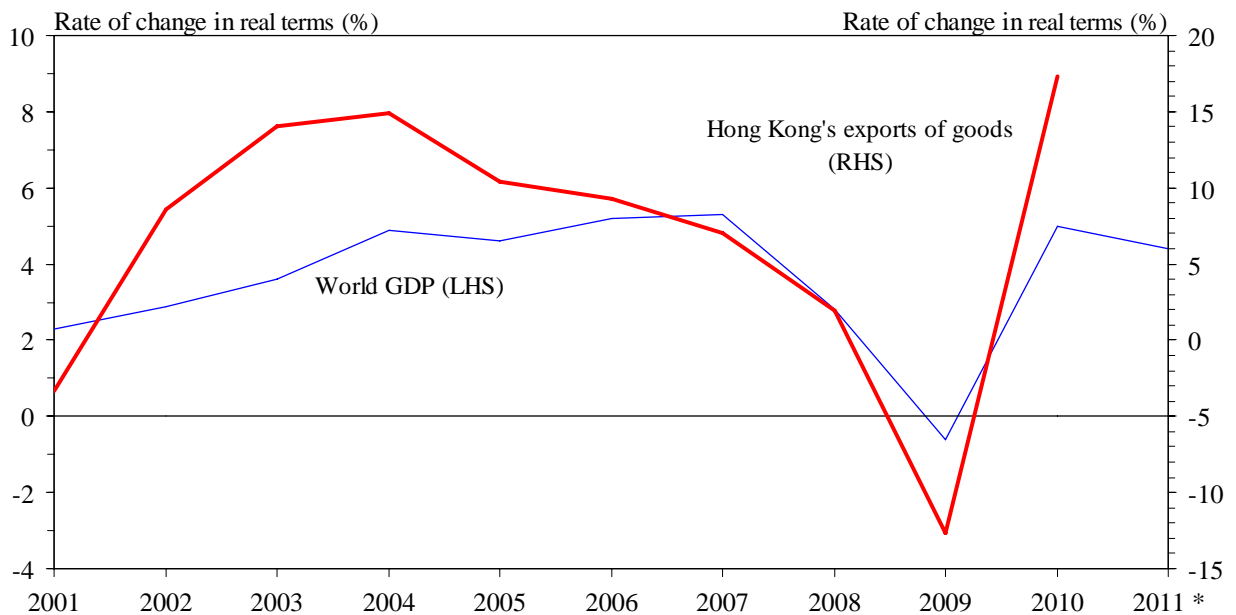


Outlook for the Hong Kong economy in 2011

2.17 The continuous expansion of the global economy, though still subject to various uncertainties, should remain generally positive to Hong Kong's export sector in 2011. As far as Hong Kong's *exports of goods* are concerned, the Asian markets should continue to outpace the advanced economies, reflecting the two-speed nature of the global economic expansion. However, the growth of merchandise exports should be notably less rapid in 2011 than in 2010, given the much higher base of comparison and the slower growth in some markets overseas.

Diagram 2.5 : Hong Kong's exports of goods should expand further in 2011



Source: (*) Forecast from the IMF World Economic Outlook Update January 2011.

Diagram 2.6 : Hong Kong's exports can be influenced by exchange rate movements

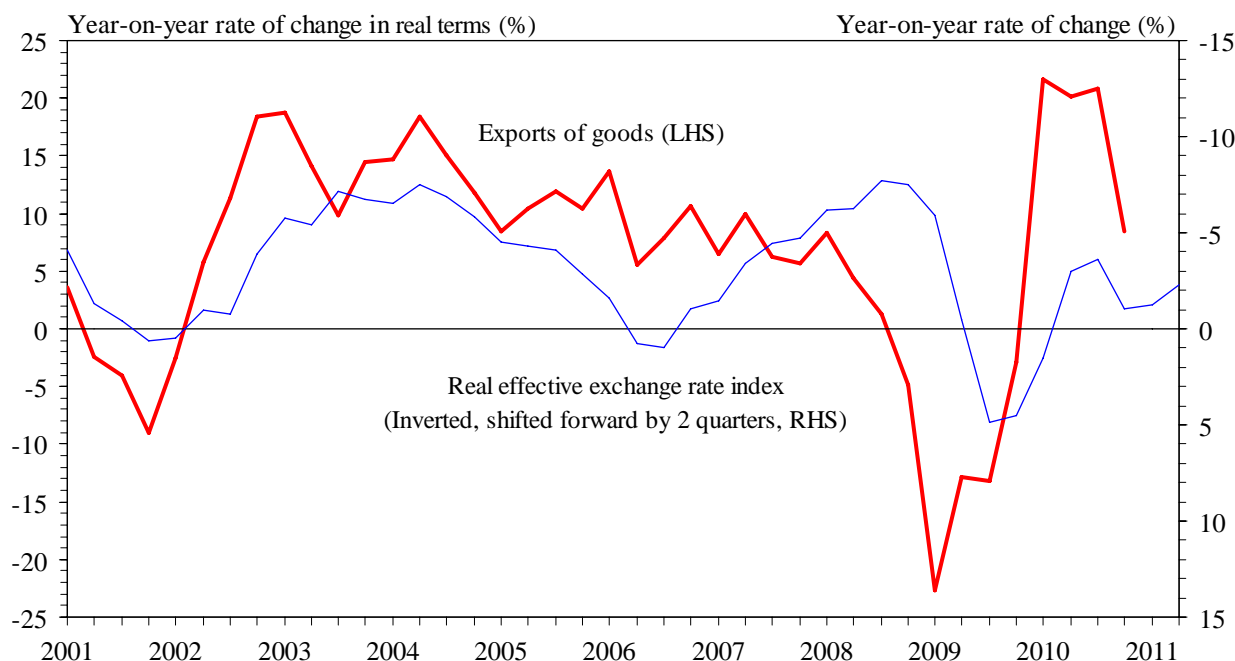
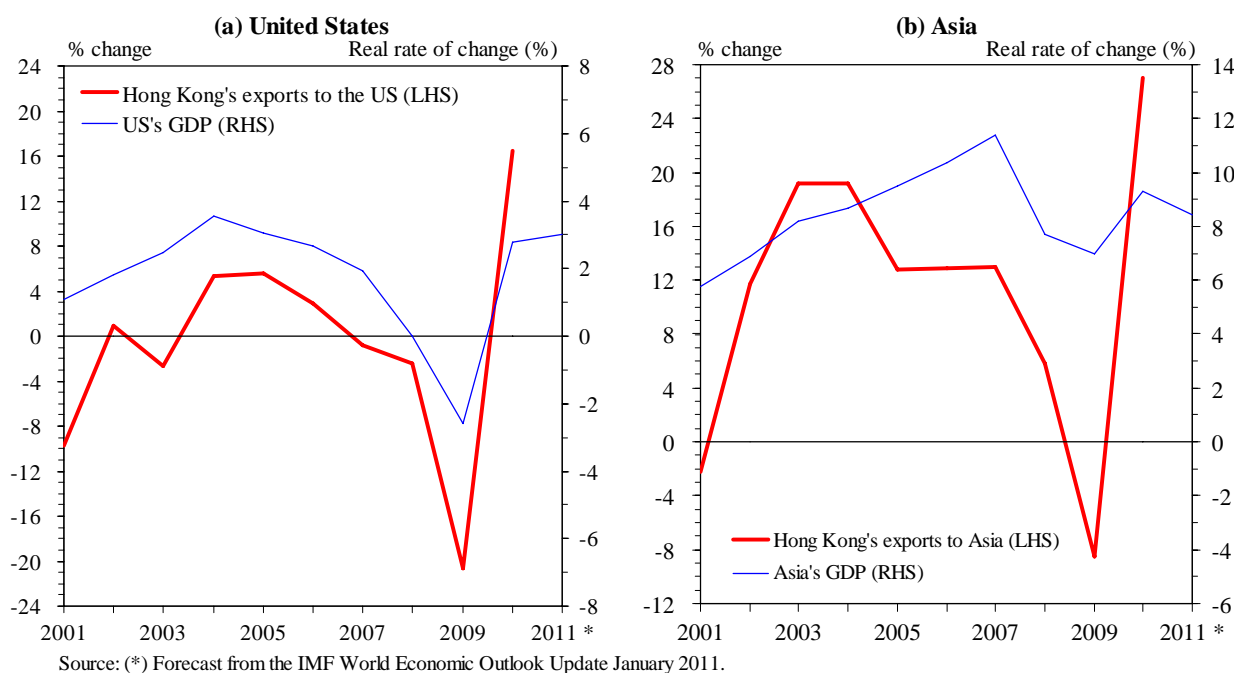


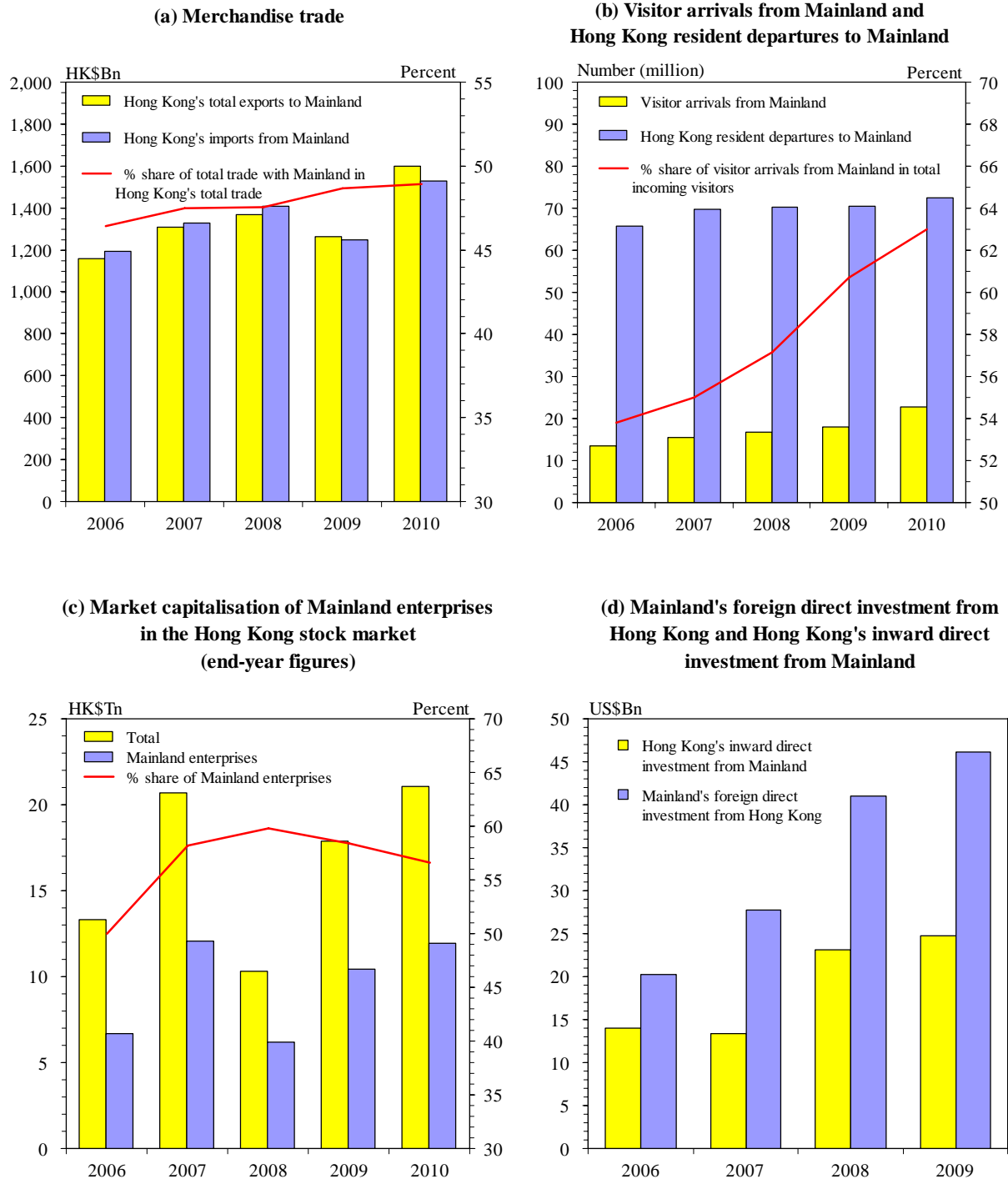
Diagram 2.7 : Exports to Asian markets should fare better, reflecting the two-speed expansion of the global economy



2.18 The performance of *exports of services* has been more resilient than exports of goods over the past decade, underscoring the strong competitiveness of Hong Kong in the provision of tradable services and the considerable benefits from the continued integration with the Mainland economy. Exports of services should continue to fare well in 2011. Exports of financial services, in particular, will ride further on the vibrant IPO activities and the development of Hong

Kong into the offshore centre for renminbi business. Inbound tourism, having surged throughout 2010, is expected to stay vibrant in 2011. Offshore trade and other business services should also benefit from further growth in trade flows and expansion of commercial activities.

Diagram 2.8 : The Mainland factor will continue to be the major force driving the Hong Kong economy



2.19 Domestically, improving job markets and rising incomes should augur well for consumption spending. Yet the extent of growth in private consumption in 2011 will also hinge on the performance of the asset markets, including the housing market. Investment is also poised for a further notable growth in tandem with the upbeat business sentiment. Indeed, the results of the latest Business Tendency Survey conducted by the Census and Statistics Department on large business establishments indicated that business sentiments remained optimistic across the board, although the extent of optimism diminished somewhat compared with results of the previous rounds of the survey. These companies are also inclined to expand their workforce further. Meanwhile, the continued surge in public sector construction works, reflecting the intensive progress of several large-scale infrastructure projects, should also render a staunch support to the domestic economy.

Diagram 2.9 : Local consumer sentiment should remain well supported by the improving employment situation

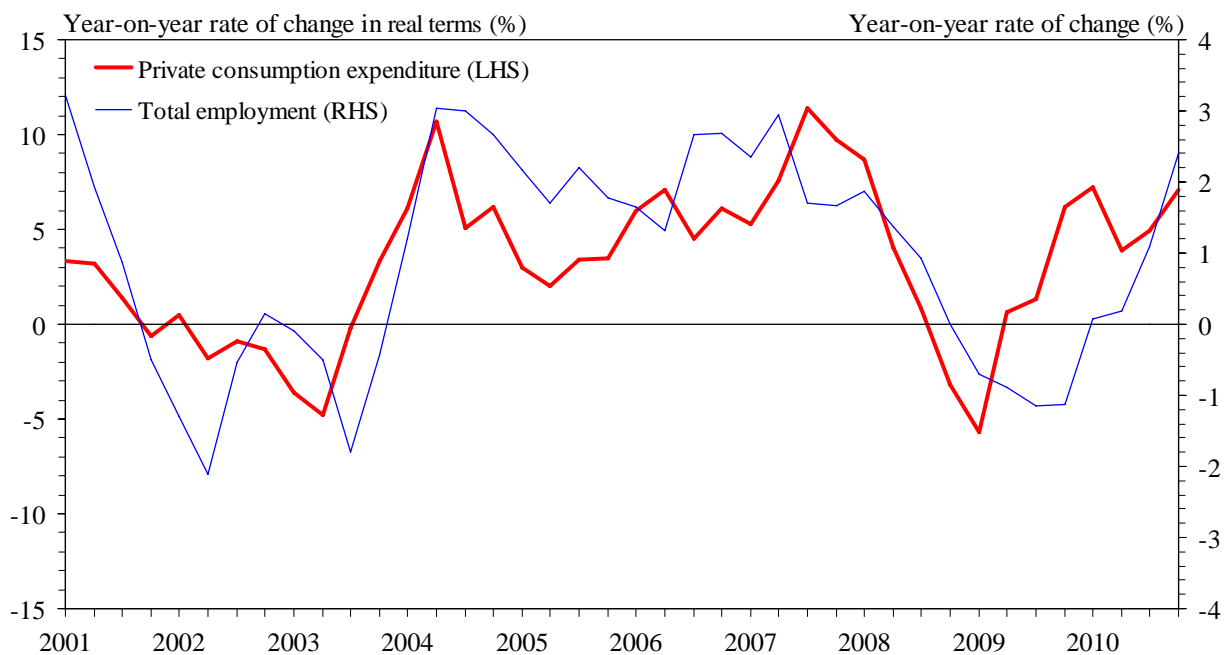


Diagram 2.10 : The extent of growth in private consumption will also hinge on the performance of the asset markets

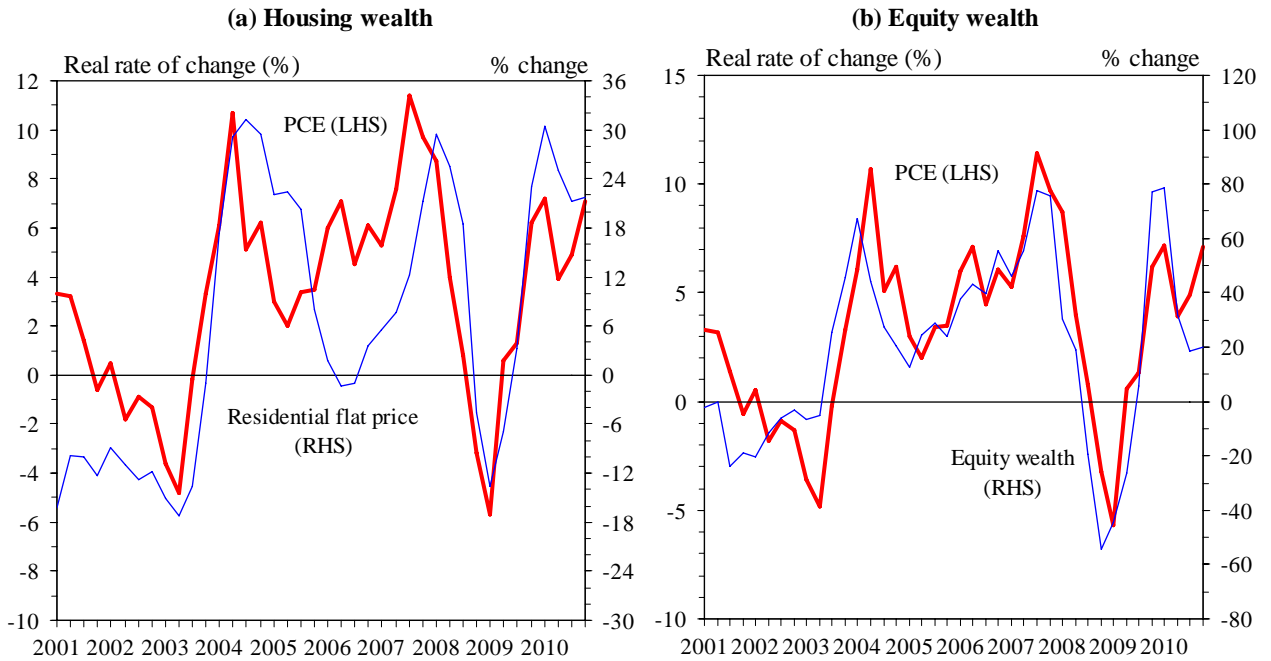
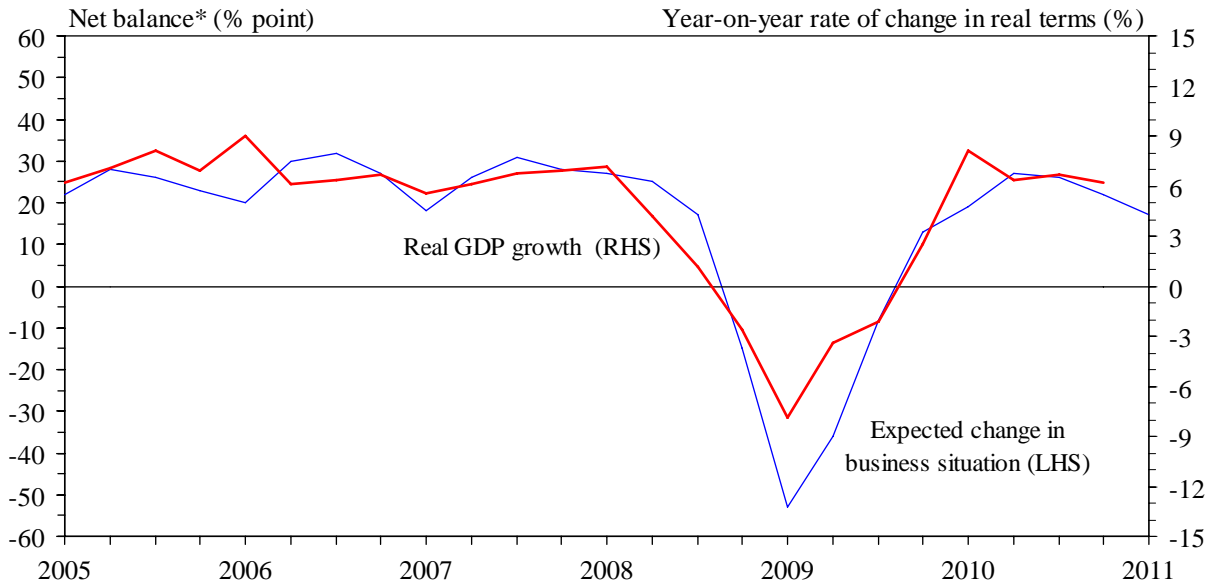
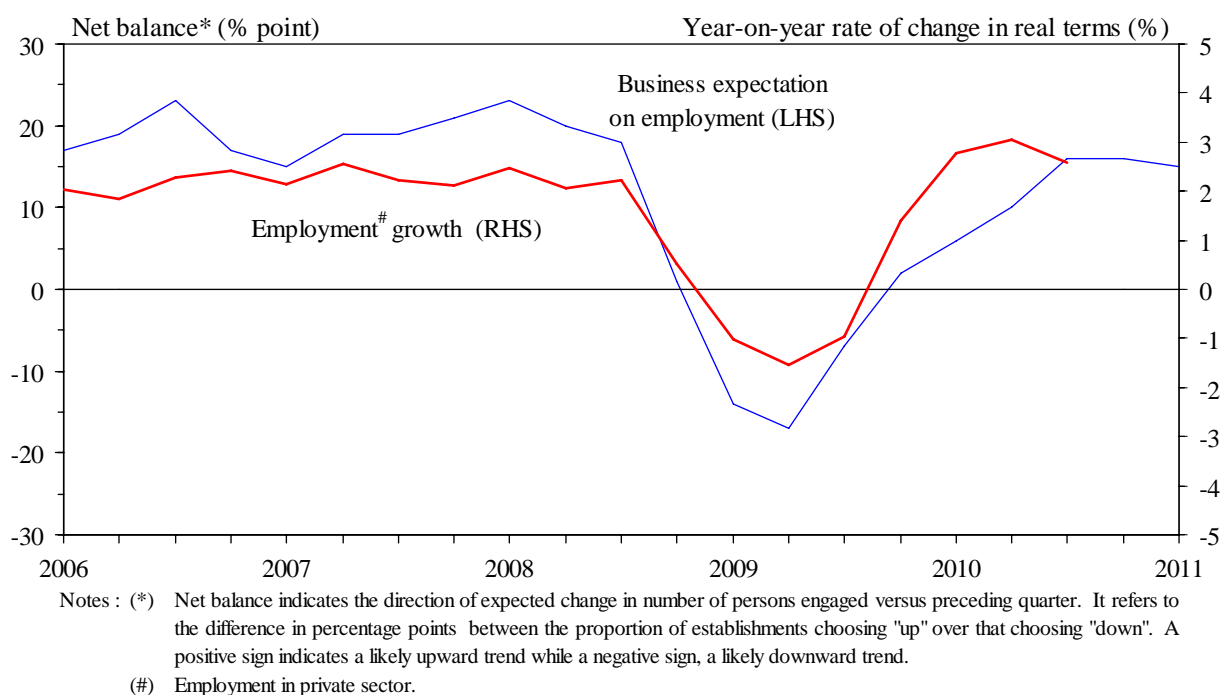


Diagram 2.11 : Business sentiment remains generally optimistic



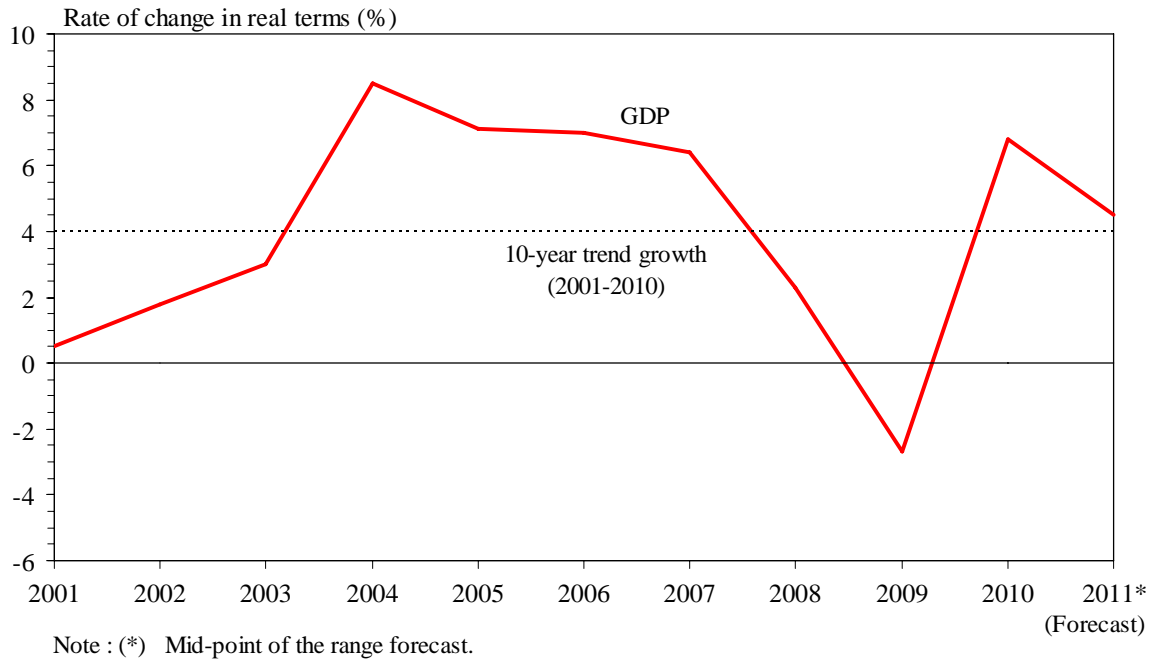
Note : (*) Net balance indicates the direction of expected change in business situation versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "better" over that choosing "worse". A positive sign indicates a likely upward trend while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

Diagram 2.12 : Businesses are also increasingly positive towards hiring



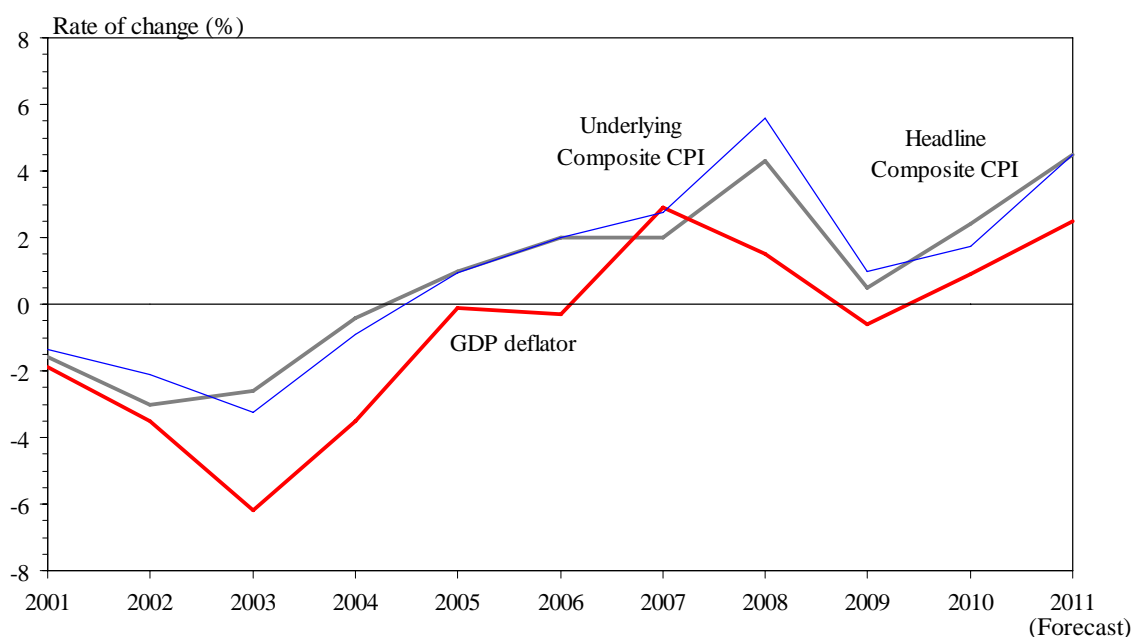
2.20 Following the above discussions, the Hong Kong economy is poised for a further solid growth of 4% to 5% in 2011. The sustained expansion of domestic demand, coupled with the vibrant growth of inbound tourism and financial services, is likely to become a more prominent driver of overall economic growth, compensating for the possible slower growth in merchandise exports. This will be largely in line with the 10-year average annual growth rate of 4.7% just before the global financial crisis, and is also broadly in line with the prevailing forecasts by private sector analysts, which mostly fall within the range of 4% to 5.5%. This also signifies that the economy is returning to the normal growth path, having successfully weathered the impact of the global financial crisis of 2008-2009. Yet, the economic outlook for this year is still subject to various uncertainties, mainly emanating from the weak fundamentals of the advanced economies, as summarised in paragraph 2.16. The Government will stay alert to these risks and challenges, in particular the increasing risks of inflation and asset market bubble in Hong Kong. In this regard, the various relief measures announced in the 2011-12 Budget should help to alleviate the impact of inflation on the lower-income group. On top of these short-term relief measures, the Government will adopt a multi-pronged approach to contain inflation risks, through a counter-cyclical fiscal strategy to contain government expenditure; targeted measures to forestall asset market bubbles; macro-prudential regulation to strengthen risk management in the banking system; and issuing inflation-linked bonds to provide people with an additional investment choice.

Diagram 2.13 : Economy poised for solid expansion in 2011, broadly in line with the trend performance in the latest decade before the Global Financial Crisis



2.21 Inflationary pressures in Hong Kong will turn more evident in 2011, having gradually increased alongside the economic upswing. The recent rapid increases in global food and commodity prices, coupled with higher inflation in the supply sources and the weak US dollar, have added to imported inflation. Locally, higher rentals over the course of the past year, particularly private housing rentals, will also progressively pass through to the consumer price indices. The effect on consumer prices from the implementation of the Statutory Minimum Wage in May will also need to be watched over. Against this backdrop, the *underlying Composite CPI* is forecast to increase by 4.5% in 2011 as a whole. Taking into account the Government's one-off measures, the *headline Composite CPI* is also forecast to increase by 4.5%. The *GDP deflator* is forecast to show a 2.5% increase in 2011, reflecting higher inflationary pressures in the economy as well as the expected change in the terms of trade.

Diagram 2.14 : Inflation is expected to go higher in 2011 under the combined influence of both external and domestic factors



Forecast rate of change in 2011 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	4 to 5
<i>Nominal GDP</i>	6.5 to 7.5
<i>Per capita GDP, in real terms</i>	3.2 to 4.2
<i>Per capita GDP at current market prices</i>	HK\$261,300-263,800 (US\$33,500-33,800)

Composite Consumer Price Index

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

GDP Deflator	2.5
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Forecast on Hong Kong's GDP growth in 2011 recently made by other selected parties

	(%)
International Monetary Fund	5 to 5.5
The University of Hong Kong	4 to 5
Average forecast by private sector analysts [#]	4.8

Note: (#) Forecast GDP growth by private sector analysts mostly falls between 4% and 5.5%.

ECONOMIC PERFORMANCE IN 2010

1. Estimated rates of change in the Gross Domestic Product and its expenditure components and in the main price indicators in 2010:

	(%)
(a) Growth rates in real terms of :	
Private consumption expenditure	5.8
Government consumption expenditure	2.7
Gross domestic fixed capital formation	8.1
<i>of which :</i>	
Building and construction	6.7
Machinery, equipment and computer software	6.3
Total exports of goods	17.3
Imports of goods	18.1
Exports of services	15.0
Imports of services	10.9
Gross Domestic Product (GDP)	6.8
<i>Per capita GDP, in real terms</i>	5.8
<i>Per capita GDP at current market prices</i>	HK\$247,300 (US\$31,800)
(b) Rates of change in :	
Composite Consumer Price Index	2.4
GDP Deflator	0.9
Government Consumption Expenditure Deflator	0.2
(c) Growth rate of nominal GDP	7.8

2. Annual growth rates in real terms of re-exports and domestic exports based on external trade quantum index numbers:

	<i>Re-exports</i> (%)	<i>Domestic exports</i> (%)
2008	4	-22
2009	-11	-35
2010	18	16
<i>Share in the value of total exports of goods in 2010</i>	98	2

3. Annual growth rates in real terms of retained imports by type:

<i>Retained imports</i>						
	<i>Total</i> (%)	<i>Consumer goods</i> (%)	<i>Foodstuffs</i> (%)	<i>Capital goods</i> (%)	<i>Raw materials and semi-manufactures</i> (%)	<i>Fuels</i> (%)
2008	-1	12	13	7	-30	-4
2009	-4	-9	7	-4	-10	23
2010	20	22	12	16	31	14

4. Annual growth rates in real terms of retained imports of capital goods by type:

<i>Retained imports of capital goods</i>					
	<i>Total</i> (%)	<i>Office equipment</i> (%)	<i>Industrial machinery</i> (%)	<i>Construction machinery</i> (%)	<i>Telecommunications equipment</i> (%)
2008	7	0	6	57	14
2009	-4	-9	-31	63	5
2010	16	-6	12	18	27

5. Annual growth rates in real terms of exports of services by type:

Exports of services

	<i>Total</i>	<i>Trade-related</i>	<i>Transportation</i>	<i>Travel</i>	<i>Finance,</i>
	<i>(%)</i>	<i>services</i>	<i>services</i>	<i>services</i>	<i>insurance,</i>
	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>	<i>business and</i>
					<i>other services</i>
					<i>(%)</i>
2008	5	4	3	6	8
2009	0	-5	-2	8	5
2010	15	14	9	29	13

6. Hong Kong's visible and invisible trade balance in 2010 reckoned on GDP basis ^(Note 1) :

	(HK\$ billion)
Total exports of goods	3,061.3
Imports of goods	3,395.1
<i>Visible trade balance</i>	-333.8
Exports of services	835.0
Imports of services	396.6
<i>Invisible trade balance</i>	438.4
<i>Combined visible and invisible trade balance</i>	104.6

Note 1 Preliminary figures.

7. Annual averages of the unemployment and underemployment rates and growth in labour force and total employment:

	<i>Unemployment rate (%)</i>	<i>Underemployment rate (%)</i>	<i>Growth in labour force (%)</i>	<i>Growth in total employment (%)</i>
2008	3.6	1.9	0.5	1.0
2009	5.4	2.3	0.8	-1.1
2010	4.3	2.0	0.0	1.1

8. Annual rates of change in the Consumer Price Indices:

	<i>Composite CPI</i>		<i>CPI(A)</i>	<i>CPI(B)</i>	<i>CPI(C)</i>
	<i>Headline (%)</i>	<i>Underlying (%)</i>	<i>(%)</i>	<i>(%)</i>	<i>(%)</i>
2008	4.3	5.6	3.6	4.6	4.7
2009	0.5	1.0	0.4	0.5	0.6
2010	2.4	1.7	2.7	2.4	2.1

ECONOMIC PROSPECTS FOR 2011

Forecast rates of change in the Gross Domestic Product and prices in 2011:

	(%)
Gross Domestic Product (GDP)	
<i>Real GDP</i>	4 to 5
<i>Nominal GDP</i>	6.5 to 7.5
<i>Per capita GDP, in real terms</i>	3.2 to 4.2
<i>Per capita GDP at current market prices</i>	HK\$261,300-263,800 (US\$33,500-33,800)
Composite Consumer Price Index	
<i>Headline Composite Consumer Price Index</i>	4.5
<i>Underlying Composite Consumer Price Index</i>	4.5
GDP Deflator	2.5
Government Consumption Expenditure Deflator	3.0