other financial institutions from different geographic locations.
- 17 Oct The HKMA and Clearstream jointly announced their cooperation in providing cross-border collateral management and liquidity services in Hong Kong, with a plan to launch them in the first quarter of 2013.
- Financial Action Task Force recognized Hong Kong’s efforts in improving our local anti-money laundering and counter financing of terrorism regime to better align with the relevant international standards, and unanimously agreed to remove Hong Kong from its regular follow-up process.
- 26 Oct Rating and Investment, Inc. affirmed Hong Kong’s long-term local-currency and foreign-currency sovereign ratings at “AA+”, with “Stable” outlook.
- The Government announced the introduction of further demand-side management measures to address the overheated property market. The Government will amend the Stamp Duty Ordinance to introduce the relevant measures. They include the adjustments to the duty rates and extend the coverage period to three years in respect of the Special Stamp Duty; and the introduction of a Buyer’s Stamp Duty on residential properties acquired by any person (including companies) except a Hong Kong permanent resident.
- The Government launched a 3-month public consultation on the key legislative proposals for the establishment of an independent Insurance Authority.
- 27 – 30 Oct The Environment Bureau, together with the HKTDC, co-organised the Eco Expo Asia 2012, which attracted more than 270 exhibitors from 14 countries and regions, and showcased a wide range of environmental technologies, services and products at the event.

- 29 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.
- The first offshore RMB shares were listed in Hong Kong.
- 29 Oct – 1 Nov FS led a government delegation to visit Beijing and Tianjin and meet with Central Government officials responsible for financial and monetary matters to discuss issues of mutual concern.
- 31 Oct – 8 Dec The InnoTech Month 2012 was launched with the aims to enable the community to experience the achievements of Hong Kong in innovation and technology, and to appreciate the importance of these achievements to the future development of Hong Kong into a regional hub for innovation and technology. A roadshow and a 9-day InnoCarnival held at Hong Kong Science Park has drawn a total attendance of over 200 000.
- 1 Nov A two-year pilot run of the Customer Complaint Settlement Scheme (CCSS), sponsored by OFCA, was launched by the telecommunications industry. The CCSS aims at resolving billing disputes in deadlock between the telecommunications service providers and their customers through mediation.
- The FTA between Hong Kong and the Member States of the European Free Trade Association entered into force in relation to the part between Hong Kong and Norway.
- The Employee Choice Arrangement came into operation, giving employees greater autonomy in choosing MPF trustees and schemes. A statutory regime to regulate MPF intermediaries' activities, including sales and marketing of MPF schemes, also came into operation.
- 6 – 8 Nov The HKTDC held the fifth Hong Kong International Wine and Spirits Fair. The number of exhibitors increased to 957, attracting over 20 000 traders.
- 7 Nov With a view to benefitting from experts' views in the Government's deliberations on population policy, the Steering Committee on Population Policy was revamped with an expanded membership to include non-official members. Apart from 14 ex-officio members, CS appointed 11 non-official members from different sectors to serve the Steering Committee on a two-year term from 1 December 2012 to 30 November 2014.
- 8 Nov In his report to the 18th National Congress of the Communist Party of China, President Hu Jintao announced the goal of doubling the GDP and per capita income for both urban and rural residents by 2020 compared with the levels in 2010.
- The Government and the HKTDC jointly hosted the second Asian Logistics and Maritime Conference, attracting about 1 300 business leaders and industry practitioners from 21 countries.
- 9 Nov As pledged in his Election Manifesto, CE reinstated the Commission on Poverty with appointment of 18 non-official members and four ex-officio members, with CS as the Chairperson, for a term of two years from 1 December 2012 to 30 November 2014.

- 11 Nov The HKSAR Government and the Government of Canada signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income in Hong Kong.
- 13 Nov Global Switch, a London-based owner and operator of wholesale and carrier-neutral data centres in Europe and Asia Pacific, announced its plan for the establishment of a data centre in Hong Kong.
- 14 Nov Hong Kong International Airport clinched the “Best Airport in China” award from leading travel publication “Business Traveller China” for the sixth time in seven years.
- 15 Nov The first batch of Hong Kong Dollar denominated RQFII A-share ETF warrants was listed in Hong Kong.
- 16 Nov The Government released the preliminary GDP figure for the third quarter of 2012. The Hong Kong economy grew modestly by 1.3% in real terms in the third quarter over a year earlier.
- In the November update of the economic forecast for 2012, the forecast growth rate of GDP in real terms was revised to 1.2%. The forecast rates of increase in the headline and underlying Composite CPI were slightly revised upwards to 3.9% and 4.5% respectively.
- The enhancements to the HKMC’s Reverse Mortgage Programme came into effect. They include increasing the maximum specified property value for payout calculation; lowering the minimum age of borrowers; and increasing the maximum lump-sum payout amount.
- 20 Nov The Environmental Protection Department (EPD) and the Economic and Information Commission of Guangdong Province jointly held the fourth “Hong Kong - Guangdong Cleaner Production Partners” presentation ceremony. A total of 109 Hong Kong-owned manufacturing enterprises, 3 sourcing enterprises and 24 environmental technology service providers were commended as “Hong Kong - Guangdong Cleaner Production Partners”.
- The Investor Education Centre commenced its operation. It is dedicated to its investor education mission covering a broad range of financial products and services.
- 21 Nov The LegCo passed the “Third Technical Memorandum for Allocation of Emission Allowances in Respect of Specified Licences” (TM) for the power sector under the Air Pollution Control Ordinance. The TM will further tighten the emission caps of the sector starting 2017 by 6% to 17% from the 2015 levels.
- 23 Nov The Hong Kong-Guangdong Joint Working Group on Sustainable Development and Environmental Protection held its 12th meeting in Guangzhou, and endorsed the air pollutant emission reduction plan for the Pearl River Delta region up to 2020.
- The Government published the consultation conclusions on the detailed legislative proposals for the trust law reform.
- 26 Nov Commissioned by the HKAB which initiated a review of Hong Kong Interbank Offered Rate (HIBOR) in July in light of the increasing market attention to the fixing process of

financial market benchmarks, the TMA submitted a report on the review of HIBOR to the HKAB, copied to the HKMA. The Report recommended measures to enhance the governance and robustness of the regime.

30 Nov –
1 Dec CE attended the Eighth Pan-Pearl River Delta (PPRD) Region Co-operation and Development Forum in Sanya, Hainan. He exchanged views with leaders of the PPRD region on how to further strengthen co-operation at the PPRD platform.

3 Dec With the completion of the representation consideration process under the Town Planning Ordinance, the Town Planning Board submitted the draft West Kowloon Cultural District Development Plan to the Executive Council for consideration.

The sixth annual structured dialogue meeting between the HKSAR Government and the EU was held in Brussels. The two sides had fruitful exchange on a number of issues including innovation and technology, education and competition policy and agreed to continue to strengthen co-operation in these areas.

3 – 8 Dec “Business of Design Week 2012”, the largest annual design event in Asia and one of the leading design events in the world, was held. Denmark was the partner country for the event. Over 100 000 persons participated in the “Business of Design Week” and its concurrent events.

5 – 7 Dec The EPD, together with Clean Air Asia and the Hong Kong Polytechnic University, held an international Conference – “Better Air Quality 2012 (BAQ2012)”, which is a biennial event for policy and decision makers as well as experts and NGO representatives to build network, learn from each other, and share experience.

In parallel, EPD, in collaboration with Ministry of Environmental Protection, China, and the Hong Kong Polytechnic University held “Motor Vehicle Emissions Control Workshop 2012 (MoVE2012)”, which is held biennially in Hong Kong to enable its participants from Hong Kong, the Mainland and overseas to share experience and keep abreast of the latest technological developments on motor vehicle emissions control.

7 Dec The Finance Committee of the LegCo approved the proposal of the Old Age Living Allowance. This allowance aims to supplement the living expenses of Hong Kong elders aged 65 or above who are in need of financial support. The amount is pitched at \$2,200 per month and the estimated number of beneficiaries is over 400 000. The Social Welfare Department plans to introduce the new Allowance in April 2013.

CE attended the HK-Pearl River Delta Industrial & Commercial Circle Goodwill Gathering 2012 in Guangzhou.

10 Dec The West Kowloon Cultural District Authority announced the winning design team for the architectural design of the Xiqu (Chinese opera) Centre, the first core arts and cultural facility to be open to the public within the West Kowloon Cultural District.

The new Civil Aviation Department Headquarters commenced its full operations, with all technical divisions housed under one roof, to provide one stop service to aviation stakeholders and the public.

The 9th meeting of the Hong Kong-Shenzhen JTF was convened in Hong Kong. The JTF was briefed on the progress of the Liantang/Heung Yuen Wai Boundary Control Point project and the development of Lok Ma Chau Loop, and discussed the work in the

next stage.

- 12 Dec The Government accepted the recommendation of the Minimum Wage Commission to adjust the statutory minimum wage rate from \$28 per hour to \$30 per hour and decided to implement it on 1 May 2013.
- In its Preliminary Conclusions following the 2012 Article IV consultation discussions, the International Monetary Fund Staff Mission to Hong Kong reaffirmed the long-standing support for the Linked Exchange Rate System and commended the Government's proactive policies to support growth and preserve financial stability.
- Following the gazettal of the Banking (Amendment) Ordinance 2012 in March, the LegCo completed negative vetting of relevant subsidiary legislations. They will come into operation on 1 January 2013 to provide for the first-phase implementation of Basel III.
- 13 – 14 Dec The HKMA, the SFC and the Organisation for Economic Co-operation and Developments jointly organised the Asian Seminar "Evolution of Financial Consumer Protection and Education in Asia" in Hong Kong. Following the Seminar, the organisers hosted the Asia Financial Consumer Protection Roundtable, the first high-level international conference on financial consumer protection held in Asia.
- 15 – 16 Dec The Annual Central Economic Work Conference determined that the priority in 2013 would be to strengthen and improve macro-prudential measures to ensure the healthy and sustainable development of the Mainland economy.
- 18 Dec After public consultation, the Government affirmed the direction of introducing quantity-based charging on municipal solid waste to help induce behaviour changes and to promote waste reduction. A second-stage public engagement on implementation arrangements is being pursued.
- 19 Dec The first batch of RMB-denominated RQFII A-share ETF warrants was listed in Hong Kong.
- The first Mainland enterprise converted its B share to H share and listed in Hong Kong.
- 20 Dec The HKMA issued a circular to AIs, setting out the enhanced measures applicable to the sale of investment products to corporate customers.
- 21 Dec The Government published the reserve price and an information memorandum in respect of the auction of 50 MHz of radio spectrum in the 2.5/2.6 GHz band. The auction is expected to take place in March 2013 and serves to meet the industry's demand for additional radio spectrum for further development of fourth generation mobile telecommunications services.
- The launching ceremony of the Next Generation Government Wi-Fi Programme was held to signify the continuation of provision of free public Wi-Fi Internet access service in government premises for another five years till December 2017. The new programme will extend free public Wi-Fi coverage to more than 440 government premises.
- 28 Dec The Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Bill 2012 was gazetted, providing a comparable taxation framework for

some common types of Islamic bonds (sukuk) vis-à-vis conventional bonds, with a view to promoting the development of a sukuk market in Hong Kong.

31 Dec By virtue of the Fisheries Protection (Specification of Apparatus) (Amendment) Notice 2011, the statutory ban on trawling activities in Hong Kong waters came into operation on 31 December 2012.

The number of visitors to Hong Kong in 2012 reached 48.62 million, setting a new record.

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(\$Mn)					
Private consumption expenditure	722,961	771,443	811,654	868,691	982,368	1,026,482
Government consumption expenditure	138,147	136,354	130,566	131,837	138,967	148,017
Gross domestic fixed capital formation	272,127	287,360	302,152	337,153	340,356	350,796
<i>of which:</i>						
Building and construction	116,628	107,692	105,993	106,268	111,776	127,312
Machinery, equipment and intellectual property products	147,088	162,871	176,269	214,093	204,083	198,633
Changes in inventories	9,111	7,076	-4,761	-2,129	12,841	8,480
Total exports of goods ^{&}	1,749,089	2,027,031	2,251,744	2,467,357	2,698,850	2,843,998
Imports of goods ^{&}	1,794,059	2,099,545	2,311,091	2,576,340	2,852,522	3,024,089
Exports of services ^{&}	363,765	431,090	496,985	566,416	664,100	720,837
Imports of services ^{&}	204,472	243,860	265,124	289,634	334,204	367,034
GDP	1,256,669	1,316,949	1,412,125	1,503,351	1,650,756	1,707,487
<i>Per capita GDP (\$)</i>	<i>186,704</i>	<i>194,140</i>	<i>207,263</i>	<i>219,240</i>	<i>238,676</i>	<i>245,406</i>
GNI	1,288,895	1,344,927	1,419,589	1,538,864	1,703,567	1,807,994
<i>Per capita GNI (\$)</i>	<i>191,492</i>	<i>198,264</i>	<i>208,359</i>	<i>224,419</i>	<i>246,312</i>	<i>259,851</i>
Total final demand	3,255,200	3,660,354	3,988,340	4,369,325	4,837,482	5,098,610
Total final demand excluding re-exports ^(a)	1,919,463	2,088,521	2,243,119	2,436,589	2,697,292	2,836,222
Domestic demand	1,142,346	1,202,233	1,239,611	1,335,552	1,474,532	1,533,775
Private	947,804	1,012,565	1,062,587	1,163,262	1,297,607	1,342,889
Public	194,542	189,668	177,024	172,290	176,925	190,886
External demand	2,112,854	2,458,121	2,748,729	3,033,773	3,362,950	3,564,835

Definition of Terms :

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand	= government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	= private sector domestic demand + public sector domestic demand
External demand	= total exports of goods + exports of services

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

	(\$Mn)							
	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	Q1 [#]	Q2 [#]	<u>2012</u> Q3 [#]	Q4 [#]
Private consumption expenditure	1,019,955	1,098,564	1,240,817	1,325,743	318,513	330,427	323,452	353,351
Government consumption expenditure	152,512	157,371	168,487	185,424	47,070	44,158	46,676	47,520
Gross domestic fixed capital formation	339,552	386,852	455,048	537,360	120,731	128,061	141,323	147,245
<i>of which:</i>								
Building and construction	123,746	139,249	179,110	219,317	53,253	51,970	54,572	59,522
intellectual property products	191,568	209,568	239,839	283,969	60,837	67,079	78,135	77,918
Changes in inventories	22,941	37,522	11,742	-9,254	1,282	-125	-9,107	-1,304
Total exports of goods ^{&}	2,494,746	3,061,252	3,411,364	3,580,825	803,256	876,137	943,199	958,232
Imports of goods ^{&}	2,702,966	3,395,057	3,848,200	4,116,409	933,411	1,027,686	1,059,267	1,096,045
Exports of services ^{&}	672,794	829,495	936,537	985,778	237,930	229,276	252,341	266,231
Imports of services ^{&}	340,289	399,216	439,737	449,363	110,630	105,646	114,464	118,623
GDP	1,659,245	1,776,783	1,936,058	2,040,104	484,741	474,602	524,153	556,607
<i>Per capita GDP (\$)</i>	<i>237,960</i>	<i>252,952</i>	<i>273,779</i>	<i>285,146</i>	--	--	--	--
GNI	1,709,007	1,814,379	1,988,884	N.A.	493,987	495,742	531,177	N.A.
<i>Per capita GNI (\$)</i>	<i>245,096</i>	<i>258,304</i>	<i>281,250</i>	<i>N.A.</i>	--	--	--	--
Total final demand	4,702,500	5,571,056	6,223,995	6,605,876	1,528,782	1,607,934	1,697,884	1,771,275
Total final demand excluding re-exports ^(a)	2,692,865	3,065,665	3,443,640	3,692,937	872,526	897,271	931,905	991,234
Domestic demand	1,534,960	1,680,309	1,876,094	2,039,273	487,596	502,521	502,344	546,812
Private	1,334,028	1,457,922	1,630,201	1,762,496	413,727	439,868	436,620	472,281
Public	200,932	222,387	245,893	276,777	73,869	62,653	65,724	74,531
External demand	3,167,540	3,890,747	4,347,901	4,566,603	1,041,186	1,105,413	1,195,540	1,224,463

- 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.
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 7a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by Census and Statistics Department in September 2012.
 (--) 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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Private consumption expenditure	-1.6	7.1	3.5	6.1	8.6	1.9
Government consumption expenditure	2.4	1.4	-2.6	0.9	3.2	2.0
Gross domestic fixed capital formation	1.5	3.4	4.0	7.1	3.2	1.4
<i>of which:</i>						
Building and construction	-5.4	-10.7	-7.6	-7.1	-0.3	6.8
Machinery, equipment and intellectual property products	7.8	11.4	12.1	18.2	2.5	*
Total exports of goods ^{&}	14.0	14.9	10.4	9.3	7.0	1.9
Imports of goods ^{&}	13.1	13.7	8.0	9.2	8.8	1.8
Exports of services ^{&}	7.4	17.9	11.6	10.0	14.3	5.0
Imports of services ^{&}	-2.7	14.6	7.6	8.4	12.1	5.8
GDP	3.1	8.7	7.4	7.0	6.5	2.1
<i>Per capita GDP</i>	3.3	7.9	6.9	6.3	5.6	1.5
RGNI	2.5	4.1	4.3	6.7	8.2	3.3
<i>Per capita RGNI</i>	2.7	3.3	3.9	6.0	7.3	2.7
Total final demand	7.8	11.9	7.8	8.4	8.2	2.2
Total final demand excluding re-exports ^(a)	3.0	9.1	5.6	7.4	7.9	1.7
Domestic demand	-0.1	5.3	2.0	6.1	7.8	1.4
Private	-0.5	6.5	3.4	7.6	8.9	1.2
Public	1.9	-0.4	-5.7	-2.8	0.6	3.2
External demand	12.8	15.4	10.6	9.4	8.4	2.5

- 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.
 (&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 7a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by Census and Statistics Department in September 2012.
 (--) Not applicable.
 (*) Change within $\pm 0.05\%$.
 N.A. Not yet available.
 (^) Average annual rate of change for the 10-year period 2001-2011.
 (~) Average annual rate of change for the 5-year period 2006-2011.

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

(%)

	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>				Average annual rate of change:	
					Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	10 years 2002 to 2012 [#]	5 years 2007 to 2012 [#]
Private consumption expenditure	0.8	6.3	9.0	4.0	6.3	2.8	2.8	4.1	4.5	4.3
Government consumption expenditure	2.3	3.4	2.5	3.7	3.3	4.1	4.0	3.5	1.9	2.8
Gross domestic fixed capital formation	-3.5	7.7	10.2	9.1	12.5	5.7	8.3	10.5	4.3	4.9
<i>of which:</i>										
Building and construction	-5.5	5.7	15.5	12.3	15.0	14.1	8.1	12.1	*	6.7
intellectual property products	-2.2	6.5	12.2	10.6	21.1	5.1	9.9	9.1	7.7	5.3
Total exports of goods ^{&}	-12.7	17.3	3.4	1.3	-5.2	-0.2	4.0	6.1	6.3	1.8
Imports of goods ^{&}	-9.5	18.1	4.7	2.7	-2.1	0.9	4.3	7.2	6.8	3.2
Exports of services ^{&}	0.4	14.8	4.9	1.2	2.1	2.3	-0.6	1.3	8.6	5.1
Imports of services ^{&}	-4.7	11.1	3.5	0.7	2.9	1.1	-0.6	-0.5	5.5	3.1
GDP	-2.5	6.8	4.9	1.4	0.8	1.0	1.4	2.5	4.5	2.5
Per capita GDP	-2.7	6.0	4.1	0.3	--	--	--	--	3.9	1.8
RGNI	-4.6	3.7	4.8	N.A.	-3.5	-1.2	2.5	N.A.	3.4 ^	3.0 ~
Per capita RGNI	-4.8	2.9	4.1	N.A.	--	--	--	--	2.9 ^	2.4 ~
Total final demand	-6.8	13.6	4.7	2.1	-0.8	0.9	3.1	5.1	5.8	3.0
Total final demand excluding re-exports ^(a)	-2.4	10.5	5.6	2.9	2.8	1.9	2.5	4.3	5.1	3.6
Domestic demand	0.9	7.2	6.9	4.1	5.4	2.3	3.2	5.3	4.1	4.1
Private	0.4	6.7	7.1	3.8	5.3	1.9	3.3	4.8	4.5	3.8
Public	4.5	10.2	5.5	5.8	6.3	5.2	3.1	8.5	2.2	5.8
External demand	-10.1	16.8	3.7	1.3	-3.6	0.3	3.0	5.0	6.8	2.5

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

	2007		2008		2009		2010		2011 [#]	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	1,015	0.1	925	0.1	1,090	0.1	948	0.1	944	*
Manufacturing	32,365	2.0	31,506	1.9	28,714	1.8	30,410	1.7	30,578	1.6
Electricity, gas and water supply, and waste management	40,747	2.5	39,651	2.4	35,032	2.2	34,486	2.0	33,826	1.8
Construction	40,643	2.5	48,403	3.0	50,264	3.2	56,531	3.3	65,484	3.4
Services	1,490,475	92.9	1,499,529	92.6	1,466,724	92.7	1,615,373	93.0	1,771,677	93.1
<i>Import/export, wholesale and retail trades</i>	379,466	23.6	399,200	24.6	370,226	23.4	413,308	23.8	492,900	25.9
<i>Accommodation^(a) and food services</i>	48,830	3.0	53,600	3.3	48,789	3.1	56,418	3.2	66,421	3.5
<i>Transportation, storage, postal and courier services</i>	119,862	7.5	98,390	6.1	99,208	6.3	137,941	7.9	120,034	6.3
<i>Information and communications</i>	51,551	3.2	49,127	3.0	47,893	3.0	55,024	3.2	62,952	3.3
<i>Financing and insurance</i>	322,644	20.1	277,112	17.1	255,900	16.2	284,203	16.4	306,787	16.1
<i>Real estate, professional and business services</i>	147,339	9.2	166,086	10.3	173,903	11.0	188,476	10.8	213,965	11.2
<i>Public administration, social and personal services</i>	262,395	16.3	278,100	17.2	288,109	18.2	295,257	17.0	313,612	16.5
<i>Ownership of premises</i>	158,388	9.9	177,915	11.0	182,696	11.5	184,745	10.6	195,005	10.2
GDP at basic prices	1,605,245	100.0	1,620,013	100.0	1,581,824	100.0	1,737,748	100.0	1,902,509	100.0
Taxes on products	64,634	--	58,233	--	54,689	--	68,707	--	69,401	--
Statistical discrepancy (%)	-1.2	--	1.7	--	1.4	--	-1.7	--	-1.9	--
GDP at current market prices	1,650,756	--	1,707,487	--	1,659,245	--	1,776,783	--	1,936,058	--

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

- (a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
- (#) Figures are subject to revision later on as more data become available.
- (--) Not applicable.
- (*) Less than 0.05%.

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

	(%)									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2011</u>	<u>2012</u>		
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Agriculture, fishing, mining and quarrying	-3.3	-4.3	-17.0	-4.6	3.9	0.8	-2.5	0.7	-6.5	1.7
Manufacturing	1.8	-0.8	-7.0	-8.2	3.3	0.7	-2.2	-1.6	-2.9	-0.1
Electricity, gas and water supply, and waste management	0.8	1.4	0.7	1.5	-0.2	0.6	2.1	4.3	3.7	-0.6
Construction	-9.2	-1.2	8.9	-7.5	15.6	18.1	17.5	13.2	10.0	5.2
Services	6.8	7.1	2.4	-1.7	7.0	5.2	3.4	1.8	1.5	2.2
<i>Import/export, wholesale and retail trades</i>	8.7	5.8	6.8	-9.5	16.7	9.1	7.6	0.2	1.1	2.6
<i>Accommodation^(a) and food services</i>	9.7	10.7	1.7	-11.3	9.5	8.3	10.7	-0.5	1.8	3.2
<i>Transportation, storage, postal and courier services</i>	6.5	5.1	2.5	-5.5	6.0	7.2	5.8	4.3	-1.9	1.7
<i>Information and communications</i>	7.2	6.3	-1.2	1.3	1.5	2.8	3.0	0.8	2.1	3.9
<i>Financing and insurance</i>	16.0	16.8	-0.5	4.1	6.6	6.9	-0.3	2.5	0.4	0.3
<i>Real estate, professional and business services</i>	2.2	6.6	1.4	1.6	2.5	2.6	2.6	3.3	4.8	3.5
<i>Public administration, social and personal services</i>	0.8	2.7	1.4	3.0	2.2	1.5	1.2	2.7	3.0	3.3
<i>Ownership of premises</i>	3.5	3.0	2.0	0.3	0.8	0.7	1.0	0.3	0.8	0.5
Taxes on products	7.7	24.9	-1.7	-4.8	6.3	-6.7	-19.5	-15.1	-9.8	-15.1
GDP in chained (2010) dollars	7.0	6.5	2.1	-2.5	6.8	4.9	3.0	0.8	1.0	1.4

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

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries

	2008		2009		2010		2011 [#]		Annual percentage change (%)		
	% share \$Bn in total ⁽¹⁾	% share \$Bn in total ⁽¹⁾	% share \$Bn in total ⁽¹⁾	% share \$Bn in total ⁽¹⁾	% share \$Bn in total ⁽¹⁾	% share \$Bn in total ⁽¹⁾	% share \$Bn in total ⁽¹⁾	% share \$Bn in total ⁽¹⁾	2009	2010	2011 [#]
Value added at current prices											
<i>Four Key Industries</i>	934.1	57.7	886.2	56.0	1,014.5	58.4	1,113.1	58.5	-5.1	14.5	9.7
Financial services	277.1	17.1	255.9	16.2	284.2	16.4	306.8	16.1	-7.7	11.1	7.9
Tourism	44.7	2.8	51.0	3.2	74.6	4.3	85.0	4.5	14.2	46.4	13.8
Trading and logistics	414.7	25.6	377.8	23.9	439.6	25.3	485.4	25.5	-8.9	16.3	10.4
Professional services and other producer services ⁽²⁾	197.6	12.2	201.5	12.7	216.1	12.4	235.9	12.4	2.0	7.2	9.1
<i>Other selected industries⁽³⁾</i>	119.9	7.4	124.2	7.9	143.8	8.3	161.2	8.5	3.6	15.7	12.1
Cultural and creative industries	63.3	3.9	63.3	4.0	77.6	4.5	89.6	4.7	*	22.6	15.4
Medical services	21.8	1.3	23.9	1.5	26.1	1.5	27.4	1.4	9.5	9.3	4.9
Education services	15.8	1.0	16.5	1.0	17.5	1.0	20.0	1.0	4.5	6.2	13.9
Innovation and technology	10.3	0.6	10.7	0.7	11.8	0.7	12.4	0.7	4.4	9.6	5.1
Testing and certification services	4.5	0.3	5.1	0.3	5.2	0.3	5.4	0.3	12.9	1.5	4.1
Environmental industries	4.2	0.3	4.7	0.3	5.6	0.3	6.5	0.3	12.4	19.3	16.3
Nominal GDP at basic prices	1,620.0	100.0	1,581.8	100.0	1,737.7	100.0	1,902.5	100.0	-2.4	9.9	9.5

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

- (1) Refers to percentage share in nominal GDP at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, in which taxes on products are included.
- (2) Other producer services refer to producer services other than financial services, tourism, trading and logistics and professional services.
- (3) The other selected industries reflect the direct contribution of these industries in the private sector only. Some of them are service domains straddling across different industries. For example, "innovation and technology" activities may exist in any industry and organisation. The term "industry" is used to denote the aggregate of the economic activities concerned for easy general understanding.
- (4) 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).
- (5) Figures refer to the quarterly averages of employment in the years concerned. Figures for 2008 and 2009 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.
- (6) Figures refer to Composite Employment Estimates.
- (#) Figures are subject to revision later on as more data become available.
- (*) Change within $\pm 0.05\%$.

Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries (Cont'd)

	<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011[#]</u>		<u>Annual percentage change (%)</u>		
	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	Number ('000)	% share in total	2009	2010	2011 [#]
<u>Employment</u>											
<i>Four Key Industries</i>	1 678.1	47.8	1 643.8	47.4	1 670.1	48.0	1 703.6	47.6	-2.0	1.6	2.0
Financial services	206.1	5.9	211.4	6.1	216.7	6.2	226.3	6.3	2.6	2.5	4.4
Tourism	194.8	5.6	192.2	5.5	215.1	6.2	233.5	6.5	-1.3	11.9	8.6
Trading and logistics	820.2	23.4	783.9	22.6	778.2	22.4	774.4	21.6	-4.4	-0.7	-0.5
Professional services and other producer services ⁽²⁾	457.0	13.0	456.2	13.1	460.1	13.2	469.4	13.1	-0.2	0.9	2.0
<i>Other selected industries⁽³⁾</i>	387.8	11.0	395.8	11.4	406.7	11.7	420.7	11.8	2.0	2.8	3.4
Cultural and creative industries	191.3	5.4	188.3	5.4	189.4	5.4	192.9	5.4	-1.6	0.6	1.8
Medical services	69.9	2.0	72.7	2.1	73.5	2.1	76.3	2.1	4.0	1.0	3.8
Education services	56.8	1.6	62.2	1.8	66.5	1.9	70.7	2.0	9.4	6.9	6.3
Innovation and technology ⁽⁴⁾	26.1	0.7	27.5	0.8	28.8	0.8	29.3	0.8	5.3	4.9	1.5
Testing and certification services ⁽⁵⁾	12.4	0.4	12.7	0.4	12.4	0.4	13.1	0.4	2.1	-2.3	5.8
Environmental industries	31.3	0.9	32.4	0.9	36.1	1.0	38.4	1.1	3.6	11.3	6.3
Total employment⁽⁶⁾	3 509.8	100.0	3 470.3	100.0	3 478.6	100.0	3 579.5	100.0	-1.1	0.2	2.9

**Table 6 : Balance of Payments by major component
(at current prices)**

	(\$Mn)								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>	
						Q4	Q1 [#]	Q2 [#]	Q3 [#]
Current account ^(a)	214,939	255,808	157,661	116,490	92,999	18,301	740	-11,427	23,839
Goods	209,509	194,753	97,611	18,372	-66,915	-10,384	-48,269	-74,399	-21,547
Services	-33,285	-21,041	26,674	78,102	126,879	33,133	45,414	46,480	43,356
Primary income	52,811	100,507	49,762	37,596	52,826	446	9,246	21,140	7,024
Secondary income	-14,096	-18,412	-16,386	-17,580	-19,791	-4,894	-5,651	-4,648	-4,994
Capital and financial account ^(a)	-260,392	-254,709	-144,532	-88,838	-113,242	-31,696	14,233	31,399	-51,176
Capital account	-680	-1,958	-3,021	-4,436	-2,021	-531	-85	-947	-91
Financial account	-259,711	-252,750	-141,511	-84,402	-111,220	-31,165	14,317	32,346	-51,084
Financial non-reserve assets	-195,501	-28,774	470,987	-25,257	-24,437	465	78,115	25,232	-13,222
<i>Direct investment</i>	-44,955	77,371	-28,421	-122,026	1,868	-38,632	-8,846	9,557	-19,200
<i>Portfolio investment</i>	-10,930	-281,141	-310,083	-442,460	-10,979	127,654	194,898	17,684	-53,698
<i>Financial derivatives</i>	43,534	63,338	24,560	18,677	20,884	15,767	1,697	550	1,140
<i>Other investment</i>	-183,150	111,659	784,930	520,552	-36,210	-104,324	-109,633	-2,559	58,536
Reserve assets	-64,211	-223,976	-612,498	-59,145	-86,783	-31,630	-63,798	7,114	-37,862
Net errors and omissions	45,452	-1,099	-13,130	-27,651	20,243	13,395	-14,972	-19,972	27,337
Overall Balance of Payments	64,211	223,976	612,498	59,145	86,783	31,630	63,798	-7,114	37,862

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

(a) In accordance with the accounting rules adopted in compiling Balance of Payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while 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 reserve assets represents a net increase while a positive value represents a net decrease.

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

**Table 7 : Visible and invisible trade
(at current market prices)**

(\$Mn)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Total exports of goods	2,843,998	2,494,746	3,061,252	3,411,364	3,580,825	803,256	876,137	943,199	958,232
Imports of goods	3,024,089	2,702,966	3,395,057	3,848,200	4,116,409	933,411	1,027,686	1,059,267	1,096,045
Visible trade balance	-180,091 (-6.0)	-208,220 (-7.7)	-333,805 (-9.8)	-436,836 (-11.4)	-535,584 (-13.0)	-130,155 (-13.9)	-151,549 (-14.7)	-116,068 (-11.0)	-137,813 (-12.6)
Exports of services	720,837	672,794	829,495	936,537	985,778	237,930	229,276	252,341	266,231
Imports of services	367,034	340,289	399,216	439,737	449,363	110,630	105,646	114,464	118,623
Invisible trade balance	353,803 (96.4)	332,505 (97.7)	430,279 (107.8)	496,800 (113.0)	536,415 (119.4)	127,300 (115.1)	123,630 (117.0)	137,877 (120.5)	147,608 (124.4)
Exports of goods and services	3,564,835	3,167,540	3,890,747	4,347,901	4,566,603	1,041,186	1,105,413	1,195,540	1,224,463
Imports of goods and services	3,391,123	3,043,255	3,794,273	4,287,937	4,565,772	1,044,041	1,133,332	1,173,731	1,214,668
Visible and invisible trade balance	173,712 <5.1>	124,285 <4.1>	96,474 <2.5>	59,964 <1.4>	831 <*>	-2,855 <-0.3>	-27,919 <-2.5>	-21,809 <1.9>	9,795 <0.8>

Notes: Figures in this table are reckoned on GDP basis and based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 7a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by Census and Statistics Department in September 2012.

(#) 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.

(*) Less than 0.05%.

Table 7a : Visible and invisible trade based on the change of ownership principle

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
<u>At current market prices (\$Mn)</u>									
Total exports of goods	2,758,181	2,448,997	3,014,300	3,398,053	3,601,929	806,589	868,651	951,061	975,627
Imports of goods	2,563,428	2,351,386	2,995,928	3,464,968	3,777,778	854,858	943,050	972,608	1,007,262
Visible trade balance	194,753 (7.6)	97,611 (4.2)	18,372 (0.6)	-66,915 (-1.9)	-175,849 (-4.7)	-48,269 (-5.6)	-74,399 (-7.9)	-21,547 (-2.2)	-31,635 (-3.1)
Exports of services	544,358	501,303	626,170	706,075	746,891	185,703	179,541	187,704	193,943
Imports of services	565,399	474,629	548,068	579,196	570,211	140,289	133,061	144,348	152,513
Invisible trade balance	-21,041 (-3.7)	26,674 (5.6)	78,102 (14.3)	126,879 (21.9)	176,680 (31.0)	45,414 (32.4)	46,480 (34.9)	43,356 (30.0)	41,430 (27.2)
Exports of goods and services	3,302,539	2,950,300	3,640,470	4,104,128	4,348,820	992,292	1,048,192	1,138,765	1,169,570
Imports of goods and services	3,128,827	2,826,015	3,543,996	4,044,164	4,347,989	995,147	1,076,111	1,116,956	1,159,775
Visible and invisible trade balance	173,712 <5.6>	124,285 <4.4>	96,474 <2.7>	59,964 <1.5>	831 <*>	-2,855 <-0.3>	-27,919 <-2.6>	21,809 <2.0>	9,795 <0.8>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	3.2	-11.4	18.0	4.6	2.1	-3.9	1.3	4.7	5.8
Imports of goods	3.7	-7.0	19.9	6.7	4.2	-0.6	3.1	6.2	7.7
Exports of services	4.9	1.7	15.4	5.0	1.5	3.2	2.8	-1.2	1.2
Imports of services	1.1	-12.8	10.0	-0.2	-2.2	*	-3.1	-4.3	-1.4

Notes: Figures in this table are reckoned on GDP basis and based on the System of National Accounts 2008.

Statistics on visible and invisible trade presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by Census and Statistics Department in September 2012.

(#) 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.

(*) Less than 0.05% or change within $\pm 0.05\%$.

**Table 8 : Total exports of goods by market
(in value terms)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>			
	(% change)				(% change)	(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
All markets	5.1	-12.6	22.8	10.1	2.9	3,434,346	-1.5	1.9	3.8	7.0
Mainland of China	4.7	-7.8	26.5	9.3	6.3	1,857,759	-2.1	3.8	11.2	12.1
United States	-2.4	-20.6	16.4	-0.4	2.3	338,505	-0.1	4.4	2.1	2.7
Japan	1.2	-10.0	17.2	5.9	6.5	143,970	6.2	8.4	7.5	4.3
Taiwan	3.8	-0.4	25.4	24.3	-5.2	80,842	-18.5	4.5	-12.9	5.3
Germany	15.8	-15.5	1.6	10.7	-12.8	77,812	-11.9	-19.4	-16.1	-3.7
India	50.0	0.2	42.4	25.6	-17.5	77,181	-16.4	-16.8	-20.2	-16.4
Republic of Korea	-6.4	-13.0	24.4	14.2	-4.0	58,853	-3.6	-5.9	-3.9	-2.3
Singapore	9.6	-23.6	20.7	10.3	-0.5	55,950	-9.4	4.6	1.1	1.5
United Kingdom	0.7	-20.8	1.9	-3.4	-6.0	55,164	1.7	-7.9	-17.7	3.5
Vietnam	19.4	16.6	33.9	37.3	9.9	50,702	40.0	8.9	5.3	-5.3
Rest of the world	8.4	-20.2	20.9	15.1	0.6	637,607	2.5	0.7	-3.5	3.3

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

**Table 9 : Imports of goods by source
(in value terms)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>			
		(% change)		(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
All sources	5.5	-11.0	25.0	11.9	3.9	3,912,163	0.7	2.1	4.5	8.1
Mainland of China	6.1	-11.4	22.4	10.9	8.5	1,840,862	3.0	4.1	8.5	17.5
Japan	3.6	-20.6	30.4	3.4	-2.2	311,605	-6.6	3.6	-1.6	-4.0
Singapore	0.1	-10.4	35.9	7.2	-3.2	246,346	-7.4	-3.1	3.5	-5.4
Taiwan	-6.4	-8.5	28.0	7.2	1.6	244,889	-9.9	5.7	8.4	2.0
United States	8.6	-5.7	26.0	18.0	-3.3	204,459	5.1	-6.7	-0.2	-9.6
Republic of Korea	-1.1	-12.7	29.8	12.2	2.4	153,527	-11.6	-1.1	12.1	10.0
Malaysia	5.3	2.8	24.5	5.1	-6.0	83,649	-9.5	-1.5	-6.1	-7.2
India	21.5	-9.3	36.5	20.6	-5.5	81,831	3.3	-7.6	-11.9	-4.9
Switzerland	31.1	-11.5	26.3	51.7	-0.7	78,546	37.2	1.3	-19.6	-8.2
Thailand	11.1	-9.7	32.5	0.3	-4.8	72,873	-24.2	-2.5	-12.5	30.4
Rest of the world	9.5	-8.2	19.2	20.2	5.8	593,575	10.0	3.1	4.2	6.2

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

**Table 10 : Retained imports of goods by end-use category
(in value terms)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>			
		(% change)		(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
Overall	5.3	-10.8	27.3	17.3	5.9	1,086,654	5.4	1.5	6.0	10.6
Foodstuffs	19.7	9.9	17.0	18.8	4.7	114,474	14.2	7.5	-3.0	2.1
Consumer goods	9.0	-14.0	33.8	36.0	7.8	270,039	21.8	0.6	-5.0	18.1
Raw materials and semi-manufactures	-4.5	-6.4	32.3	0.2	-2.7	318,777	-24.7	-5.7	5.8	14.4
Fuels	26.6	-18.4	33.8	21.9	-4.3	135,561	9.0	-3.6	-7.5	-12.5
Capital goods	2.5	-18.7	12.9	27.3	24.6	245,361	42.0	14.8	31.8	15.9

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

**Table 11 : Exports and imports of services by component
(at current market prices)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>		Q1 [#]	2012		Q4 [#]
		(% change)		(% change)	(\$Mn)		(% change over a year earlier)	Q2 [#]	Q3 [#]	
Exports of services	8.5	-6.7	23.3	12.9	5.3	985,778	8.4	7.7	1.9	3.8
Transportation	12.5	-18.6	26.3	7.8	-0.5	248,926	5.6	2.4	-5.1	-4.1
Travel	11.1	6.7	35.6	24.9	14.1	245,722	17.4	19.5	9.7	11.4
Trade-related	8.5	-4.3	18.0	11.0	3.8	281,043	4.5	5.1	3.0	3.2
Other services	1.8	-3.1	16.7	10.6	4.8	210,087	7.2	6.1	0.9	5.0
Imports of services	9.8	-7.3	17.3	10.2	2.2	449,363	6.1	1.6	-0.3	1.7
Transportation	13.0	-21.6	20.7	14.3	-1.7	136,984	6.4	-2.7	-5.3	-4.5
Travel	6.8	-3.1	12.0	9.7	6.7	159,292	8.9	6.0	6.4	5.9
Trade-related	10.6	0.5	21.6	1.1	3.0	34,190	5.0	2.5	1.4	3.4
Other services	9.5	5.7	19.5	8.7	0.8	118,897	2.7	1.0	-3.5	2.8
Net exports of services	7.2	-6.0	29.4	15.5	8.0	536,415	10.4	13.5	3.7	5.7

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

Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 11a. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by Census and Statistics Department in September 2012.

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

Table 11a: Exports and imports of services based on the change of ownership principle by component (at current market prices)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>		Q1 [#]	2012		
	(% change)				(% change)			(\$Mn)	(% change over a year earlier)	
								Q2 [#]	Q3 [#]	Q4 [#]
Exports of services	8.3	-7.9	24.9	12.8	5.8	746,891	9.5	8.5	1.6	4.2
Transportation	12.5	-18.6	26.3	7.8	-0.5	248,926	5.6	2.4	-5.1	-4.1
Travel	11.1	6.7	35.6	24.9	14.1	245,722	17.4	19.5	9.7	11.4
Other services	2.4	-4.6	16.4	8.5	4.8	252,243	7.0	6.1	1.4	4.8
Imports of services	5.5	-16.1	15.5	5.7	-1.6	570,211	2.1	-3.2	-4.6	-0.4
Transportation	13.0	-21.6	20.7	14.3	-1.7	136,984	6.4	-2.7	-5.3	-4.5
Travel	6.8	-3.1	12.0	9.7	6.7	159,292	8.9	6.0	6.4	5.9
Other services	2.1	-19.0	15.1	0.1	-5.7	273,935	-3.1	-8.8	-10.1	-1.6

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

Statistics on exports and imports of services presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to the *Special Report on Gross Domestic Product* published by Census and Statistics Department in September 2012.

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

Table 12 : Incoming visitors by source

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		
						Q1	Q2	Q3	Q4
<u>('000)</u>									
All sources	29 506.6	29 590.7	36 030.3	41 921.3	48 615.1	11 222.7	11 100.0	13 053.6	13 238.7
Mainland of China	16 862.0	17 956.7	22 684.4	28 100.1	34 911.4	7 895.5	7 687.3	9 743.8	9 584.9
South and Southeast Asia	2 936.2	2 885.2	3 500.9	3 751.1	3 651.8	816.0	984.9	804.2	1 046.7
Taiwan	2 240.5	2 009.6	2 164.8	2 148.7	2 088.7	495.7	497.8	570.0	525.2
Europe	1 711.4	1 610.5	1 757.8	1 801.3	1 867.7	483.4	443.1	406.7	534.6
Japan	1 324.8	1 204.5	1 316.6	1 283.7	1 254.6	344.1	304.8	346.6	259.1
United States	1 146.4	1 070.1	1 171.4	1 212.3	1 184.8	284.2	315.3	270.5	314.7
Others	3 285.3	2 854.0	3 434.5	3 623.9	3 656.1	903.8	866.7	912.0	973.5
<u>(% change over a year earlier)</u>									
All sources	4.7	0.3	21.8	16.4	16.0	15.6	15.3	17.7	15.1
Mainland of China	8.9	6.5	26.3	23.9	24.2	21.1	24.5	26.8	24.2
South and Southeast Asia	1.7	-1.7	21.3	7.1	-2.6	5.1	-2.6	-9.4	-2.7
Taiwan	0.1	-10.3	7.7	-0.7	-2.8	-2.3	-8.9	-2.7	3.2
Europe	-3.4	-5.9	9.1	2.5	3.7	9.4	4.2	-1.4	2.5
Japan	*	-9.1	9.3	-2.5	-2.3	5.3	12.0	4.7	-26.7
United States	-6.9	-6.7	9.5	3.5	-2.3	1.7	1.2	-3.3	-7.9
Others	1.7	-13.1	20.3	5.5	0.9	5.6	-1.5	0.3	-0.6

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

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

Table 13 : Property market

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	26 397	26 036	17 321	16 579	10 471	8 776	7 157
Commercial property	417	371	145	291	368	390	235
of which :							
Office space	299	279	34	108	320	341	151
Other commercial premises ^(b)	118	91	111	183	48	49	84
Industrial property ^(c)	15	1	17	27	16	78	3
of which :							
Industrial-cum-office premises	15	0	4	0	0	4	0
Conventional flatted factory space	0	1	0	0	16	70	3
Storage premises ^(d)	0	0	13	27	0	4	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	13 705	20 614	24 691	4 430	4 795	22 759	19 021
Subsidized sales flats ^(e)	320	0	0	0	2 010	2 200	370
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	1 038.4	530.0	550.7	706.7	900.0	530.0	546.8
Commercial property	200.0	161.3	481.9	468.4	327.5	147.7	178.3
Industrial property ^(f)	0.8	16.4	35.1	23.9	103.5	106.6	97.1
Other properties	444.2	407.1	408.0	199.2	207.7	212.8	253.2
Total	1 683.3	1 114.8	1 475.8	1 398.2	1 538.6	997.1	1 075.4
Agreements for sale and purchase of property (Number)							
Residential property ^(g)	71 576	100 630	103 362	82 472	123 575	95 931	115 092
Primary market	26 498	25 694	15 994	13 986	20 123	11 046	16 161
Secondary market	45 078	74 936	87 368	68 486	103 452	84 885	98 931
Selected types of non-residential properties ^(h)							
Office space	1 817	3 213	3 431	2 874	4 129	2 845	2 521
Other commercial premises	4 142	7 833	7 143	4 402	5 490	4 149	5 359
Flatted factory space	3 813	5 889	6 560	7 409	9 072	5 741	5 554

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 13 : Property market (Cont'd)

	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		
				Q1	Q2	Q3	Q4
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	13 405	9 449	10 149	632	1 647	3 854	4 016
Commercial property	189	197	226	62	25	36	104
<i>of which :</i>							
Office space	124	155	136	39	13	22	62
Other commercial premises ^(b)	65	42	90	23	12	13	42
Industrial property ^(c)	21	105	170	120	41	8	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	21	32	46	0	38	8	0
Storage premises ^(d)	0	73	123	120	3	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	6 385	17 787	9 778	7 071	2 707	0	0
Subsidized sales flats ^(e)	1 110	0	0	0	0	0	0
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	570.5	580.6	827.2	369.2	152.6	245.5	59.8
Commercial property	158.4	133.6	210.2	125.8	21.7	28.8	34.0
Industrial property ^(f)	34.3	109.3	70.7	12.4	0.2	16.5	41.5
Other properties	459.2	232.7	428.9	43.6	67.0	223.3	94.9
Total	1 222.4	1 056.2	1 536.9	551.0	241.5	514.1	230.3
Agreements for sale and purchase of property (Number)							
Residential property ^(g)	135 778	84 462	81 333	18 749	22 452	21 097	19 035
Primary market	13 646	10 880	12 968	2 895	2 723	3 711	3 639
Secondary market	122 132	73 582	68 365	15 854	19 729	17 386	15 396
Selected types of non-residential properties ^(h)							
Office space	3 591	3 071	3 359	510	852	814	1 183
Other commercial premises	7 639	5 980	7 377	1 114	2 032	1 685	2 546
Flatted factory space	8 206	7 619	9 887	1 487	2 188	2 450	3 762

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 14 : Property prices and rentals

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	61.6	78.0	92.0	92.7	103.5	120.5	121.3
Office space	62.5	99.3	133.0	139.3	165.5	199.0	179.8
Shopping space	85.5	119.3	149.3	153.5	172.5	192.2	193.1
Flatted factory space	71.7	88.6	125.0	158.5	199.5	235.9	216.3
Property rental indices ^(b) :							
Residential flats	73.6	77.7	86.5	91.6	101.8	115.7	100.4
Office space	74.6	78.1	96.4	117.4	131.9	155.5	135.7
Shopping space	86.4	92.8	100.5	104.3	111.8	116.2	110.9
Flatted factory space	74.9	77.3	82.6	91.0	100.5	109.3	99.4
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	-11.9	26.6	17.9	0.8	11.7	16.4	0.7
Office space	-8.6	58.9	33.9	4.7	18.8	20.2	-9.6
Shopping space	0.6	39.5	25.1	2.8	12.4	11.4	0.5
Flatted factory space	-4.1	23.6	41.1	26.8	25.9	18.2	-8.3
Property rental indices ^(b) :							
Residential flats	-11.8	5.6	11.3	5.9	11.1	13.7	-13.2
Office space	-12.6	4.7	23.4	21.8	12.4	17.9	-12.7
Shopping space	-7.0	7.4	8.3	3.8	7.2	3.9	-4.6
Flatted factory space	-9.4	3.2	6.9	10.2	10.4	8.8	-9.1

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.

(#) Figures for non-residential property are provisional.

(+) Provisional figures.

Table 14 : Property prices and rentals (Cont'd)

	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		
				Q1	Q2	Q3 [#]	Q4 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	150.9	182.1	206.0	185.3	202.3	211.6	225.0
Office space	230.4	297.9	333.7	302.1	322.8	342.3	367.3
Shopping space	257.2	327.4	419.9	363.2	402.1	439.0	475.5
Flatted factory space	284.4	385.0	488.8	418.7	461.4	508.9	526.9
Property rental indices ^(b) :							
Residential flats	119.7	134.0	142.6	133.6	139.7	146.2	150.7
Office space	147.6	169.9	188.1	182.6	186.5	190.7	192.7
Shopping space	122.9	134.3	151.1	143.3	149.9	154.3	156.7
Flatted factory space	108.9	118.6	131.9	125.1	131.5	133.8	134.6
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	24.4	20.7	13.1	5.8	8.9	14.3	23.6
Office space	28.1	29.3	12.0	9.2	7.2	10.6	20.7
Shopping space	33.2	27.3	28.3	19.2	23.9	30.6	38.1
Flatted factory space	31.5	35.4	27.0	20.0	19.2	26.7	31.1
Property rental indices ^(b) :							
Residential flats	19.2	11.9	6.4	4.4	4.4	6.4	10.2
Office space	8.8	15.1	10.7	15.3	11.9	9.0	7.4
Shopping space	10.8	9.3	12.5	12.0	12.5	13.0	12.5
Flatted factory space	9.6	8.9	11.2	10.3	11.9	10.4	10.1

Table 15 : Monetary aggregates

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	354,752	412,629	348,248	387,909	454,342	491,115	671,241
M2 ^(a)	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017	3,239,857	3,587,717
M3 ^(a)	2,122,861	2,219,557	2,345,838	2,795,545	3,300,500	3,261,306	3,604,843
Total money supply (\$Mn)							
M1	413,423	484,494	434,684	491,648	616,709	645,833	901,819
M2	3,813,442	4,166,706	4,379,057	5,054,332	6,106,348	6,268,058	6,602,310
M3	3,858,044	4,189,544	4,407,188	5,089,741	6,139,758	6,300,751	6,626,843
Deposit (\$Mn)							
HK\$	1,930,790	2,017,911	2,131,579	2,568,283	3,075,042	3,033,980	3,373,595
Foreign currency	1,636,227	1,848,145	1,936,322	2,188,993	2,793,856	3,024,004	3,007,445
Total	3,567,018	3,866,056	4,067,901	4,757,275	5,868,898	6,057,984	6,381,040
Loans and advances (\$Mn)							
HK\$	1,573,079	1,666,740	1,797,350	1,917,437	2,184,705	2,354,755	2,401,323
Foreign currency	462,000	488,964	514,637	550,392	776,971	930,883	887,160
Total	2,035,079	2,155,704	2,311,987	2,467,828	2,961,676	3,285,638	3,288,483
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	116.4	113.6	112.6	111.1	106.3	100.7	101.9
Import-weighted	118.2	115.4	114.1	112.6	107.6	101.3	102.2
Export-weighted	114.5	111.7	110.9	109.6	104.8	100.1	101.6
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	36.8	16.3	-15.6	11.4	17.1	8.1	36.7
M2 ^(a)	6.2	4.8	5.5	19.2	18.1	-1.3	10.7
M3 ^(a)	5.9	4.6	5.7	19.2	18.1	-1.2	10.5
Total money supply :							
M1	39.8	17.2	-10.3	13.1	25.4	4.7	39.6
M2	8.4	9.3	5.1	15.4	20.8	2.6	5.3
M3	8.3	8.6	5.2	15.5	20.6	2.6	5.2
Deposit							
HK\$	5.8	4.5	5.6	20.5	19.7	-1.3	11.2
Foreign currency	9.6	13.0	4.8	13.0	27.6	8.2	-0.5
Total	7.5	8.4	5.2	16.9	23.4	3.2	5.3
Loans and advances							
HK\$	-2.6	6.0	7.8	6.7	13.9	7.8	2.0
Foreign currency	0.3	5.8	5.3	6.9	41.2	19.8	-4.7
Total	-2.0	5.9	7.2	6.7	20.0	10.9	0.1
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	-3.2	-2.4	-0.9	-1.3	-4.3	-5.3	1.2
Import-weighted	-3.0	-2.4	-1.1	-1.3	-4.4	-5.9	0.9
Export-weighted	-3.5	-2.4	-0.7	-1.2	-4.4	-4.5	1.5

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 15 : Monetary aggregates (Cont'd)

	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>			
				Q1	Q2	Q3	Q4	
<u>(as at end of period)</u>								
Hong Kong dollar money supply (\$Mn) :								
M1	730,093	794,726	920,920	803,741	809,505	862,098	920,920	
M2 ^(a)	3,866,788	4,046,216	4,537,390	4,157,766	4,144,270	4,336,166	4,537,390	
M3 ^(a)	3,878,193	4,055,404	4,545,596	4,164,459	4,150,722	4,343,359	4,545,596	
Total money supply (\$Mn)								
M1	1,017,227	1,127,320	1,377,359	1,179,311	1,216,981	1,294,493	1,377,359	
M2	7,136,271	8,057,530	8,950,928	8,261,020	8,318,695	8,581,471	8,950,928	
M3	7,156,260	8,081,079	8,971,320	8,279,034	8,335,293	8,600,621	8,971,320	
Deposit (\$Mn)								
HK\$	3,617,183	3,740,240	4,176,206	3,822,955	3,812,138	3,985,551	4,176,206	
Foreign currency	3,245,081	3,851,020	4,121,151	3,845,838	3,893,680	3,954,523	4,121,151	
Total	6,862,265	7,591,260	8,297,357	7,668,793	7,705,819	7,940,074	8,297,357	
Loans and advances (\$Mn)								
HK\$	2,824,445	3,160,002	3,333,059	3,154,068	3,203,946	3,242,089	3,333,059	
Foreign currency	1,403,281	1,920,659	2,236,274	2,041,828	2,113,558	2,175,775	2,236,274	
Total	4,227,726	5,080,661	5,569,333	5,195,896	5,317,504	5,417,863	5,569,333	
Nominal Effective Exchange Rate Indices								
<u>(Jan 2010 =100)^(b)</u>								
Trade-weighted	99.5	94.6	94.9	94.5	95.3	95.5	94.2	
Import-weighted	99.2	93.9	94.2	93.9	94.7	94.8	93.5	
Export-weighted	99.8	95.4	95.6	95.2	96.0	96.4	94.9	
<u>(% change over a year earlier)</u>								
Hong Kong dollar money supply :								
M1	8.8	8.9	15.9	7.8	7.2	10.3	15.9	
M2 ^(a)	7.8	4.6	12.1	7.5	6.2	11.0	12.1	
M3 ^(a)	7.6	4.6	12.1	7.3	6.1	10.9	12.1	
Total money supply :								
M1	12.8	10.8	22.2	12.6	11.3	15.7	22.2	
M2	8.1	12.9	11.1	12.0	9.1	10.5	11.1	
M3	8.0	12.9	11.0	11.9	9.0	10.4	11.0	
Deposit								
HK\$	7.2	3.4	11.7	6.0	5.4	10.5	11.7	
Foreign currency	7.9	18.7	7.0	10.8	7.6	6.4	7.0	
Total	7.5	10.6	9.3	8.4	6.5	8.4	9.3	
Loans and advances								
HK\$	17.6	11.9	5.5	7.1	5.2	3.7	5.5	
Foreign currency	58.2	36.9	16.4	28.0	19.2	14.3	16.4	
Total	28.6	20.2	9.6	14.4	10.4	7.7	9.6	
Nominal Effective Exchange Rate Indices								
<u>(Jan 2010 =100)^(b)</u>								
Trade-weighted	-2.4	-4.9	0.3	-1.6	0.8	2.2	-0.4	
Import-weighted	-2.9	-5.3	0.3	-1.5	1.0	2.4	-0.5	
Export-weighted	-1.8	-4.4	0.2	-1.6	0.8	2.1	-0.4	

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

(b) Period average.

Table 16 : Rates of change in business receipts indices for service industries/domains

	(%)							
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>		
					Q4	Q1	Q2	Q3
Service Industry								
Import and export trade	7.4	-13.7	19.7	8.9	4.9	-4.7	-2.8	-3.8
Wholesale	6.3	-12.6	25.0	12.7	12.7	4.2	2.7	1.2
Retail	10.6	0.6	18.3	24.9	23.3	15.8	10.3	5.8
Transportation	4.4	-19.9	24.5	4.4	-0.7	0.1	-0.6	1.0
<i>within which :</i>								
Land transport	2.2	-2.6	6.0	7.0	7.8	8.3	13.4	14.9
Water transport	6.1	-24.1	20.5	0.6	-5.7	-7.3	-8.1	1.2
Air transport	3.5	-21.0	33.7	6.7	0.7	2.9	1.3	-2.8
Warehousing and storage	6.6	1.4	9.5	9.4	6.6	31.5	29.4	24.1
Courier	2.1	-6.1	28.3	17.3	8.8	11.4	7.8	17.5
Accommodation services ^(a)	3.8	-17.4	25.3	19.6	13.9	8.3	15.1	18.9
Food services	13.1	0.6	5.1	6.4	7.3	6.1	4.2	4.3
Information and communications	6.0	-3.2	4.9	8.8	8.1	9.9	8.6	5.4
<i>within which :</i>								
Telecommunications	9.8	1.4	3.0	8.1	6.5	14.8	9.7	7.5
Film entertainment	-0.7	-12.6	-6.4	-5.6	1.4	-6.1	3.9	8.0
Banking	-16.9	1.5	8.8	10.8	-1.5	9.5	10.3	10.9
Financing (except banking)	-19.4	-10.3	16.7	-2.4	-22.8	-0.1	-7.0	3.8
<i>within which :</i>								
Financial markets and asset management	-20.0	-11.7	15.3	-3.2	-25.9	-0.8	-7.6	4.0
<i>within which : Asset management</i>	-5.2	-12.1	28.4	10.6	-15.2	-6.4	-11.6	-5.1
Insurance	*	0.7	8.3	9.4	6.7	14.8	12.1	12.6
Real estate	-3.7	9.7	11.4	-0.9	-9.7	6.7	2.5	29.1
Professional, scientific and technical services	6.8	-0.5	13.9	7.3	4.3	*	-0.2	-2.1
Administrative and support services	9.4	-12.4	12.3	10.2	7.7	5.9	9.0	10.3
Service Domain								
Tourism, convention and exhibition services	10.1	3.2	30.6	20.6	26.5	19.1	14.0 ⁺	9.6 ⁺
Computer and information technology services	5.3	-15.0	32.5	10.4	13.6	15.7	22.0	13.5

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.

(a) Accommodation services covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

(+) Provisional figures.

Table 17 : Labour force characteristics

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012⁺</u>	<u>2012</u>			
						Q1 ⁺	Q2 ⁺	Q3 ⁺	Q4 ⁺
<u>(%)</u>									
Labour force participation rate	60.9	60.8	59.6	60.1	60.6	60.7	60.8	60.6	60.6
Seasonally adjusted unemployment rate	3.5	5.3	4.3	3.4	3.3	3.4	3.2	3.3	3.3
Underemployment rate	1.9	2.3	2.0	1.7	1.5	1.6	1.4	1.6	1.5
<u>('000)</u>									
Population of working age	5 977.1	6 022.9	6 093.8	6 164.4	6 253.6	6 221.8	6 244.7	6 261.4	6 286.6
Labour force	3 637.2	3 660.3	3 631.3	3 703.1	3 792.3	3 773.7	3 796.9	3 791.8	3 806.6
Persons employed	3 509.1	3 467.6	3 474.1	3 576.4	3 667.4	3 649.6	3 671.4	3 658.9	3 689.6
Persons unemployed	128.1	192.6	157.2	126.7	124.9	124.1	125.5	132.9	117.0
Persons underemployed	67.9	83.8	72.5	63.3	57.3	58.6	54.6	59.2	56.8
<u>(% change over a year earlier)</u>									
Population of working age	1.0	0.8	1.2	1.2	1.4	1.3	1.5	1.3	1.4
Labour force	0.4	0.6	-0.8	2.0	2.4	3.2	2.6	1.8	2.0
Persons employed	0.9	-1.2	0.2	2.9	2.5	3.3	3.0	1.6	2.0
Persons unemployed	-11.9	50.4	-18.4	-19.4	-1.4	0.1	-8.8	5.5	0.9
Persons underemployed	-14.5	23.4	-13.5	-12.7	-9.4	-10.7	-15.9	-9.3	8.4

Note: (+) Provisional figures.

Table 18 : Employment in selected major industries

Selected major industries	2007	2008	2009	2010	2011	2011	2012			(No.)
	(% change)					Dec	Mar	Jun	Sep	
						(% change over a year earlier)				
Manufacturing	-2.9	-3.5	-5.7	-4.5	-5.6	-6.1	-6.2	-5.4	-4.3	106 780
Construction sites (manual workers only)	-5.1	-1.5	2.2	9.6	13.2	25.2	20.1	22.4	13.4	72 238
Import and export trade	0.8	-0.3	-4.4	0.9	-0.3	-1.0	-1.4	-0.6	-1.6	491 739
Wholesale	-0.3	-2.7	-2.0	1.2	*	-0.5	-1.0	0.7	-1.6	63 636
Retail	2.1	2.8	-0.3	3.3	4.0	2.7	2.2	2.9	2.7	259 694
Food and beverage services	3.3	1.8	*	3.7	6.6	4.3	1.2	1.5	1.8	236 226
Accommodation services ^(a)	5.4	3.1	-1.0	1.5	5.8	4.8	10.3	7.8	9.6	37 520
Transportation, storage, postal and courier services	2.5	3.5	1.1	1.5	2.0	2.4	2.2	2.2	1.9	166 891
Information and communications	2.2	3.6	-1.6	1.3	3.4	4.9	6.6	5.3	6.3	97 478
Financing and insurance	7.3	5.6	-0.5	4.8	6.3	5.6	5.7	2.0	*	206 674
Real estate	4.4	2.7	0.5	4.1	8.0	8.6	4.5	4.7	4.7	125 645
Professional and business services (excluding cleaning and similar services)	4.8	3.4	0.9	2.2	4.2	4.5	4.5	3.9	2.7	257 349
Cleaning and similar services	0.6	-1.7	6.7	13.7	9.5	5.0	2.4	3.9	4.1	78 513
Education	3.3	4.8	5.3	3.4	1.5	2.3	2.0	3.0	2.2	171 901
Human health services	5.5	5.1	3.8	3.0	4.1	4.5	4.8	4.3	5.7	102 100
Residential care and social work services	1.4	1.3	1.5	1.8	1.3	-0.5	1.4	2.1	1.7	58 450
Arts, entertainment, recreation and other services	1.5	1.9	0.8	5.0	2.8	1.0	-0.3	1.3	*	118 301
Civil Service ^(b)	-0.4	0.1	1.1	0.5	0.7	1.2	1.5	1.2	0.9	159 131
Others ^(c)	0.9	7.0	-1.0	3.1	-0.6	-4.2	-4.8	-6.1	-6.2	10 360

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) Accommodation services covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

(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.

(c) Include employment in mining and quarrying; and in electricity and gas supply, and waste management.

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

Table 19 : Number of workers engaged at building and construction sites

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> Dec	Mar	<u>2012</u> Jun	Sep
<u>(Number)</u>									
Building sites									
Private sector	29 240	28 899	28 776	28 620	31 780	37 391	37 650	39 260	37 375
Public sector ^(a)	7 767	8 136	10 277	11 463	12 335	11 177	10 810	9 612	11 311
Sub-total	37 007	37 034	39 053	40 083	44 115	48 568	48 460	48 872	48 686
Civil engineering sites									
Private sector	1 674	1 686	1 618	1 544	1 250	1 457	1 372	1 434	1 473
Public sector ^(a)	11 504	10 703	9 831	13 714	17 270	19 370	20 810	21 415	22 079
Sub-total	13 178	12 388	11 449	15 258	18 520	20 827	22 182	22 849	23 552
Total	50 185	49 422	50 501	55 341	62 635	69 395	70 642	71 721	72 238
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-5.7	-1.2	-0.4	-0.5	11.0	42.0	40.6	36.8	9.1
Public sector ^(a)	1.6	4.7	26.3	11.5	7.6	-14.4	-23.2	-26.8	3.3
Sub-total	-4.2	0.1	5.5	2.6	10.1	23.3	18.6	16.8	7.7
Civil engineering sites									
Private sector	6.7	0.7	-4.0	-4.6	-19.0	45.4	28.5	17.5	17.5
Public sector ^(a)	-9.1	-7.0	-8.1	39.5	25.9	28.8	23.2	37.8	27.8
Sub-total	-7.4	-6.0	-7.6	33.3	21.4	29.8	23.6	36.3	27.1
Total	-5.1	-1.5	2.2	9.6	13.2	25.2	20.1	22.4	13.4

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

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

**Table 20 : Rates of change in indices of payroll per person engaged
by selected industry section**

	(%)								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>	
Selected industry section						Q4	Q1	Q2	Q3
(in nominal terms)									
Manufacturing	2.5	0.9	-3.5	2.6	7.2	8.0	14.0	5.8	8.6
Sewerage, waste management and remediation activities	17.0	-8.6	2.1	-0.1	5.6	12.4	6.4	4.4	5.6
Import/export and wholesale trade	1.8	6.3	-1.6	2.6	12.9	12.7	3.2	4.7	3.8
Retail trade	2.6	8.1	-1.5	3.9	12.3	13.6	15.6	6.7	8.1
Transportation, storage, postal and courier services	3.9	-0.6	-0.2	3.4	4.0	3.1	-5.3	1.6	5.0
Accommodation ^(a) and food service activities	3.9	2.6	-0.6	3.3	9.7	9.9	6.8	6.1	5.0
Information and communications	-2.9	6.6	0.2	2.6	7.4	10.8	9.4	7.7	9.0
Financial and insurance activities	9.8	9.0	-3.3	7.2	11.5	7.0	5.8	3.7	4.1
Real estate activities	-0.4	8.0	-2.4	1.3	11.4	18.2	14.4	5.9	3.9
Professional and business services	4.8	3.5	0.6	2.4	2.0	5.6	6.3	6.8	2.7
Social and personal services	1.5	3.1	1.7	-2.4	3.1	5.9	8.3	8.7	7.4
All industries surveyed	4.0	2.6	0.5	2.4	7.9	9.1	7.2	6.6	6.3
(in real terms)									
Manufacturing	0.5	-3.3	-4.1	0.3	1.9	2.2	8.4	1.5	5.4
Sewerage, waste management and remediation activities	14.8	-12.3	1.5	-2.3	0.3	6.3	1.1	0.1	2.5
Import/export and wholesale trade	-0.2	1.9	-2.3	0.2	7.2	6.6	-1.9	0.4	0.7
Retail trade	0.6	3.6	-2.1	1.6	6.7	7.5	9.9	2.4	4.9
Transportation, storage, postal and courier services	1.9	-4.7	-0.8	1.1	-1.2	-2.5	-10.0	-2.5	1.9
Accommodation ^(a) and food service activities	1.8	-1.7	-1.2	1.0	4.2	4.0	1.6	1.8	2.0
Information and communications	-4.7	2.2	-0.4	0.3	2.0	4.8	4.0	3.3	5.8
Financial and insurance activities	7.7	4.6	-3.9	4.8	6.0	1.3	0.6	-0.5	1.0
Real estate activities	-2.3	3.5	-3.0	-1.0	5.8	11.8	8.7	1.6	0.9
Professional and business services	2.8	-0.7	*	0.1	-3.1	-0.1	1.1	2.5	-0.3
Social and personal services	-0.5	-1.2	1.1	-4.6	-2.1	0.2	2.9	4.3	4.3
All industries surveyed	1.9	-1.7	-0.1	0.1	2.5	3.2	1.9	2.3	3.2

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.

(a) Accommodation services covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

**Table 21 : Rates of change in wage indices
by selected industry section**

	(%)								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>	
Selected industry section						Dec	Mar	Jun	Sep
(in nominal terms)									
Manufacturing	4.3	2.6	-1.2	-1.0	6.7	10.6	7.9	3.8	4.2
Import/export, wholesale and retail trades ^(a)	2.3	3.6	-1.1	2.6	7.8	8.4	7.3	4.3	3.0
<i>within which :</i>									
Import/export and wholesale trades	2.8	3.1	-1.2	2.7	8.3	--	7.6	--	3.3
Retail trade	-1.7	4.9	-0.2	1.1	-0.3	--	3.6	--	2.0
Transportation	1.5	1.8	*	1.1	4.0	5.1	4.2	3.2	3.3
Accommodation ^(b) and food service activities	1.4	3.1	-2.3	2.5	9.3	10.9	8.1	7.6	7.7
Financial and insurance activities ^(c)	2.4	2.8	-0.5	3.0	6.7	7.0	4.3	2.6	4.3
Real estate leasing and maintenance management	1.4	2.7	-0.4	2.6	8.6	11.6	13.5	5.3	6.7
Professional and business services	4.8	4.9	0.8	3.4	12.6	14.7	13.1	5.7	5.3
Personal services	8.5	0.5	-0.7	3.4	9.6	13.1	12.2	9.5	9.0
All industries surveyed	2.6	3.4	-0.9	2.4	8.1	9.4	8.0	5.1	4.8
(in real terms)									
Manufacturing	2.4	-0.1	-1.8	-3.7	1.3	5.1	3.4	0.5	-0.1
Import/export, wholesale and retail trades ^(a)	0.4	0.9	-1.7	-0.2	2.4	3.0	2.9	1.0	-1.3
<i>within which :</i>									
Import/export and wholesale trades	1.0	0.4	-1.7	-0.1	2.8	--	3.2	--	-1.0
Retail trade	-3.5	2.2	-0.7	-1.6	-5.3	--	-0.7	--	-2.2
Transportation	-0.4	-0.8	-0.5	-1.7	-1.2	-0.1	*	-0.1	-1.0
Accommodation ^(b) and food service activities	-0.4	0.4	-2.8	-0.3	3.8	5.3	3.7	4.2	3.3
Financial and insurance activities ^(c)	0.6	0.2	-1.0	0.2	1.3	1.6	*	-0.7	*
Real estate leasing and maintenance management	-0.4	0.1	-1.0	-0.2	3.1	6.0	8.8	2.0	2.3
Professional and business services	2.9	2.2	0.3	0.6	6.9	8.9	8.5	2.4	1.0
Personal services	6.5	-2.1	-1.2	0.6	4.1	7.4	7.6	6.0	4.5
All industries surveyed	0.7	0.7	-1.5	-0.4	2.7	3.9	3.6	1.7	0.4

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) Accommodation services covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
- (c) 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 22 : Rates of change in prices

(%)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
GDP deflator	-6.0	-3.6	-0.2	-0.5	3.1	1.3	-0.4	0.3
Domestic demand deflator	-4.0	-0.1	1.1	1.6	2.4	2.6	-0.8	2.2
Consumer Price Indices ^(a) :								
Composite CPI	-2.6	-0.4	1.0	2.0	2.0	4.3	0.5	2.4
CPI(A)	-2.1	*	1.1	1.7	1.3	3.6	0.4	2.7
CPI(B)	-2.7	-0.5	1.0	2.1	2.2	4.6	0.5	2.3
CPI(C)	-2.9	-0.9	0.8	2.2	2.7	4.7	0.6	2.1
Unit Value Indices :								
Domestic exports	0.2	1.5	2.2	-2.1	0.8	5.1	-0.2	5.5
Re-exports	-1.5	1.1	1.2	1.1	2.4	3.8	1.2	4.6
Total exports of goods	-1.4	1.2	1.3	1.0	2.3	3.8	1.1	4.7
Imports of goods	-0.4	2.9	2.7	2.1	2.3	4.4	-0.1	6.4
Terms of Trade Index	-1.0	-1.7	-1.4	-1.1	0.1	-0.5	1.3	-1.7
Producer Price Index for all manufacturing industries ^(b)	-0.3	2.2	0.8	2.2	3.0	5.6	-1.7	6.0
Tender Price Indices :								
Public sector								
building projects	-0.3	-1.5	1.4	5.0	20.1	41.9	-15.9	12.5
Public housing projects	-10.0	3.5	7.7	11.2	19.7	30.8	-6.8	6.7

Notes: (a) The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period.

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

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

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

(--) Not applicable.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 2001-2011.

(~) Average annual rate of change for the 5-year period 2006-2011.

Table 22 : Rates of change in prices (Cont'd)

(%)

	<u>2011</u>	<u>2012</u>	Average annual rate of change:					
							10 years	5 years
			Q1	Q2	Q3	Q4	2002 to 2012	2007 to 2012
GDP deflator [#]	3.9	3.9	3.7	2.8	4.2	4.6	0.1	1.8
Domestic demand deflator [#]	4.5	4.5	4.9	3.9	4.4	4.6	1.3	2.5
Consumer Price Indices ^(a) :								
Composite CPI	5.3	4.1	5.2	4.2	3.1	3.8	1.8	3.3
CPI(A)	5.6	3.6	4.6	3.7	1.9	4.2	1.8	3.2
CPI(B)	5.2	4.3	5.5	4.5	3.7	3.6	1.9	3.4
CPI(C)	5.1	4.1	5.4	4.4	3.4	3.3	1.8	3.3
Unit Value Indices :								
Domestic exports	6.4	2.5	3.0	2.6	1.4	2.7	2.2	3.8
Re-exports	8.0	3.4	6.2	4.4	1.8	1.3	2.5	4.2
Total exports of goods	8.0	3.4	6.2	4.4	1.8	1.4	2.5	4.2
Imports of goods	8.1	3.3	5.0	3.9	2.3	2.1	3.1	4.4
Terms of Trade Index	-0.1	0.1	1.1	0.5	-0.5	-0.7	-0.6	-0.2
Producer Price Index for all manufacturing industries ^(b)	8.3	N.A.	3.6	-0.6	-1.4	N.A.	--	4.2~
Tender Price Indices :								
Public sector □ building projects	11.6	N.A.	11.1	8.9	7.2	N.A.	5.2^	12.5~
Public housing projects	10.1	N.A.	6.9	6.2	5.7	N.A.	5.6^	11.4~

Table 23 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
All items	100.0	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)	2.0 (2.8)	4.3 (5.6)	0.5 (1.0)
Food	27.45	-1.5	1.0	1.8	1.7	4.3	10.1	1.3
<i>Meals bought away from home</i>	17.07	-1.5	0.2	0.9	1.3	2.5	5.9	1.6
<i>Food, excluding meals bought away from home</i>	10.38	-1.7	2.5	3.2	2.5	7.1	16.8	0.9
Housing ^(a)	31.66	-4.8	-5.2	0.1	4.7	2.0	4.1	3.7
<i>Private housing rent</i>	27.14	-6.3	-6.6	-0.1	5.6	4.0	6.8	3.6
<i>Public housing rent</i>	2.05	9.1	2.5	0.2	0.1	-17.7	-27.2	9.5
Electricity, gas and water	3.10	1.4	11.4	4.1	2.1	-0.7	-6.5	-25.3
Alcoholic drinks and tobacco	0.59	0.1	*	0.4	-3.7	-1.2	0.1	18.7
Clothing and footwear	3.45	-2.7	6.4	2.0	1.0	4.1	0.8	2.7
Durable goods	5.27	-6.4	-2.2	-3.2	-6.4	-4.7	-2.0	-3.0
Miscellaneous goods	4.17	2.3	3.6	1.5	1.7	2.5	5.0	2.3
Transport	8.44	-0.4	0.4	1.4	0.7	-0.1	2.5	-0.9
Miscellaneous services	15.87	-3.2	-0.2	1.0	1.9	1.7	0.8	-2.1

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 23 : Rates of change in Composite Consumer Price Index (Cont'd)

(%)										
	Weight	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>				Average annual rate of change:	
					Q1	Q2	Q3	Q4	10 years 2002 to 2012	5 years 2007 to 2012
All items	100.0	2.4 (1.7)	5.3 (5.3)	4.1 (4.7)	5.2 (5.9)	4.2 (5.1)	3.1 (4.0)	3.8 (3.8)	1.8 (-)	3.3 (-)
Food	27.45	2.4	7.0	5.8	7.4	6.6	5.1	4.2	3.3	5.3
<i>Meals bought away from home</i>	17.07	1.7	5.2	5.4	6.1	5.7	5.3	4.6	2.3	3.9
<i>Food, excluding meals bought away from home</i>	10.38	3.5	9.9	6.5	9.4	8.1	5.0	3.6	5.0	7.4
Housing ^(a)	31.66	0.4	7.2	5.6	8.1	6.4	2.8	5.2	1.7	4.2
<i>Private housing rent</i>	27.14	0.9	7.2	6.8	9.2	7.3	5.8	5.1	2.1	5.0
<i>Public housing rent</i>	2.05	-7.8	11.9	-7.1	-1.5	-1.1	-87.8	9.7	-3.4	-5.2
Electricity, gas and water	3.10	43.3	-4.2	-8.2	-17.2	-18.3	3.6	4.6	0.5	-2.5
Alcoholic drinks and tobacco	0.59	3.4	17.1	3.0	11.6	0.1	0.5	0.6	3.5	8.2
Clothing and footwear	3.45	1.8	6.8	3.1	4.9	3.2	2.3	1.9	2.6	3.0
Durable goods	5.27	-2.7	-3.8	-1.4	-1.8	-0.9	-1.2	-1.7	-3.6	-2.6
Miscellaneous goods	4.17	2.4	3.8	2.2	3.4	2.2	1.4	2.0	2.7	3.1
Transport	8.44	2.0	4.4	3.0	4.4	3.3	2.2	2.2	1.3	2.2
Miscellaneous services	15.87	2.0	3.5	2.8	2.8	3.1	2.3	2.9	0.8	1.4

**Table 24 : Rates of change in implicit price deflators of GDP
and its main expenditure components**

(%)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Private consumption expenditure	-2.4	-0.4	1.6	0.9	4.1	2.5	-1.4
Government consumption expenditure	-2.2	-2.6	-1.7	0.1	2.2	4.4	0.7
Gross domestic fixed capital formation	-9.2	2.2	1.1	4.2	-2.1	1.7	0.3
Total exports of goods	-1.8	0.9	0.6	0.3	2.2	3.4	0.5
Imports of goods	-0.9	2.9	1.9	2.1	1.7	4.1	-1.3
Exports of services	-3.1	0.5	3.3	3.6	2.5	3.4	-7.0
Imports of services	2.7	4.0	1.0	0.8	3.0	3.8	-2.7
Gross Domestic Product	-6.0	-3.6	-0.2	-0.5	3.1	1.3	-0.4
Total final demand	-2.7	0.5	1.1	1.1	2.3	3.1	-1.1
Domestic demand	-4.0	-0.1	1.1	1.6	2.4	2.6	-0.8

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

**Table 24 : Rates of change in implicit price deflators of GDP
and its main expenditure components (Cont'd)**

	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>				Average annual <u>rate of change:</u>	
				Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	10 years 2002 to 2012 [#]	5 years 2007 to 2012 [#]
Private consumption expenditure	1.4	3.7	2.8	3.8	2.7	2.3	2.3	1.2	1.8
Government consumption expenditure	-0.2	4.5	6.1	6.1	6.0	6.1	6.2	1.1	3.1
Gross domestic fixed capital formation	5.8	6.8	8.2	6.3	6.7	9.3	10.0	1.8	4.5
Total exports of goods	4.6	7.8	3.6	6.3	5.2	1.8	1.6	2.2	4.0
Imports of goods	6.3	8.2	4.2	7.2	6.2	2.2	1.6	2.9	4.3
Exports of services	7.4	7.6	4.0	6.1	5.3	2.5	2.5	2.1	2.9
Imports of services	5.6	6.4	1.5	3.1	0.5	0.3	2.2	2.6	2.9
Gross Domestic Product	0.3	3.9	3.9	3.7	2.8	4.2	4.6	0.1	1.8
Total final demand	4.3	6.7	3.9	5.8	4.8	2.7	2.6	1.9	3.4
Domestic demand	2.2	4.5	4.5	4.9	3.9	4.4	4.6	1.3	2.5

