



First Quarter Economic Report 2013

Government of the Hong Kong
Special Administrative Region

***FIRST QUARTER ECONOMIC
REPORT 2013***

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

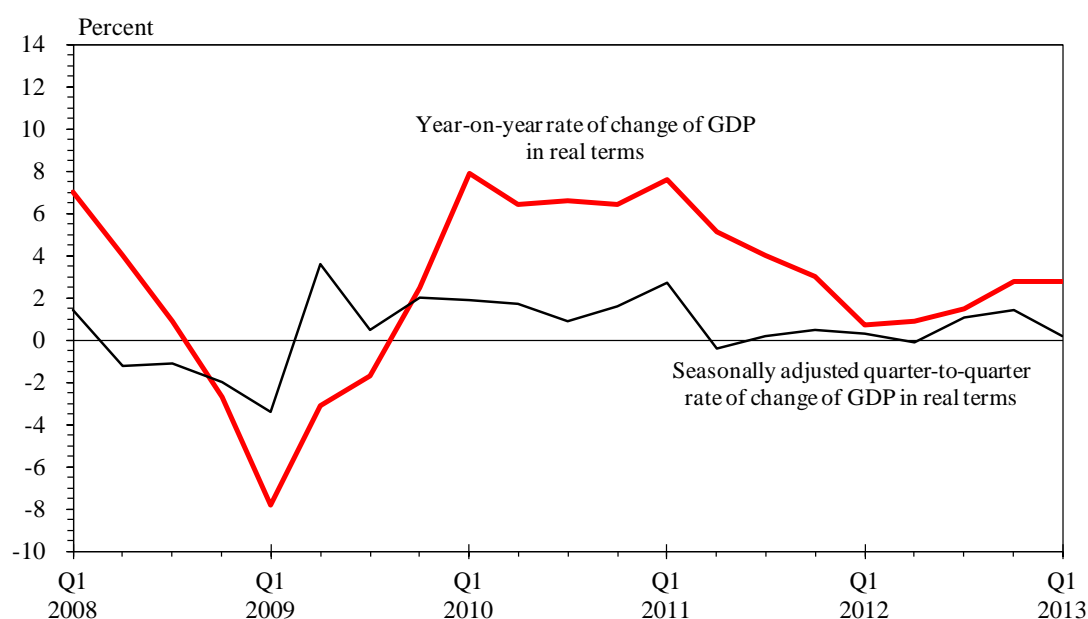
- *The Hong Kong economy grew moderately in the first quarter of 2013, by 2.8% in real terms over a year earlier, same as the growth pace in the preceding quarter. While the external sector still faced an unsteady global economic environment, the domestic sector remained relatively resilient.*
- *The external environment turned less steady after some relative improvement in the latter part of 2012, as highlighted by the bailout for Cyprus, fiscal consolidation in the US and heightened geopolitical tensions. Given the recession-struck eurozone, a stagnant Japanese economy, and a slow-growing US economy, production and export activities in many Asian economies still lacked momentum. The Mainland economy nevertheless expanded solidly further. Against this backdrop and boosted by a surge in exports of non-monetary gold, Hong Kong's total exports of goods posted a faster growth in the first quarter, while exports of services also picked up, on vibrant inbound tourism and increased financial market activity.*
- *Domestic demand largely held firm. Private consumption expenditure grew strongly, on the back of broadly supportive labour market conditions. Investment expenditure however fell back modestly from the distinctly high level last year.*
- *The labour market held largely steady in the first quarter. Reflecting the strength in labour demand, total employment maintained steady momentum, rising to successive new highs during the quarter. Yet the seasonally adjusted unemployment rate edged up to 3.5% over the period, albeit still at a relatively low level. Job opportunities remained abundant at end-2012, while wages and earnings saw further improvement over the past year.*
- *Local stock prices continued its uptrend on entering 2013, only to give back the gains in the latter half of the quarter amid increased uncertainty in the global economic environment. Local property market heated up again in early 2013, but quietened down visibly after the Government's introduction of further demand-management and macro-prudential measures in late February.*
- *Inflation held stable in the first quarter, having eased successively over the course of 2012. Price pressures on the external front remained tame. Locally, wages also moderated in growth, while the pick-up in fresh-letting rentals over the past year had yet to fully feed through to inflation.*

Overall situation

1.1 The Hong Kong economy saw a moderate expansion in the first quarter of 2013. The external environment, after some relative stabilisation in the latter part of 2012, turned more unsteady in the quarter, amid the inconclusive Italian election, the Cypriot bailout and the aggressive monetary easing in Japan. Import demand in the advanced economies remained weak, as the eurozone economy, saddled by the debt overhang, was still mired in recession, and as the US continued to see uneven growth, hampered by the payroll tax hike and automatic spending cuts. Geopolitical tensions in North Asia also increased. Against these headwinds, export and production activities in the newly industrialised Asian economies generally still lacked momentum. Yet the Mainland economy sustained solid growth, thereby lending notable support to Hong Kong's merchandise exports in the first quarter. Exports of services grew faster, thanks mainly to buoyant inbound tourism and improved financial activities. Domestic demand largely stayed firm, despite a slight fall-back in investment, mainly on account of solid private consumption amid a broadly stable labour market. Consumer price inflation, having tapered progressively during 2012, held steady in the first quarter.

1.2 In the first quarter of 2013, *Gross Domestic Product* (GDP)⁽¹⁾ grew by 2.8% in real terms over a year earlier, same as that in the fourth quarter of 2012, but faster than that of 1.5% for 2012 as a whole. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP expanded by 0.2% in the first quarter, after a 1.4% growth in the preceding quarter.

Diagram 1.1 : The economy grew moderately in the first quarter of 2013



The external sector

1.3 *Total exports of goods* grew by 8.8% in real terms in the first quarter of 2013 over a year earlier, after re-accelerating to 6.7% growth in the preceding quarter. Yet such an appreciable growth was mainly boosted by a surge in exports of non-monetary gold in the quarter. Excluding this peculiar factor, merchandise export performance was actually rather modest. While the Mainland and some other Asian markets saw solid growth, the advanced markets remained the weak spots, with exports to the US, EU and Japan all posting year-on-year declines in the first quarter. In particular, exports of raw materials to some Asian economies stayed subdued, reflecting the sluggish intra-regional production activities and trade flows amid the weak final demand in the advanced economies.

1.4 *Exports of services* picked up to a 4.9% year-on-year growth in real terms in the first quarter of 2013, from the 2.9% growth in the fourth quarter. Exports of travel services continued to render the key impetus, growing notably further amid sustained double-digit growth in visitor arrivals. Those of financial and other business services showed moderate growth, thanks to improved financial market and commercial activities amid some stabilisation in global financial conditions. Yet held back by the generally still rather lacklustre trading environment, exports of trade-related services saw only modest growth, which in turn also dampened exports of transportation services.

**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>2012</u>				<u>2013</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[±]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	9.0	3.2	5.7 (0.8)	2.6 (*)	1.9 (0.8)	2.8 (1.2)	7.0 (4.9)
Government consumption expenditure	2.5	3.7	3.2 (1.2)	4.2 (1.0)	4.0 (0.7)	3.3 (0.6)	2.0 (-0.3)
Gross domestic fixed capital formation	10.2	9.4	12.5	5.8	8.2	11.4	-2.2
<i>of which :</i>							
Building and construction	15.5	13.2	14.6	14.7	8.8	14.6	*
Machinery, equipment and intellectual property products	12.2	10.7	21.1	5.2	10.1	9.2	-4.0
Total exports of goods	3.4	1.8	-4.8 (1.3)	0.2 (-1.7)	4.5 (3.1)	6.7 (4.8)	8.8 (1.8)
Imports of goods	4.7	3.0	-1.8 (2.7)	1.2 (-1.0)	4.7 (1.6)	7.6 (5.2)	9.6 (3.1)
Exports of services	4.9	1.9	2.2 (0.4)	2.4 (1.2)	0.1 (-1.6)	2.9 (2.9)	4.9 (2.4)
Imports of services	3.5	0.4	3.0 (0.7)	0.9 (-1.3)	-1.5 (-2.0)	-0.8 (1.9)	1.2 (2.6)
Gross Domestic Product	4.9	1.5	0.7 (0.3)	0.9 (-0.1)	1.5 (1.1)	2.8 (1.4)	2.8 (0.2)
<i>Change in the main price indicators (%)</i>							
GDP deflator	3.9	3.9	3.9 (1.1)	3.0 (0.5)	4.3 (2.0)	4.3 (0.7)	1.2 (-2.0)
Composite CPI							
Headline	5.3	4.1	5.2 (1.2)	4.2 (0.8)	3.1 (-1.9)	3.8 (3.7)	3.7 (1.2)
Underlying[^]	5.3	4.7	5.9 (1.2)	5.1 (0.9)	4.0 (0.6)	3.8 (1.1)	3.8 (1.2)
Change in nominal GDP (%)	9.0	5.5	4.6	3.9	5.8	7.3	4.1

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 within $\pm 0.05\%$.

The domestic sector

1.5 The domestic sector stayed relatively resilient in the first quarter of 2013. With consumer sentiment underpinned by broadly supportive job conditions as well as improved incomes over the past year, *private consumption expenditure* (PCE) grew briskly by 7.0% in real terms over a year earlier, much faster than the 2.8% growth in the fourth quarter of 2012. *Government consumption expenditure* grew modestly by 2.0% in the first quarter.

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

		<i>Of which :</i>							
		<u>Total consumer spending in the domestic market^(a)</u>	<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>	<u>Residents' expenditure abroad</u>	<u>Visitor spending</u>	<u>Private consumption expenditure^(b)</u>
2012	Annual	4.3	1.0	19.3	4.0	2.0	4.6	10.5	3.2
	H1	4.8	*	26.8	5.1	1.6	6.5	10.4	4.1
	H2	3.7	2.0	13.5	2.9	2.4	2.8	10.5	2.3
	Q1	6.0	-1.0	32.3	7.5	2.1	7.0	8.3	5.7
	Q2	3.6	0.9	21.5	2.9	1.0	6.0	12.7	2.6
	Q3	2.7	2.7	10.2	1.5	1.6	4.9	8.2	1.9
	Q4	4.7	1.4	16.3	4.1	3.1	0.8	12.7	2.8
2013	Q1	8.4	3.3	31.1	9.2	3.6	5.3	14.4	7.0

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 within $\pm 0.05\%$.

Diagram 1.2 : Private consumption expenditure grew briskly in the first quarter of 2013

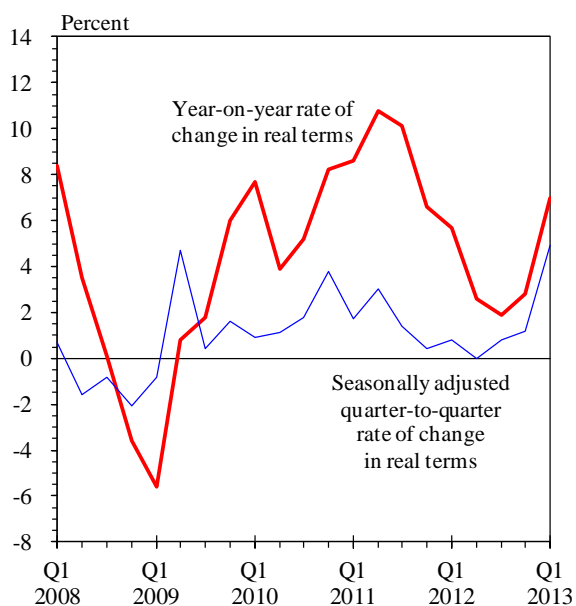
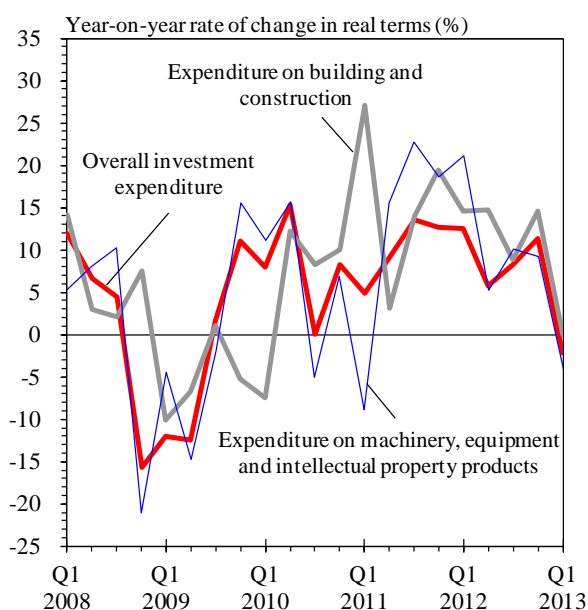


Diagram 1.3 : Investment spending however fell back modestly



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* fell back modestly by 2.2% in real terms in the first quarter of 2013 from a year earlier, after sustaining notable growth throughout 2012 and up 9.4% for the year as a whole. The decline in the first quarter was mainly dragged by the usually volatile machinery and equipment investment, which contracted by 4.0% in the first quarter, though the high base after an exceptionally strong rise in 2012 was also relevant. The latest results of the Quarterly Business Tendency Survey nevertheless indicated that business sentiment among large enterprises turned somewhat more positive, though that among small and medium-sized enterprises (SMEs) was still rather cautious (see **Box 1.1** for details of the consultation on SMEs). Meanwhile, the expenditure on building and construction was virtually unchanged in real terms from a year earlier, with large-scale public infrastructure works moderating and private sector building activity falling back mildly after growing robustly over the past year.

Box 1.1

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

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)⁽¹⁾, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.2* in the *2012 Economic Background and 2013 Prospects*.

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 weak in recent months (*Table 1*). In April 2013, the SMEs in import/export trades reported a weaker business situation after seeing some relative improvement in late 2012 and early 2013, indicating that the external trading environment remained unsteady. At the same time, SMEs in business services, wholesale and retail trades and restaurants also reported weaker readings, while the real estate sector deteriorated visibly since February, as the property market turned much quieter after the Government's rolling out of further demand-side management measures and some local banks' decision to raise mortgage rates. As to the employment situation, the feedback from SMEs indicated 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. In 2013, the diffusion index on new export orders rose from 49.1 in January to 50.5 in March, but fell back below the boom-bust dividing line to 49.0 in April 2013. This suggested that Hong Kong's export performance in the near term could still be rather unsteady, in view of the fragile demand in the advanced economies 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 1.1 (Cont'd)

The proportion of SMEs reporting tight credit access remained low, at 0.9% in April 2013, 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>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>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	48.1	49.1	49.1	49.1	51.0	47.1	49.0	48.0	48.4	49.2	48.4	48.3	45.8
Real estate	47.1	42.6	41.2	50.0	55.9	54.4	47.1	39.7	50.0	51.5	39.7	39.7	38.2
Retail trade	47.4	45.3	46.1	46.4	46.8	49.1	47.2	48.6	48.1	46.3	47.7	48.1	47.6
Wholesale trade	47.4	44.7	44.7	47.4	44.7	44.7	42.1	47.2	47.2	47.2	47.2	47.2	44.4
Business services	51.5	48.5	48.5	45.5	48.5	45.5	50.0	45.5	47.0	50.0	53.0	47.0	43.9
<i>External segments</i>													
Import/export trades	48.6	47.7	46.8	47.7	45.9	47.2	47.7	50.5	50.0	50.0	49.0	51.0	49.0
Logistics	44.4	47.1	50.0	50.0	38.2	44.1	41.2	43.8	45.0	50.0	44.7	47.4	47.4
All the above sectors*	48.2	46.7	46.6	47.5	46.9	47.6	47.2	48.2	48.7	48.9	48.2	48.6	47.0

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>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>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	48.1	49.1	49.1	50.0	50.0	48.1	50.0	48.0	48.4	49.2	49.2	49.2	49.2
Real estate	51.5	50.0	50.0	50.0	52.9	50.0	50.0	47.1	51.5	50.0	50.0	50.0	50.0
Retail trade	50.0	50.0	50.0	50.0	49.5	50.0	50.0	50.0	49.5	50.5	50.0	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	48.5	50.0	50.0	50.0	50.0	53.0	51.5	48.5	50.0	54.5	53.0	51.5
<i>External segments</i>													
Import/export trades	50.0	49.5	49.1	50.0	49.5	50.0	50.0	49.1	50.0	49.1	50.0	50.5	50.0
Logistics	50.0	50.0	50.0	50.0	50.0	47.1	47.1	50.0	50.0	50.0	50.0	50.0	50.0
All the above sectors*	50.0	49.6	49.6	50.0	49.9	49.7	50.2	49.5	49.7	49.7	50.4	50.5	50.1

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>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>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Import/export trades	50.0	46.4	46.4	46.8	46.4	46.8	46.8	49.1	50.0	49.1	50.0	50.5	49.0

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

	<u>2012</u>									<u>2013</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>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
All selected sectors*	0.7	0.7	1.1	1.1	0.7	0.7	0.7	0.9	1.3	1.3	1.2	0.7	0.9

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

The labour sector

1.7 The labour market remained rather tight during most of the first quarter of 2013. Amid keen labour demand on the back of buoyant local consumption, total employment maintained steady momentum, rising to a new high during the quarter. Labour supply, lured by the still largely favourable job and income conditions, also increased further, at a pace even slightly faster than that of job creation. As a result, the *seasonally adjusted unemployment rate* edged up from 3.3% in the final quarter of 2012 to 3.5% in the first quarter of 2013, albeit still at a relatively low level. The *underemployment rate* also edged up to 1.6%. With the labour market in rather good shape, labour wages and earnings saw continued improvement at end-2012. More recent indicators suggest that average employment earnings of full-time employees in the lowest decile rose further by 7.7% in nominal terms or 3.4% in real terms in the first quarter of 2013 over a year earlier.

The asset markets

1.8 The *local stock market* entered 2013 on a strong note, extending the rally since late 2012 upon the expanded monetary easing in the advanced economies and some stabilisation in global financial conditions. Yet the stock market experienced a correction in the latter part of the first quarter, amid fluidity in the euro debt situation stemming from the inconclusive Italian election and Cypriot banking crisis, as well as uncertainties surrounding the global growth prospects. The Hang Seng Index closed the first quarter at 22 300, down slightly by 2% from end-2012. Average daily turnover rose back to \$74.4 billion in the first quarter, but overall fund-raising activities stayed subdued.

1.9 Amid a low interest rate environment, *residential property market* heated up again in the first two months of 2013 after a brief calm following the demand management measures in late 2012. Yet the housing market turned much quieter after the Government introduced further demand management measures in late February to curb exuberance and some major local banks raised the mortgage rates in March. Trading volume plunged in the first quarter by 13% from a year ago. Residential property prices fell slightly by 0.1% during March 2013, reversing the average monthly increase of 1.9% during 2012. Yet by March 2013, overall flat prices had surpassed the 1997 historic peak by 38%, and the housing affordability ratio worsened further to 56% in the first quarter of 2013. Flat rentals concurrently eased, with only a marginal increase of 0.2% during the first quarter, following an 11% surge during 2012. As for non-residential property market, market activities have

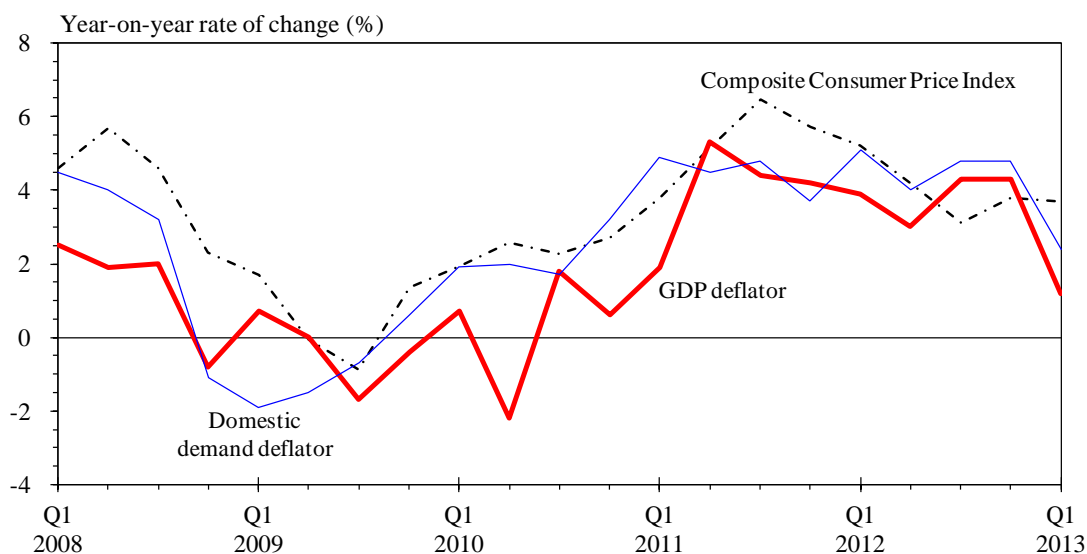
also cooled off lately. Upward pressures on shop and office rentals likewise eased, with gains of 1% and 3% respectively during the first quarter.

Inflation

1.10 Consumer price inflation began to level off in the first quarter of 2013, having tapered progressively over the course of 2012. Both external and domestic price pressures remained contained in early 2013. Externally, imported inflation stayed moderate, partly because global food and commodity prices remained relatively soft. Locally, wages have moderated in growth, while the pick-up in fresh-letting rentals during the past year had yet to fully feed through to inflation. As such, *headline consumer price inflation* was 3.7% in the first quarter of 2013, slightly lower than the 3.8% in the preceding quarter. Netting out the effects of the Government’s relief measures, *underlying consumer price inflation* held stable at 3.8%. While the private housing rental component of consumer price inflation rose somewhat faster in the first quarter of 2013 than in the final quarter of 2012, the price increases of basic foodstuffs held steady and those of many other major components were moderate.

1.11 The *GDP deflator* rose modestly by 1.2% in the first quarter, mainly reflecting the smaller increase in domestic prices and a slight deterioration in the terms of trade.

Diagram 1.4 : Consumer price inflation held stable in the first quarter of 2013



GDP by major economic sector

1.12 The economy saw only sub-trend growth in 2012, although the performance of individual economic sectors varied. Net output of the services sector as a whole grew modestly by 1.8% in real terms in 2012, decelerating from the 5.2% growth in 2011. Among the major services sectors, wholesale and retail trades, transportation and storage, information and communications, accommodation and food services, and public administration, social and personal services still recorded solid growth, reflecting the more resilient domestic demand and vibrant inbound tourism. Real estate, which mainly reflects the net output of private sector developers and property agency activity, actually picked up appreciably alongside a buoyant property market. On the other hand, import and export trade grew tepidly under the drag of sluggish external trade flows, though seeing relative improvement in the second half of the year. Financing and insurance, and professional and business services also moderated visibly, amid subdued financial market and other commercial activities. As for the secondary sector, manufacturing output fell back slightly by 0.8%, while construction output leaped further by 11.3%, backed by the intensive public infrastructure works and faster growth in private building activity.

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

	<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>
Manufacturing	0.7	-0.8	3.5	2.0	0.2	-2.2	-1.6	-2.9	-0.1	1.3
Construction	18.1	11.3	33.8	8.9	13.6	17.5	13.1	10.1	5.2	16.1
Services ^(b)	5.2	1.8	7.8	5.6	4.3	3.4	1.4	1.2	1.9	2.7
Import/export, wholesale and retail trades	9.1	1.5	15.7	8.0	6.5	7.6	-0.4	0.3	1.6	3.8
Import and export trade	6.3	0.5	14.1	4.5	3.5	4.7	-2.6	-0.9	1.3	3.3
Wholesale and retail trades	22.2	5.8	22.6	24.4	22.1	20.4	9.1	5.8	3.0	5.9
Accommodation ^(c) and food services	8.3	2.2	5.1	7.2	10.4	10.7	-0.6	1.6	3.2	4.6
Transportation, storage, postal and courier services	7.2	3.0	10.7	5.3	7.3	5.8	4.7	0.5	2.7	3.9
Transportation and storage	7.3	2.8	10.5	5.1	7.4	6.3	4.7	0.4	2.5	3.3
Postal and courier services	5.6	8.1	11.5	10.5	1.8	0.6	4.6	3.3	9.2	14.2
Information and communications	2.8	2.8	4.0	2.4	1.9	3.0	0.8	1.4	4.1	4.6
Financing and insurance	6.9	1.1	11.3	11.1	6.7	-0.3	2.3	0.2	0.8	1.1
Real estate, professional and business services	2.6	3.6	3.6	1.8	2.3	2.6	3.6	5.1	3.8	2.2
Real estate	1.8	5.9	3.4	0.2	1.2	2.4	4.5	8.2	6.6	4.5
Professional and business services	3.3	1.4	3.9	3.3	3.3	2.6	2.2	2.1	1.3	0.2
Public administration, social and personal services	1.5	2.0	0.7	2.7	1.1	1.2	2.2	2.1	2.0	1.6

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.

Other economic developments

1.13 The year 2013 would still be a challenging one, in view of the fragile external demand conditions and potentially volatile global financial environment. In the 2013-14 Budget announced on 27 February, the Government proposed recurrent and one-off measures to cater to the needs of the people and support the enterprises, including a package of relief measures amounting to some \$33 billion. The Budget, estimated to have a stimulus effect of 1.3 percentage points on the economy, also set out a strategy to invest in the future and achieve long-term economic growth, through developing the industries, fostering economic integration with the Mainland, and strengthening our ties with other parts of the world.

- On tackling the near-term challenges, measures were proposed to assist small and medium enterprises (SMEs) to raise capital and tap new markets. SMEs are an important pillar of the economy and employ half of the private sector workforce. The measures include waiving business registration fees for 2013-14, profits tax reduction, extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme, increasing the cumulative grant amount under the SME Export Marketing Fund, and establishing more Design Galleries in Mainland cities through the Trade Development Council to provide platforms for Hong Kong enterprises to showcase their products and access the Mainland market.
- For the community at large, recurrent expenditures on welfare, education and medical services were the main focus of the Budget. Total government expenditure would increase by 15.6%, recurrent expenditure by 10.5%, and welfare expenditure by 33% to improve the quality of public services. In addition, one-off measures were proposed to ease the living burden on the people, including tax concessions, rates waiver, electricity subsidy, an extra month of allowances to various programmes, and two months' payment of public housing rentals. A \$15 billion injection into the Community Care Fund was also proposed to give flexibility in coping with issues outside the scope of existing policy measures.

1.14 Meanwhile, to forestall the build-up of property market exuberance amid a prolonged low interest rate environment, the Government rolled out further demand management measures and a sixth round of macro-prudential measures in late February, including raising the ad valorem stamp duty on both residential and non-residential property transactions (please see **Box 3.1** for details). Starting from 1 April, the application list system for land sale was

abolished to allow the Government to better control land supply in accordance with market demand. The property market showed visible signs of cooling after the measures.

1.15 On promoting long-term economic development, Hong Kong will develop the industries and explore new areas with growth potential to broaden its economic base. The newly established Economic Development Commission held its first meeting in March and identified some directions to increase Hong Kong's long-term competitiveness. It was also proposed that the Government could play a more active role in exploring the Mainland and overseas markets and invest directly in key industries if necessary. In addition, the Government will continue to invest in infrastructure, education and training, and improve the environment to raise the living standards. Sustained economic development is the foundation to addressing long-term challenges such as poverty, housing, population aging, and social upward mobility.

1.16 Further, Hong Kong will consolidate its strength in the existing pillar industries. On financial services in particular, Hong Kong and Shanghai enhanced financial co-operation on fostering offshore renminbi (RMB) business, strengthening fund and asset management, promoting international capital formation and helping Mainland enterprises "go out." The China Securities Regulatory Commission's expansion of the RMB qualified foreign institutional investor (RQFII) pilot scheme on 6 March to cover all Hong Kong-licensed asset management companies, together with relaxation of investment restriction, would be conducive to more innovative and diversified RMB investment products being launched in Hong Kong, thereby strengthening our capacity as an offshore RMB business centre.

1.17 In addition, we will capitalise on our competitive edge in market infrastructure and foster ties with other parts of the world. Indeed, Hong Kong was ranked by the Heritage Foundation as the world's freest economy for the 19th year in a row. In the first quarter, Hong Kong and Thailand signed a trade pact to promote economic co-operation in trade in goods and services, investment, trade-related rules and regulations, collaboration of SMEs, logistics and transport, tourism, information and communication technology, applied research and development, human resource development, intellectual property rights, and the creative economy's development. The Hong Kong Trade Development Council also organised an expo in Jakarta to promote bilateral co-operation on trade, business and tourism with Indonesia. Finally, an agreement between Hong Kong and Mexico for the avoidance of double taxation signed in last June came into effect in March.

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 : THE EXTERNAL SECTOR

Summary

- *Global economic environment remained challenging in the first quarter of 2013, posing a drag on Hong Kong's external sector. The eurozone economy stayed in recession, and other major advanced economies, constrained by their own structural problems, were also lacklustre. Consequently, many Asian economies saw subdued trading and production activities during the quarter. Nevertheless, the Mainland economy expanded at a solid pace and rendered some support to the region.*
- *Merchandise exports continued to show wild fluctuations during the first quarter, reflecting a rather unsteady external trading environment. For the quarter as a whole, exports registered a moderate growth in real terms, which when viewed against the low base of comparison in the same period of 2012, represented only a meagre performance. The Mainland and some other Asian markets together provided the main impetus to Hong Kong's exports, cushioning to some extent the continued sluggishness of the US, EU and Japan markets.*
- *Exports of services strengthened further in the first quarter of 2013. Thanks to thriving inbound tourism, exports of travel services held up well and remained the outperformer among service exports. Exports of financial and other business services also saw moderate growth as financial and commercial activities picked up amid some stabilisation in global financial conditions. Yet held back by the still rather slack external environment, exports of trade-related services grew only modestly, which in turn also dampened those of transportation services.*
- *The Financial Secretary in the 2013-14 Budget announced a full range of measures to support the SMEs to tide over the envisaged weakness in the export markets and challenging external environment, through helping them raise capital and explore new markets. The concessionary loan scheme for SMEs was extended for one year and insurance discounts targeted at smaller Hong Kong exporters were introduced. The limit on grant for subsidising SMEs' marketing activities was raised and additional measures on enhancing our enterprises' access to the Mainland market were initiated. Separately, Hong Kong signed a cooperation agreement with Thailand in late February to promote collaborations on various economic fronts.*

Visible trade

Total exports of goods

2.1 Hong Kong's external sector continued to face an unsteady external environment at the start of 2013. *Merchandise exports* (comprising re-exports and domestic exports) expanded moderately by 4.0% in real terms⁽¹⁾ in the first quarter of 2013 over a year earlier, slowing from a solid 6.0% expansion in the fourth quarter of 2012. There were also considerable fluctuations in export performance during the quarter, marked by a sharp rise in January, a plunge in February, and then a notable rebound in March. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports shrank mildly by 1.5% in the first quarter, following a strong growth of 4.9% in the preceding quarter.

2.2 Global economic situation remained lacklustre and fluid in the first quarter of 2013, being hampered by the subdued and fragile conditions in major advanced economies. Although the US economy attained a modest expansion in the first quarter of 2013, the unsteady pace of job creation, tax hikes and sequestration undermined its domestic demand. The EU, mired in recession alongside uncomfortably high unemployment, was the weakest spot in the global economy, and the risks from the euro debt problems lingered on as manifested by the bailout for Cyprus and inconclusive results of the Italian elections in the quarter. The sharp depreciation of the yen triggered by Bank of Japan's aggressive monetary easing also emerged as a new source of uncertainty for other export-dependent Asian economies. As a result, some East Asian economies and emerging markets, while showing relatively resilient domestic demand, grew only modestly amid these strong external headwinds. Against this background, the solid growth of the Mainland economy was a relatively bright spot, lending some support to its Asian peers. In April the International Monetary Fund (IMF) trimmed its global economic growth forecast for 2013 to 3.3%, representing only a marginal improvement from a 3.2% growth last year.

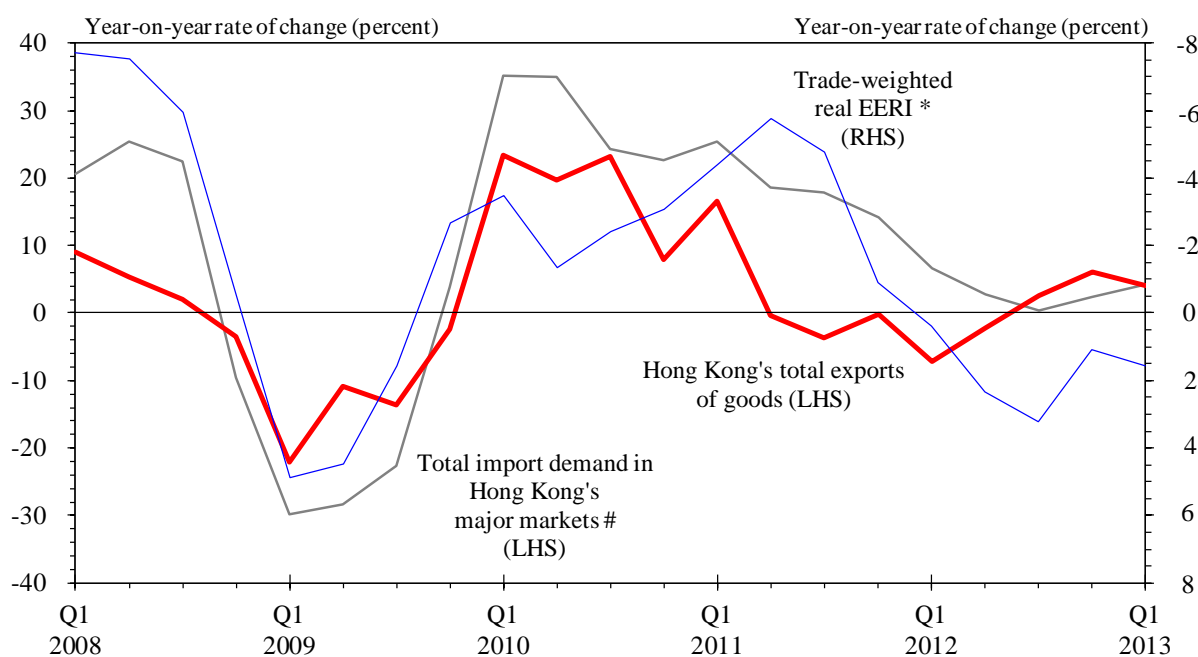
2.3 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.4% of total exports by value, grew by 4.2% year-on-year in real terms in the first quarter of 2013, decelerating from the 6.2% growth in the fourth quarter of 2012. *Domestic exports*, which constitute the remaining 1.6% of total exports, fell by 4.5% in real terms in the first quarter of 2013, after a 3.8% decline in the preceding quarter.

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

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>					
	<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>			
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
2013 Q1	4.0	4.0	(-1.5)	0.6	4.0	4.2	(-1.5)	0.5	-0.9	-4.5	(-3.0)	4.2

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

Diagram 2.1 : Export performance was modest in the first quarter of 2013



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 first quarter of 2013 is based on statistics for January and February 2013.

Diagram 2.2 : The fall-back in seasonally adjusted figures pointed to a rather weak export performance

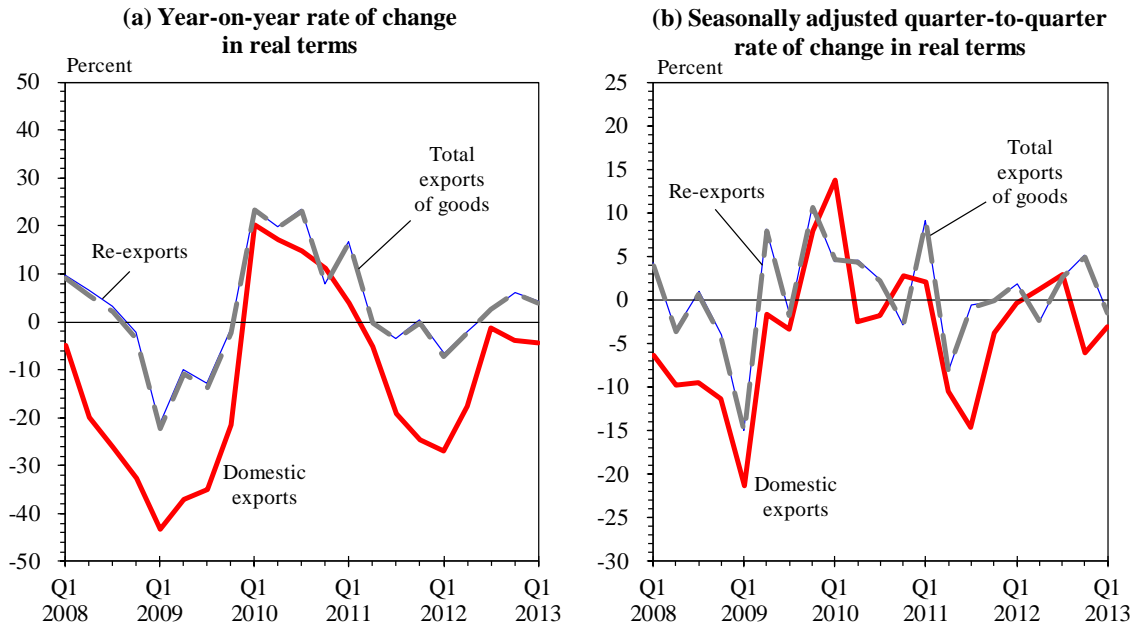
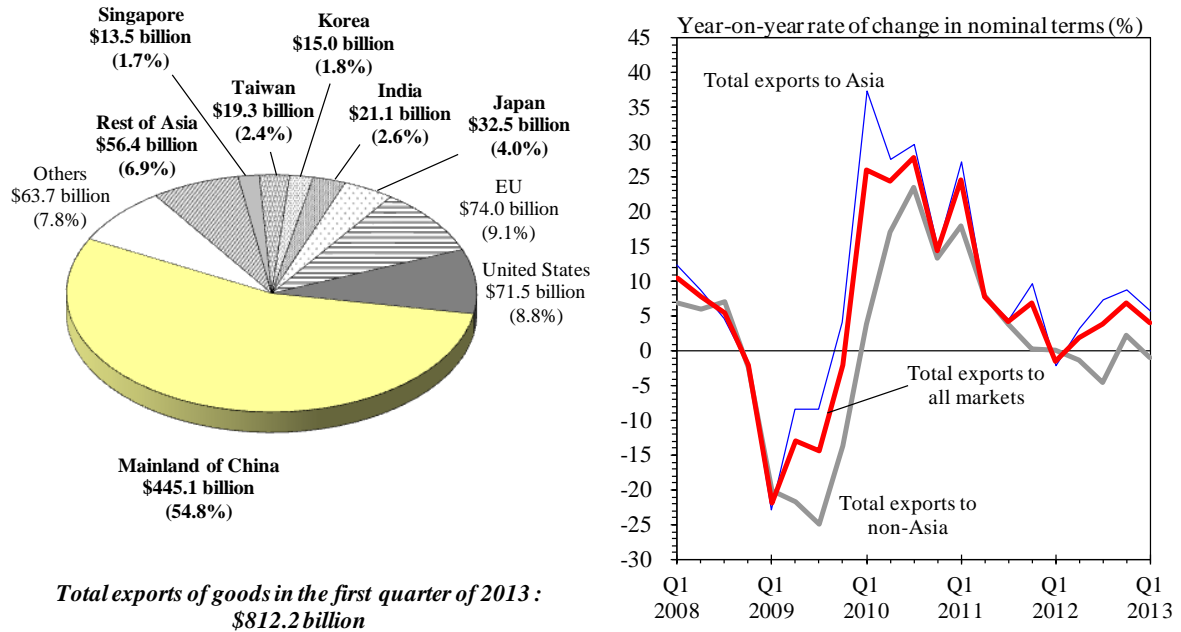


Diagram 2.3 : Asian markets continued to feature prominently in Hong Kong's exports



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

	<u>Annual</u>	<u>2012</u>				<u>2013</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Mainland of China	3.4	-7.8	-0.6	9.7	12.1	8.5
United States	-1.3	-7.1	0.1	-0.1	1.4	-5.0
European Union	-10.4	-9.7	-12.5	-14.1	-4.8	-5.4
Japan	0.9	-1.5	1.5	3.3	0.4	-4.9
India*	-22.5	-23.8	-23.7	-22.3	-20.0	0.3
Taiwan	-7.9	-21.4	-2.1	-10.7	2.4	14.2
Korea	-4.0	-5.2	-5.7	-2.2	-2.8	0.5
Singapore	-3.3	-14.1	2.1	-0.3	-0.8	5.2

Note : (*) A unit value index specifically compiled for exports to India is available since January 2012. The volume figures for growth in exports to India prior to 2013 are crude estimates.

2.4 Analysed by major market, merchandise exports to the major Asian economies saw mixed performance in the first quarter of 2013. Exports to the Mainland held up well, expanding visibly by 8.5% year-on-year in real terms on the back of sustained intake of capital goods there. Exports to Japan reverted to a decline with those of consumer goods, raw materials and capital goods all falling, partly reflecting Japan's torpid economic activities but conceivably also the discouraged import demand because of the much weakened yen. Exports to other newly industrialised Asian markets registered growth of different extents, with those to Taiwan leaping by 14.2% while those to Singapore and Korea growing by 5.2% and 0.5% respectively. Exports to India started to bottom out in the first quarter after plummeting for four consecutive quarters.

2.5 Exports to the US and the EU showed renewed weaknesses in the first quarter of 2013. Notwithstanding the continued revival in the US housing market, the recovery of its labour market remained shaky and the latest restrictive fiscal measures further weighed on import demand and sentiment there. As such, total exports to the US relapsed to a rather visible decline over a year earlier in the first quarter. On the other hand, exports to the EU stayed on a distinct downtrend despite a low base of comparison, as the economic recession there lingered on amid fragile consumer and business sentiments and on-going austerity measures.

Diagram 2.4 : Exports to the Mainland maintained solid growth

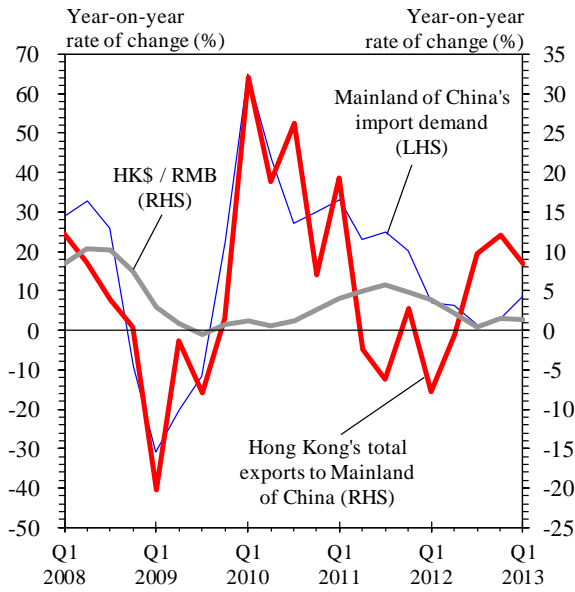


Diagram 2.5 : Exports to the EU remained on a distinct downtrend

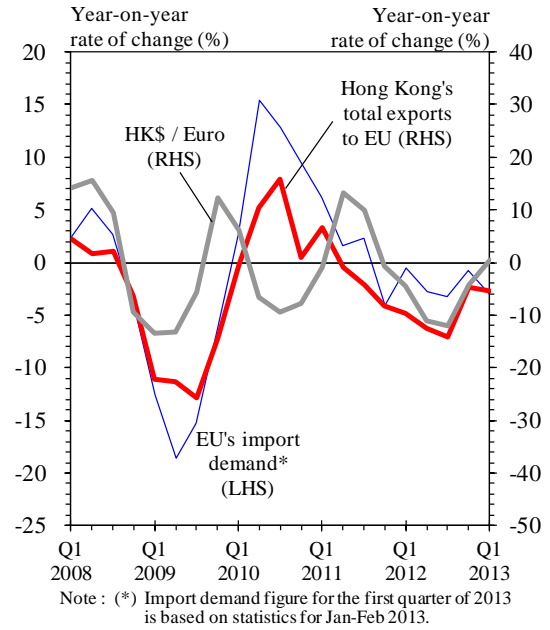


Diagram 2.6 : Exports to the US fell back

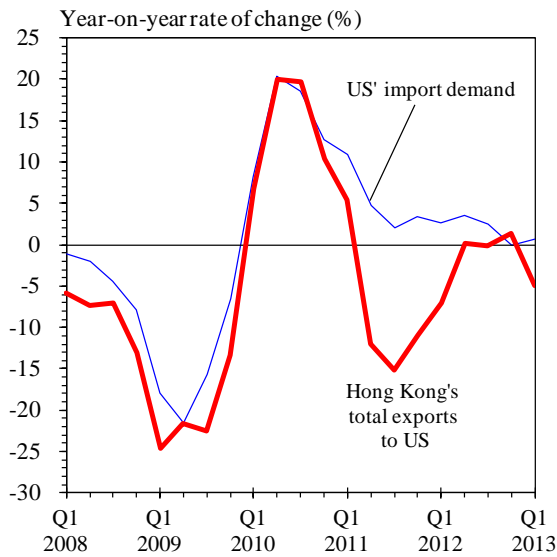


Diagram 2.7 : Exports to Japan also weakened, exacerbated further by yen weakness

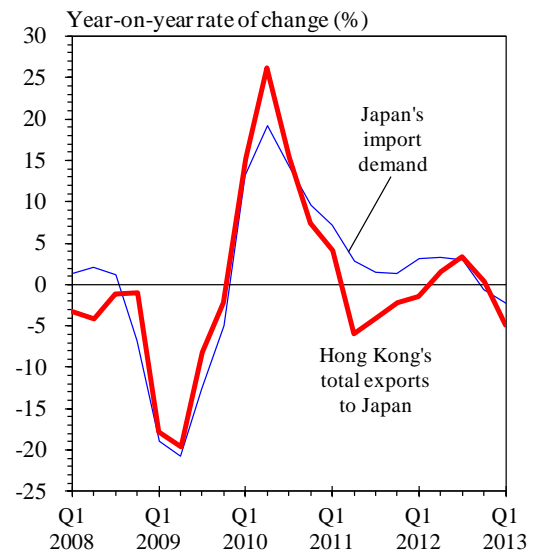


Diagram 2.8 : Exports to India showed some relative improvement

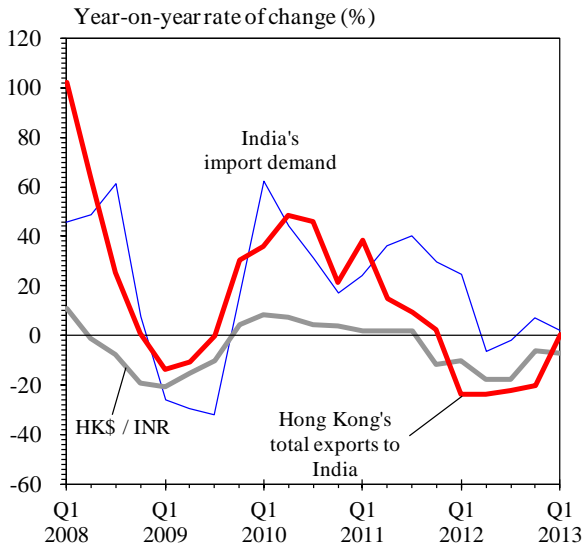


Diagram 2.9 : Exports to Taiwan rose back strongly, though partly due to a lower base of comparison

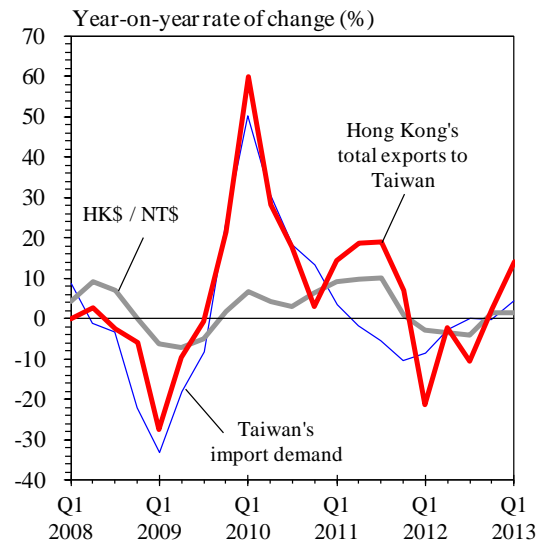


Diagram 2.10 : Exports to Korea only registered marginal growth, alongside the dented trading and production activities there

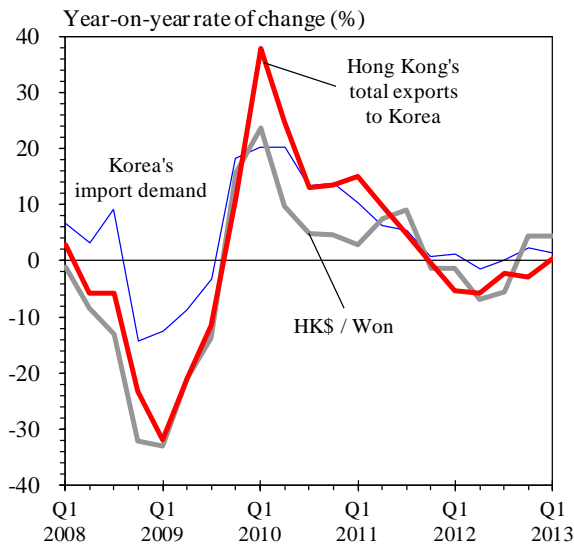
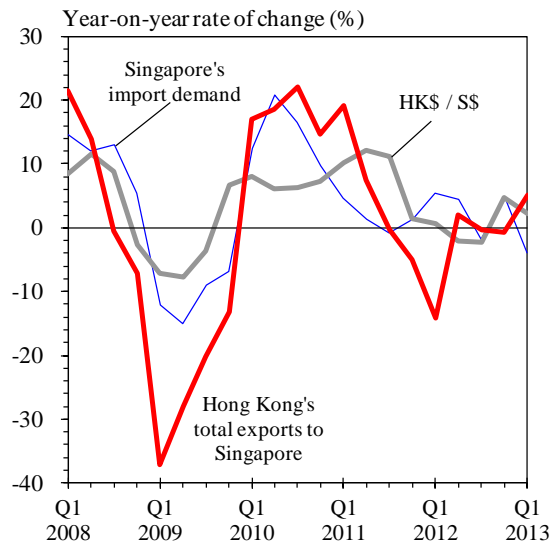


Diagram 2.11 : Exports to Singapore expanded moderately, mainly on the back of solid intake of consumer goods



Imports of goods

2.6 *Imports of goods* grew by 5.0% in real terms in the first quarter of 2013 over a year earlier, down slightly from a 6.6% growth in the fourth quarter of 2012, alongside the moderation in re-export trade and hence reduced import intake for subsequent re-exporting. *Retained imports*, which accounted for over one-quarter of total imports, grew by 7.1% in real terms in the first quarter of 2013 over a year earlier, further to a 7.7% growth in the preceding quarter. Analysed by end-use category, retained imports of consumer goods expanded moderately despite a higher base of comparison, and those of foodstuffs grew appreciably further in the first quarter of 2013, thanks to buoyant local consumption demand and thriving inbound tourism. Retained imports of capital goods however slackened, conceivably reflecting the still relatively cautious business sentiment, but also affected by the high base a year ago. Those of fuels resumed growth after posting declines in the preceding seven quarters, while those of raw materials rebounded against a low base of comparison.

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

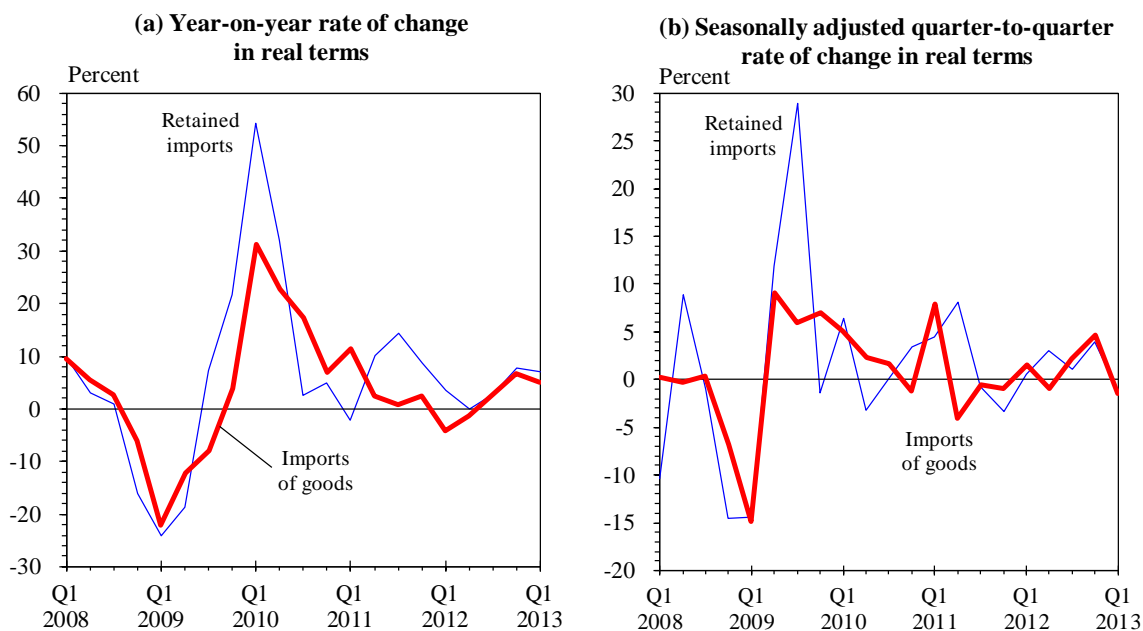
		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2012	Annual	3.9	1.0	3.3	5.9	3.5	3.0		
	Q1	0.7	-4.1	(1.6)	5.0	5.4	3.5	(0.6)	1.7
	Q2	2.1	-1.3	(-0.9)	3.9	1.5	*	(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
2013	Q1	4.9	5.0	(-1.4)	1.1	7.1	7.1	(-1.3)	2.8

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 2.12 : Imports slowed slightly, but retained imports held up well



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

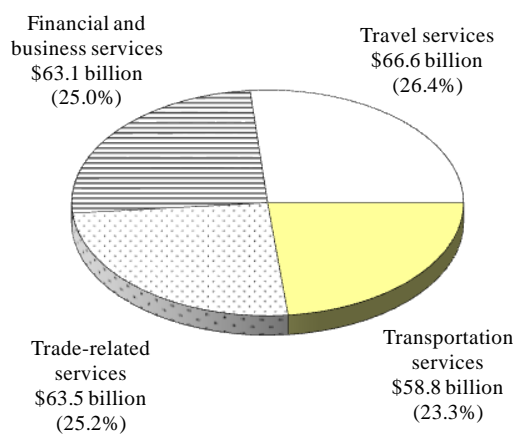
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2012	Annual	6.4	1.6	21.7	-6.4	-6.6
	Q1	16.1	4.8	50.7	-19.8	-6.9
	Q2	0.5	2.5	6.6	-5.1	-4.0
	Q3	-5.4	-5.6	20.0	1.6	-4.3
	Q4	17.1	4.8	19.9	-2.3	-11.2
2013	Q1	4.7	12.0	-3.1	12.3	7.6

Invisible trade

Exports of services

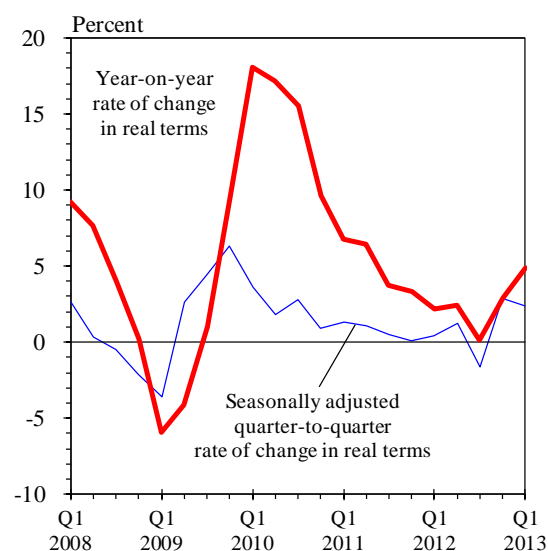
2.7 *Exports of services* picked up to a 4.9% year-on-year growth in real terms in the first quarter of 2013, from 2.9% in the preceding quarter. Exports of travel services grew notably further on the back of sustained vibrancy in inbound tourism, providing the key impetus to overall service exports. Those of financial and other business services showed moderate growth, thanks to improved financial market and commercial activities amid some stabilisation in global financial conditions. However, exports of trade-related services, comprising mainly offshore trade activities, grew only modestly amid the still rather soft trade flows, while those of transportation services recorded a small decline alongside the dented freight transport services.

Diagram 2.13 : Each major service group accounted for a similar share of Hong Kong's service exports, reflecting our diversified and competitive services sector



Exports of services in the first quarter of 2013 : \$252.1 billion

Diagram 2.14 : Exports of services strengthened in the first quarter



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

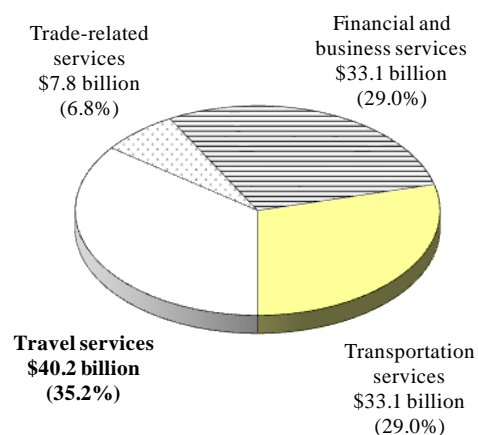
		<i>Of which :</i>					
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>	
2012	Annual	1.9	0.6	-3.0	10.8	-0.2	
	Q1	2.2 (0.4)	-1.6	3.0	8.6	*	
	Q2	2.4 (1.2)	0.7	-3.9	13.1	2.6	
	Q3	0.1 (-1.6)	1.2	-5.8	8.6	-3.3	
	Q4	2.9 (2.9)	1.8	-4.3	12.9	0.4	
2013	Q1	4.9 (2.4)	2.7	-1.3	15.3	3.2	

- Notes :
- (a) Comprising mainly offshore trade.
 - (b) Comprising mainly inbound tourism receipts.
 - () Seasonally adjusted quarter-to-quarter rate of change.
 - (*) Change within $\pm 0.05\%$.

Imports of services

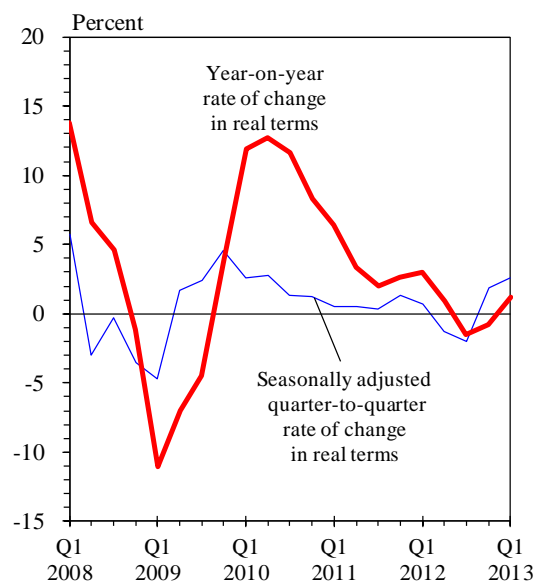
2.8 *Imports of services* resumed a mild 1.2% growth in real terms in the first quarter of 2013 over a year earlier from a marginal decline of 0.8% in the preceding quarter. Thanks to the solid growth in outbound travel of local residents amid sanguine local consumer sentiment and improved income conditions, imports of travel services expanded firmly further and imports of transportation services also saw a narrower decline. Yet the latter, together with imports of trade-related services, remained dented by the modest regional trade flows. Imports of financial and other business services grew only marginally for another quarter.

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



*Imports of services in the first quarter of 2013 :
\$114.2 billion*

Diagram 2.16 : Imports of services grew mildly



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

Of which :

		Imports of services	Travel services ⁽⁺⁾	Transportation services	Trade-related services	Financial and business services
2012	Annual	0.4	3.8	-2.4	-0.1	-0.6
	Q1	3.0 (0.7)	5.8	4.0	*	-0.3
	Q2	0.9 (-1.3)	4.8	-2.8	-1.3	1.3
	Q3	-1.5 (-2.0)	3.0	-4.6	-0.8	-3.7
	Q4	-0.8 (1.9)	1.8	-5.7	1.3	0.6
2013	Q1	1.2 (2.6)	6.0	-3.5	2.2	0.3

Notes : (+) Comprising mainly outbound travel spending.

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

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

Visible and invisible trade balance

2.9 Despite the somewhat improved service exports, the invisible trade account surplus failed to offset the visible trade deficit in the first quarter of 2013 because of the difficult external trading environment, resulting in a deficit of \$17 billion in the combined visible and invisible trade balance (equivalent to 1.5% of the total value of imports of goods and services). This compared to the overall trade deficit of \$3 billion in the same quarter of 2012 (or 0.3% of the total value of imports of goods and services).

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2012	Annual	3,581	990	4,116	449	-536	541	5	0.1
	Q1	803	238	933	111	-130	127	-3	-0.3
	Q2	876	229	1,028	106	-152	123	-28	-2.5
	Q3	943	254	1,059	114	-116	140	24	2.1
	Q4	958	268	1,096	119	-138	150	12	1.0
2013	Q1	869	252	1,024	114	-155	138	-17	-1.5

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

Other developments

2.10 In anticipation of the still weak export markets and a challenging external environment, the Financial Secretary in the 2013-14 Budget introduced a number of measures to support the small and medium-sized enterprises (SMEs), which formed the majority of enterprises in Hong Kong. The application period for the special concessionary measures under the SME Financing Guarantee Scheme was extended for one year to support the liquidity needs of the SMEs. With a particular focus on aiding the smaller firms, a “Small Business Policy” scheme was introduced by the Hong Kong Export Credit Insurance Corporation to waive the annual policy fee and offer premium discount for Hong Kong exporters with annual business turnover of less than \$50 million. Moreover, business registration fees for 2013-14 were waived while profits tax for 2012-13 was reduced by 75%, subject to a ceiling of \$10,000, to relieve the burden on the enterprises.

2.11 Apart from helping the SMEs raise capital and lower expenses, the 2013-14 Budget also included measures to assist SMEs in tapping new markets. The cumulative amount of the grant for SMEs under the SME Export Marketing Fund was increased to subsidise their export promotion activities. Furthermore, the HKTDC will set up more Design Galleries in the Mainland outside Beijing and Guangzhou to broaden our enterprises' access to the Mainland market. On top of these, the \$1 billion BUD Fund set up last June remained in place to assist Hong Kong enterprises on branding, upgrading and promoting domestic sales to enhance their competitiveness in the Mainland.

2.12 Meanwhile, Hong Kong and Thailand signed a cooperation agreement in late February to promote collaborations on various fronts, including trade in goods and services, investment, logistics and transport, and tourism. Thailand is an important member of the Association of Southeast Asian Nations (ASEAN). Taking its ten member states together, ASEAN is the second largest trading partner of Hong Kong (even larger than the EU and only after the Mainland), accounting for about 10% of Hong Kong's merchandise trade value in 2012.

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. In addition, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (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 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

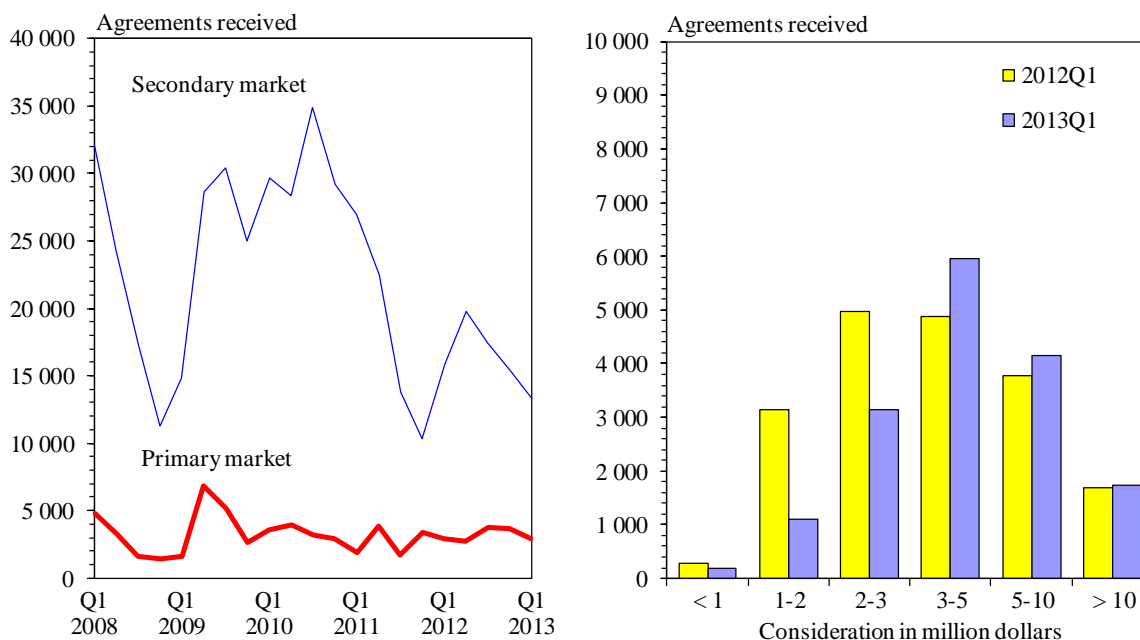
- *Amid the low interest rate environment and a tight demand-supply balance of flats, the residential property market re-gained momentum in the first two months of 2013. Yet the market softened after the announcement of the latest round of demand management measures by the Government in late February and the interest rate hike for new mortgages by the major local banks in mid-March. Overall flat prices rose by 5% between December 2012 and March 2013, but this was entirely due to the surge in the first two months. Trading activities slowed down markedly during the quarter.*
- *Raising flat supply through increasing land supply remains the Government's top policy priority in ensuring a healthy and stable property market. Reflecting the Government's sustained efforts, total flat supply in the coming few years increased to 67 000 units, the highest level since September 2007.*
- *The commercial and industrial property markets remained generally buoyant in the first two months of 2013, but cooled off in March under the effect of the new demand management measures.*
- *Inbound tourism maintained solid growth, with the Mainland market remaining the growth engine. Total visitor arrivals leapt by 13.5% over a year earlier to 12.7 million.*
- *As the external trade environment turned less steady, the logistics sector was subdued in the first quarter. Air freight throughput only recorded marginal expansion while container throughput fell further. The labour dispute at the Kwai Chung Container Terminals starting in late March could put a further drag on container throughput in the second quarter.*

Property

3.1 Amid the low interest rate environment and a tight demand-supply balance of flats, the *residential property market* re-gained momentum in the first two months of 2013. Yet market sentiment took an obvious turn following the announcement of the latest round of demand management measures by the Government in late February, and softened further after the major local banks raised the interest rates for new mortgages in mid-March.

3.2 Trading activities showed some pick-up in January and February, but then plunged to a very low level in March. Taking the first quarter as a whole, the total number of sale and purchase agreements for residential property received by the Land Registry fell to 16 271, 15% lower than the preceding quarter and 13% lower than a year earlier. Within the total, primary and secondary market transactions fell by 20% and 13% respectively from the preceding quarter. In parallel, total consideration shrank by 17% to \$94.3 billion.

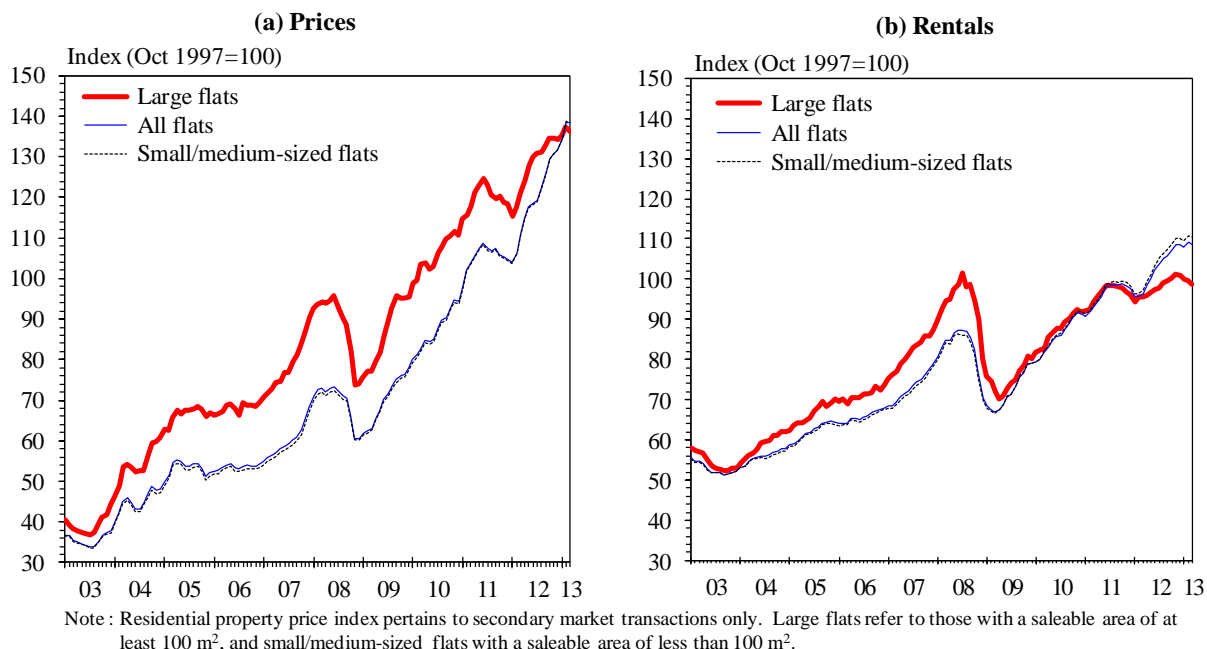
Diagram 3.1 : After some pick-up in January and February, trading activities plunged to a very low level in March



3.3 Overall flat prices rallied by 5% between December 2012 and March 2013. Yet this was entirely due to the surge in the first two months, and flat prices in fact reverted to a mild decline in March in tandem with the shift in market expectation. Prices of small/medium-sized flats soared by 5% while prices of large flats edged up by 1% during the first quarter. Following the general uptrend since 2009, overall flat prices have surpassed the 1997 peak by a rampant 38%.

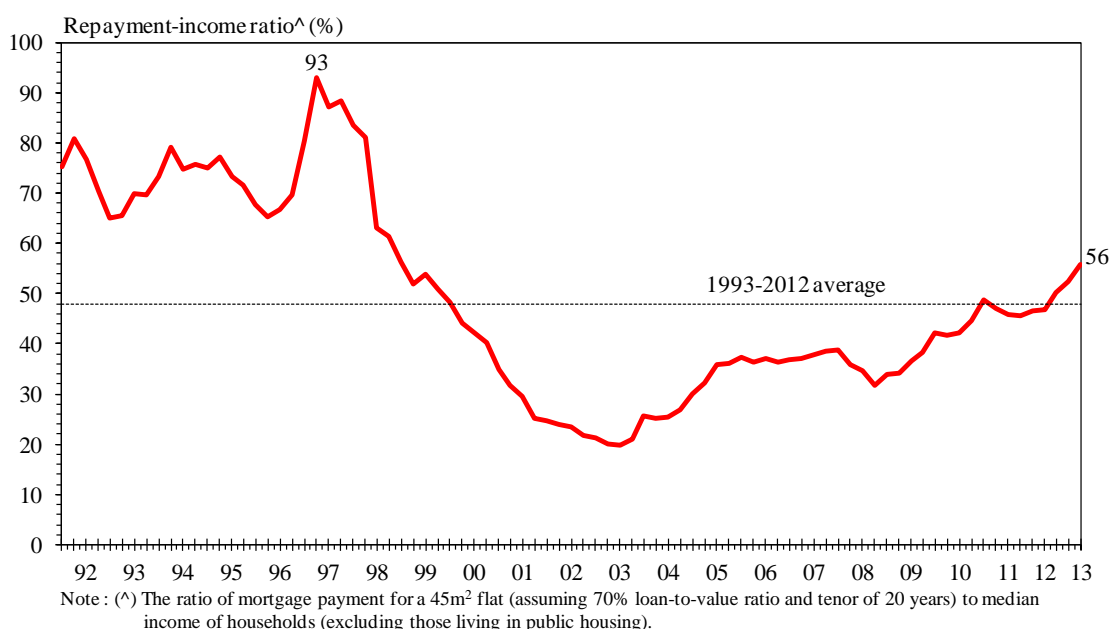
3.4 Meanwhile, the leasing market has shown signs of softening since late 2012. Between December 2012 and March 2013, overall flat rentals showed little change. Analysed by class, rentals of small/medium-sized flats edged up by 0.5% while those of large flats declined by 2%. The average rental yield for residential property edged down further from 3.0% in December 2012 to 2.9% in March 2013.

Diagram 3.2 : Flat prices reverted to a mild decline in March, while rental increase has slowed down since late 2012



3.5 As the increase in flat prices outpaced the growth in income, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) surged from 52% in the preceding quarter to 56% in the first quarter of 2013, far exceeding the long-term average of 47.9% over 1993-2012. The risks of a housing market bubble thus have risen further, especially so in face of the ongoing accommodative monetary measures of the major central banks and the resulting low interest rate environment.

Diagram 3.3 : The mortgage payment to income ratio worsened further



3.6 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. The Government has effectively resumed the lead in supplying government land since resuming the Government-initiated Sale Mechanism while retaining the Application Mechanism in 2010. However, in order to address lingering concerns in the community over government land supply should developers choose not to trigger sites for sale under the Application Mechanism, the Government has decided to abolish the Application Mechanism from 2013-14 onwards. Taking together the 2013-14 Land Sale Programme, railway property development projects, projects of Urban Renewal Authority, projects subject to lease modification/land exchange and private redevelopment projects not subject to lease modification/land exchange, the total housing land supply in 2013-14 is estimated to have the capacity to produce about 28 700 flats. As a result of the Government's sustained efforts, 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 64 000 units as estimated at end-March 2012 to 67 000 units as estimated at end-March 2013, the highest since September 2007. In addition, another 9 000 units could be added to the supply through conversion of a number of residential sites into "disposed sites" and the completions of auction/tendering of some sites in the months ahead.

3.7 As it will take time to increase flat supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market⁽¹⁾. In February the Government doubled the rates of existing ad valorem stamp duty (AVD) for transactions of all types of properties and advanced the charging of AVD on non-residential property transactions. The Hong Kong Monetary Authority (HKMA) also required banks to assume a higher mortgage rate increase for stress-testing in mortgage loan application for all types of properties, and further tightened the maximum loan-to-value ratios of mortgage loans for non-residential properties (**Box 3.1**). The Residential Properties (First-hand Sales) Ordinance, which aims at enhancing the transparency and fairness of the sales arrangements of first-hand residential properties, took effect in April 2013.

Box 3.1

Latest Government measures on the property market (February 2013)

In view of the renewed exuberance in the property market on entering 2013, the Government introduced another round of demand management measures for both residential and non-residential properties in late February. The Hong Kong Monetary Authority (HKMA) also launched a new round of macro-prudential measures, the sixth since October 2009, to strengthen the risk management of the banking sector's mortgage lending business. These measures are summarised below.

(1) Increase the ad valorem stamp duty (AVD) rates for residential and non-residential property transactions

To increase the cost of transactions, the AVD rates applicable to both residential and non-residential property transactions were doubled. For transactions valued at \$2 million or below, the AVD was raised from \$100 to 1.5% of the consideration or value of the property (whichever is higher). The new AVD rates do not apply to Hong Kong Permanent Resident buyers acting on their own behalf and who are not beneficial owners of any other residential property in Hong Kong at the time of acquisition of a residential property.

(2) Advance the charging of AVD on non-residential property transactions

To increase the transaction costs for the non-residential market and forestall any possible shift in exuberance from the residential market to the non-residential market, the AVD will be charged on an agreement for sale and purchase of a non-residential property, instead of when a conveyance on sale of non-residential property is executed. This standardised the stamp duty regime for both residential and non-residential property transactions.

(3) Tighten the terms of mortgage lending

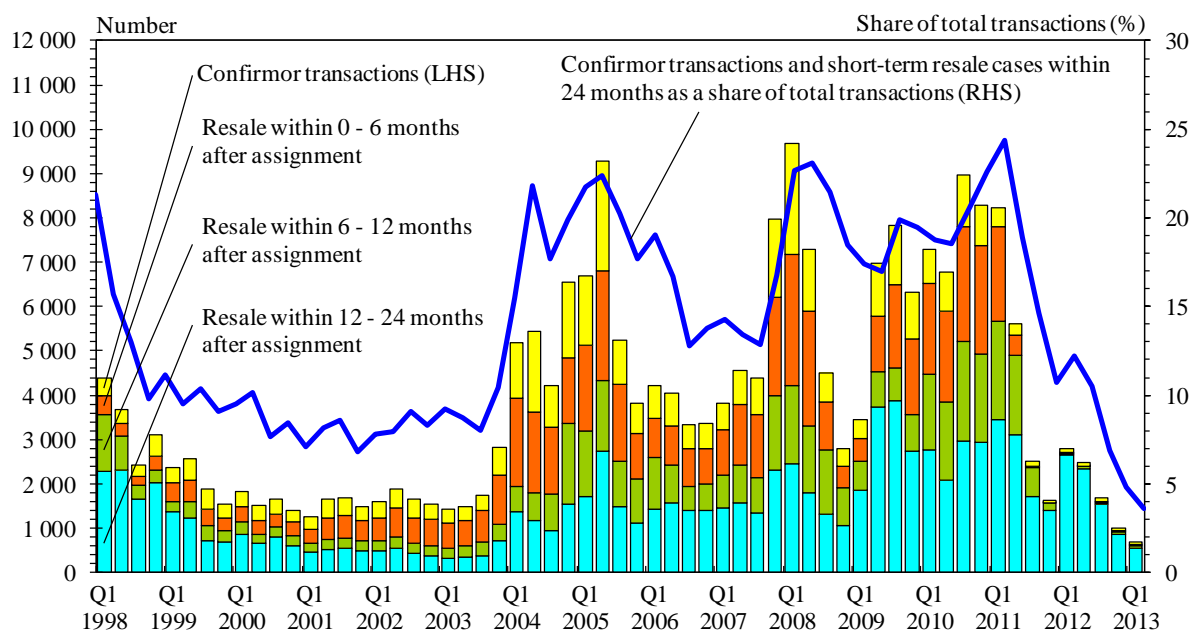
The HKMA's new round of measures is as follows:

- Require banks to assume a mortgage rate increase of 300 basis points, instead of the existing 200 basis points, in stress-testing the repayment ability of mortgage loan applicants for both residential and non-residential properties.
- Lower the maximum loan-to-value (LTV) ratios of mortgage loans for all non-residential properties, whether or not for self-use, from the existing applicable levels by 10 percentage points.
- Set the maximum LTV ratio of mortgage loans for standalone car park spaces at 40% and the maximum loan tenor at 15 years. Other requirements on maximum LTV ratio and debt-servicing ratio applicable to non-residential property mortgage loans also apply to standalone car park space mortgage loans.
- Introduce a risk-weight floor of 15% for all new residential mortgages granted by banks using the internal ratings-based approach.

These measures would help ensure a healthy and stable development of the property market and maintain the overall macroeconomic and financial stability. The Government will closely monitor the market situation and introduce further measures when necessary.

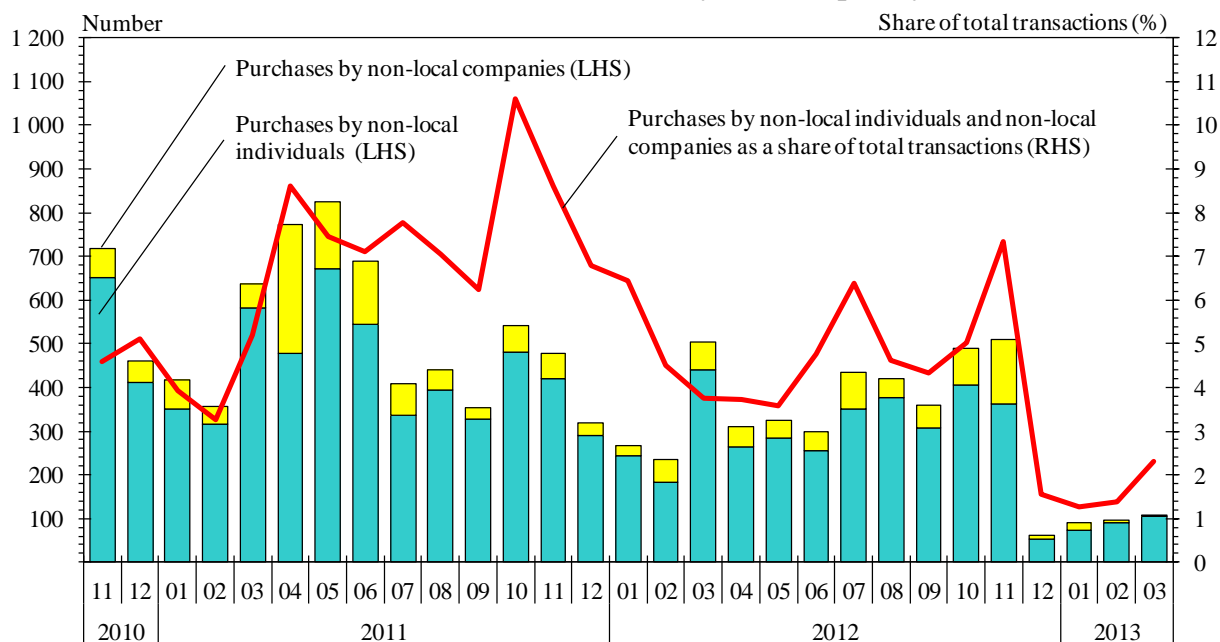
3.8 These measures have yielded noticeable results. On *speculative activities*, there were on average only 227 cases of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) per month or 3.6% of total transactions in the first quarter, markedly below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* plunged to an average of 98 cases per month or 1.6% of total transactions in the first quarter, markedly lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 55% in the first quarter, much lower than the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the HKMA.

Diagram 3.4 : Speculative activities were sharply reduced



Note : Confirmor transactions refer to resale before assignment.

Diagram 3.5 : Purchases by non-local buyers stayed subdued after the introduction of the Buyer's Stamp Duty

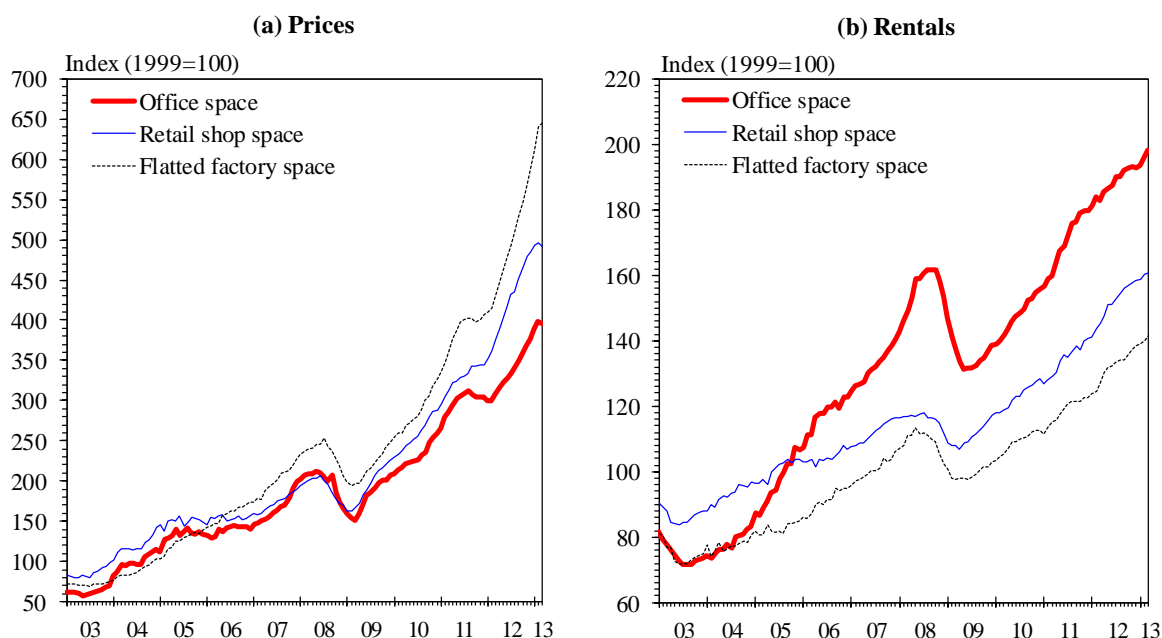


3.9 The *commercial* and *industrial property markets* remained generally buoyant in the first two months of 2013, but showed some cool-off in March following the announcement of the latest demand management measures (**Box 3.1**). Sale prices of *retail shop space* rose by 2% between December 2012 and March 2013, with the gains in January and February partially offset by the decline in March. Meanwhile, rentals increased by 1%. The average rental yield for retail shop space was 2.4% in March 2013, same as in December 2012. Transactions for retail shop space edged down by 1% from the preceding quarter to an average of 800 cases per month in the first quarter⁽²⁾. This was however still 24% higher than the monthly average in January to November 2010.

3.10 Sale prices of *office space* rose by 5% between December 2012 and March 2013, but a monthly decline was in fact recorded in March. Within the total, the prices of Grade A, B and C office space increased by 5%, 4% and 7% respectively. Meanwhile, overall office rentals recorded a gain of 3%. The gains for Grade A, B and C office space were 3%, 3%, and 2% respectively. The average rental yields for Grade A and B office space remained at 2.9% in March 2013, same as in December 2012, while that for Grade C office space edged down from 2.9% to 2.8%. Trading activities were largely sustained in January and February, but plunged to a very low level in March. For the quarter as a whole, transactions for office space fell by 16% from the preceding quarter to a monthly average of 310 cases. Yet this was still 4% above the monthly average in January to November 2010.

3.11 For *flatted factory space*, sale prices surged by 10% between December 2012 and March 2013 notwithstanding the decelerated increase recorded in March. Meanwhile, rentals increased by 2%. The average rental yield declined further from 2.9% in December 2012 to 2.7% in March 2013. Transactions for flatted factory space plunged by 34% from the high base in the preceding quarter to a monthly average of 810 cases in the first quarter. This was however still 19% higher than the monthly average in January to November 2010.

Diagram 3.6 : The market for non-residential properties also slowed down in March



Land

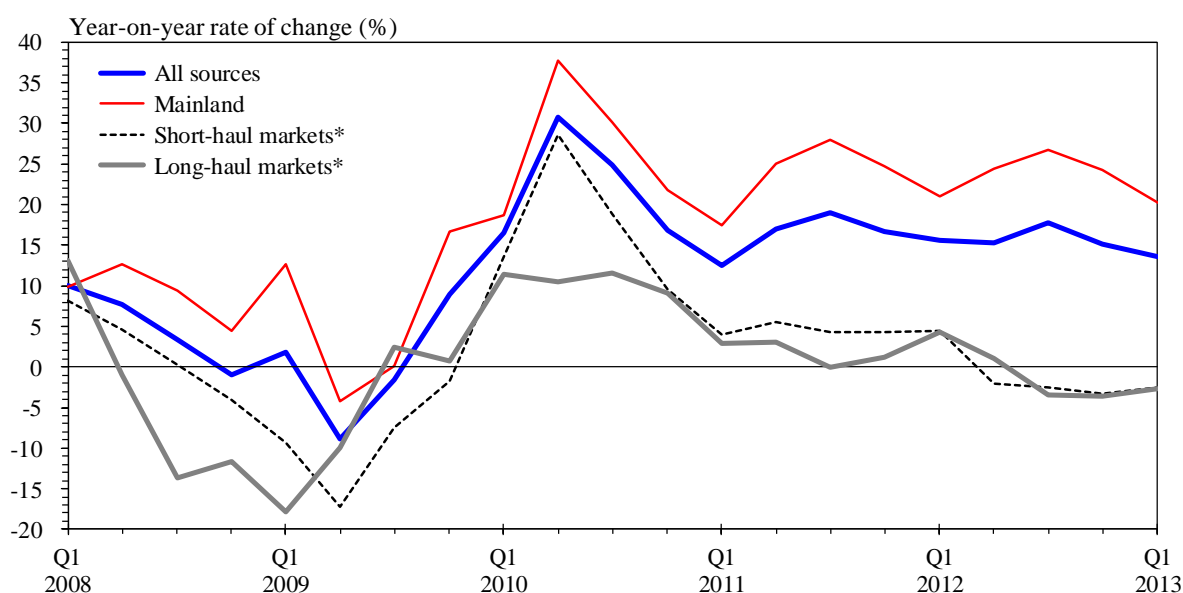
3.12 Reflecting the Government’s ongoing efforts to increase land supply, eight land sites with a total area of about 12.6 hectares were sold by public tender in the first quarter of 2013, fetching a land premium of \$24.2 billion. Within the total, there were five residential sites, one commercial site, one hotel site and one site for hospital development. The tender exercises for four residential sites also commenced in March, including one in Tsueng Kwan O, one in Tuen Mun, and two in Kai Tak on which the “Hong Kong Property for Hong Kong People” conditions would apply.

3.13 Regarding exchange of land, one industrial/godown site with an area of about 0.08 hectare was approved in the first quarter. As to lease modifications, seven sites were approved.

Tourism

3.14 The inbound tourism sector maintained solid growth in the first quarter of 2013, though performance was mixed among different markets. Overall *visitor arrivals* leapt by another 13.5% over a year earlier to 12.7 million, as the strong growth in the Mainland market more than offset the declines in other markets. Visitor arrivals from the Mainland surged by 20.3% to 9.5 million and constituted 74.6% of all visitors. Meanwhile, visitors from the short-haul and long-haul markets declined further by 2.5% and 2.7% respectively⁽³⁾. Analysed by the length of stay, the increase in same-day visitors, at 19.5%, was much faster than that in overnight visitors, at 7.4%. As a result, the share of same-day visitors expanded from 50.5% a year earlier to 53.1% in the first quarter, while that of overnight visitors declined from 49.5% to 46.9%.

Diagram 3.7 : Inbound tourism maintained solid growth on the back of sustained surge in Mainland visitors



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

3.15 Supported by the solid growth in visitor arrivals, hotel room occupancy rate was at a high 87% in the first quarter, same as a year earlier. The average achieved hotel room rate edged down by 0.7% to \$1,470⁽⁴⁾. Underpinned by the strong growth in visitor arrivals and also a higher per capita visitor spending (**Box 3.2**), total tourism expenditure associated to inbound tourism surged by 14.6% to \$296.5 billion in 2012.

Box 3.2

Per capita spending of incoming visitors

Expenditure of incoming visitors in Hong Kong recorded spectacular growth in the past decade. According to the Hong Kong Tourism Board (HKTB), total tourism expenditure associated to inbound tourism⁽¹⁾ reached a record high of \$296.5 billion in 2012. This represented a cumulative surge of 286% over 2002, or a notable average annual growth of 14.5% during the period. Apart from a sustained influx of incoming visitors, the surge in total tourism expenditure was also driven by rising per capita spending of visitors.

For same-day in-town visitors, their per capita spending⁽²⁾ grew by a sturdy 13.1% per annum in the past decade to \$2,121 in 2012. Within the total, per-capita spending of such visitors from the Mainland, in terms of both the level in 2012 and the ten-year average annual growth rate, at \$2,489 and 10.0% respectively, was distinctly above their non-Mainland counterparts, at \$665 and 4.4%⁽³⁾. This was possibly due to the fact that around half of the non-Mainland same-day in-town visitors were en-route to other places⁽⁴⁾ and thus had limited time for spending in Hong Kong.

By comparison, per-capita spending of overnight visitors grew at a more moderate pace of 4.9% per annum over the past ten years to \$7,818 in 2012. Within this total, per capita spending of Mainland and non-Mainland overnight visitors grew by 4.6% and 4.2% per annum respectively⁽³⁾. Per capita spending of Mainland overnight visitors has exceeded that of non-Mainland visitors since 2007. At \$8,565 in 2012, per capita spending of Mainland overnight visitors was 31% above that of the non-Mainland counterparts.

Table : Per-capita spending of incoming visitors in 2012

	Same-day <u>in-town visitors</u>	Overnight <u>visitors</u>
Per capita spending	\$2,121	\$7,818
(Average annual growth in 2003-2012)	(13.1%)	(4.9%)
<i>Within which :</i>		
(i) <i>Mainland visitors</i>	\$2,489	\$8,565
<i>(Average annual growth in 2003-2012)</i>	<i>(10.0%)</i>	<i>(4.6%)</i>
(ii) <i>Non-Mainland visitors</i>	\$665	\$6,516
<i>(Average annual growth in 2003-2012)</i>	<i>(4.4%)</i>	<i>(4.2%)</i>

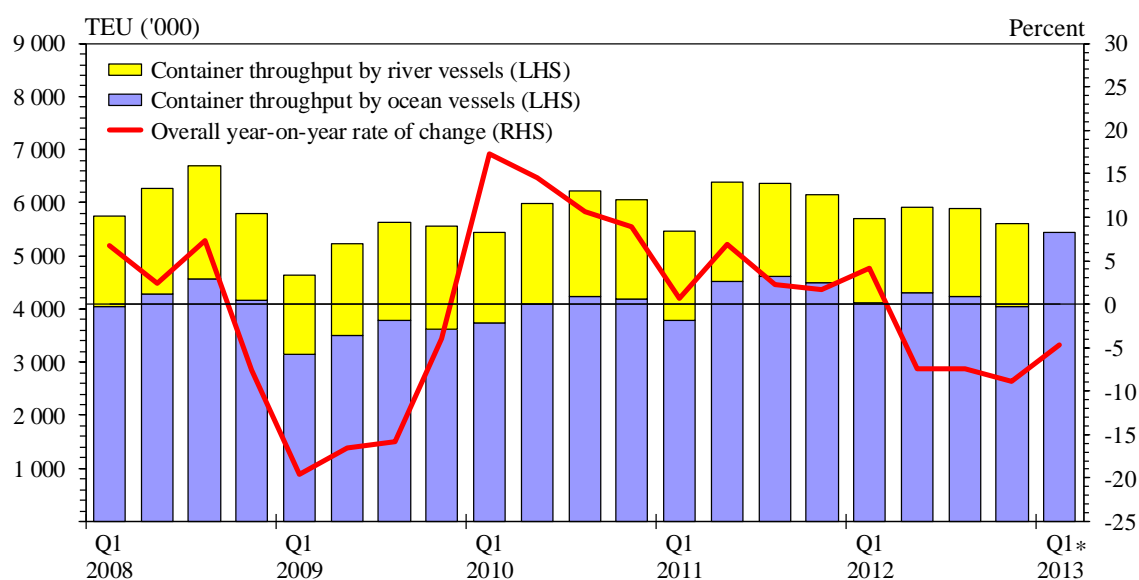
- (1) Tourism expenditure associated to inbound tourism comprises destination consumption expenditure by overnight and same-day in-town visitors, cruise passengers, servicemen, aircrew members and transit/transfer passengers, and international transportation expenditure.
- (2) Per capita spending is calculated based on destination consumption expenditure only.
- (3) The average annual growth for all same-day in-town visitors (at 13.1%) exceeded that for Mainland and non-Mainland visitors (at 10.0% and 4.4% respectively), as it has included the compositional effect of a higher share of Mainland visitors, who had a higher per capita spending. This is also the case for the growth rate of per capita spending of overnight visitors.
- (4) According to HKTB, 51% of the non-Mainland same-day in-town visitors in 2012 indicated “en-route” as their purpose of visiting Hong Kong, sharply higher than the share of 11% for the Mainland counterparts.

Logistics

3.16 As the external trade environment turned less steady, performance of the logistics sector was subdued in the first quarter. *Total container throughput* fell further by 4.6% from a year earlier to 5.4 million TEUs. In parallel, the value of trade handled at the Hong Kong Port decreased by 1.7%, and its share in overall trade value declined further from 25.0% a year earlier to 23.5%.

3.17 A labour dispute started at the Kwai Chung Container Terminals on 28 March as a few hundred container terminal workers went on strike for higher pay and improvement in working conditions. The strike has caused some impact on the operation of the container terminals and could have more visible impact on the overall throughput in the second quarter. The Government has taken active steps in conciliating the dispute.

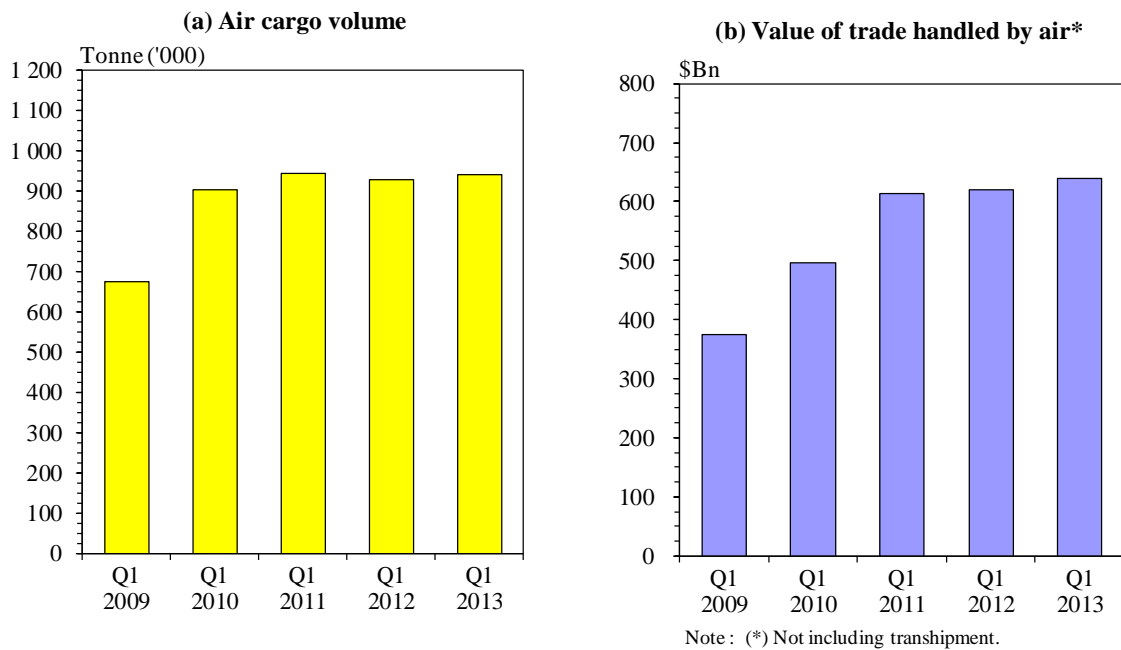
Diagram 3.8 : Container throughput fell further



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

3.18 *Air freight throughput* was also modest, edging up by a mere 1.3% over a year earlier to 942 000 tonnes in the first quarter. The total value of trade by air increased by 3.1%, while its share in overall trade value decreased from a record high of 37.3% a year earlier to 36.9%.

Diagram 3.9 : Air cargo throughput and value of trade handled by air showed modest performance



Transport

3.19 Traffic flows for most major modes of transport improved in general. Air passenger traffic rose by 5.2% over a year earlier to 14.3 million in the first quarter, and water-borne passenger trips by 4.4% to 6.8 million. As to land-based cross-boundary traffic movements, average daily passenger trips increased by 7.4% to 572 800 while average daily vehicular movements dropped by 2.4% to 39 900.

3.20 In February the Government launched a three-month public consultation on the proposed measures to improve traffic distribution among the road harbour crossings. Three options involving toll adjustment of different degrees at the Eastern Harbour Crossing (EHC) and the Cross Harbour Tunnel (CHT) were put forward with a view to diverting some traffic from the CHT to the EHC, thereby alleviating the traffic congestion at the CHT. If there is sufficient support in the community, the Government will negotiate with the tunnel franchisee concerned, seek funding from the Finance Committee of the Legislative Council, and take forward the necessary legislative procedures for conducting a 12-month trial of the preferred option in the second half of 2014 to test its effectiveness.

Creativity and Innovation

3.21 In February the Government announced the way forward for the development of the patent system in Hong Kong. The key plans include

introducing an “original grant” patent system with substantive examination outsourced to other patent office(s) while retaining the current re-registration system, retaining the short-term patent system with suitable refinements, and developing a full-fledged regulatory regime on patent agency services in the long run. The Government will work out the details of the implementation plan in the next phase.

Environment

3.22 In March the Environment Bureau unveiled “A Clean Air Plan for Hong Kong”. The Plan outlines comprehensively the challenges that Hong Kong is facing with regard to air quality and gives a detailed account of the air quality management system in Hong Kong, as well as the measures to tackle air pollution from different sources such as transport and power plants. The Plan also sets the target of largely achieving the new Air Quality Objectives by 2020.

Notes :

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011, Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 of 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 of 2012 Economic Background and 2013 Prospects and Box 3.1 of this report.
- (2) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (3) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the first quarter of 2013, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 75%, 17% and 9% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the first quarter of 2013 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar exchange rate moved within a narrow range against the US dollar during the quarter. Meanwhile, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose along with the strengthening of the US dollar against most major currencies.*
- *Total loans and advances continued to expand at a modest pace in the first quarter, mainly led by the growth in foreign currency loans. On the other hand, total deposits grew at a decelerated pace.*
- *The local stock market had a volatile performance in the first quarter. After a strong start on entering the year, the stock market experienced a correction since February, triggered by renewed concerns over the eurozone debt crisis and looming monetary tightening in the Mainland. The Hang Seng Index edged down by 1.6% from end-2012 to 22 300 at end-March. Trading activities picked up further in the first quarter while fund raising activities remained subdued.*

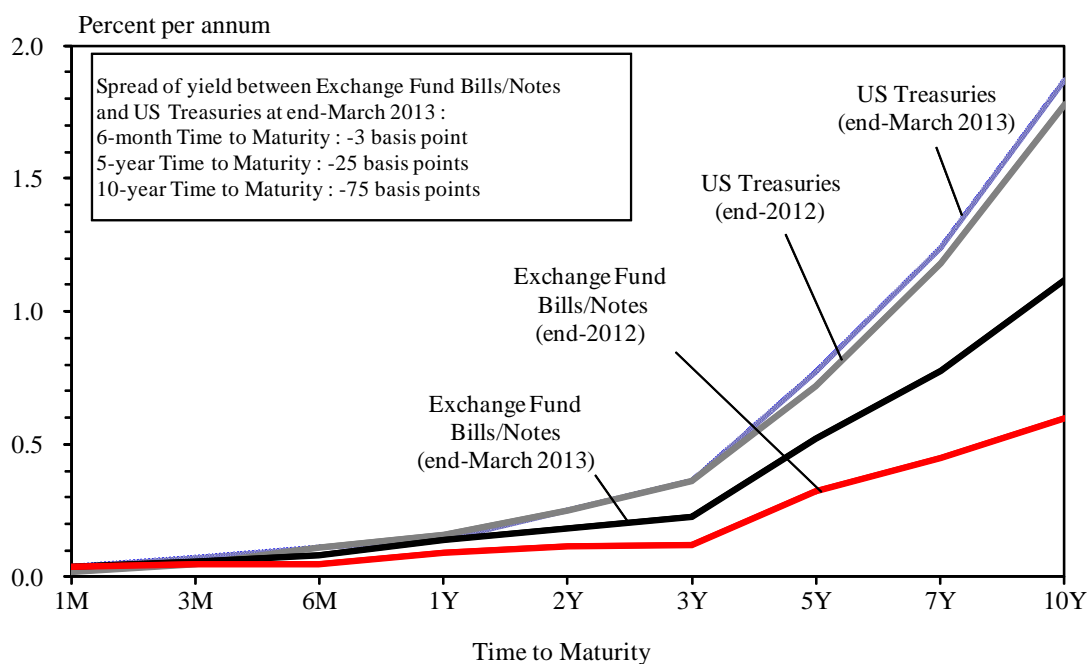
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the first quarter of 2013 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate unchanged at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA stayed at 0.5% through the quarter⁽¹⁾. The *Hong Kong dollar interbank interest rates* also hovered at low levels. The overnight and three-month HIBOR edged down from 0.10% and 0.40% at end-2012 to 0.08% and 0.38% respectively at end-March 2013.

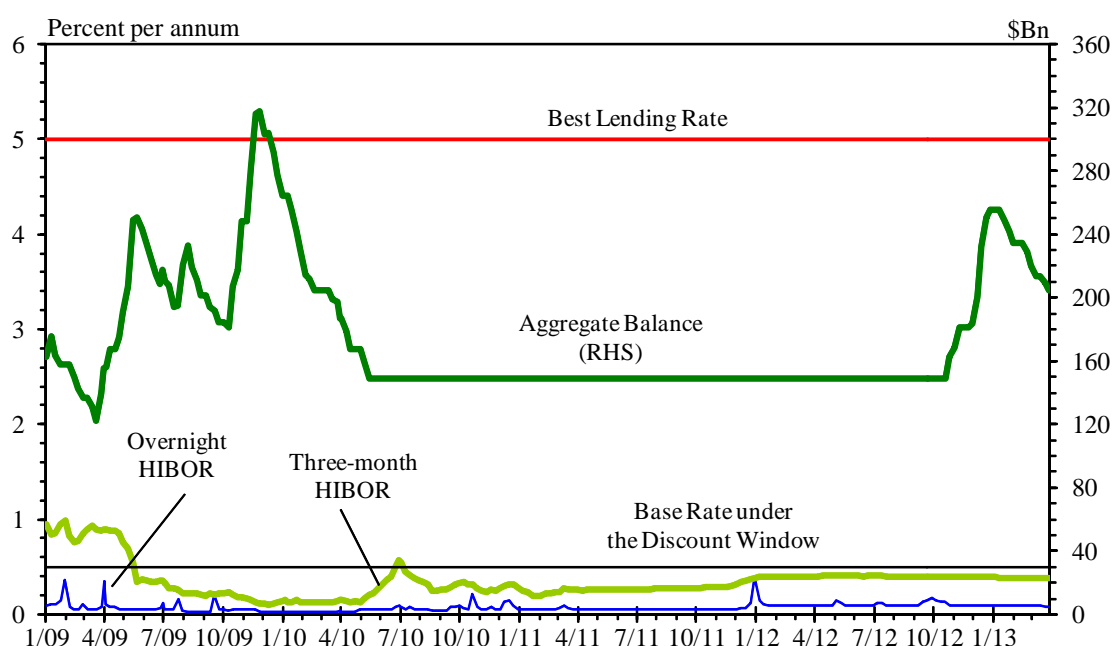
4.2 The *Hong Kong dollar yields* at the longer tenor showed a rebound during the first quarter, while those at the short tenor remained generally stable. Meanwhile, the *US dollar yields* only edged up slightly. Reflecting these movements, the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes narrowed noticeably from 118 basis points at end-2012 to 75 basis points at end-March 2013, while that between 6-month Exchange Fund Notes and 6-month US Treasury Bills declined marginally from six basis points to three basis points.

Diagram 4.1 : The Hong Kong dollar yields showed a rebound at the longer tenor while the US dollar yields edged up



4.3 Interest rates on the retail front remained steady at low levels. The *Best Lending Rates* were held unchanged at 5.00% or 5.25% in the first quarter. The *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 stayed at 0.01% and 0.15% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for banks, declined further from 0.32% at end-2012 to 0.25% at end-March 2013.

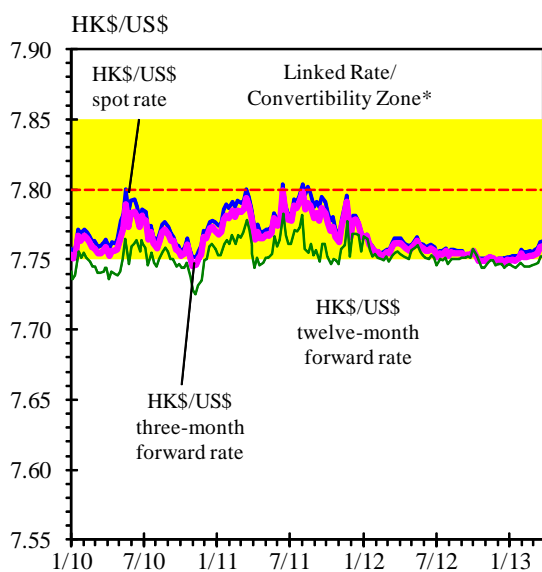
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range of 7.751 to 7.763 against the US dollar in the first quarter. It closed at 7.762 at end-March 2013, slightly softer than the 7.751 at end-2012. Meanwhile, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* to the spot rate widened markedly from 20 and 47 pips (each pip equivalent to HK\$0.0001) to 35 and 110 pips respectively.

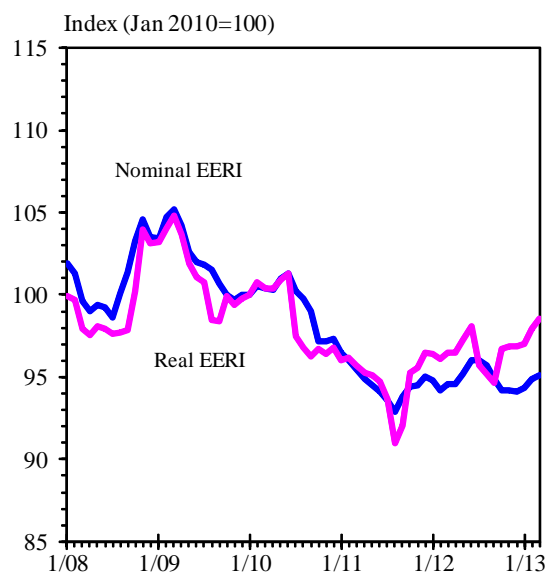
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against most major currencies, especially the Japanese yen and pound sterling, the *trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices*⁽³⁾ rose by 1.1% and 1.8% respectively during the first quarter.

Diagram 4.3 : Hong Kong dollar moved within a narrow range against the US dollar (end for the week)



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

Diagram 4.4 : Trade-weighted EERIs rose in the first quarter of 2013 (average for the month)



Money supply and banking sector

4.6 The monetary aggregates expanded at a decelerated pace in the first quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) rose by a modest 3.8% over end-2012 to \$944 billion at end-March 2013, and the broad money supply (HK\$M3) edged up by 0.1% to \$4,549 billion⁽⁴⁾. Meanwhile, *total deposits* with authorised institutions (AIs)⁽⁵⁾ rose by 0.7% to \$8,353 billion, within which foreign currency deposits grew modestly by 1.6% while Hong Kong dollar deposits declined by 0.3%.

Diagram 4.5 : The monetary aggregates expanded at a decelerated pace in the first quarter

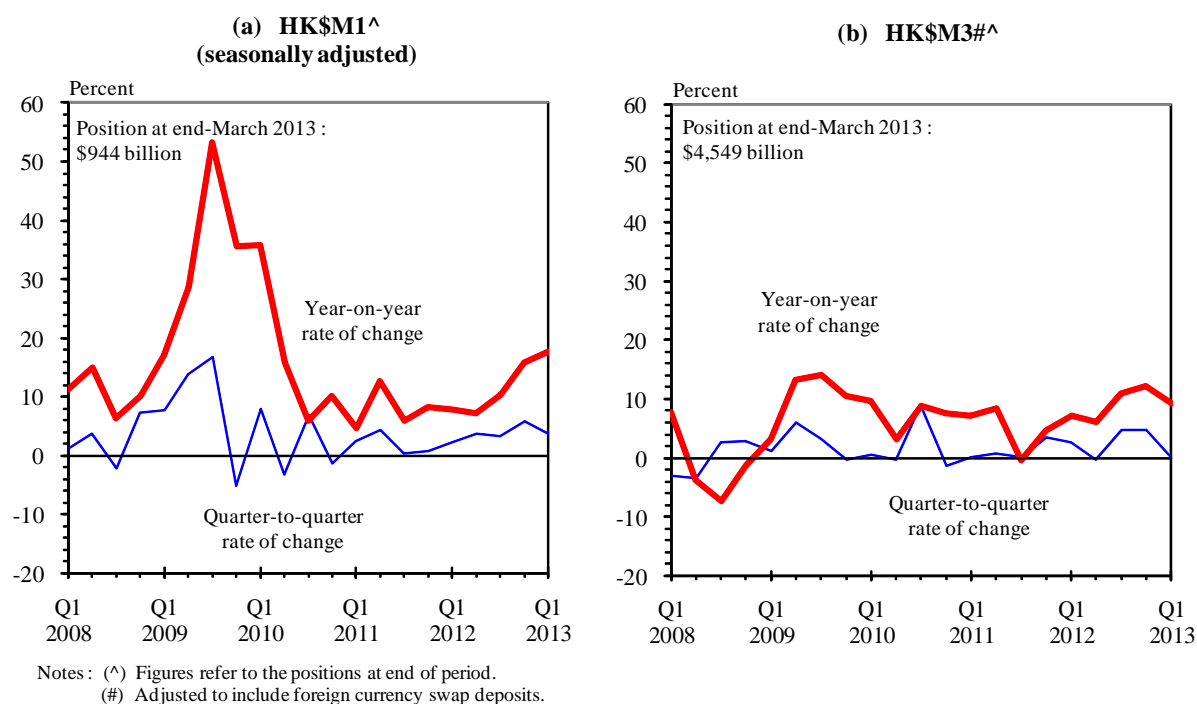


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
<u>% change during the quarter</u>		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
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
2013	Q1	3.8	1.0	0.1	1.1	0.1	1.1
Total amount at end-March 2013 (\$Bn)		944	1,391	4,541	9,047	4,549	9,070
% change over a year earlier		17.7	17.9	9.2	9.5	9.2	9.6

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Total loans and advances continued to expand at a modest pace, by 3.1% over end-2012 to \$5,741 billion at end-March 2013. This was mainly led by a solid growth of 6.6% in foreign currency loans, with Hong Kong dollar loans only edging up by 0.8%. Reflecting the respective movements in deposits and loans, the loan-to-deposit ratio for foreign currency rose from 54.2% at end-2012 to 56.9% at end-March 2013, and that for Hong Kong dollar from 79.8% to 80.6%.

4.8 Loans for use in Hong Kong expanded by 3.1% over end-2012 to \$4,100 billion at end-March 2013, and loans for use outside Hong Kong by 3.2% to \$1,641 billion. Within the former, loans to stockbrokers jumped by another 26.2% amid further pick-up in trading activities in the stock market. Trade financing rebounded by a sharp 20.1% despite a volatile external trade performance. Loans to financial concerns and loans to wholesale and retail trade recorded modest increases of 3.4% and 1.1% respectively. Meanwhile, loans to building, construction, property development and investment contracted by 0.7%, and loans for purchase of residential property grew by a moderated 1.7%, partly due to the cool-off in residential property market in March.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Whole-	Building,	Purchase	Financial	Stock-	All loans		Total
		finance	facturing	sale	construction,	of	concerns	brokers	and advances		loans
				and	property	residential			for use		and
				retail	development	of			outside		advances
				trade	and	residential			Hong Kong ^(c)		advances
					investment	property ^(a)					
% change	during								Total ^(b)		
	the quarter										
2012	Q1	7.3	-0.1	2.9	-1.5	0.1	3.1	-14.6	1.4	4.5	2.3
	Q2	5.0	-2.8	3.0	-0.9	2.3	-3.4	-1.4	1.6	4.4	2.3
	Q3	5.6	-1.7	4.4	1.9	2.0	-2.5	-16.1	1.6	2.6	1.9
	Q4	-8.1	-0.3	2.0	1.7	2.9	6.3	36.7	2.4	3.8	2.8
2013	Q1	20.1	2.6	1.1	-0.7	1.7	3.4	26.2	3.1	3.2	3.1
Total amount at end-March 2013 (\$Bn)		460	185	358	921	930	282	25	4,100	1,641	5,741
% change over a year earlier		22.4	-2.3	10.8	1.9	9.3	3.5	42.7	8.9	14.7	10.5

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

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

4.9 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II", or "Basel 2.5" following the enhancements issued by the Committee in 2009⁽⁶⁾), the capital adequacy ratio (CAR) of these institutions remained high at an average of 15.7% at end-2012. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.10 The HKMA has been implementing the Basel III framework⁽⁷⁾ since 1 January 2013 in accordance with the transitional timetable set by the Basel Committee, and the standards set out in the framework are expected to be fully phased in on 1 January 2019. The first phase of Basel III standards, which covers revised minimum capital requirements based on a stricter definition of capital base and a wider risk coverage, took effect in Hong Kong on 1 January 2013 with the Banking (Capital) (Amendment) Rules 2013 coming into operation.

4.11 As regards disclosure requirements associated with the first phase of Basel III standards, in April the HKMA submitted the draft set of Banking (Disclosure) (Amendment) Rules 2013 to the Legislative Council for negative vetting, for taking effect on 30 June 2013 in accordance with the timetable set by the Basel Committee.

4.12 Based on the results of the local Implementation Monitoring Process on the Basel III consultative proposals conducted by the HKMA, AIs in Hong Kong are not expected to have much difficulty in meeting the higher capital requirements, given their track records of maintaining capital levels above the regulatory minimum, and that they are well-capitalised with common equity to meet regulatory capital requirements. Regarding the new liquidity standards, AIs in general are not expected to encounter major difficulties over the transition period, though some AIs may need to adjust their liquidity profiles or liquid asset composition to comply with the new requirements.

4.13 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans decreased from 0.50% at end-September 2012 to a record-low of 0.47% at end-2012. The delinquency ratio for credit card lending also edged down from 0.21% to 0.20%. Meanwhile, the delinquency ratio for residential mortgage loans retreated to 0.01% at end-March 2013.

Table 4.3 : Asset quality of retail banks*

(as % of total loans)

<u>As at end of period</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans (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
Q4	98.16	1.36	0.47

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

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

4.14 Offshore renminbi (RMB) business in Hong Kong recorded further growth in the first quarter. *RMB trade settlement handled by banks in Hong Kong* surged by 45% over a year earlier to RMB831 billion in the first quarter. The total outstanding amount of *RMB deposits* and certificates of deposit issued rose by 13% over end-2012 to RMB812 billion at end-March 2013. Meanwhile, RMB financing activities remained solid. *RMB bond issuance* rose from RMB18 billion in the preceding quarter to RMB24 billion in the first quarter. The outstanding amount of *RMB loans* increased by 12% over end-2012 to RMB89 billion at end-March 2013.

4.15 In March the China Securities Regulatory Commission expanded the arrangement relating to RMB Qualified Foreign Institutional Investors (RQFII). This includes, amongst others, enlarging the types of institutions eligible for applying for RQFII and relaxing the investment restrictions of RQFII funds. The expansion would help broaden the circulation of RMB funds between Hong Kong and the Mainland and is conducive to the development of RMB business by Hong Kong banks and financial institutions.

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

As at end of period		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Interest rates on ^(a)		Number of authorized institutions engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
					Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)		
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
2013	Q1	144,314	523,744	668,058	0.25	0.52	140	830,955
% change in 2013 Q1 over 2012 Q1		-8.0	31.8	20.5	N.A.	N.A.	N.A.	45.5
% change in 2013 Q1 over 2012 Q4		16.8	9.2	10.8	N.A.	N.A.	N.A.	18.3

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.16 The Hong Kong dollar debt market continued to expand in the first quarter of 2013⁽⁸⁾. Total gross issuance of Hong Kong dollar debt securities rose by 4.2% over a year earlier to \$569.7 billion. Within the total, public sector debt issuance increased noticeably by 11.9%, mainly driven by the increase in the issuance of Exchange Fund paper. By contrast, private sector debt issuance plunged by 38.9%, with new debt issued by AIs registering a marked decline. At end-March 2013, the total outstanding balance of Hong Kong dollar debt securities rose by 5.8% over a year earlier to \$1,355.1 billion, equivalent to 29.8% of HK\$M3 or 24.7% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁹⁾.

4.17 As to the Government Bond (“GB”) Programme, the Financial Secretary announced in the 2013-14 Budget Speech the proposal to double its size from \$100 billion to \$200 billion, and to issue a third tranche of inflation-linked retail GB (i.e. iBond) of up to \$10.0 billion. Meanwhile, a total of \$7.0 billion institutional GBs were issued in the first quarter under three tenders, including \$1.5 billion of 10-year bonds in January, \$2.0 billion of

5-year bonds in February and \$3.5 billion of 2-year bonds in March. As at end-March 2013, the outstanding size of bonds issued under the GB Programme amounted to \$70.5 billion, including ten institutional issues for a total of \$50.5 billion, and two retail issues (iBonds) for a total of \$20.0 billion.

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

	Exchange Fund under paper	Statutory bodies/govern ment-owned c orporations	Government	Public sector total	Als	Local corpor ations	Non-MDBs overseas bor rowers ^(^)	Private sector total	MDBs ^(^)	Total
New Issuance										
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
2013 Q1	508.9	3.5	7.0	519.4	32.5	11.6	6.1	50.3	-	569.7
% change in 2013 Q1 over 2012 Q1	11.7	2.1	40.0	11.9	-51.4	15.6	14.4	-38.9	-	4.2
% change in 2013 Q1 over 2012 Q4	8.5	70.8	133.3	9.6	-4.5	142.2	3.6	12.3	-	9.8
Outstanding (as at end of period)										
2012 Q1	655.9	50.6	51.0	757.5	250.7	102.3	157.8	510.8	12.4	1,280.7
Q2	656.4	46.8	65.5	768.8	245.4	104.8	151.4	501.5	10.6	1,280.9
Q3	656.8	45.8	65.5	768.1	258.4	112.1	150.7	521.2	10.6	1,299.8
Q4	657.4	45.2	68.5	771.0	263.4	116.2	147.7	527.3	10.3	1,308.6
2013 Q1	708.6	45.7	72.0	826.4	249.7	123.0	145.8	518.5	10.2	1,355.1
% change in 2013 Q1 over 2012 Q1	8.0	-9.7	41.2	9.1	-0.4	20.2	-7.6	1.5	-17.8	5.8
% change in 2013 Q1 over 2012 Q4	7.8	1.3	5.1	7.2	-5.2	5.9	-1.3	-1.7	-1.0	3.6

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

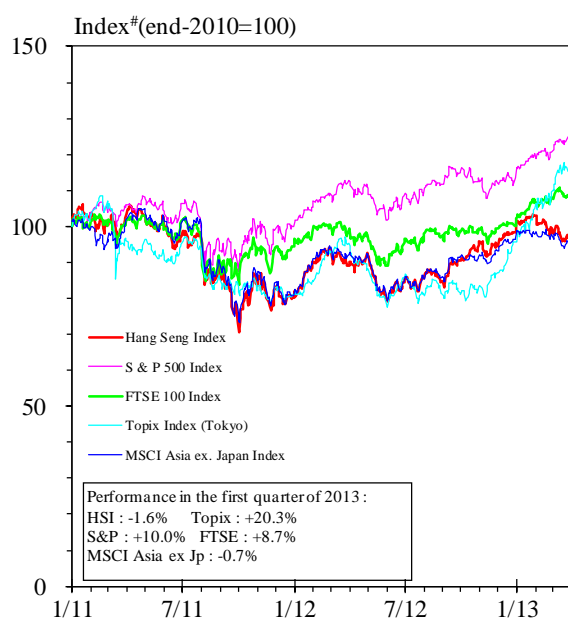
(^) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.18 The *local stock market* showed a volatile performance in the first quarter of 2013. The Hang Seng Index (HSI) had a strong start in January, and reached a high of 23 822 on 30 January. Yet it experienced a correction in mid-February, triggered by renewed concerns over the eurozone debt crisis and looming monetary tightening in the Mainland. The HSI edged down by 1.6% from end-2012 to 22 300 at end-March. Meanwhile, *market capitalisation* of the Hong Kong stock market, at \$22.0 trillion at end-March, was little changed from end-2012. According to the World Federation of Exchanges, it was the sixth largest stock exchange in the world and second largest in Asia⁽¹⁰⁾.

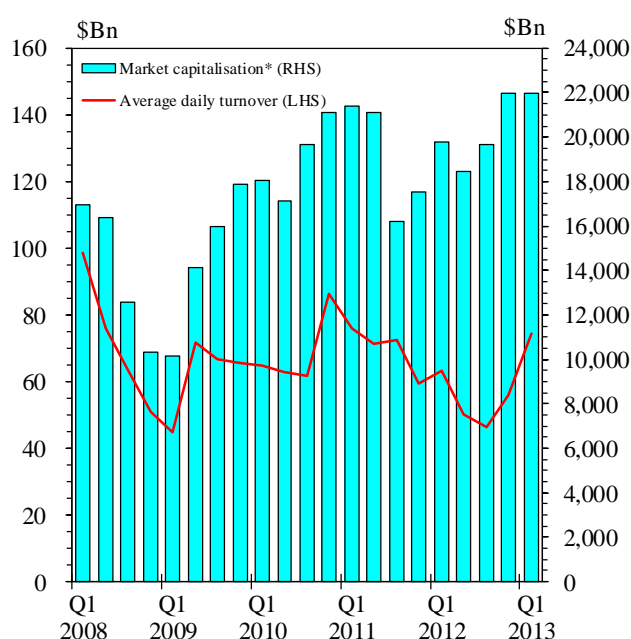
4.19 Trading activities picked up further in the first quarter. *Average daily turnover* in the securities market surged by 32.8% over the preceding quarter or 17.6% over a year earlier to \$74.4 billion. As to *derivatives products*⁽¹¹⁾, the average daily trading volume of futures and options rose by 9.7% over the preceding quarter. Analysed by products, trading of stock options, HSI options, H-shares Index futures and HSI futures all recorded gains, of 16.2%, 9.1%, 8.2% and 1.5% respectively. The average daily trading value of securitised derivatives products jumped by 42.5%, within which trading of derivative warrants and callable bull/bear contracts surged by 63.9% and 16.6% respectively.

Diagram 4.6 : The Hang Seng Index showed a volatile performance in the first quarter



Notes : (#) Position at end of month.

Diagram 4.7 : Market capitalisation was little changed while trading activities picked up further



Note : (*) Position at end of quarter.

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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options <u>traded</u> d*	Derivative warrants (\$Mn)	Callable bull/bear contracts (<u>\$Mn</u>)	Total securitised derivatives traded (<u>\$Mn</u>) [^]
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
2013	Q1	82 570	38 464	77 111	278 115	552 686	10,268	6,032	16,301
% change in 2013 Q1 over 2012 Q1		-2.0	8.4	21.8	16.6	12.0	19.1	-20.8	0.4
% change in 2013 Q1 over 2012 Q4		1.5	9.1	8.2	16.2	9.7	63.9	16.6	42.5

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

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

4.20 Fund raising activities remained subdued. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹²⁾, plunged by 48.7% from the preceding quarter or 9.3% from a year earlier to \$56.2 billion in the first quarter. Within the total, the amount of funds raised through initial public offerings plummeted by 82.1% from the preceding quarter to \$8.1 billion.

4.21 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-March 2013, a total of 737 Mainland enterprises (including 175 H-share companies, 120 “Red Chips” companies and 442 private enterprises) were listed on the Main Board and GEM, accounting for 47% of the total number of listed companies and 56% of total market capitalisation. In the first quarter, Mainland-related stocks accounted for 72% of equity turnover and 83% of total equity fund raised in the Hong Kong stock exchange.

4.22 Following the earlier consultation, in March the Securities and Futures Commission (SFC) announced the consultation conclusions regarding the 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. The proposals would promote consistency of regulation and enhance market transparency for all listed entities. The SFC will proceed with the proposals and make appropriate recommendations on the legislative amendments in due course.

4.23 The Hong Kong Exchanges and Clearing Limited (HKEx) launched the After-Hours Futures Trading (AHFT) on 8 April 2013. Specifically, trading for HSI and H-shares Index futures are available from 5 pm to 11 pm in addition to the regular trading sessions, and gold futures would be considered for inclusion in AHFT at a later stage. AHFT would enable market participants to hedge or adjust their market positions in response to latest news and events during the European and US business days, and enable HKEx to cater for international interest in RMB products in the future. HKEx would monitor the development of AHFT and review the trading and clearing operations and risk management arrangements for AHFT six months after the implementation.

Fund management and investment funds

4.24 The fund management business continued to grow in general. Gross retail sales of *mutual funds* surged by 84.5% over a year earlier to US\$13.8 billion in the first two months of 2013⁽¹³⁾. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹⁴⁾ also rose by 3.5% over end-2012 to \$455 billion at end-March 2013. Meanwhile, the amount of net assets managed by *retail hedge funds* showed some declines⁽¹⁵⁾.

Insurance sector

4.25 The *insurance sector*⁽¹⁶⁾ expanded further in 2012. The gross and net premium for general business rose by 13.2% and 13.5% respectively to record-high levels, but the underwriting profit declined by 26.1% due to a sharp increase in net claims in the fourth quarter. Gross premium income from long-term business also increased by 10.4%. Within the total, premium income from non-investment linked plans soared by 22.1% while that from investment-linked plans plunged by 17.7%.

Table 4.7 : 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 Annual	39,312	27,008	2,215	60,339	17,122	104	279	77,844	117,156
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
Q4	8,796	5,877	163	15,235	5,239	34	35	20,543	29,339
% change in 2012Q4 over 2011Q4	20.5	21.8	-81.9	52.2	34.5	466.7	40.0	47.4	38.2
% change in 2012 over 2011	13.2	13.5	-26.1	22.1	-17.7	96.2	11.6	10.4	11.3

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

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

Notes :

(1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher.

Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.

- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 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.

- (4) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers' demand deposits with licensed banks.

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2013, 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.
- (6) 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.

- (7) Basel III tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6%; 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.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from 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.
- (10) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 57 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-March 2013, there were 65 classes of stock options contracts and 38 classes of stock futures contracts.
- (12) At end-March 2013, there were 1 378 and 179 companies listed on the Main Board and GEM respectively.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-February 2013, the survey covered a total of 1 269 active authorised funds.
- (14) At end-March 2013, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 469 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 259 000 employers, 2.38 million employees and 219 000 self-employed persons have participated in MPF schemes.
- (15) At end-March 2013, there were five SFC-authorised retail hedge funds with combined net asset size of US\$488 million. The amount of net assets under management represented a 22.6% decrease from the end-2012 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.
- (16) At end-March 2013, there were 154 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 91 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

Summary

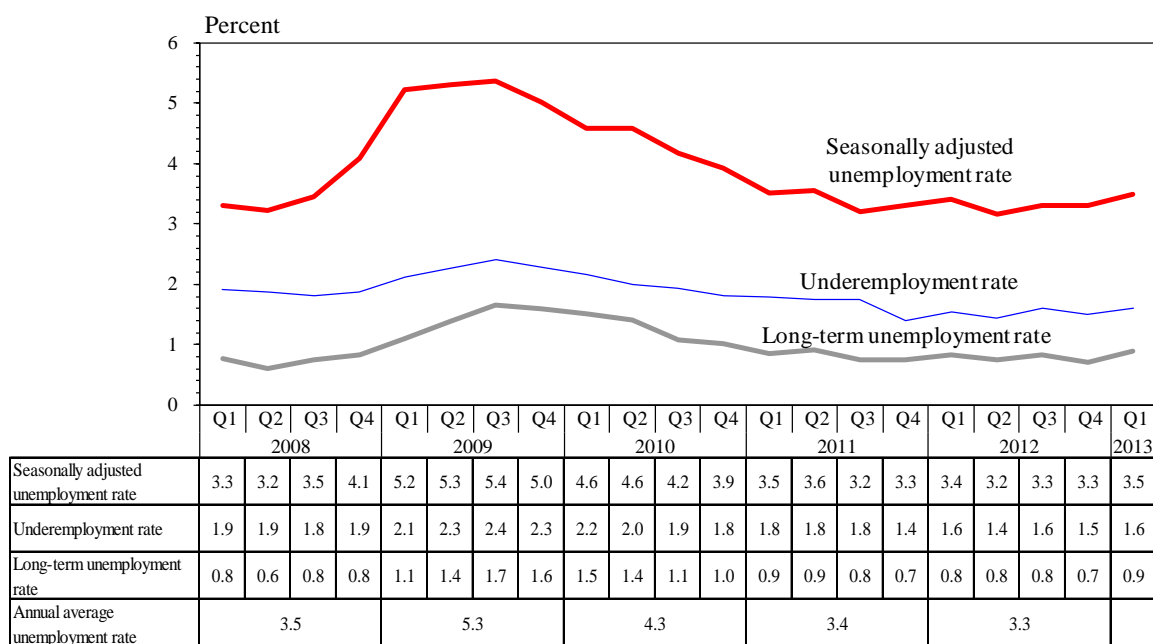
- *Labour market conditions remained rather tight during most of the first quarter of 2013, thanks to the resilient domestic consumption demand and buoyant inbound tourism. Nonetheless, upon several quarters of below-trend local economic growth and with the still considerable external headwinds, signs of moderation began to surface in certain segments of the labour market.*
- *Driven by the job gains in many domestic-oriented sectors, total employment rose by another 30 600 to a fresh record high of 3 720 200 during the first quarter. Yet on a year-on-year comparison, the pace of job creation slowed marginally to 1.9%, marked by slackened labour demand in the higher-skilled segment, but still sturdy demand in the lower-skilled segment.*
- *Lured by the still largely favourable employment and income situation, labour supply expanded by 2.1% in the first quarter over a year earlier, slightly outpacing labour demand growth. As a result, the seasonally adjusted unemployment rate inched up by 0.2 of a percentage point over the preceding quarter, to 3.5% in the first quarter of 2013.*
- *Wages and earnings saw further broad-based growth in the fourth quarter of 2012. More recent indicators pointed to continued income rise in early 2013, with particularly notable increases among lower income workers amid the prevailing tightness in the lower-skilled segment.*

Overall labour market situation⁽¹⁾

5.1 On the back of robust domestic business activities and vibrant inbound tourism, labour market conditions held largely steady in the first quarter of 2013 despite the mounting external headwinds. Job creation remained solid in overall terms, though more than outweighed by the concurrent expansion in labour supply. As a result, the number of unemployed persons increased by 15 400 to 132 500, and the seasonally adjusted unemployment rate⁽²⁾ edged up to 3.5%, from 3.3% in the fourth quarter of 2012. The underemployment rate⁽³⁾ also rose marginally by 0.1 percentage point to 1.6% from the preceding quarter. Against the backdrop of tight labour market throughout the past year, wages and earnings sustained a broad-based

improvement in late 2012. At the same time, signs of labour shortage were seen in some sectors and occupations, particularly in the lower-skilled segment.

Diagram 5.1 : Unemployment rate edged up to 3.5% in the first quarter of 2013



Total employment and labour force

5.2 Labour demand held largely buoyant in the first quarter of 2013, thanks to the support rendered by vibrant domestic business activities around the festive periods. Total employment expanded further by 30 600 during the quarter to a new record high of 3 720 200. However, as the local economy had stayed on a slow growth path over the past year or so and as the near-term business prospects remained clouded by the highly uncertain external environment, the pace of job creation in some segments began to moderate gradually. Consequently, the year-on-year growth in *total employment*⁽⁴⁾ eased slightly to 1.9% in the first quarter, from 2.0% in the preceding quarter.

5.3 On a quarter-to-quarter comparison, while employment growth was recorded across many sectors, more visible gains were observed in professional and business services, and accommodation and food services (up 31 400 and 17 400 respectively). In contrast, import/export trade and wholesale posted significant job losses of 59 000, mirroring the relatively sluggish external trade performance in the past year. Analysed by occupational category, the lower-skilled segment (up 27 100) notably outperformed the higher-skilled segment (up 3 500), reflecting on one hand the particularly strong job gains among elementary workers and service and sales workers, and on the other hand the significant job losses among managers and administrators. In regard

to other social attributes, those with post-secondary education and lower secondary education, and those aged 50 or above and 15-24 were the ones benefiting most from the job creation over the period.

5.4 On the labour supply side, the *labour force*⁽⁵⁾ rose by 2.1% year-on-year in the first quarter of 2013, slightly outpacing the growth in total employment. Encouraged by better job opportunities and income prospects, especially in the lower-skilled segment, more females and matured persons were attracted to the labour market. Comparing to the fourth quarter of 2012, the labour force participation rate for female rose by 0.9 percentage point to 54.6%. The figures for those aged 40 – 49 and 50 – 59 went up visibly by 1.1 and 1.0 percentage points to the high levels of 82.6% and 70.4% respectively.

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

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> ^(a)	<u>Persons underemployed</u>
2012	Annual	3 785 200 (2.2)	3 660 700 (2.4)	124 500	57 600
	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
<i>Three months ending</i>					
2013	Jan	3 826 500 (2.1)	3 706 000 (2.0)	120 500	60 300
	Feb	3 835 100 (1.8)	3 712 000 (1.7)	123 100	58 600
	Mar	3 852 700 (2.1)	3 720 200 (1.9)	132 500	61 100
		<1.3>	<1.0>		

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

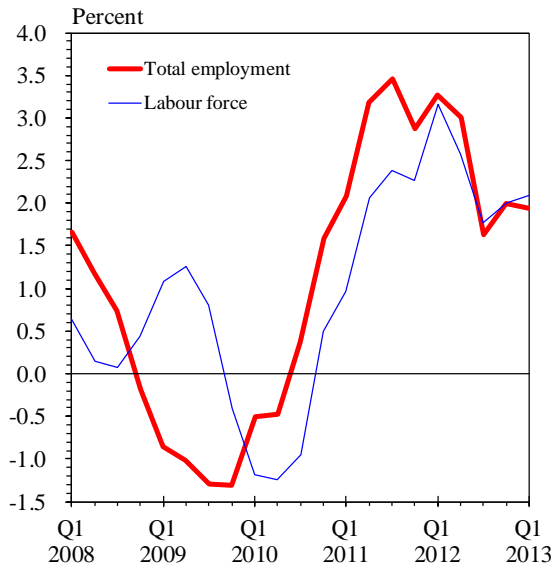
() % change over a year earlier.

Seasonally adjusted quarter-to-quarter % change for the first quarter of 2013.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Total employment grew further in the first quarter, albeit at a slower pace than the labour force

(a) Year-on-year rate of change



(b) Quarter-to-quarter rate of change (seasonally adjusted)

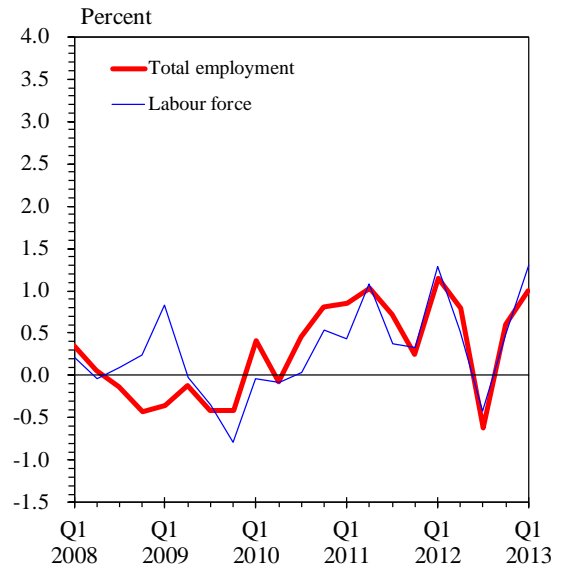
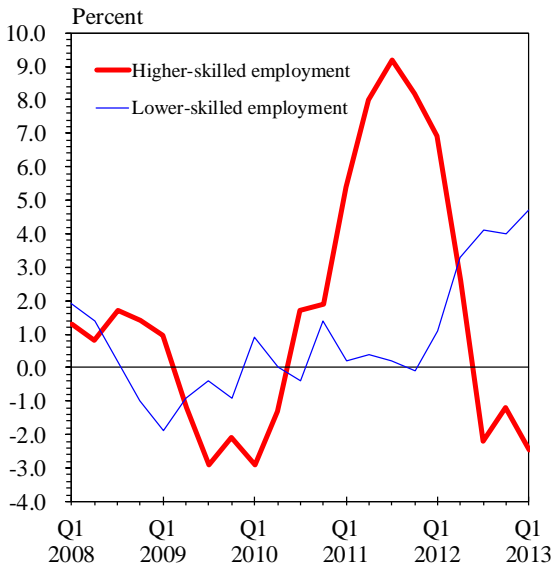
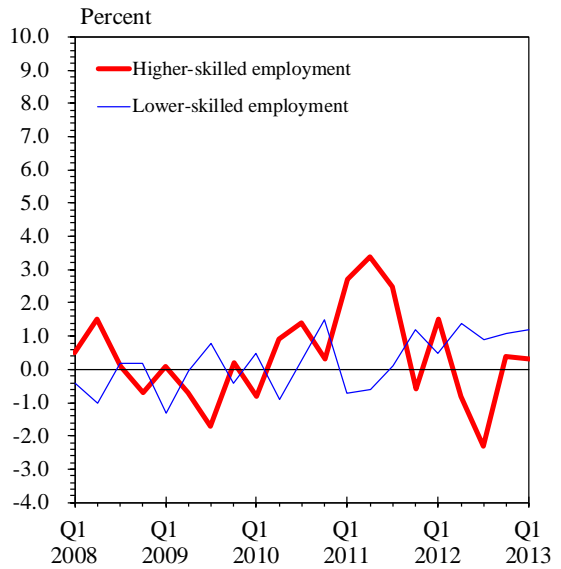


Diagram 5.3 : Growth in lower-skilled employment remained strong, thereby cushioning the somewhat slackened higher-skilled segment

(a) Year-on-year rate of change



(b) Quarter-to-quarter rate of change



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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 Q1</u>
<u>Male</u>						
15-19	13.0	12.5	10.2	9.9	10.5	10.6
20-24	65.5	64.1	60.6	61.1	61.1	63.1
25-29	94.2	94.7	94.0	93.9	94.5	94.3
30-39	96.6	96.4	96.5	96.5	96.8	96.1
40-49	95.2	95.1	95.0	95.1	95.3	95.6
50-59	83.9	84.3	84.4	84.9	85.1	86.8
≥ 60	19.9	21.3	22.0	23.4	25.6	26.0
Overall	69.7	69.4	68.5	68.4	68.7	69.0
<u>Female</u>						
15-19	12.4	11.3	9.2	9.1	9.7	10.5
20-24	69.3	66.0	61.4	62.1	62.0	64.6
25-29	87.4	87.0	86.6	87.5	87.2	88.1
30-39	77.0	77.3	75.6	76.8	77.5	79.2
40-49	66.6	68.8	68.2	69.9	70.8	72.7
50-59	48.6	48.9	49.0	51.6	53.8	54.8
≥ 60	5.6	6.6	6.8	8.1	8.8	9.4
Overall	53.1	53.2	51.9	53.0	53.6	54.6
<u>Both genders combined</u>						
15-19	12.7	11.9	9.7	9.5	10.1	10.5
20-24	67.5	65.1	61.0	61.6	61.6	63.8
25-29	90.4	90.3	89.8	90.2	90.3	90.7
30-39	85.2	85.3	84.3	84.9	85.4	86.0
40-49	79.8	80.8	80.2	81.0	81.4	82.6
50-59	66.1	66.5	66.5	68.0	69.2	70.4
≥ 60	12.5	13.7	14.1	15.5	16.9	17.4
Overall	60.9	60.8	59.6	60.1	60.5	61.2

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.5 With employment growth being outstripped by that of labour supply, the number of unemployed persons rose by 15 400 to 132 500 during the first quarter of 2013. The seasonally adjusted unemployment rate thus went up slightly by 0.2 percentage point over the preceding quarter to 3.5% in the first quarter.

5.6 Analysed by economic sector on a quarter-to-quarter basis, more visible increases in unemployment rates (not seasonally adjusted) were observed in construction, retail, and accommodation and food services, conceivably due in part to seasonal factors. On the other hand, the professional and business services sector witnessed a modest decline in unemployment. For the *low paying sectors*⁽⁶⁾ as a whole, the unemployment rate rose by 0.4 percentage point to 3.2% in the first quarter of 2013, same as the level immediately before SMW implementation in May 2011.

5.7 As regards skill level, the unemployment rate for higher-skilled workers rose further by 0.2 percentage point to 2.2% during the first quarter, with widespread increases across all occupations in this segment. Meanwhile, the unemployment rate for lower-skilled workers rose back by 0.5 percentage point to 3.7%, with occupations such as craft and related workers, and service and sales workers witnessing particularly visible rises in unemployment rate of 1.3 and 1.0 percentage points respectively.

5.8 In terms of other socio-economic attributes, increases in unemployment rates were observed across all age groups and people with different educational attainment except those with post-secondary education. Among them, workers aged 15 – 19 and 40 – 49, and those with lower secondary education and below saw the most notable increases in unemployment rate.

Table 5.3 : Unemployment rates by major economic sector

	<u>2012</u>				<u>2013</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	2.5	3.1	2.9	2.8	3.2
Retail	4.3	4.1	4.6	3.6	4.4
Accommodation and food services	4.5	5.4	4.7	4.2	5.0
Transportation, storage, postal and courier services	3.3	2.4	2.6	2.7	3.0
Information and communications	2.9	3.2	2.2	2.7	2.8
Financing and insurance	2.4	2.4	2.3	2.4	2.7
Real estate	2.5	1.9	2.3	2.2	2.3
Professional and business services	2.7	3.1	3.1	2.7	2.5
Public administration, social and personal services	1.4	1.2	1.5	1.4	1.8
Manufacturing	4.3	3.7	4.3	3.3	3.4
Construction	6.1	4.6	3.9	4.9	6.0
Overall	3.3 (3.4)	3.3 (3.2)	3.5 (3.3)	3.1 (3.3)	3.4 (3.5)

Note : () Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : Increases in unemployment rate were seen across skill segments

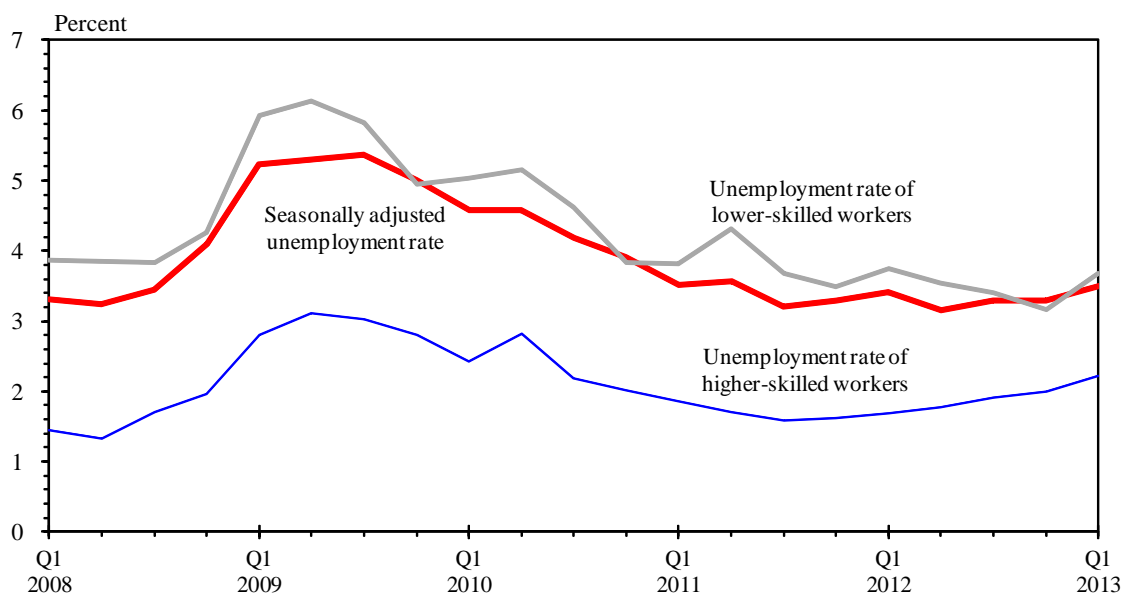


Table 5.4 : Unemployment rates* by skill segment

	<u>2012</u>				<u>2013</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Higher-skilled segment</u>	1.7	1.8	1.9	2.0	2.2
Managers and administrators	1.1	1.4	1.4	1.8	1.9
Professionals	1.7	1.3	1.6	1.5	1.9
Associate professionals	2.0	2.2	2.3	2.3	2.5
<u>Lower-skilled segment</u>	3.7	3.5	3.4	3.2	3.7
Clerical support workers	2.9	3.1	3.5	2.9	3.0
Service and sales workers	4.1	4.3	4.4	3.5	4.5
Craft and related workers	6.2	4.7	4.0	4.2	5.5
Plant and machine operators and assemblers	2.6	1.6	1.6	2.2	1.8
Elementary occupations	3.4	3.3	2.8	3.0	3.3

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

Source : General Household Survey, Census and Statistics Department.

Table 5.5 : Unemployment rates* by age and educational attainment

	<u>2012</u>				<u>2013</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Age</u>					
15-19	12.6	14.8	15.4	12.7	13.5
20-24	7.7	9.0	10.9	7.0	7.3
25-29	3.3	3.8	3.3	3.2	3.3
30-39	2.4	2.4	2.6	2.1	2.3
40-49	2.8	2.8	2.7	2.7	3.3
50-59	3.2	2.8	2.9	3.1	3.5
≥ 60	2.7	1.8	1.5	1.8	2.4
<u>Educational attainment</u>					
Primary education and below	3.8	3.6	3.0	3.2	4.1
Lower secondary education	4.3	4.3	3.7	4.2	5.1
Upper secondary education [^]	3.4	3.2	3.4	2.7	3.1
Post-secondary education	2.5	2.9	3.7	3.0	2.9

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.9 Figures on long-term unemployment (i.e. unemployed for six months or longer) also showed some signs of deterioration in the first quarter of 2013. Specifically, the number of long-term unemployed persons increased by 7 100 to 34 300 over the preceding quarter, with the long-term unemployment rate edging up by 0.2 percentage point to 0.9%. However, the median duration of unemployment, as another measure of intensity of unemployment, remained largely stable at 79 days. In respect of the reasons of unemployment, the proportion of dismissal or lay-offs among the unemployed persons fell from 54.4% to 51.9% over the same period. The above indicators, when viewed together, hinted that the labour market conditions were still broadly steady in early 2013.

Profile of underemployment

5.10 In the first quarter of 2013, the underemployment rate edged up by 0.1 percentage point over the preceding quarter to 1.6%, albeit a still rather low level and pointing to favourable underemployment situation. In absolute terms, the number of underemployed persons rose by 4 300 to 61 100 during the period. More visible increases in underemployment rate were observed in the construction and manufacturing sectors, conceivably due to the winding-down of activities around the Lunar New Year holidays.

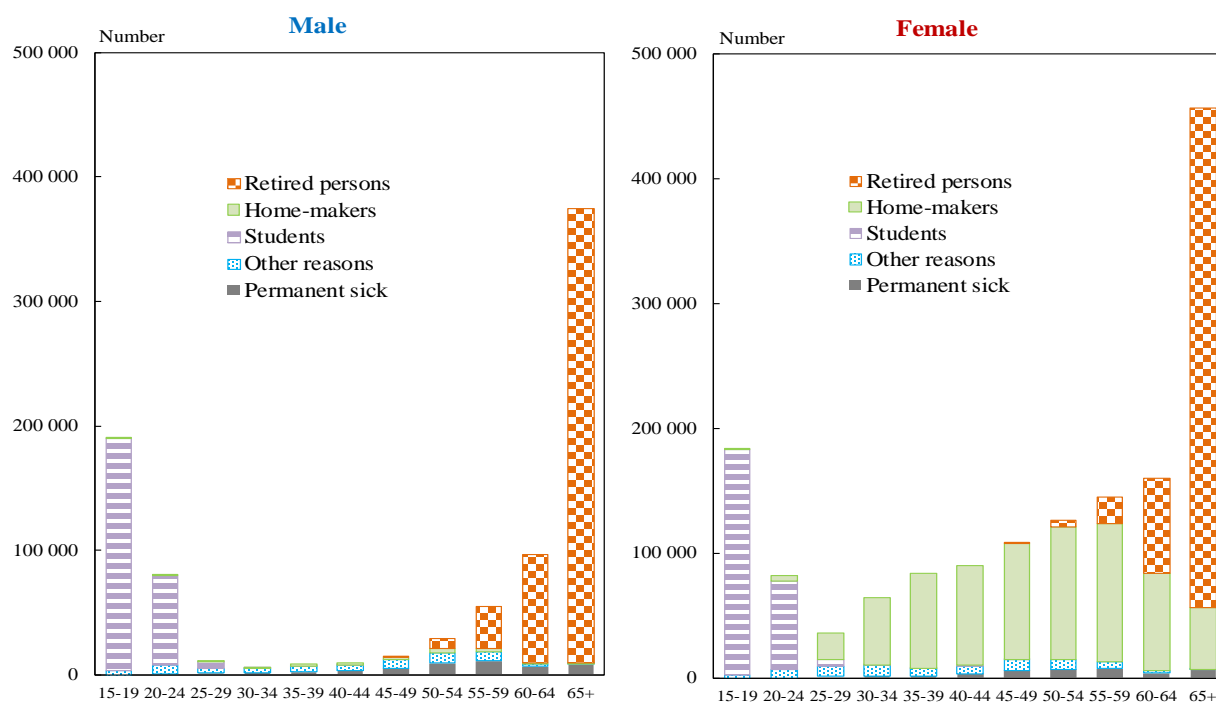
Box 5.1

Hong Kong's latent labour force

According to the latest labour force projections released by the Census and Statistics Department (C&SD), Hong Kong's labour force⁽¹⁾ will begin to shrink after 2018 as the impact of population ageing turns more evident. The resultant labour shortage, if not properly addressed, will inevitably hamper our economic growth potential. One possible way to readily replenish our future manpower supply as advocated by some stakeholders is to attract the latent labour force (technically known as economically inactive population⁽²⁾) in Hong Kong to enter / re-enter the labour market by providing them adequate employment incentives. This article analyses the socio-economic characteristics of the latent labour force, with a view to shedding some light on the above suggestion.

In 2012, the latent labour force amounted to some 2.4 million, representing around 40% of the population aged 15 and above. The reasons for being economically inactive vary across different age groups. For example, 89% of the younger (aged 15-29) economically inactive persons were students. Among those at prime working age (aged 30-59), 72% had to take up family responsibilities as home-makers, of which 98% were females. As for the elderly (aged 60 and above), 85% were retirees (*Chart 1*).

Chart 1 : Most of the economically inactive persons are students, female home-makers or retirees



Source : General Household Survey, C&SD.

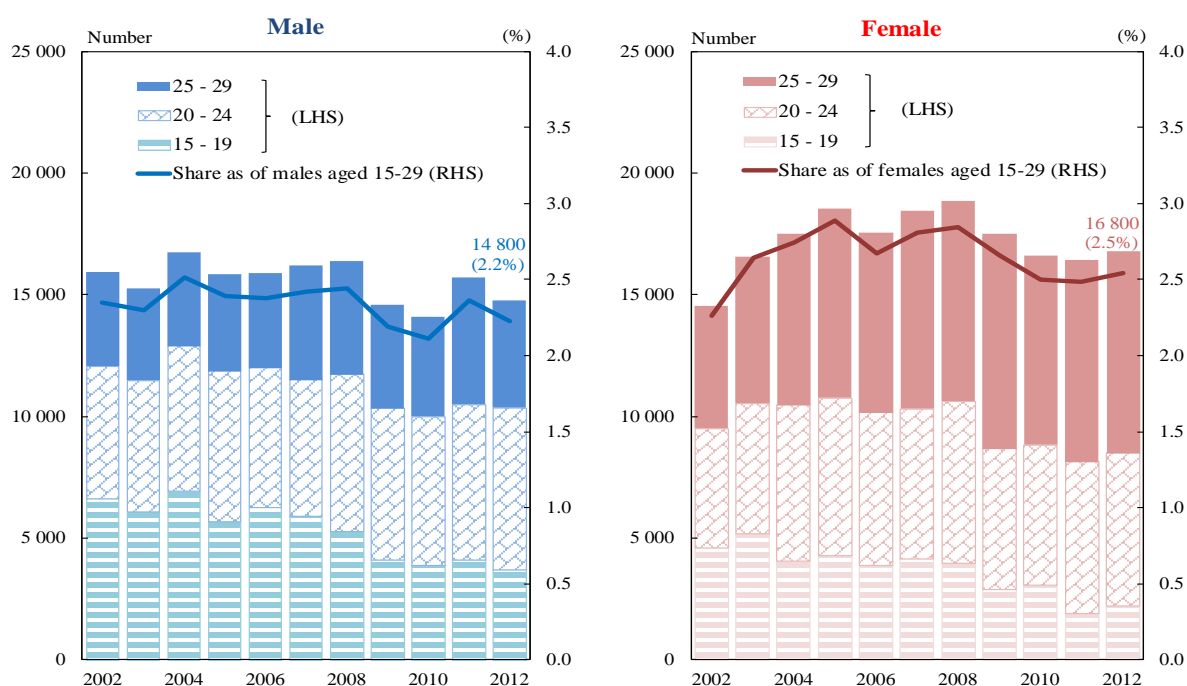
- (1) All labour statistics in this article exclude foreign domestic helpers.
- (2) The economically inactive population refers to persons who have not had a job and have not been at work during the seven days before enumeration, excluding persons who have been on leave / holiday during the seven-day period and persons who are unemployed. The figures in this article refer to those persons aged 15 and above living in domestic households.

Box 5.1 (Cont'd)

1. Young (aged 15-29) economically inactive persons

Youth employment is often one of the key focuses of policy-makers. In particular, economically inactive youngsters who are not in employment, education or training (the so-called NEETs) tend to attract more concerns. In 2012, there were roughly 31 500 NEETs in Hong Kong⁽³⁾, representing only 1.3% of the total economically inactive population. The number and proportion of NEETs held largely steady for both genders over the past decade (*Chart 2*). As compared to other advanced economies, such as United Kingdom (8.4%), France (6.5%), Germany (6.0%) and Switzerland (4.2%)⁽⁴⁾, Hong Kong's proportion of NEETs as of the population in the respective age group, at 2.4% in 2012, is comparatively low.

Chart 2 : Both number and proportion of NEETs stayed low over the past decade



Note: Figures in brackets denote the NEETs as % shares of the population in the respective age-sex groups.

Source: General Household Survey, C&SD.

Among the 31 500 NEETs, around 30% of them had completed post-secondary education, which was distinctly lower than that of 54% for their economically active counterparts. The generally lower educational attainment may result in less promising employment prospects, which may in turn translate into NEETs' reluctance to settle in career development after education. However, the number of NEETs after all was quite small.

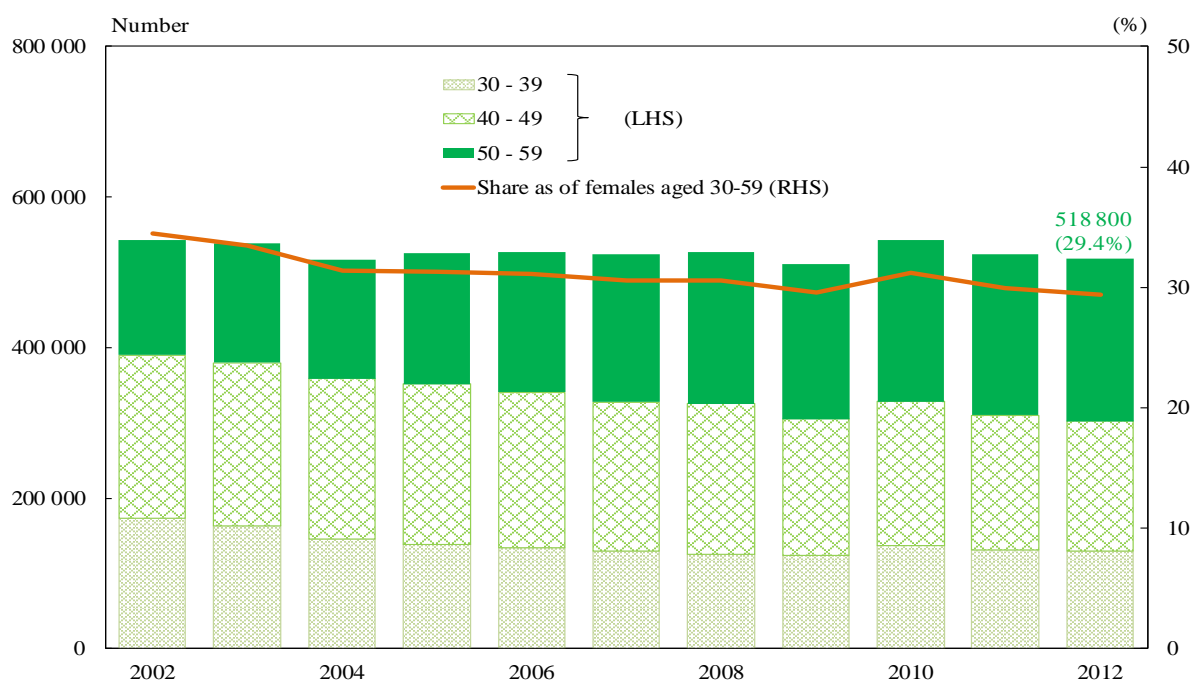
- (3) The number of NEETs was proxied by the number of economically inactive persons aged 15-29 who stated the reasons for not joining the workforce as "other reasons", which may refer to not seeking for job, not available for job, temporarily sick, etc.
- (4) Figures as of 2012 from Eurostat, which refer to the percentage shares of persons who (a) are inactive and (b) have not received any education or training in the four weeks preceding the survey to the total population consists of the same age group, excluding the respondents who have not answered the question 'participation to regular education and training'. Despite the differences in statistical definition, generally speaking, the figures are largely comparable to that in Hong Kong.

Box 5.1 (Cont'd)

2. Female home-makers at prime working age (aged 30-59)

Thanks to improved educational attainment and elevated social status, the labour force participation rate of females at prime working age increased notably in the past decade, from 60% in 2002 to 65% in 2012. Among those women aged 30-59 who chose to stay out of the workforce, around 518 800 (or 84%) were home-makers (*Chart 3*). The female home-makers aged 30-59 alone accounted for 22% of the economically inactive population in 2012, which could signify an important potential source of additional labour force.

Chart 3 : The proportion of female home-makers among the prime working age population, though declining over the years, stayed rather high



Note: Figure in brackets denotes the female home-makers as % share of the population in the respective age group.
Source: General Household Survey, C&SD.

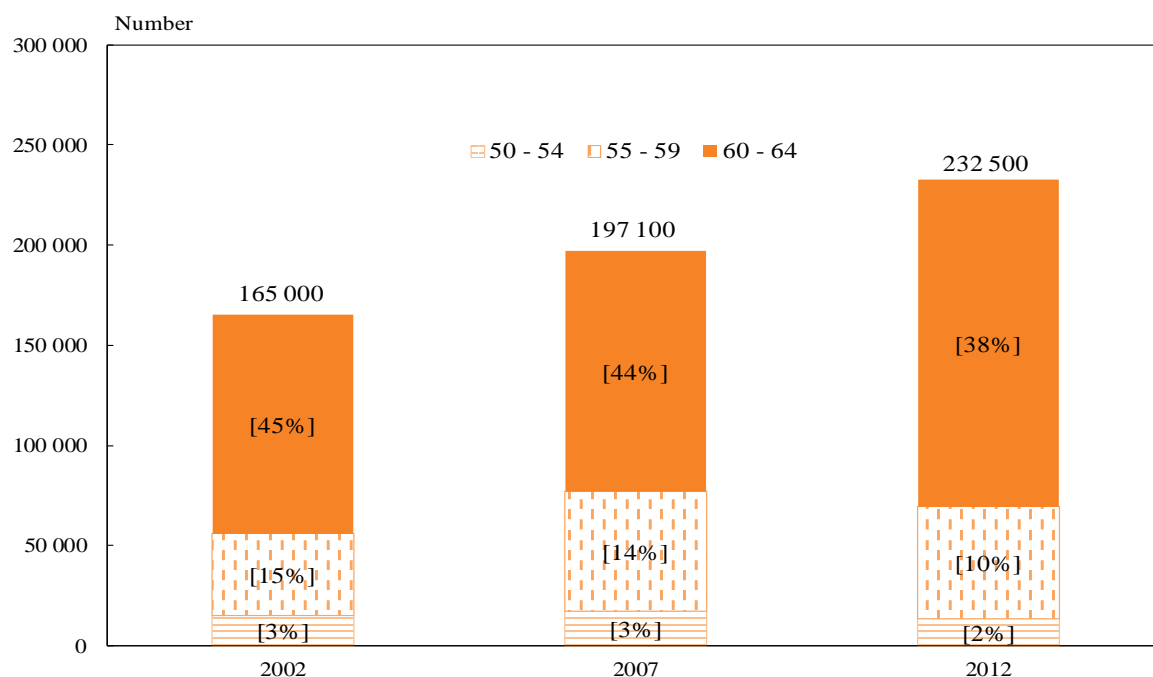
Nevertheless, it should be noted that these female home-makers had domestic responsibilities, especially child rearing, which may restrain them from participating in the labour market. More specifically, the majority of them were now married (91%), living with children (82%) and taking up family responsibilities without assistance from foreign domestic helpers (92%). These proportions were notably higher than those of their corresponding economically active group, with figures of 65%, 66% and 86% respectively.

3. Early retirees (aged 50-64)

While there is no mandatory retirement age in Hong Kong, many companies set the normal retirement age at 55-65. Even though the labour force participation rate of those aged 50-64 increased from 56% in 2002 to 60% in 2012 alongside a maturing workforce, the number of retirees in this age group (crudely referred as “early retirees”) still went up visibly from 165 000 in 2002 to 232 500 in 2012 (*Chart 4*). As a result, early retirees constituted a larger share of the economically inactive population at 9.7% in 2012, up from 7.9% in 2002. While these early retirees can be regarded as another potential source of additional labour supply, it is worth noting that only 7% of them were Comprehensive Social Security Assistance households, while around half of them were residing in owner-occupier premises without mortgage and loan in 2012. As many of these early retirees do not appear to have imminent financial needs, it could be quite difficult to motivate them to re-enter the labour market.

Box 5.1 (Cont'd)

Chart 4 : The proportion of retirees was much higher once entering the 60-64 age group



Note : Figures in square brackets denote the retirees as % shares of the population in the respective age groups.

Source : General Household Survey, C&SD.

Key observations

The above three groups together comprised 782 900 persons or 32% of the latent labour force in 2012. They represented around 22% of the labour force in 2012, which can be a potential source of workforce to tap. However, a separate survey⁽⁵⁾ conducted by C&SD in 2011 showed that merely around 4% of all economically inactive persons were willing to work given suitable employment. The corresponding ratios for NEETs, female home-makers at prime working age and early retirees were slightly higher, at 8.7%, 8.1% and 5.0% respectively. The survey also showed that most of the economically inactive persons in taking up jobs gave considerations to whether remuneration met their expectation, working environment was more comfortable or working hours were adequately flexible. For instance, up to around 40% of those home-makers who were willing to take up jobs only prepared to work part-time (i.e. less than 5 days per week or less than 6 hours per working day). And, for those prepared to work full-time, more than one-third admitted that they would only take up jobs during those hours with no need to take care of household responsibilities.

These observations suggest that the causes of not entering the labour market could be multi-dimensional. For example, the lack of jobs with flexi-time working arrangements or affordable quality childcare facilities as perceived by some female home-makers could somehow affect their labour supply. Over the years, the Government has put forward various initiatives targeting on different groups to promote employment, such as Youth Pre-employment Training Programme and Youth Work Experience and Training Scheme, Employment Programme for the Middle-aged, Work Incentive Transport Subsidy Scheme, etc. Indeed, the challenges that population ageing has brought to us call for continuous efforts in providing stronger incentives and support to different age groups for greater participation in the workforce down the road. To this end, the Steering Committee on Population Policy plans to launch a public engagement exercise later this year to enable the public to better understand the depth of our demographic problems and collect public views on population policy.

(5) Special Topics Report No. 59, "Desire of economically inactive persons for taking up jobs if being offered suitable employment".

Profile of employment in establishments

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

5.12 Total employment in private sector establishments reached a new record high of 2 665 000 in December 2012. However, the pace of job creation moderated further to 1.3% year-on-year, the slowest since September 2009. Resilient domestic activities and vibrant inbound tourism continued to render support to labour demand in the services sector, with information and communications (up 4.2% year-on-year), accommodation and food services (up 3.0%), and social and personal services (up 2.8%) recorded more visible job gains. Meanwhile, manufacturing employment continued its structural downtrend (down 4.6%), while import/export trade and wholesale registered mild employment loss (down 0.9%) as external trade was still weighed by the sluggish demand conditions in the advanced economies. Analysed by establishment size, around 86% of the job creation was contributed by larger enterprises, with their headcounts rising by 2.2% in December 2012 over a year earlier. On the other hand, employment in small and medium-sized enterprises (SMEs)⁽⁷⁾ grew only marginally by 0.4%. For 2012 as a whole, employment gains remained rather solid, despite the subdued local economic growth. Total employment in private sector establishments grew by a further 1.9%, after a respectable increase of 3.1% in 2011. As for civil service, employment grew at a modest pace of 0.7% year-on-year in December 2012, and 1.1% for 2012 as a whole.

Table 5.6 : 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>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</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)	556 400 (-1.1)	557 200 (-1.4)	558 300 (-0.4)	555 400 (-1.6)	554 600 (-0.9)
Retail	252 800 (4.0)	251 300 (4.5)	252 000 (4.7)	252 900 (4.2)	255 000 (2.7)	259 100 (2.5)	256 800 (2.2)	259 400 (2.9)	259 700 (2.7)	260 200 (2.1)
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)	272 300 (2.6)	269 000 (2.3)	272 300 (2.3)	273 700 (2.8)	274 200 (3.0)
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)	166 600 (1.8)	165 600 (2.2)	166 700 (2.2)	166 900 (1.9)	167 200 (1.1)
Information and communications	91 300 (3.4)	89 300 (2.1)	91 100 (3.0)	91 700 (3.6)	93 300 (4.9)	96 400 (5.6)	95 200 (6.6)	95 900 (5.3)	97 500 (6.3)	97 200 (4.2)
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)	666 500 (3.1)	662 200 (4.6)	664 700 (3.5)	668 200 (2.4)	671 000 (1.9)
Social and personal services	439 300 (2.4)	436 200 (2.0)	438 700 (2.8)	440 600 (2.7)	441 700 (2.1)	450 000 (2.4)	444 600 (1.9)	450 600 (2.7)	450 800 (2.3)	454 200 (2.8)
Manufacturing	112 700 (-5.6)	115 100 (-6.1)	113 800 (-5.0)	111 500 (-5.2)	110 400 (-6.1)	106 900 (-5.1)	108 000 (-6.2)	107 600 (-5.4)	106 800 (-4.3)	105 300 (-4.6)
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)	71 300 (13.8)	70 600 (20.1)	71 700 (22.4)	72 200 (13.4)	70 600 (1.7)
<i>All establishments surveyed in the private sector^(b)</i>	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)	2 656 000 (1.9)	2 639 700 (2.1)	2 657 700 (2.3)	2 661 500 (1.6)	2 665 000 (1.3)
		<1.2>	<0.5>	<0.8>	<0.3>		<0.5>	<0.7>	<0.1>	<§>
<i>Civil service^(c)</i>	157 600 (0.7)	156 900 (0.2)	157 300 (0.7)	157 700 (0.8)	158 500 (1.2)	159 300 (1.1)	159 200 (1.5)	159 200 (1.2)	159 100 (0.9)	159 700 (0.7)

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

(a) 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.

§ Increase less than 0.05%.

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

Vacancies

5.13 Job vacancies in private sector establishments stayed high across most economic sectors, reflecting the prevailing tightness in the labour market in December 2012. The number of private sector vacancies rose by 18.0% over a year earlier to 65 100. For 2012 as a whole, job vacancies surged by 21.5% to reach the highest annual level since 1994.

5.14 In terms of establishment size, larger enterprises continued to post strong growth in job vacancies, at 26.6% in December 2012 over a year earlier, much faster than the 9.4% increase among the SMEs. Analysed by economic sector, visible increases in job vacancies were found in accommodation and food services (up 31.9% year-on-year); retail (up 20.4%); and transportation, storage, postal and courier services (up 20.2%), thanks to the robust domestic sector and vibrant inbound tourism. This mirrored the sustained strong vacancy growth at 31.9% year-on-year for the lower-skilled segment, characterised by particularly substantial increases in job openings for craft and related workers (up 73.8%), and service and sales workers (up 37.5%). In contrast, the higher-skilled segment was hit somewhat by the sub-par economic performance, with the number of vacancies falling across-the-board by 8.2% in December 2012 over a year earlier, further to a 1.2% decrease in September. For 2012 as a whole, higher-skilled and lower-skilled vacancies in the private sector increased by 1.7% and 33.7% respectively. As for the civil service, the number of vacancies remained stable at around 6 600 in December 2012, up by 5.0% as compared to a year ago.

5.15 Analysing the number of job openings in private sector establishments relative to that of job seekers, the ratio of job vacancies per 100 unemployed persons was 56 in December 2012, higher than those of 52 three months ago and 48 a year earlier. Yet this broad movement masked the diverse trends exhibited across different occupational category. Specifically, manpower shortage turned even more evident among service and sales workers, with the corresponding ratio rising to 99 in December 2012 from 80 in September. In contrast, the ratio for professionals and associate professionals combined likewise fell substantially from 98 to 78, indicating the somewhat slackened labour demand in the higher-skilled segment. Analysed by economic sector, the respective ratios for such sectors as arts, entertainment and recreation, residential care and social work services, and human health services remained considerably above 100, signifying a higher degree of tightness. When measured in terms of the percentage of job vacancies to total employment opportunities, the vacancy rate for private sector establishments edged down to

2.4% in December 2012 from 2.5% in September, though it was still higher than the 2.1% a year earlier. Retail, social and personal services, and accommodation and food services were the sectors seeing more apparent declines in vacancy rates in December 2012 as compared to three months ago.

Table 5.7 : Vacancies by major economic sector

	<u>Number of vacancies</u>										Vacancy rate in Dec 2012 (%)
	<u>2011</u>					<u>2012</u>					
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	
Import/export trade and wholesale	7 800 (20.0)	8 300 (26.5)	8 300 (35.7)	7 700 (10.4)	7 100 (8.9)	8 500 (8.5)	8 900 (7.8)	9 100 (10.6)	8 200 (6.4)	7 700 (9.0)	1.4
Retail	5 900 (19.6)	6 000 (23.9)	5 200 (18.2)	6 100 (10.3)	6 300 (27.2)	7 900 (33.6)	8 200 (35.7)	6 900 (32.7)	9 000 (45.9)	7 600 (20.4)	2.8
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)	12 000 (46.5)	11 000 (42.7)	12 300 (51.1)	12 900 (62.0)	11 900 (31.9)	4.1
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)	3 300 (25.5)	3 200 (26.1)	3 400 (13.2)	3 500 (45.7)	3 000 (20.2)	1.8
Information and communications	2 300 (1.0)	2 700 (19.1)	2 200 (-4.8)	2 200 (-13.9)	2 200 (6.6)	2 400 (1.7)	2 500 (-7.4)	2 400 (8.6)	2 200 (-4.0)	2 500 (11.6)	2.5
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)	16 100 (14.5)	16 200 (14.8)	16 600 (14.0)	15 800 (10.6)	15 800 (18.9)	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)	15 200 (16.0)	16 300 (23.1)	16 500 (29.5)	14 800 (6.6)	13 100 (5.0)	2.8
Manufacturing	2 200 (42.7)	2 400 (52.7)	2 200 (49.8)	2 300 (44.9)	1 900 (24.2)	2 700 (25.0)	2 900 (21.1)	3 000 (37.2)	2 400 (2.6)	2 800 (42.5)	2.6
Construction sites (manual workers only)	300 (434.6)	100 (217.0)	300 (411.9)	500 (641.7)	300 (385.3)	600 (95.1)	700 (347.0)	600 (94.7)	500 (-4.3)	800 (142.7)	1.1
All establishments surveyed in the private sector ^(b)	56 700 (19.0)	57 200 (24.4)	56 600 (25.3)	57 700 (12.9)	55 100 (14.6)	68 800 (21.5)	70 000 (22.3)	70 800 (25.1)	69 500 (20.4)	65 100 (18.0)	2.4
		<3.3>	<2.0>	<-0.6>	<9.0>		<10.6>	<4.2>	<-3.9>	<6.2>	
Civil service ^(c)	6 300 (9.7)	6 000 (13.2)	6 200 (8.5)	6 600 (11.8)	6 200 (5.4)	6 300 (0.9)	5 900 (-2.5)	6 300 (1.8)	6 600 (-0.5)	6 600 (5.0)	3.9

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.

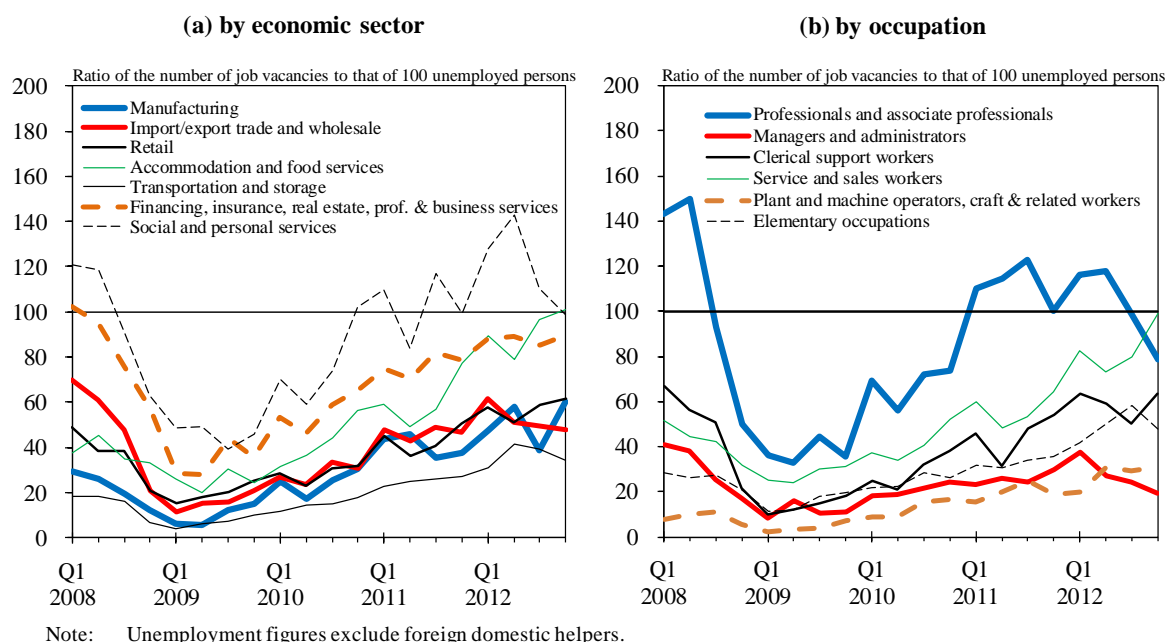
() % change over a year earlier.

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

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

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

Diagram 5.5 : Manpower shortage persisted in some sectors and occupations



5.16 The vacancy figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may offer some hints on the latest developments in the labour market. In March 2013, the number of private sector vacancies posted by the LD stayed high at around 108 700, up by 9.9% over the year-ago level. On a quarter-to-quarter comparison, the average number of vacancies increased modestly by 2.3% in the first quarter of 2013, indicating largely steady hiring sentiment.

Wages and earnings

5.17 With the labour market remaining generally tight throughout 2012, wages and earnings sustained visible growth. The *nominal wage index*, as a measure of regular payment to employees at the supervisory level or below, increased by 5.1% year-on-year in December 2012, after the solid growth of 4.8% in September. After adjusting for inflation⁽⁸⁾, the overall wages sustained real growth of 0.9% in December 2012, further to the 0.4% increase in September. For 2012 as a whole, labour wages rose solidly by 5.7% in nominal terms, and 1.6% in real terms. These were nevertheless visibly smaller than the 8.1% and 2.7% increases in 2011, as the boosting effect of SMW gradually dissipated.

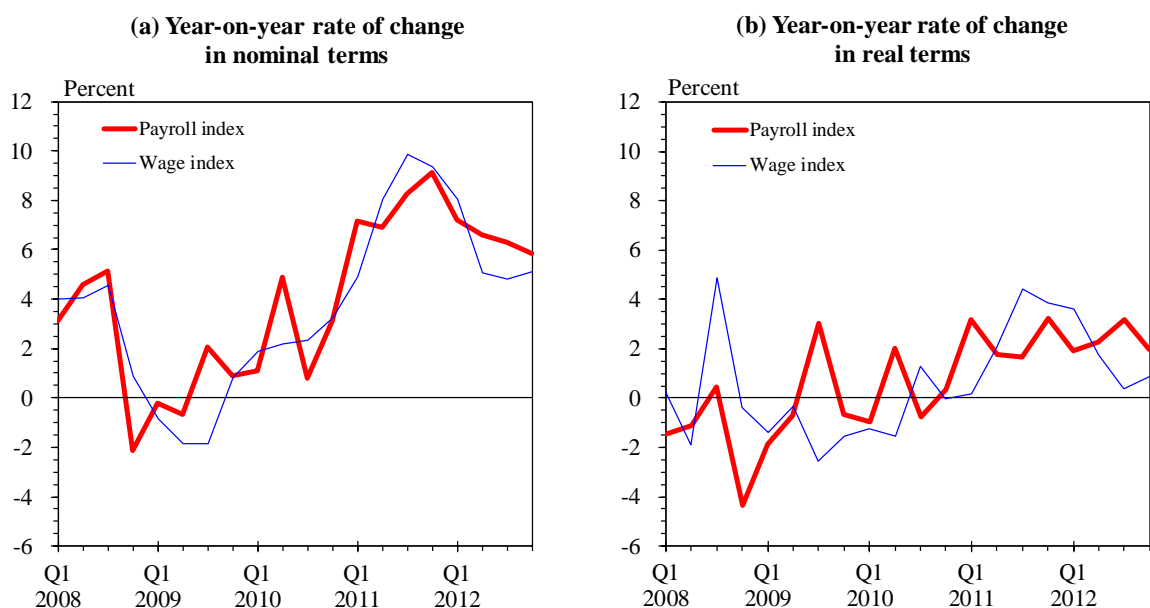
5.18 Nominal pay increased across all economic sectors and almost all occupations in December 2012, with notable gains in accommodation and food service activities (up 8.4% year-on-year), personal services (up 8.4%), and real estate leasing and maintenance management (up 7.1%) on the back of the

prevailing strength in domestic demand and inbound tourism. Meanwhile, wages among those engaged as supervisory and technical workers (up 7.2%) and service workers (up 6.3%) registered appreciable rises over the same period.

5.19 *Labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged in the private sector, also painted a similar picture. In the fourth quarter of 2012, the nominal payroll rose by 5.9% over a year earlier, albeit slightly slower than the 6.3% rise in the preceding quarter. After discounting for inflation, there was a real improvement of 2.0%. For 2012 as a whole, earnings recorded another year of strong growth at 6.5% in nominal terms, and 2.3% in real terms.

5.20 Nominal payroll increased further across all major economic sectors in the fourth quarter of 2012, with particularly sizeable increases seen in retail trade (up 9.9% year-on-year), and information and communications (up 7.1%).

Diagram 5.6 : Labour earnings and wages saw further improvements in both nominal and real terms



5.21 Latest statistics available from the General Household Survey, though not strictly comparable to those from the business establishment surveys, showed that average monthly employment earnings⁽¹⁰⁾ (excluding foreign domestic helpers) for full-time employees increased by a modest 2.5% in nominal terms in the first quarter of 2013 as compared to a year ago, translating into a 1.2% decline in real terms after adjusting for inflation. Further analysis showed that it was mainly attributable to the slow earnings growth in the higher-skilled segment. In contrast, those in the lowest decile continued to

enjoy appreciable earnings growth of 7.7% in nominal terms and 3.4% in real terms over a year earlier. The \$30 hourly SMW rate that came into effect on 1 May will likely provide some support to earnings growth in the period ahead, particularly for the lower income workers.

Recent labour-related measures

5.22 In 2013, 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. During January to March 2013, LD organised three large-scale job fairs in North District and Wan Chai. 148 participating organisations offered some 10 300 vacancies from the retail, catering, property management and other industries. There were also 15 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, mini job fairs are also regularly organised at LD's Job Centres to assist job-seekers in seeking employment.

5.23 As announced by the Chief Executive in his 2013 Policy Address, to enhance the employability and employment opportunities of young people, middle-aged persons and persons with disabilities, LD will increase the allowance payable to employers under the Youth Pre-employment Training Programme and Youth Work Experience and Training Scheme (YPTP&YWETS), the Employment Programme for the Middle-aged and the Work Orientation and Placement Scheme so as to encourage employers to offer them more openings and provide them with on-the-job training. To encourage participation in workplace attachment training under YPTP&YWETS, LD will increase the allowance payable to trainees. Moreover, to strengthen employment services to residents living in remote areas, LD will set up a job centre in Tung Chung to facilitate job-seekers in the area in seeking employment services and save their travelling expenses.

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.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 6 : PRICES

Summary

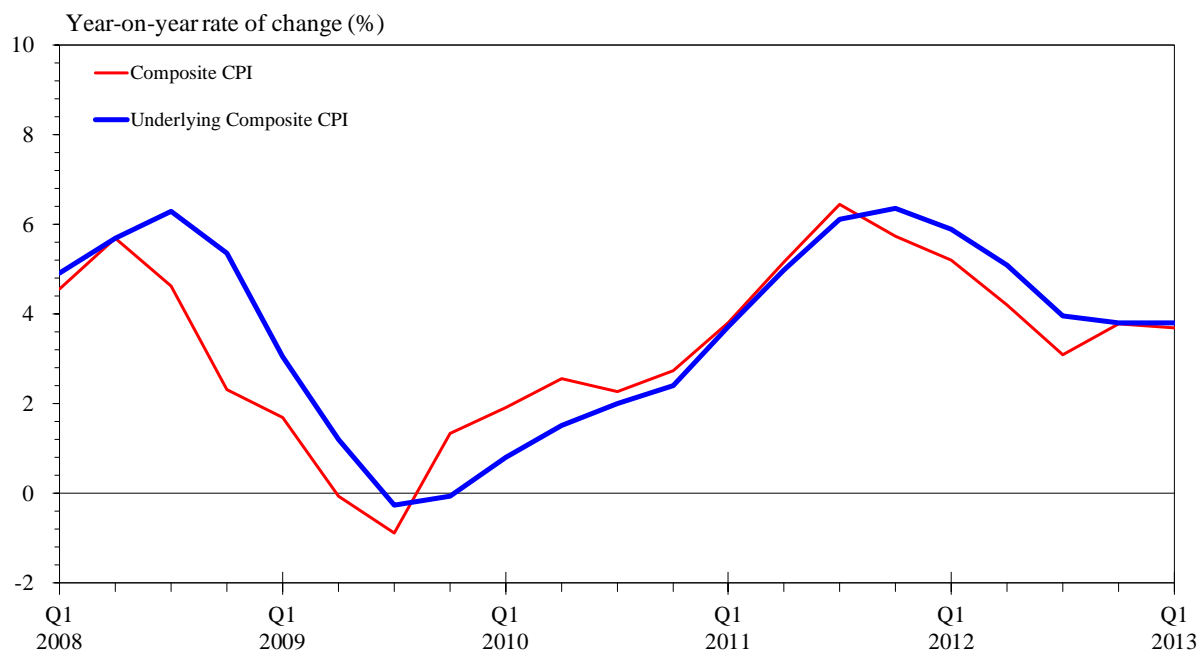
- *Inflation held steady in the first quarter of 2013. The Composite Consumer Price Index (Composite CPI)⁽¹⁾ rose by 3.7% in the first quarter over a year earlier, compared to 3.8% in the preceding quarter. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, the year-on-year increase in the underlying Composite CPI was 3.8%, same as that in the preceding quarter.*
- *Externally, imported inflation remained tame, thanks to the relative stabilisation of international food and commodity prices, as well as the generally moderate inflation in Hong Kong's major trading partners.*
- *Domestically, labour costs increased at a slower pace in recent quarters alongside the modest local economic growth. Rentals for retail premises remained elevated on the back of the vibrant consumption market, but the rising trend tapered in recent months. Meanwhile, the rise of the fresh-letting residential rentals over the past year had yet to fully feed through to the Composite CPI.*
- *Looking ahead, the Hong Kong economy may face some upside risks to inflation, stemming from the lagged effects of higher housing rentals and the possible volatility of international food and commodity prices amid the aggressive quantitative easing in the advanced economies.*

Consumer prices

6.1 Overall inflationary pressures held largely stable in the first quarter of 2013. Externally, import prices saw moderated year-on-year increases, thanks to the relatively stable international food and commodity prices, as well as the generally tame inflation in the Mainland and other import suppliers. Locally, the increase in labour costs decelerated somewhat in recent quarters, mainly reflecting the below-trend growth of the local economy. Rentals for retail premises, though still elevated on the back of strong retail sales performance, tended to ease more recently. Yet, reflecting the lagged effect of higher fresh-letting residential rentals last year, the private housing rental component of the underlying Composite CPI showed a slightly faster increase in the first quarter of 2013. The local inflation developments were largely in

line with those in a number of Asian and emerging market economies, which also saw broadly stable or even slightly higher headline inflation in the first quarter of 2013⁽²⁾.

Diagram 6.1 : Consumer price inflation held largely stable in the first quarter of 2013



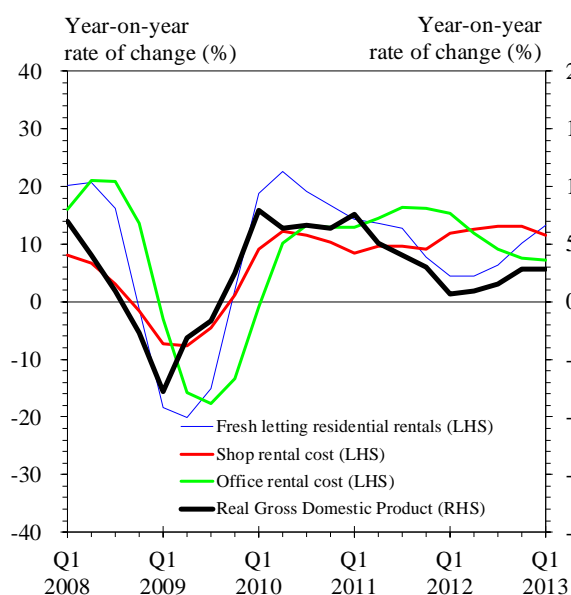
Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the indices to maintain continuity.

6.2 Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, rose by 3.7% in the first quarter of 2013, compared with 3.8% in the preceding quarter. Netting out the effects of the Government’s one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation was 3.8%, same as that in the preceding quarter.

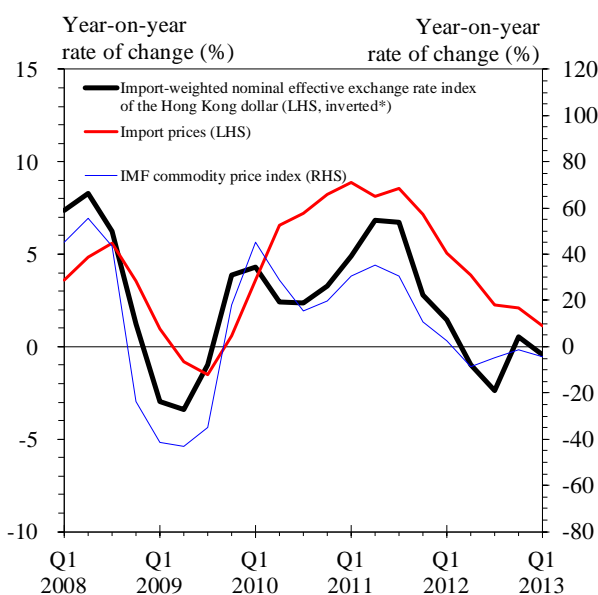
6.3 On a year-on-year comparison, price increases varied among the major components of the underlying Composite CPI. Local food inflation (including costs of dining out) eased slightly from 4.2% year-on-year in the fourth quarter of 2012 to 4.1% in the first quarter of 2013. On the other hand, the year-on-year increase in the private housing rental component went slightly higher, from 5.3% to 5.4% over the same period, reflecting the gradual feed-through of the higher fresh-letting residential rentals over the past year. Nonetheless, for many other CPI components, the rate of price increase continued to moderate in the first quarter of 2013, amid the subpar economic performance and receding imported inflation. Separately, the prices of durable goods stayed on their secular downtrend.

Diagram 6.2 : Inflationary pressures were more visible on the domestic front

(a) The year-on-year rises in residential and shop rentals remained visible



(b) Imported inflation moderated



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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
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
2013	Q1	3.8	3.7	4.2	3.5	3.3

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

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
2013	Q1	1.2	1.2	1.3	1.2	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 6.3 (a) : The price increases in many major components in the underlying Composite CPI remained moderate

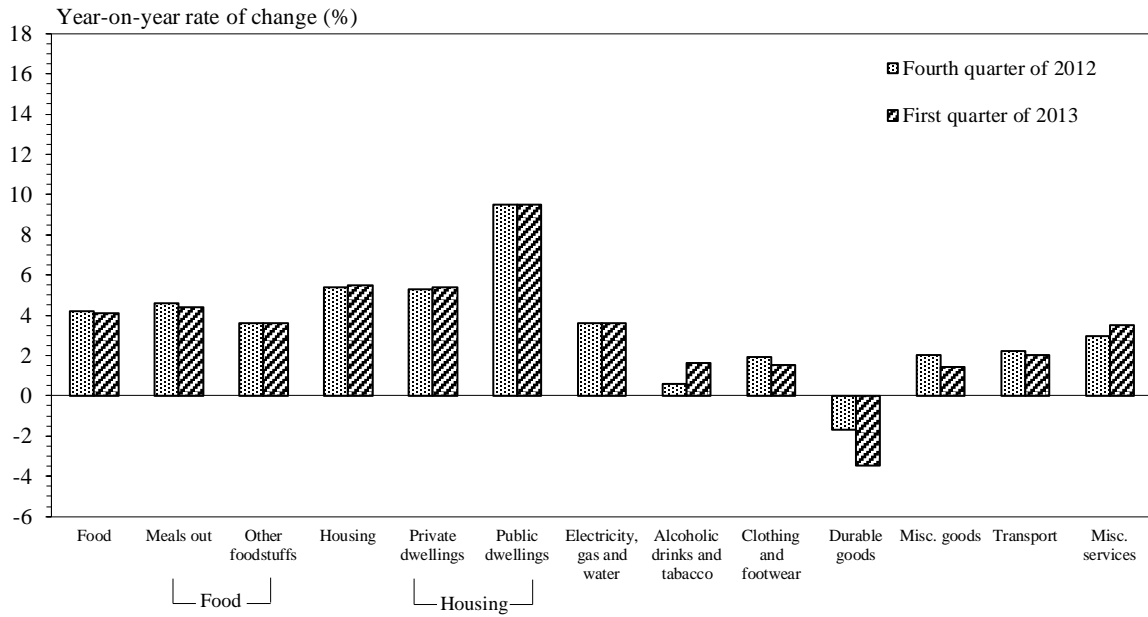
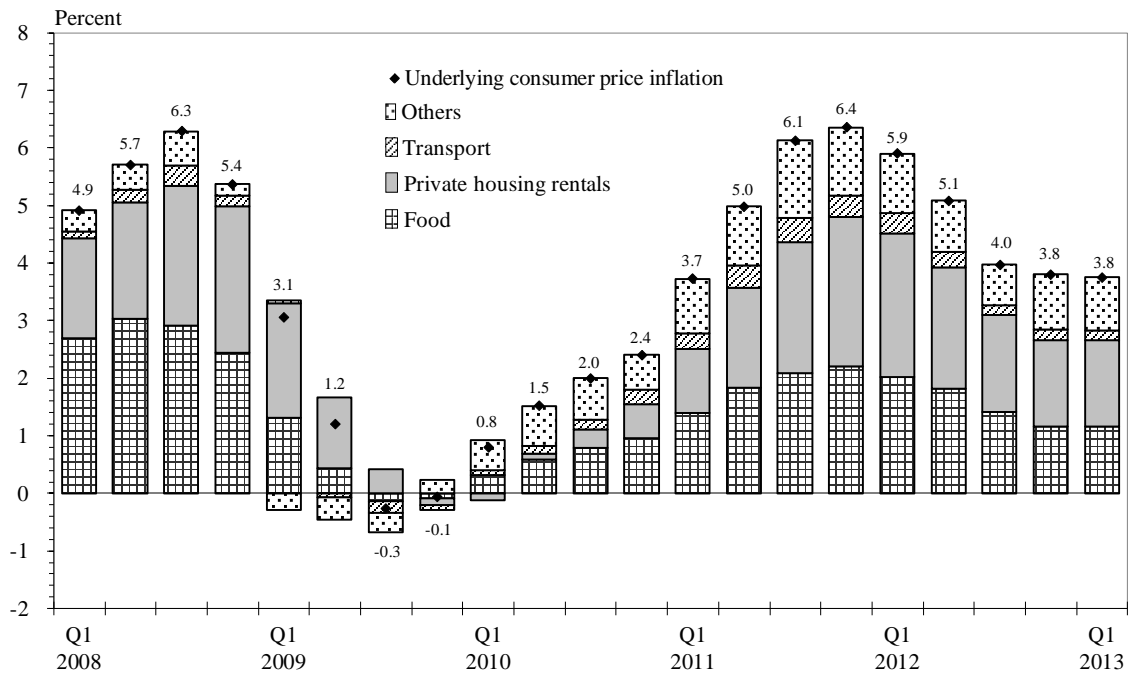


Diagram 6.3 (b) : Contribution to underlying consumer price inflation by major component



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 6.2 : 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>Q1</u>	<u>2012</u>			<u>2013</u>
					<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	27.45	7.0	5.8	7.4	6.6	5.1	4.2	4.1
<i>Meals bought away from home</i>	17.07	5.2	5.4	6.1	5.7	5.3	4.6	4.4
<i>Other foodstuffs</i>	10.38	9.9	6.5	9.4	8.1	5.0	3.6	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)	5.2 (5.5)
<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)	5.0 (5.4)
<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)	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)	4.9 (3.6)
Alcoholic drinks and tobacco	0.59	17.1	3.0	11.6	0.1	0.5	0.6	1.6
Clothing and footwear	3.45	6.8	3.1	4.9	3.2	2.3	1.9	1.5
Durable goods	5.27	-3.8	-1.4	-1.8	-0.9	-1.2	-1.7	-3.5
Miscellaneous goods	4.17	3.8	2.2	3.4	2.2	1.4	2.0	1.4
Transport	8.44	4.4	3.0	4.4	3.3	2.2	2.2	2.0
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)	3.5 (3.5)
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)	3.7 (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.

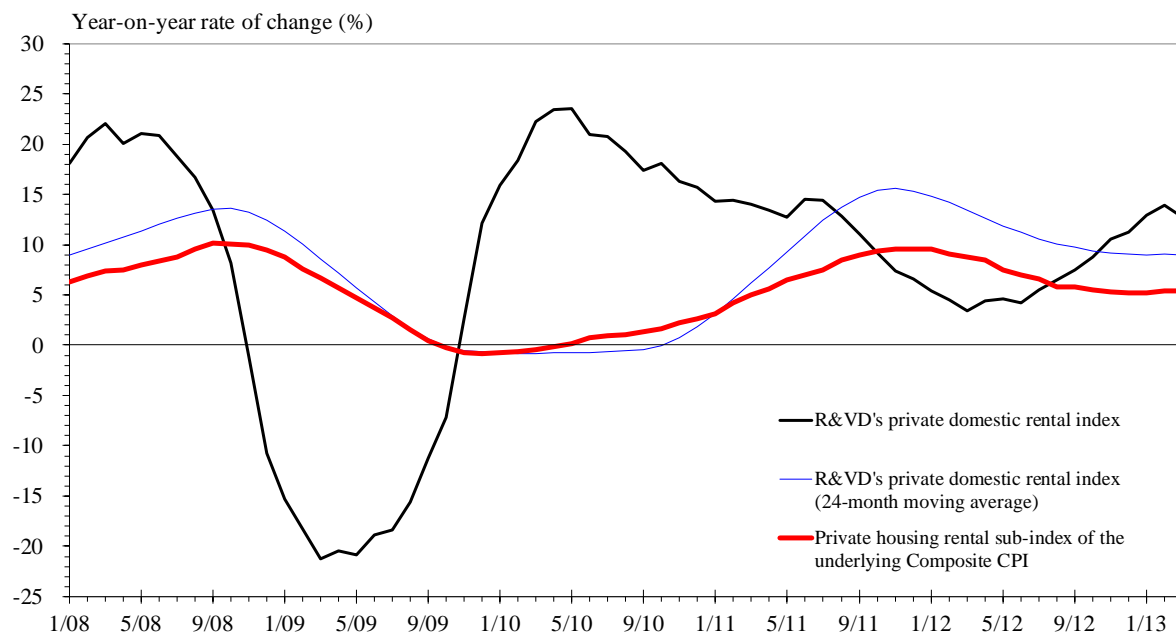
Box 6.1

Recent movements of the Composite CPI's private housing rental sub-index

The private housing rental sub-index of the Composite CPI tracks the fluctuations in average rent, including rates and government rent, paid by all private residential households. Among all kinds of residential leases it covers, existing leases constitute a larger share of the total tenancies of private dwellings, relative to new and renewed lettings. As the terms and conditions of existing leases are expected to hold throughout the contractual period, the private housing rental sub-index of the Composite CPI tends to be less directly susceptible to the latest changes in lease market conditions. Yet, past increases in market rentals will eventually be reflected in new tenancies when the existing ones expire, thereby translating into increases in the private housing rental sub-index of the Composite CPI. The rental index for private domestic premises, as compiled by the Rating and Valuation Department (R&VD), which covers the movements in rents for fresh lettings, may therefore serve as a leading indicator of the Composite CPI's private housing rental sub-index.

The chart below illustrates the relationship between year-on-year rates of change in fresh-letting residential rentals (as indicated by the R&VD's index) and the CPI's private housing rental sub-index. The latter generally followed a downtrend in 2012, upon the feed-through of the easing in fresh-letting rentals in the second half of 2011 and early 2012. However, the private housing rental component of the underlying Composite CPI saw a renewed pick-up to 5.4% year-on-year in the first quarter of 2013, from 5.3% in the preceding quarter. This reflected the progressive feed-through of the visible increase in market rentals last year, which rose by 6.4% on average. Even though the pace of increase in fresh-letting rentals eased somewhat during the first quarter of 2013, their past increases are expected to continue to feed through to the private housing component of the Composite CPI in the coming months, possibly resulting in slightly higher inflation further down the road.

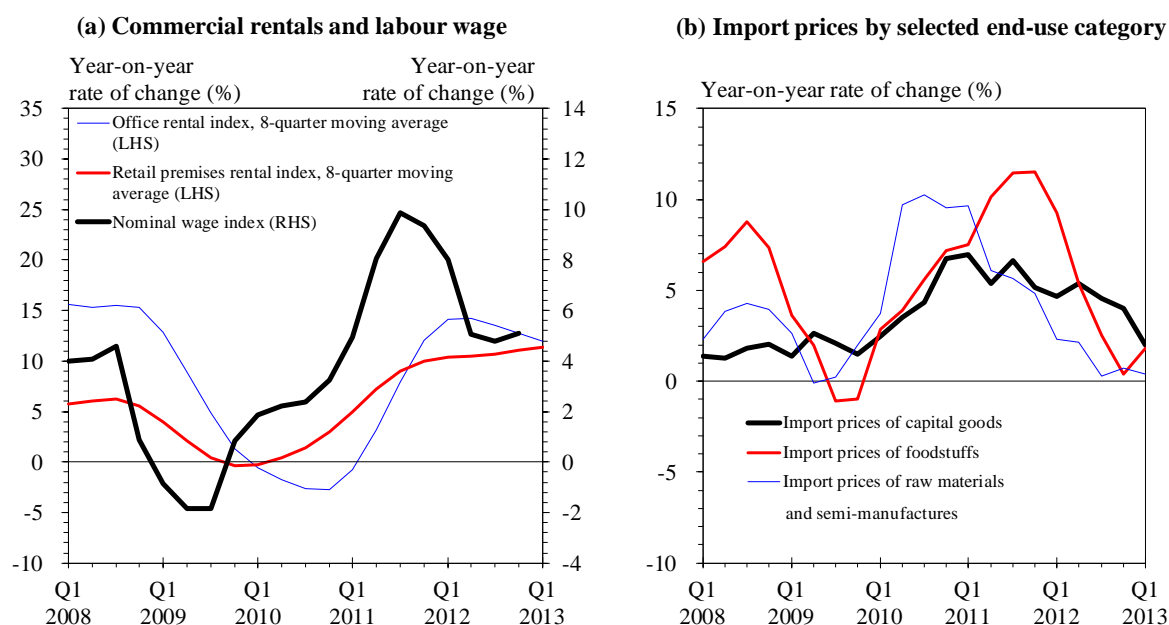
Movements in the private housing rental sub-index of the underlying Composite CPI and in R&VD's private domestic rental index



Costs of factor inputs and import prices

6.4 Domestic cost pressures were still rather visible in some economic segments, despite several quarters of sub-trend GDP growth. On labour costs, wages and earnings continued to increase amid broadly stable labour market conditions, although the rate of increase moderated somewhat in the past few quarters as economic performance remained subpar and the boost from the SMW implementation in 2011 waned. The year-on-year rise in office rentals also eased in the first quarter of 2013, in tandem with the less sanguine economic environment. The uptrend in shop rentals, whilst still elevated on the back of robust growth in retail businesses, has tended to ease more recently.

Diagram 6.4 : Domestic cost pressures in some economic segments were still visible, while import prices rose at a moderated pace



Box 6.2

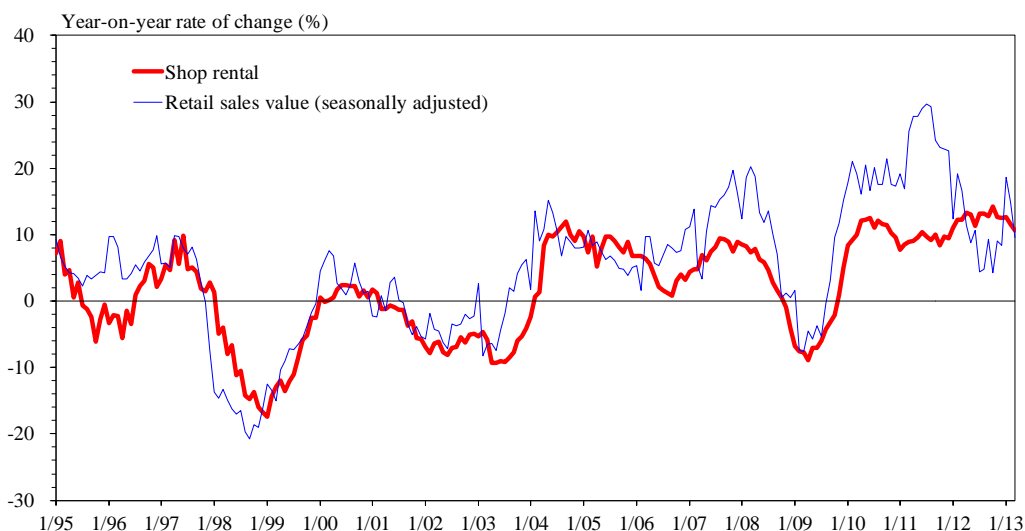
The relationship between commercial rental costs and macroeconomic variables

Rentals for commercial premises have a bearing on local consumer price inflation, since higher business costs may eventually drive up prices at the retail level and be reflected in some of the major components in the Composite CPI, such as meals bought away from home and clothing and footwear. This article looks at the relationship between commercial rentals (i.e. those of retail premises and office space) and some macroeconomic variables, and discusses the possible implications on local inflation.

Market rentals for retail shop space

As illustrated in *Chart 1*, there has been a close relationship between market rentals for retail shop space and retail sales performance over the years. While average rentals for retail shop space rose visibly by 10.8% in 2010 and 9.3% in 2011, the corresponding growth rates of retail sales value were even more impressive, at 18.3% and 24.9% respectively, suggesting that rising shop rentals were well underpinned by improvement in business receipts. Yet, the pace of increase in shop rentals eased somewhat during the first quarter of 2013, in tandem with some slight moderation in retail sales growth of late.

Chart 1 : Shop rentals moved in sync with retail business performance



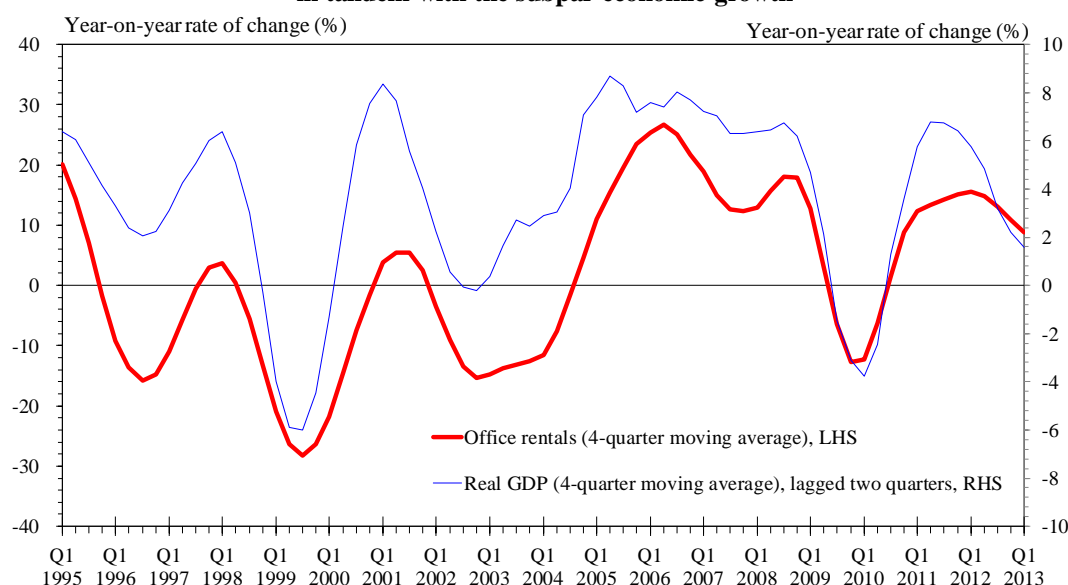
Note : The retail sales statistics from January 2009 onwards are based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0, and those before that are based on HSIC Version 1.1.

Market rentals for offices

Similar to retail shop rentals, office rentals are also sensitive to the economic conditions. *Chart 2* illustrates that the movements of office rentals tend to track, with a certain time lag, the local economic performance as measured by real GDP growth. Indeed, the year-on-year increase in office rentals has decelerated progressively in 2012, from 15.3% in the first quarter to 7.5% in the fourth quarter, and further to 7.3% in the first quarter of 2013, alongside the subpar local economic growth.

Box 6.2 (Cont'd)

**Chart 2 : The pressures on office rentals have eased
in tandem with the subpar economic growth**



To conclude, the movements of commercial rentals are strongly influenced by prevailing economic conditions. While shop rentals depend much on the state of the consumption market, office rentals tend to move in sync with the business cycle over time. As such, retail and office rentals have exhibited some divergent movements of late, with the latter showing a greater pace of moderation amid the below-trend GDP growth and the former still being supported by the robust retail market.

The Government fully recognises the importance of a steady and sufficient supply of commercial land to Hong Kong's long-term economic development and its status as an international business and financial centre. To this end, the Chief Executive proposed in his 2013 Policy Address a number of initiatives to increase the supply of commercial land over the short, medium and longer run. The Government would continue to consolidate and enhance the existing Central Business Districts in Hong Kong, while also expedite the development of new business districts (e.g. Kowloon East) with a view to increasing the supply of quality office space. Meanwhile, the 2013-14 Land Sale Programme will include nine sites for commercial and business use to provide room for further development of different economic activities in Hong Kong.

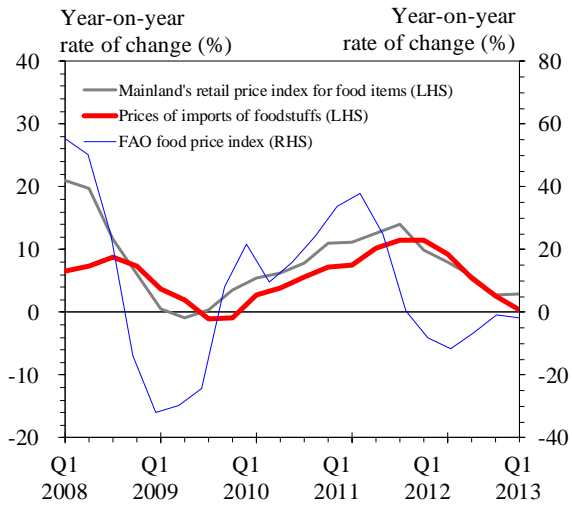
6.5 On the external front, imported inflation remained tame in the first quarter of 2013. Overall import prices rose only modestly by 1.1% in the first quarter over a year earlier, down further from 2.1% in the preceding quarter. Import prices of foodstuffs showed a mild year-on-year increase of 1.8%, while those of raw materials and semi-manufactures increased slightly by 0.4%, thanks to the relatively stable international food and commodity prices and moderate inflation in the supply sources. Import prices of fuels fell by 5.5% over a year earlier, mirroring the softer crude oil prices in the international markets. Meanwhile, the increases in import prices of consumer goods and capital goods both slowed further to 2.0%.

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

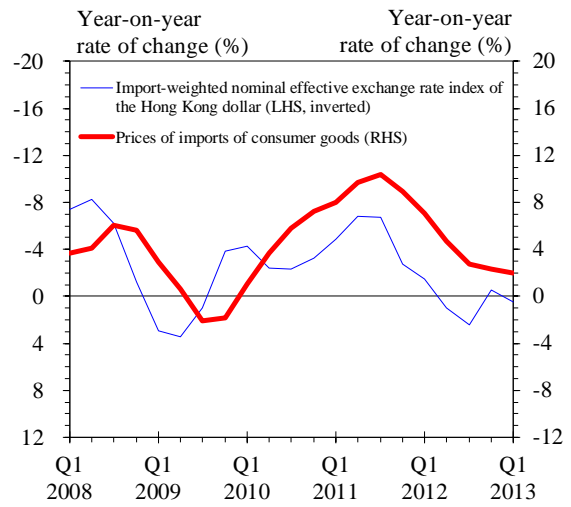
		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2012	Annual	4.1	4.1	1.4	2.6	4.7	3.3
	H1	7.3	5.8	2.2	8.0	5.0	4.4
	H2	1.3	2.6	0.5	-2.3	4.3	2.2
	Q1	9.3	7.1	2.3	16.5	4.6	5.0
	Q2	5.4	4.7	2.1	0.8	5.4	3.9
	Q3	2.5	2.8	0.3	-2.6	4.6	2.3
	Q4	0.4	2.3	0.7	-2.0	4.0	2.1
2013	Q1	1.8	2.0	0.4	-5.5	2.0	1.1

Diagram 6.5 : Import prices by end-use category

(a) Imported food prices increased slightly amid relatively soft global food prices

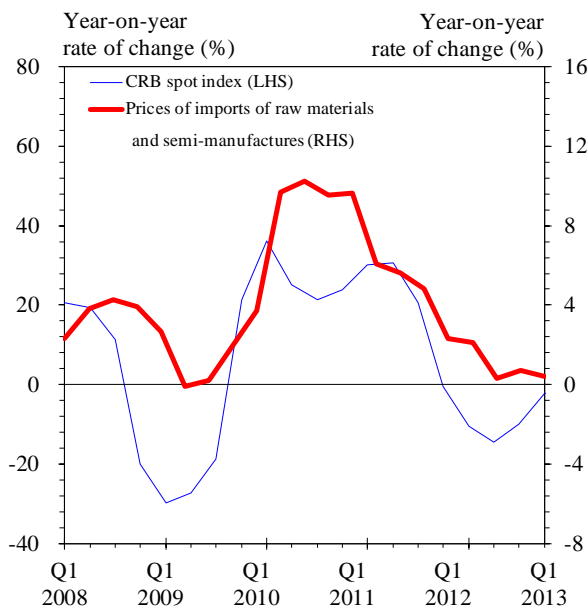


(b) Import prices of consumer goods rose at a moderated pace

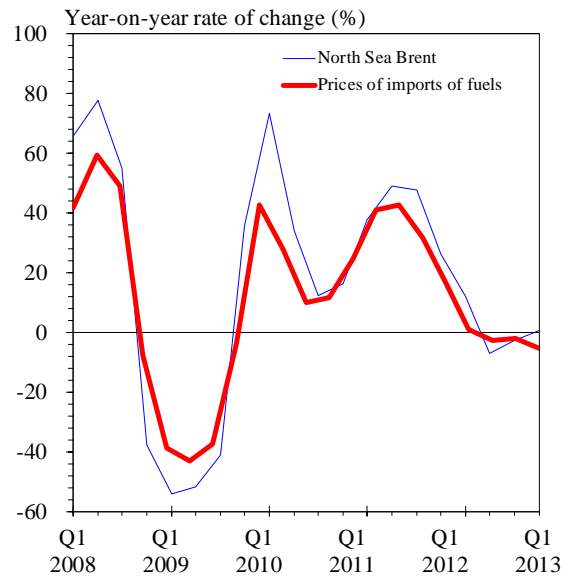


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials saw little changes amid weaker global commodity prices



(d) Import prices of fuels eased in the first quarter of 2013 in tandem with softer crude oil prices



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, exhibited diverse trends across different sectors in 2012. Output prices for the manufacturing sector saw little change in 2012 as a whole. Among the services sectors, output prices for accommodation services continued to rise visibly on the back of buoyant inbound tourism, though at a slower pace in the fourth quarter. Output prices for water transport rose rather notably in 2012 from the low base in 2011. The increases in output prices for courier services, land transport and air transport were however relatively modest. Separately, output prices for telecommunications services stayed on a downtrend amid technological breakthroughs and intense competition.

Table 6.4 : Producer Price Indices for the local manufacturing sector and selected services 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>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	8.3	8.2	9.0	9.5	6.6	0.1	3.6	-0.6	-1.4	-1.0
Selected services sectors ^(a)										
Accommodation services	13.2	12.7	13.3	12.8	13.7	7.9	12.1	8.2	8.3	3.5
Land transport	2.1	1.6	2.0	2.2	2.5	1.5	2.1	1.8	1.3	0.7
Water transport	-11.6	-2.3	-12.6	-21.1	-8.9	6.4	-4.3	18.5	6.3	5.3
Air transport	0.7	8.8	5.5	-2.1	-8.2	0.6	-3.3	1.2	1.0	3.5
Telecommunications	-2.5	-0.6	-2.9	-2.6	-3.9	-2.4	-4.4	-1.6	-1.6	-1.9
Courier services	3.0	2.2	2.6	3.4	3.8	2.1	3.1	2.0	1.2	2.3

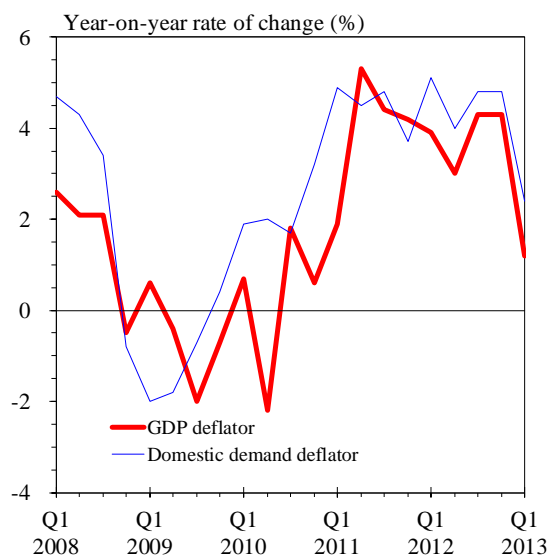
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

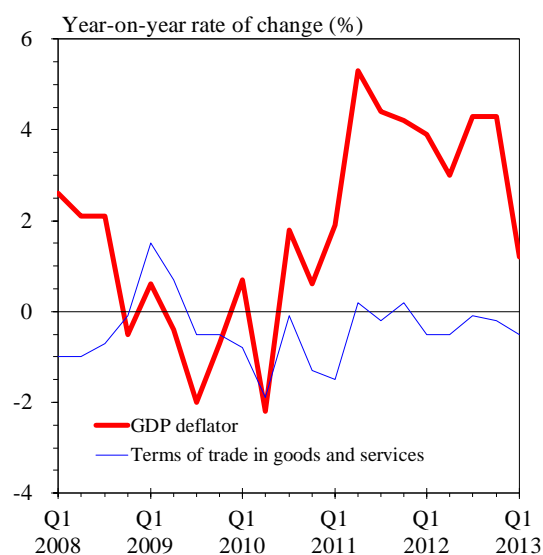
6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 1.2% in the first quarter of 2013 over a year earlier, moderating visibly from the 4.3% increase in the fourth quarter of 2012. Within the GDP deflator, the *terms of trade*⁽⁵⁾ saw a slight deterioration in the first quarter of 2013 over a year earlier. Taking out the external components, the domestic demand deflator went up by 2.4% year-on-year in the first quarter of 2013, also slower than the 4.8% increase in the preceding quarter.

Diagram 6.6 : GDP deflator

(a) GDP deflator moderated on a year-on-year comparison in the first quarter of 2013



(b) Terms of trade deteriorated slightly in the first quarter of 2013



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

	2011		2012			2013	
	Annual [#]	Annual [#]	Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	Q1 ⁺
Private consumption expenditure	3.6	3.1	4.3	3.0	2.5	2.6	1.9
Government consumption expenditure	4.5	6.1	6.3	5.9	6.1	6.2	6.2
Gross domestic fixed capital formation	6.8	8.2	6.3	6.7	9.3	10.2	2.9
Total exports of goods	7.8	3.1	5.8	4.8	1.3	1.0	-0.6
Imports of goods	8.2	3.8	6.8	5.9	1.8	1.2	0.1
Exports of services	7.6	3.8	6.2	5.2	2.4	1.8	0.9
Imports of services	6.4	1.8	3.4	1.0	0.6	2.5	1.5
Gross Domestic Product	3.9	3.9	3.9	3.0	4.3	4.3	1.2
			<1.1>	<0.5>	<2.0>	<0.7>	<-2.0>
Total final demand	6.7	3.7	5.7	4.6	2.5	2.3	0.6
Domestic demand	4.5	4.7	5.1	4.0	4.8	4.8	2.4
Terms of trade in goods and services	-0.3	-0.3	-0.5	-0.5	-0.1	-0.2	-0.5

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

(#) Revised figures.

(+) Preliminary figures.

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

Notes :

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

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

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

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

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

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

	<u>2011</u>					<u>2012</u>					<u>2013</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>Q1</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	1.7
Canada	2.9	2.6	3.4	3.0	2.7	1.5	2.3	1.6	1.2	0.9	0.9
EU	3.1	2.9	3.2	3.1	3.2	2.6	2.9	2.6	2.6	2.4	2.0
Japan	-0.3	-0.5	-0.4	0.1	-0.3	0.0	0.3	0.2	-0.4	-0.2	-0.6
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	2.4
Russia	8.4	9.5	9.5	8.1	6.7	5.1	3.9	3.8	6.0	6.5	7.1
India	8.9	9.0	8.9	9.2	8.4	9.3	7.2	10.1	9.8	10.1	11.7
Brazil	6.6	6.1	6.6	7.1	6.7	5.4	5.8	5.0	5.2	5.6	6.4
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	3.7
Singapore	5.2	5.2	4.7	5.5	5.5	4.6	4.9	5.3	4.2	4.0	4.0
Taiwan	1.4	1.3	1.6	1.3	1.4	1.9	1.3	1.6	2.9	1.8	1.8
South Korea	4.0	3.8	4.0	4.3	4.0	2.2	3.0	2.4	1.6	1.7	1.4
Malaysia	3.2	2.8	3.3	3.4	3.2	1.7	2.3	1.7	1.4	1.3	1.5
Thailand	3.8	3.0	4.1	4.1	4.0	3.0	3.4	2.5	2.9	3.2	3.1
Indonesia	5.4	6.8	5.9	4.7	4.1	4.3	3.7	4.5	4.5	4.4	5.3
Philippines	4.7	4.5	4.9	4.7	4.7	3.1	3.1	2.9	3.5	3.0	3.2
Vietnam	18.7	12.8	19.4	22.5	19.8	9.0	15.9	8.6	5.6	6.5	6.9
Macao	5.8	5.0	5.2	6.2	6.7	6.1	6.3	6.6	6.0	5.6	5.4

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

Statistical Appendix

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

	<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>		<u>2012</u>		<u>2013</u>
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Private consumption expenditure	1,019,955	1,098,564	1,240,842	1,320,264	330,623	321,180	349,998	347,155
Government consumption expenditure	152,512	157,371	168,487	185,380	44,166	46,653	47,459	51,033
Gross domestic fixed capital formation	339,552	386,852	455,048	538,951	128,109	141,292	148,773	121,607
<i>of which:</i>								
Building and construction	123,746	139,249	179,110	220,904	52,011	54,534	61,072	58,278
intellectual property products	191,568	209,568	239,839	283,973	67,086	78,142	77,896	54,842
Changes in inventories	22,941	37,522	11,742	-7,728	-83	-8,344	-1,020	2,549
Total exports of goods ^{&}	2,494,746	3,061,252	3,411,364	3,580,825	876,137	943,199	958,233	868,802
Imports of goods ^{&}	2,702,966	3,395,057	3,848,200	4,116,410	1,027,686	1,059,267	1,096,046	1,024,117
Exports of services ^{&}	672,794	829,495	936,537	990,100	229,423	253,853	268,446	252,130
Imports of services ^{&}	340,289	399,216	439,737	449,437	105,949	113,720	118,607	114,229
GDP	1,659,245	1,776,783	1,936,083	2,041,945	474,740	524,846	557,236	504,930
<i>Per capita GDP (\$)</i>	<i>237,960</i>	<i>252,952</i>	<i>273,783</i>	<i>285,403</i>	--	--	--	--
GNI	1,709,007	1,814,379	1,988,909	2,085,429	495,880	531,870	563,310	N.A.
<i>Per capita GNI (\$)</i>	<i>245,096</i>	<i>258,304</i>	<i>281,253</i>	<i>291,481</i>	--	--	--	--
Total final demand	4,702,500	5,571,056	6,224,020	6,607,792	1,608,375	1,697,833	1,771,889	1,643,276
Total final demand excluding re-exports ^(a)	2,692,865	3,065,665	3,443,665	3,694,853	897,712	931,854	991,848	936,861
Domestic demand	1,534,960	1,680,309	1,876,119	2,036,867	502,815	500,781	545,210	522,344
Private	1,334,028	1,457,922	1,630,226	1,760,116	440,150	435,076	470,734	442,936
Public	200,932	222,387	245,893	276,751	62,665	65,705	74,476	79,408
External demand	3,167,540	3,890,747	4,347,901	4,570,925	1,105,560	1,197,052	1,226,679	1,120,932

- 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 6a. 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
Per capita GDP	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
Per capita RGNI	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 6a. 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.

**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>			<u>2013</u>	Average annual rate of change:	
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 2002 to 2012 [#]	5 years 2007 to 2012 [#]
Private consumption expenditure	0.8	6.3	9.0	3.2	2.6	1.9	2.8	7.0	4.4	4.2
Government consumption expenditure	2.3	3.4	2.5	3.7	4.2	4.0	3.3	2.0	1.9	2.8
Gross domestic fixed capital formation	-3.5	7.7	10.2	9.4	5.8	8.2	11.4	-2.2	4.4	4.9
<i>of which:</i>										
Building and construction	-5.5	5.7	15.5	13.2	14.7	8.8	14.6	*	0.1	6.9
Machinery, equipment and intellectual property products	-2.2	6.5	12.2	10.7	5.2	10.1	9.2	-4.0	7.8	5.3
Total exports of goods ^{&}	-12.7	17.3	3.4	1.8	0.2	4.5	6.7	8.8	6.4	1.9
Imports of goods ^{&}	-9.5	18.1	4.7	3.0	1.2	4.7	7.6	9.6	6.9	3.3
Exports of services ^{&}	0.4	14.8	4.9	1.9	2.4	0.1	2.9	4.9	8.7	5.3
Imports of services ^{&}	-4.7	11.1	3.5	0.4	0.9	-1.5	-0.8	1.2	5.4	3.1
GDP	-2.5	6.8	4.9	1.5	0.9	1.5	2.8	2.8	4.5	2.5
<i>Per capita GDP</i>	-2.7	6.0	4.1	0.3	--	--	--	--	3.9	1.8
RGNI	-4.6	3.7	4.8	0.2	-1.5	2.4	3.5	N.A.	3.3	1.4
<i>Per capita RGNI</i>	-4.8	2.9	4.1	-1.0	--	--	--	--	2.7	0.7
Total final demand	-6.8	13.6	4.7	2.4	1.1	3.3	5.5	6.8	5.9	3.0
Total final demand excluding re-exports ^(a)	-2.4	10.5	5.6	3.0	2.0	2.6	4.6	5.8	5.1	3.6
Domestic demand	0.9	7.2	6.9	3.7	2.2	2.6	4.7	4.5	4.1	4.0
Private	0.4	6.7	7.1	3.4	1.8	2.5	4.1	4.9	4.4	3.7
Public	4.5	10.2	5.5	5.9	5.2	3.1	9.0	2.3	2.2	5.8
External demand	-10.1	16.8	3.7	1.8	0.7	3.5	5.8	7.9	6.9	2.6

**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	33,882	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	1,902,565	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	--	1,936,083	--

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>			
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Agriculture, fishing, mining and quarrying	-4.3	-17.0	-4.6	3.9	0.8	0.3	6.3	-7.1	2.3	1.6
Manufacturing	-0.8	-7.0	-8.2	3.3	0.7	-0.8	-1.6	-2.9	-0.1	1.3
Electricity, gas and water supply, and waste management	1.4	0.7	1.5	-0.2	0.6	1.6	4.4	3.7	-0.5	-0.4
Construction	-1.2	8.9	-7.5	15.6	18.1	11.3	13.1	10.1	5.2	16.1
Services	7.1	2.4	-1.7	7.0	5.2	1.8	1.4	1.2	1.9	2.7
<i>Import/export, wholesale and retail trades</i>	5.8	6.8	-9.5	16.7	9.1	1.5	-0.4	0.3	1.6	3.8
<i>Accommodation^(a) and food services</i>	10.7	1.7	-11.3	9.5	8.3	2.2	-0.6	1.6	3.2	4.6
<i>Transportation, storage, postal and courier services</i>	5.1	2.5	-5.5	6.0	7.2	3.0	4.7	0.5	2.7	3.9
<i>Information and communications</i>	6.3	-1.2	1.3	1.5	2.8	2.8	0.8	1.4	4.1	4.6
<i>Financing and insurance</i>	16.8	-0.5	4.1	6.6	6.9	1.1	2.3	0.2	0.8	1.1
<i>Real estate, professional and business services</i>	6.6	1.4	1.6	2.5	2.6	3.6	3.6	5.1	3.8	2.2
<i>Public administration, social and personal services</i>	2.7	1.4	3.0	2.2	1.5	2.0	2.2	2.1	2.0	1.6
<i>Ownership of premises</i>	3.0	2.0	0.3	0.8	0.7	0.4	0.4	0.3	0.3	0.5
Taxes on products	24.9	-1.7	-4.8	6.3	-6.8	-10.4	-14.5	-8.5	-13.9	-4.2
GDP in chained (2011) dollars	6.5	2.1	-2.5	6.8	4.9	1.5	0.7	0.9	1.5	2.8

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

(\$Mn)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012[#]</u>	<u>2012</u>			
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Current account ^(a)	255,808	157,661	116,490	92,999	27,016	657	-11,583	26,095	11,847
Goods	194,753	97,611	18,372	-66,915	-176,343	-48,269	-74,398	-21,547	-32,129
Services	-21,041	26,674	78,102	126,879	181,421	45,331	46,323	45,612	44,155
Primary income	100,507	49,762	37,596	52,826	43,484	9,246	21,140	7,024	6,074
Secondary income	-18,412	-16,386	-17,580	-19,791	-21,547	-5,651	-4,648	-4,994	-6,253
Capital and financial account ^(a)	-254,709	-144,532	-88,838	-113,242	-37,591	14,233	31,399	-51,176	-32,047
Capital account	-1,958	-3,021	-4,436	-2,021	-1,439	-85	-947	-91	-316
Financial account	-252,750	-141,511	-84,402	-111,220	-36,152	14,317	32,346	-51,084	-31,731
Financial non-reserve assets	-28,774	470,987	-25,257	-24,437	152,736	78,115	25,232	-13,222	62,612
<i>Direct investment</i>	77,371	-28,421	-122,026	1,868	-72,919	-8,846	9,557	-19,200	-54,430
<i>Portfolio investment</i>	-281,141	-310,083	-442,460	-10,979	-12,553	194,898	17,684	-53,698	-171,437
<i>Financial derivatives</i>	63,338	24,560	18,677	20,884	15,274	1,697	550	1,140	11,887
<i>Other investment</i>	111,659	784,930	520,552	-36,210	222,935	-109,633	-2,559	58,536	276,592
Reserve assets	-223,976	-612,498	-59,145	-86,783	-188,889	-63,798	7,114	-37,862	-94,343
Net errors and omissions	-1,099	-13,130	-27,651	20,243	10,575	-14,889	-19,816	25,081	20,200
Overall Balance of Payments	223,976	612,498	59,145	86,783	188,889	63,798	-7,114	37,862	94,343

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 6 : 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>		<u>2013</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Total exports of goods	2,843,998	2,494,746	3,061,252	3,411,364	3,580,825	876,137	943,199	958,233	868,802
Imports of goods	3,024,089	2,702,966	3,395,057	3,848,200	4,116,410	1,027,686	1,059,267	1,096,046	1,024,117
Visible trade balance	-180,091 (-6.0)	-208,220 (-7.7)	-333,805 (-9.8)	-436,836 (-11.4)	-535,585 (-13.0)	-151,549 (-14.7)	-116,068 (-11.0)	-137,813 (-12.6)	-155,315 (-15.2)
Exports of services	720,837	672,794	829,495	936,537	990,100	229,423	253,853	268,446	252,130
Imports of services	367,034	340,289	399,216	439,737	449,437	105,949	113,720	118,607	114,229
Invisible trade balance	353,803 (96.4)	332,505 (97.7)	430,279 (107.8)	496,800 (113.0)	540,663 (120.3)	123,474 (116.5)	140,133 (123.2)	149,839 (126.3)	137,901 (120.7)
Exports of goods and services	3,564,835	3,167,540	3,890,747	4,347,901	4,570,925	1,105,560	1,197,052	1,226,679	1,120,932
Imports of goods and services	3,391,123	3,043,255	3,794,273	4,287,937	4,565,847	1,133,635	1,172,987	1,214,653	1,138,346
Visible and invisible trade balance	173,712 <5.1>	124,285 <4.1>	96,474 <2.5>	59,964 <1.4>	5,078 <0.1>	-28,075 <-2.5>	24,065 <2.1>	12,026 <1.0>	-17,414 <-1.5>

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 6a. 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.

Table 6a : 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>		<u>2013</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
<u>At current market prices (\$Mn)</u>									
Total exports of goods	2,758,181	2,448,997	3,014,300	3,398,053	3,603,819	868,652	951,061	977,518	881,838
Imports of goods	2,563,428	2,351,386	2,995,928	3,464,968	3,780,162	943,050	972,608	1,009,647	957,785
Visible trade balance	194,753	97,611	18,372	-66,915	-176,343	-74,398	-21,547	-32,129	-75,947
	(7.6)	(4.2)	(0.6)	(-1.9)	(-4.7)	(-7.9)	(-2.2)	(-3.2)	(-7.9)
Exports of services	544,358	501,303	626,170	706,075	751,214	179,688	189,216	196,159	198,127
Imports of services	565,399	474,629	548,068	579,196	569,793	133,365	143,604	152,004	139,594
Invisible trade balance	-21,041	26,674	78,102	126,879	181,421	46,323	45,612	44,155	58,533
	(-3.7)	(5.6)	(14.3)	(21.9)	(31.8)	(34.7)	(31.8)	(29.0)	(41.9)
Exports of goods and services	3,302,539	2,950,300	3,640,470	4,104,128	4,355,033	1,048,340	1,140,277	1,173,677	1,079,965
Imports of goods and services	3,128,827	2,826,015	3,543,996	4,044,164	4,349,955	1,076,415	1,116,212	1,161,651	1,097,379
Visible and invisible trade balance	173,712	124,285	96,474	59,964	5,078	-28,075	24,065	12,026	-17,414
	<5.6>	<4.4>	<2.7>	<1.5>	<0.1>	<-2.6>	<2.2>	<1.0>	<-1.6>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	3.2	-11.4	18.0	4.6	2.6	1.8	5.2	6.5	9.5
Imports of goods	3.7	-7.0	19.9	6.7	4.6	3.4	6.6	8.4	11.5
Exports of services	4.9	1.7	15.4	5.0	2.3	2.9	-0.3	3.3	5.5
Imports of services	1.1	-12.8	10.0	-0.2	-2.3	-2.9	-4.7	-1.7	-1.6

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.

**Table 7 : 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>			<u>2013</u>
	(% change)				(% change)	(\$Mn)	Q2	Q3	Q4	Q1
							(% change over a year earlier)			
All markets	5.1	-12.6	22.8	10.1	2.9	3,434,346	1.9	3.8	7.0	4.0
Mainland of China	4.7	-7.8	26.5	9.3	6.3	1,857,759	3.8	11.2	12.1	6.3
United States	-2.4	-20.6	16.4	-0.4	2.3	338,505	4.4	2.1	2.7	-1.4
Japan	1.2	-10.0	17.2	5.9	6.5	143,970	8.4	7.5	4.3	-3.1
Taiwan	3.8	-0.4	25.4	24.3	-5.2	80,842	4.5	-12.9	5.3	19.4
Germany	15.8	-15.5	1.6	10.7	-12.8	77,812	-19.4	-16.1	-3.7	-6.5
India	50.0	0.2	42.4	25.6	-17.5	77,181	-16.8	-20.2	-16.4	3.8
Republic of Korea	-6.4	-13.0	24.4	14.2	-4.0	58,853	-5.9	-3.9	-2.3	2.7
Singapore	9.6	-23.6	20.7	10.3	-0.5	55,950	4.6	1.1	1.5	8.3
United Kingdom	0.7	-20.8	1.9	-3.4	-6.0	55,164	-7.9	-17.7	3.5	-10.1
Vietnam	19.4	16.6	33.9	37.3	9.9	50,702	8.9	5.3	-5.3	1.5
Rest of the world	8.4	-20.2	20.9	15.1	0.6	637,607	0.7	-3.5	3.3	2.3

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

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>			<u>2013</u>
						(\$Mn)	Q2	Q3	Q4	Q1
	(% change)		(% change)				(% change over a year earlier)			
All sources	5.5	-11.0	25.0	11.9	3.9	3,912,163	2.1	4.5	8.1	4.9
Mainland of China	6.1	-11.4	22.4	10.9	8.5	1,840,862	4.1	8.5	17.5	9.9
Japan	3.6	-20.6	30.4	3.4	-2.2	311,605	3.6	-1.6	-4.0	-12.6
Singapore	0.1	-10.4	35.9	7.2	-3.2	246,346	-3.1	3.5	-5.4	6.3
Taiwan	-6.4	-8.5	28.0	7.2	1.6	244,889	5.7	8.4	2.0	10.3
United States	8.6	-5.7	26.0	18.0	-3.3	204,459	-6.7	-0.2	-9.6	-3.4
Republic of Korea	-1.1	-12.7	29.8	12.2	2.4	153,527	-1.1	12.1	10.0	9.3
Malaysia	5.3	2.8	24.5	5.1	-6.0	83,649	-1.5	-6.1	-7.2	-4.0
India	21.5	-9.3	36.5	20.6	-5.5	81,831	-7.6	-11.9	-4.9	9.7
Switzerland	31.1	-11.5	26.3	51.7	-0.7	78,546	1.3	-19.6	-8.2	-2.6
Thailand	11.1	-9.7	32.5	0.3	-4.8	72,873	-2.5	-12.5	30.4	13.4
Rest of the world	9.5	-8.2	19.2	20.2	5.8	593,575	3.1	4.2	6.2	-0.5

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

**Table 9 : Retained imports of goods by end-use category
(in value terms)**

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>			<u>2013</u>
						(\$Mn)	Q2	Q3	Q4	Q1
	(% change)		(% change)				(% change over a year earlier)			
Overall	5.3	-10.8	27.3	17.3	5.9	1,086,654	1.5	6.0	10.6	7.1
Foodstuffs	19.7	9.9	17.0	18.8	4.7	114,474	7.5	-3.0	2.1	13.4
Consumer goods	9.0	-14.0	33.8	36.0	7.8	270,039	0.6	-5.0	18.1	4.1
Raw materials and semi-manufactures	-4.5	-6.4	32.3	0.2	-2.7	318,777	-5.7	5.8	14.4	26.3
Fuels	26.6	-18.4	33.8	21.9	-4.3	135,561	-3.6	-7.5	-12.5	1.7
Capital goods	2.5	-18.7	12.9	27.3	24.6	245,361	14.8	31.8	15.9	-13.8

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

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>		<u>2012</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>
		(% change)		(% change)	(\$Mn)		Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	8.5	-6.7	23.3	12.9	5.7	990,100	7.8	2.5	4.7	5.8
Transportation	12.5	-18.6	26.3	7.8	*	250,161	2.8	-4.4	-4.1	-1.6
Travel	11.1	6.7	35.6	24.9	15.6	248,892	19.1	11.6	15.2	16.4
Trade-related	8.5	-4.3	18.0	11.0	3.8	281,043	5.1	3.0	3.2	3.4
Other services	1.8	-3.1	16.7	10.6	4.8	210,004	6.2	0.9	4.7	5.4
Imports of services	9.8	-7.3	17.3	10.2	2.2	449,437	1.9	-0.9	1.7	2.8
Transportation	13.0	-21.6	20.7	14.3	-1.5	137,354	-2.4	-5.1	-4.2	-2.2
Travel	6.8	-3.1	12.0	9.7	5.2	157,035	5.4	3.1	3.9	6.8
Trade-related	10.6	0.5	21.6	1.1	3.0	34,192	2.5	1.5	3.4	3.5
Other services	9.5	5.7	19.5	8.7	2.5	120,856	2.7	-1.9	4.7	3.1
Net exports of services	7.2	-6.0	29.4	15.5	8.8	540,663	13.3	5.4	7.3	8.4

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 10a. 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.

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

Table 10a: 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>		<u>2012</u>			<u>2013</u>
				(% change)	(% change)	(\$Mn)	Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
							(% change over a year earlier)			
Exports of services	8.3	-7.9	24.9	12.8	6.4	751,214	8.6	2.4	5.3	6.4
Transportation	12.5	-18.6	26.3	7.8	*	250,161	2.8	-4.4	-4.1	-1.6
Travel	11.1	6.7	35.6	24.9	15.6	248,892	19.1	11.6	15.2	16.4
Other services	2.4	-4.6	16.4	8.5	4.8	252,161	6.2	1.5	4.6	5.1
Imports of services	5.5	-16.1	15.5	5.7	-1.6	569,793	-3.0	-5.1	-0.7	-0.9
Transportation	13.0	-21.6	20.7	14.3	-1.5	137,354	-2.4	-5.1	-4.2	-2.2
Travel	6.8	-3.1	12.0	9.7	5.2	157,035	5.4	3.1	3.9	6.8
Other services	2.1	-19.0	15.1	0.1	-5.2	275,404	-8.1	-9.4	-1.4	-4.4

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.

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

Table 11 : Incoming visitors by source

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		<u>2013</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
All sources	29 506.6	29 590.7	36 030.3	41 921.3	48 615.1	11 100.0	13 053.6	13 238.7	12 742.3
Mainland of China	16 862.0	17 956.7	22 684.4	28 100.1	34 911.4	7 687.3	9 743.8	9 584.9	9 500.6
South and Southeast Asia	2 936.2	2 885.2	3 500.9	3 751.1	3 651.8	984.9	804.2	1 046.7	818.6
Taiwan	2 240.5	2 009.6	2 164.8	2 148.7	2 088.7	497.8	570.0	525.2	515.1
Europe	1 711.4	1 610.5	1 757.8	1 801.3	1 867.7	443.1	406.7	534.6	483.1
Japan	1 324.8	1 204.5	1 316.6	1 283.7	1 254.6	304.8	346.6	259.1	267.3
United States	1 146.4	1 070.1	1 171.4	1 212.3	1 184.8	315.3	270.5	314.7	270.3
Others	3 285.3	2 854.0	3 434.5	3 623.9	3 656.1	866.7	912.0	973.5	887.3
<u>(% change over a year earlier)</u>									
All sources	4.7	0.3	21.8	16.4	16.0	15.3	17.7	15.1	13.5
Mainland of China	8.9	6.5	26.3	23.9	24.2	24.5	26.8	24.2	20.3
South and Southeast Asia	1.7	-1.7	21.3	7.1	-2.6	-2.6	-9.4	-2.7	0.3
Taiwan	0.1	-10.3	7.7	-0.7	-2.8	-8.9	-2.7	3.2	3.9
Europe	-3.4	-5.9	9.1	2.5	3.7	4.2	-1.4	2.5	-0.1
Japan	*	-9.1	9.3	-2.5	-2.3	12.0	4.7	-26.7	-22.3
United States	-6.9	-6.7	9.5	3.5	-2.3	1.2	-3.3	-7.9	-4.9
Others	1.7	-13.1	20.3	5.5	0.9	-1.5	0.3	-0.6	-1.8

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

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

Table 12 : Property market

	<u>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
Subsidised 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 12 : Property market (Cont'd)

	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		<u>2013</u>
				Q2	Q3	Q4	Q1
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	1 647	3 854	4 016	236
Commercial property	189	197	226	25	36	104	5
<i>of which :</i>							
Office space	124	155	136	13	22	62	1
Other commercial premises ^(b)	65	42	90	12	13	42	4
Industrial property ^(c)	21	105	170	41	8	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	21	32	46	38	8	0	0
Storage premises ^(d)	0	73	123	3	0	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	6 385	17 787	9 778	2 707	0	0	N.A.
Subsidised sales flats ^(e)	1 110	0	0	0	0	0	N.A.
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	152.6	245.5	59.8	N.A.
Commercial property	158.4	133.6	210.2	21.7	28.8	34.0	N.A.
Industrial property ^(f)	34.3	109.3	70.7	0.2	16.5	41.5	N.A.
Other properties	459.2	232.7	428.9	67.0	223.3	94.9	N.A.
Total	1 222.4	1 056.2	1 536.9	241.5	514.1	230.3	N.A.
Agreements for sale and purchase of property (Number)							
Residential property ^(g)	135 778	84 462	81 333	22 452	21 097	19 035	16 271
Primary market	13 646	10 880	12 968	2 723	3 711	3 639	2 924
Secondary market	122 132	73 582	68 365	19 729	17 386	15 396	13 347
Selected types of non-residential properties ^(h)							
Office space	3 591	3 071	3 291	852	808	1 121	941
Other commercial premises	7 639	5 980	7 268	2 032	1 685	2 437	2 404
Flatted factory space	8 206	7 619	9 775	2 188	2 426	3 674	2 440

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.

N.A. Not yet available.

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		<u>2013</u>
				Q2	Q3	Q4 [#]	Q1 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	150.9	182.1	206.2	202.3	211.6	225.7	237.1
Office space	230.4	297.9	333.7	322.8	342.0	368.0	394.1
Shopping space	257.2	327.4	420.3	402.1	439.3	476.4	493.5
Flatted factory space	284.4	385.0	489.4	461.4	509.2	568.4	632.8
Property rental indices ^(b) :							
Residential flats	119.7	134.0	142.6	139.7	146.2	150.7	151.3
Office space	147.6	169.9	188.2	186.5	190.8	192.9	195.9
Shopping space	122.9	134.3	151.3	149.9	154.4	157.5	159.9
Flatted factory space	108.9	118.6	131.9	131.5	133.9	137.1	140.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	24.4	20.7	13.2	8.9	14.3	23.9	28.0
Office space	28.1	29.3	12.0	7.2	10.5	20.9	30.5
Shopping space	33.2	27.3	28.4	23.9	30.7	38.4	35.9
Flatted factory space	31.5	35.4	27.1	19.2	26.7	41.4	51.1
Property rental indices ^(b) :							
Residential flats	19.2	11.9	6.4	4.4	6.4	10.2	13.2
Office space	8.8	15.1	10.8	11.9	9.1	7.5	7.3
Shopping space	10.8	9.3	12.7	12.5	13.0	13.1	11.6
Flatted factory space	9.6	8.9	11.2	11.9	10.5	12.2	12.1

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		<u>2013</u>
				Q2	Q3	Q4	Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	730,093	794,726	920,920	809,505	862,098	920,920	945,074
M2 ^(a)	3,866,788	4,046,216	4,537,384	4,144,270	4,336,166	4,537,384	4,541,179
M3 ^(a)	3,878,193	4,055,404	4,545,590	4,150,722	4,343,359	4,545,590	4,549,475
Total money supply (\$Mn)							
M1	1,017,227	1,127,320	1,377,359	1,216,981	1,294,493	1,377,359	1,390,746
M2	7,136,271	8,057,530	8,950,005	8,318,695	8,581,471	8,950,005	9,047,164
M3	7,156,260	8,081,079	8,970,396	8,335,293	8,600,621	8,970,396	9,069,868
Deposit (\$Mn)							
HK\$	3,617,183	3,740,240	4,176,206	3,812,138	3,985,551	4,176,206	4,165,265
Foreign currency	3,245,081	3,851,020	4,121,151	3,893,680	3,954,523	4,121,151	4,187,837
Total	6,862,265	7,591,260	8,297,357	7,705,819	7,940,074	8,297,357	8,353,102
Loans and advances (\$Mn)							
HK\$	2,824,445	3,160,002	3,333,059	3,203,946	3,242,089	3,333,059	3,358,884
Foreign currency	1,403,281	1,920,659	2,234,588	2,113,558	2,175,775	2,234,588	2,381,630
Total	4,227,726	5,080,661	5,567,647	5,317,504	5,417,863	5,567,647	5,740,514
Nominal Effective Exchange Rate Indices							
(Jan 2010 = 100) ^(b)							
Trade-weighted	99.5	94.6	94.9	95.3	95.5	94.2	94.7
Import-weighted	99.2	93.9	94.2	94.7	94.8	93.5	94.3
Export-weighted	99.8	95.4	95.6	96.0	96.4	94.9	95.2
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	8.8	8.9	15.9	7.2	10.3	15.9	17.6
M2 ^(a)	7.8	4.6	12.1	6.2	11.0	12.1	9.2
M3 ^(a)	7.6	4.6	12.1	6.1	10.9	12.1	9.2
Total money supply							
M1	12.8	10.8	22.2	11.3	15.7	22.2	17.9
M2	8.1	12.9	11.1	9.1	10.5	11.1	9.5
M3	8.0	12.9	11.0	9.0	10.4	11.0	9.6
Deposit							
HK\$	7.2	3.4	11.7	5.4	10.5	11.7	9.0
Foreign currency	7.9	18.7	7.0	7.6	6.4	7.0	8.9
Total	7.5	10.6	9.3	6.5	8.4	9.3	8.9
Loans and advances							
HK\$	17.6	11.9	5.5	5.2	3.7	5.5	6.5
Foreign currency	58.2	36.9	16.3	19.2	14.3	16.3	16.6
Total	28.6	20.2	9.6	10.4	7.7	9.6	10.5
Nominal Effective Exchange Rate Indices							
(Jan 2010 = 100) ^(b)							
Trade-weighted	-2.4	-4.9	0.3	0.8	2.2	-0.4	0.2
Import-weighted	-2.9	-5.3	0.3	1.0	2.4	-0.5	0.4
Export-weighted	-1.8	-4.4	0.2	0.8	2.1	-0.4	0.0

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

(b) Period average.

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

(%)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>			
					Q1	Q2	Q3	Q4
Services Industry								
Import and export trade	-13.7	19.7	8.9	-1.3	-4.7	-2.8	-3.8	5.7
Wholesale	-12.6	25.0	12.7	3.2	4.2	2.7	1.2	4.7
Retail	0.6	18.3	24.9	9.8	15.8	10.3	5.8	7.6
Transportation	-19.9	24.5	4.4	0.9	0.1	-0.6	1.0	3.1
<i>within which :</i>								
Land transport	-2.6	6.0	7.0	11.9	8.3	13.4	14.9	11.0
Water transport	-24.1	20.5	0.6	-2.4	-7.3	-8.1	1.2	4.5
Air transport	-21.0	33.7	6.7	0.3	2.9	1.3	-2.8	*
Warehousing and storage	1.4	9.5	9.4	25.2	31.5	29.4	24.1	16.3
Courier	-6.1	28.3	17.3	16.1	11.4	7.8	17.5	27.5
Accommodation services ^(a)	-17.4	25.3	19.6	13.8	8.3	15.1	18.9	13.3
Food services	0.6	5.1	6.4	5.0	6.1	4.2	4.4	5.2
Information and communications	-3.2	4.9	8.8	9.3	9.9	8.6	5.4	13.0
<i>within which :</i>								
Telecommunications	1.4	3.0	8.1	14.7	14.8	9.7	7.5	26.3
Film entertainment	-12.6	-6.4	-5.6	1.9	-6.1	3.9	8.0	1.1
Banking	1.5	8.8	10.8	9.4	9.5	10.3	10.9	6.8
Financing (except banking)	-10.3	16.7	-2.4	1.6	-0.1	-7.0	3.8	10.9
<i>within which :</i>								
Financial markets and asset management	-11.7	15.3	-3.2	1.7	-0.8	-7.6	4.0	13.0
<i>within which : Asset management</i>	-12.1	28.4	10.6	-5.4	-6.4	-11.6	-5.1	2.0
Insurance	0.7	8.3	9.4	13.6	14.8	12.1	12.6	15.0
Real estate	9.7	11.4	-0.9	11.8	6.7	2.5	29.1	11.5
Professional, scientific and technical services	-0.5	13.9	7.3	-0.5	*	-0.2	-2.1	0.4
Administrative and support services	-12.4	12.3	10.2	8.2	5.9	9.0	10.3	7.5
Services Domain								
Tourism, convention and exhibition services	3.2	30.6	20.6	13.2 ⁺	19.1 ⁺	14.0 ⁺	9.6 ⁺	11.0 ⁺
Computer and information technology services	-15.0	32.5	10.4	15.1	15.7	22.0	13.5	9.7

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 16 : Labour force characteristics

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		<u>2013</u>
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	60.9	60.8	59.6	60.1	60.5	60.8	60.6	60.6	61.2
Seasonally adjusted unemployment rate	3.5	5.3	4.3	3.4	3.3	3.2	3.3	3.3	3.5
Underemployment rate	1.9	2.3	2.0	1.7	1.5	1.4	1.6	1.5	1.6
<u>('000)</u>									
Population of working age	5 977.1	6 022.9	6 093.8	6 164.4	6 253.4	6 244.7	6 261.4	6 286.6	6 299.7
Labour force	3 637.2	3 660.3	3 631.3	3 703.1	3 785.2	3 796.9	3 791.8	3 806.6	3 852.7
Persons employed	3 509.1	3 467.6	3 474.1	3 576.4	3 660.7	3 671.4	3 658.9	3 689.6	3 720.2
Persons unemployed	128.1	192.6	157.2	126.7	124.5	125.5	132.9	117.0	132.5
Persons underemployed	67.9	83.8	72.5	63.3	57.6	54.6	59.2	56.8	61.1
<u>(% change over a year earlier)</u>									
Population of working age	1.0	0.8	1.2	1.2	1.4	1.5	1.3	1.4	1.3
Labour force	0.4	0.6	-0.8	2.0	2.2	2.6	1.8	2.0	2.1
Persons employed	0.9	-1.2	0.2	2.9	2.4	3.0	1.6	2.0	1.9
Persons unemployed	-11.9	50.4	-18.4	-19.4	-1.8	-8.8	5.5	0.9	6.7
Persons underemployed	-14.5	23.4	-13.5	-12.7	-9.0	-15.9	-9.3	8.4	4.3

Table 17 : Employment in selected major industries

Selected major industries	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>				(No.)
	(% change)					Mar	Jun	Sep	Dec	
						(% change over a year earlier)				
Manufacturing	-3.5	-5.7	-4.5	-5.6	-5.1	-6.2	-5.4	-4.3	-4.6	105 308
Construction sites (manual workers only)	-1.5	2.2	9.6	13.2	13.8	20.1	22.4	13.4	1.7	70 578
Import and export trade	-0.3	-4.4	0.9	-0.3	-1.1	-1.4	-0.6	-1.6	-0.9	491 260
Wholesale	-2.7	-2.0	1.2	*	-0.6	-1.0	0.7	-1.6	-0.6	63 368
Retail	2.8	-0.3	3.3	4.0	2.5	2.2	2.9	2.7	2.1	260 246
Food and beverage services	1.8	*	3.7	6.6	1.6	1.2	1.5	1.8	2.0	236 002
Accommodation services ^(a)	3.1	-1.0	1.5	5.8	9.2	10.3	7.8	9.6	9.2	38 193
Transportation, storage, postal and courier services	3.5	1.1	1.5	2.0	1.8	2.2	2.2	1.9	1.1	167 241
Information and communications	3.6	-1.6	1.3	3.4	5.6	6.6	5.3	6.3	4.2	97 230
Financing and insurance	5.6	-0.5	4.8	6.3	1.9	5.7	2.0	*	0.2	207 700
Real estate	2.7	0.5	4.1	8.0	4.2	4.5	4.7	4.7	3.0	125 938
Professional and business services (excluding cleaning and similar services)	3.4	0.9	2.2	4.2	3.4	4.5	3.9	2.7	2.6	259 088
Cleaning and similar services	-1.7	6.7	13.7	9.5	3.3	2.4	3.9	4.1	2.8	78 320
Education	4.8	5.3	3.4	1.5	2.4	2.0	3.0	2.2	2.5	173 550
Human health services	5.1	3.8	3.0	4.1	4.9	4.8	4.3	5.7	5.0	103 404
Residential care and social work services	1.3	1.5	1.8	1.3	2.0	1.4	2.1	1.7	2.9	58 761
Arts, entertainment, recreation and other services	1.9	0.8	5.0	2.8	0.6	-0.3	1.3	*	1.5	118 495
Civil Service ^(b)	0.1	1.1	0.5	0.7	1.1	1.5	1.2	0.9	0.7	159 656
Others ^(c)	7.0	-1.0	3.1	-0.6	-5.1	-4.8	-6.1	-6.2	-3.2	10 348

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 18 : Number of workers engaged at building and construction sites

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		
						Mar	Jun	Sep	Dec
<u>(Number)</u>									
Building sites									
Private sector	28 899	28 776	28 620	31 780	37 687	37 650	39 260	37 375	36 461
Public sector ^(a)	8 136	10 277	11 463	12 335	10 578	10 810	9 612	11 311	10 579
Sub-total	37 034	39 053	40 083	44 115	48 265	48 460	48 872	48 686	47 040
Civil engineering sites									
Private sector	1 686	1 618	1 544	1 250	1 410	1 372	1 434	1 473	1 359
Public sector ^(a)	10 703	9 831	13 714	17 270	21 621	20 810	21 415	22 079	22 179
Sub-total	12 388	11 449	15 258	18 520	23 030	22 182	22 849	23 552	23 538
Total	49 422	50 501	55 341	62 635	71 295	70 642	71 721	72 238	70 578
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.2	-0.4	-0.5	11.0	18.6	40.6	36.8	9.1	-2.5
Public sector ^(a)	4.7	26.3	11.5	7.6	-14.2	-23.2	-26.8	3.3	-5.4
Sub-total	0.1	5.5	2.6	10.1	9.4	18.6	16.8	7.7	-3.1
Civil engineering sites									
Private sector	0.7	-4.0	-4.6	-19.0	12.8	28.5	17.5	17.5	-6.7
Public sector ^(a)	-7.0	-8.1	39.5	25.9	25.2	23.2	37.8	27.8	14.5
Sub-total	-6.0	-7.6	33.3	21.4	24.4	23.6	36.3	27.1	13.0
Total	-1.5	2.2	9.6	13.2	13.8	20.1	22.4	13.4	1.7

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

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

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

	(%)								
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>			
Selected industry section						Q1	Q2	Q3	Q4
(in nominal terms)									
Manufacturing	0.9	-3.5	2.6	7.2	8.6	14.0	5.8	8.6	5.9
Sewerage, waste management and remediation activities	-8.6	2.1	-0.1	5.6	4.5	6.4	4.4	5.6	2.1
Import/export and wholesale trade	6.3	-1.6	2.6	12.9	4.4	3.2	4.7	3.8	6.1
Retail trade	8.1	-1.5	3.9	12.3	10.1	15.6	6.7	8.1	9.9
Transportation, storage, postal and courier services	-0.6	-0.2	3.4	4.0	1.7	-5.3	1.6	5.0	5.8
Accommodation ^(a) and food service activities	2.6	-0.6	3.3	9.7	6.0	6.8	6.1	5.0	5.9
Information and communications	6.6	0.2	2.6	7.4	8.3	9.4	7.7	9.0	7.1
Financial and insurance activities	9.0	-3.3	7.2	11.5	4.4	5.8	3.7	4.1	3.8
Real estate activities	8.0	-2.4	1.3	11.4	7.5	14.4	5.9	3.9	6.1
Professional and business services	3.5	0.6	2.4	2.0	4.9	6.3	6.8	2.7	4.0
Social and personal services	3.1	1.7	-2.4	3.1	7.4	8.3	8.7	7.4	5.2
All industries surveyed	2.6	0.5	2.4	7.9	6.5	7.2	6.6	6.3	5.9
(in real terms)									
Manufacturing	-3.3	-4.1	0.3	1.9	4.4	8.4	1.5	5.4	2.1
Sewerage, waste management and remediation activities	-12.3	1.5	-2.3	0.3	0.5	1.1	0.1	2.5	-1.6
Import/export and wholesale trade	1.9	-2.3	0.2	7.2	0.3	-1.9	0.4	0.7	2.2
Retail trade	3.6	-2.1	1.6	6.7	5.8	9.9	2.4	4.9	5.9
Transportation, storage, postal and courier services	-4.7	-0.8	1.1	-1.2	-2.3	-10.0	-2.5	1.9	2.0
Accommodation ^(a) and food service activities	-1.7	-1.2	1.0	4.2	1.8	1.6	1.8	2.0	2.1
Information and communications	2.2	-0.4	0.3	2.0	4.1	4.0	3.3	5.8	3.2
Financial and insurance activities	4.6	-3.9	4.8	6.0	0.3	0.6	-0.5	1.0	*
Real estate activities	3.5	-3.0	-1.0	5.8	3.3	8.7	1.6	0.9	2.2
Professional and business services	-0.7	*	0.1	-3.1	0.8	1.1	2.5	-0.3	0.3
Social and personal services	-1.2	1.1	-4.6	-2.1	3.3	2.9	4.3	4.3	1.4
All industries surveyed	-1.7	-0.1	0.1	2.5	2.3	1.9	2.3	3.2	2.0

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

	(%)								
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>			
Selected industry section						Mar	Jun	Sep	Dec
(in nominal terms)									
Manufacturing	2.6	-1.2	-1.0	6.7	4.3	7.9	3.8	4.2	1.6
Import/export, wholesale and retail trades ^(a)	3.6	-1.1	2.6	7.8	4.5	7.3	4.3	3.0	3.7
<i>within which :</i>									
Import/export and wholesale trades	3.1	-1.2	2.7	8.3	4.8	7.6	--	3.3	--
Retail trade	4.9	-0.2	1.1	-0.3	2.1	3.6	--	2.0	--
Transportation	1.8	*	1.1	4.0	3.4	4.2	3.2	3.3	2.9
Accommodation ^(b) and food service activities	3.1	-2.3	2.5	9.3	8.0	8.1	7.6	7.7	8.4
Financial and insurance activities ^(c)	2.8	-0.5	3.0	6.7	4.3	4.3	2.6	4.3	6.1
Real estate leasing and maintenance management	2.7	-0.4	2.6	8.6	8.0	13.5	5.3	6.7	7.1
Professional and business services	4.9	0.8	3.4	12.6	6.8	13.1	5.7	5.3	3.7
Personal services	0.5	-0.7	3.4	9.6	9.7	12.2	9.5	9.0	8.4
All industries surveyed	3.4	-0.9	2.4	8.1	5.7	8.0	5.1	4.8	5.1
(in real terms)									
Manufacturing	-0.1	-1.8	-3.7	1.3	0.3	3.4	0.5	-0.1	-2.5
Import/export, wholesale and retail trades ^(a)	0.9	-1.7	-0.2	2.4	0.5	2.9	1.0	-1.3	-0.5
<i>within which :</i>									
Import/export and wholesale trades	0.4	-1.7	-0.1	2.8	0.7	3.2	--	-1.0	--
Retail trade	2.2	-0.7	-1.6	-5.3	-1.8	-0.7	--	-2.2	--
Transportation	-0.8	-0.5	-1.7	-1.2	-0.6	*	-0.1	-1.0	-1.3
Accommodation ^(b) and food service activities	0.4	-2.8	-0.3	3.8	3.8	3.7	4.2	3.3	4.0
Financial and insurance activities ^(c)	0.2	-1.0	0.2	1.3	0.2	*	-0.7	*	1.8
Real estate leasing and maintenance management	0.1	-1.0	-0.2	3.1	3.8	8.8	2.0	2.3	2.7
Professional and business services	2.2	0.3	0.6	6.9	2.7	8.5	2.4	1.0	-0.5
Personal services	-2.1	-1.2	0.6	4.1	5.5	7.6	6.0	4.5	4.0
All industries surveyed	0.7	-1.5	-0.4	2.7	1.6	3.6	1.7	0.4	0.9

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 21 : 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.

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

(%)

	<u>2011</u>	<u>2012</u>	<u>2012</u>			<u>2013</u>	Average annual rate of change:	
			Q2	Q3	Q4		10 years	5 years
							2002 to 2012	2007 to 2012
GDP deflator [#]	3.9	3.9	3.0	4.3	4.3	1.2	0.1	1.8
Domestic demand deflator [#]	4.5	4.7	4.0	4.8	4.8	2.4	1.4	2.6
Consumer Price Indices ^(a) :								
Composite CPI	5.3	4.1	4.2	3.1	3.8	3.7	1.8	3.3
CPI(A)	5.6	3.6	3.7	1.9	4.2	4.2	1.8	3.2
CPI(B)	5.2	4.3	4.5	3.7	3.6	3.5	1.9	3.4
CPI(C)	5.1	4.1	4.4	3.4	3.3	3.3	1.8	3.3
Unit Value Indices :								
Domestic exports	6.4	2.5	2.6	1.4	2.7	4.2	2.2	3.8
Re-exports	8.0	3.4	4.4	1.8	1.3	0.5	2.5	4.2
Total exports of goods	8.0	3.4	4.4	1.8	1.4	0.6	2.5	4.2
Imports of goods	8.1	3.3	3.9	2.3	2.1	1.1	3.1	4.4
Terms of Trade Index	-0.1	0.1	0.5	-0.5	-0.7	-0.5	-0.6	-0.2
Producer Price Index for all manufacturing industries ^(b)	8.3	0.1	-0.6	-1.4	-1.0	N.A.	--	3.6
Tender Price Indices :								
Public sector								
building projects	11.6	8.3	8.9	7.2	6.3	N.A.	7.4	10.2
Public housing projects	10.1	6.4	6.2	5.7	6.8	N.A.	7.4	8.8

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

(%)										
	Weight	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>			<u>2013</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	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)	4.2 (5.1)	3.1 (4.0)	3.8 (3.8)	3.7 (3.8)	1.8 (-)	3.3 (3.7)
Food	27.45	2.4	7.0	5.8	6.6	5.1	4.2	4.1	3.3	5.3
<i>Meals bought away from home</i>	17.07	1.7	5.2	5.4	5.7	5.3	4.6	4.4	2.3	3.9
<i>Food, excluding meals bought away from home</i>	10.38	3.5	9.9	6.5	8.1	5.0	3.6	3.6	5.0	7.4
Housing ^(a)	31.66	0.4	7.2	5.6	6.4	2.8	5.2	5.2	1.7	4.2
<i>Private housing rent</i>	27.14	0.9	7.2	6.8	7.3	5.8	5.1	5.0	2.1	5.0
<i>Public housing rent</i>	2.05	-7.8	11.9	-7.1	-1.1	-87.8	9.7	9.7	-3.4	-5.2
Electricity, gas and water	3.10	43.3	-4.2	-8.2	-18.3	3.6	4.6	4.9	0.5	-2.5
Alcoholic drinks and tobacco	0.59	3.4	17.1	3.0	0.1	0.5	0.6	1.6	3.5	8.2
Clothing and footwear	3.45	1.8	6.8	3.1	3.2	2.3	1.9	1.5	2.6	3.0
Durable goods	5.27	-2.7	-3.8	-1.4	-0.9	-1.2	-1.7	-3.5	-3.6	-2.6
Miscellaneous goods	4.17	2.4	3.8	2.2	2.2	1.4	2.0	1.4	2.7	3.1
Transport	8.44	2.0	4.4	3.0	3.3	2.2	2.2	2.0	1.3	2.2
Miscellaneous services	15.87	2.0	3.5	2.8	3.1	2.3	2.9	3.5	0.8	1.4

**Table 23 : 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	4.1	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 23 : 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>			<u>2013</u>	Average annual <u>rate of change:</u>	
				Q2 [#]	Q3 [#]	Q4 [#]		Q1 [#]	10 years 2002 to 2012 [#]
Private consumption expenditure	1.4	3.6	3.1	3.0	2.5	2.6	1.9	1.3	1.8
Government consumption expenditure	-0.2	4.5	6.1	5.9	6.1	6.2	6.2	1.1	3.1
Gross domestic fixed capital formation	5.8	6.8	8.2	6.7	9.3	10.2	2.9	1.8	4.5
Total exports of goods	4.6	7.8	3.1	4.8	1.3	1.0	-0.6	2.1	3.9
Imports of goods	6.3	8.2	3.8	5.9	1.8	1.2	0.1	2.9	4.2
Exports of services	7.4	7.6	3.8	5.2	2.4	1.8	0.9	2.1	2.9
Imports of services	5.6	6.4	1.8	1.0	0.6	2.5	1.5	2.6	2.9
Gross Domestic Product	0.3	3.9	3.9	3.0	4.3	4.3	1.2	0.1	1.8
Total final demand	4.3	6.7	3.7	4.6	2.5	2.3	0.6	1.9	3.3
Domestic demand	2.2	4.5	4.7	4.0	4.8	4.8	2.4	1.4	2.6

