

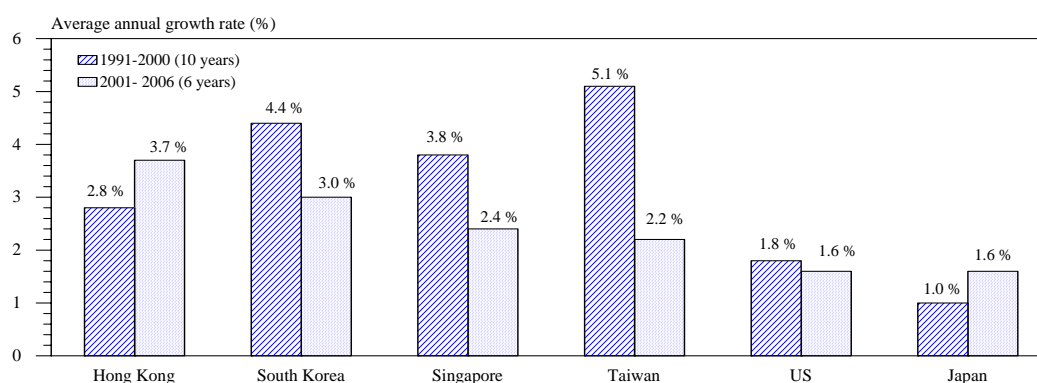
Box 1.1**Productivity growth in Hong Kong**

Economic growth over the medium to longer run is determined more by supply factors, including labour force growth and labour productivity growth. The former is largely dependent on demographic and immigration trends. The latter is affected by a host of factors, such as technological progress, capital deepening and widening, as well as the quality of labour. Indeed, the trend of productivity growth is a key determinant of the sustainable rate of expansion of the economy over the longer run.

From a macroeconomic perspective, higher labour productivity growth enables the economy to expand at a more rapid pace than otherwise possible, whilst containing the pressure on local costs and hence prices. The benign inflation associated with the continued strong economic expansion of the Hong Kong economy over the past three years was to a large extent a result of the distinct productivity improvement in Hong Kong.

The underlying trend of labour productivity, as measured by GDP per person engaged, is better revealed by examining its movement over a longer period, as the year-to-year movement may be susceptible to the influence of business cycles. Between 2000 and 2006, labour productivity in Hong Kong as crudely measured by GDP per person engaged rose by about 3.7% per year. This was notably higher than the 2.8% average increase in the 1990s, reflecting the on-going shift of the economy towards high value-added and knowledge-based activities, which has been matched by the continuous quality upgrading of Hong Kong's labour force. Conceivably, the Hong Kong economy has also benefited markedly from the boom in information and communication technology since mid-1990s and the eventual adoption of the associated new technologies and innovations into business applications. With highly flexible markets and sound institutions, Hong Kong should be more responsive and better prepared than many other economies in adopting new technologies and innovations. Indeed, compared with the more advanced economies and even our neighbouring economies at a similar stage of development, Hong Kong has fared well in terms of labour productivity growth in the recent past.

Hong Kong's labour productivity growth has outperformed many other economies in recent years



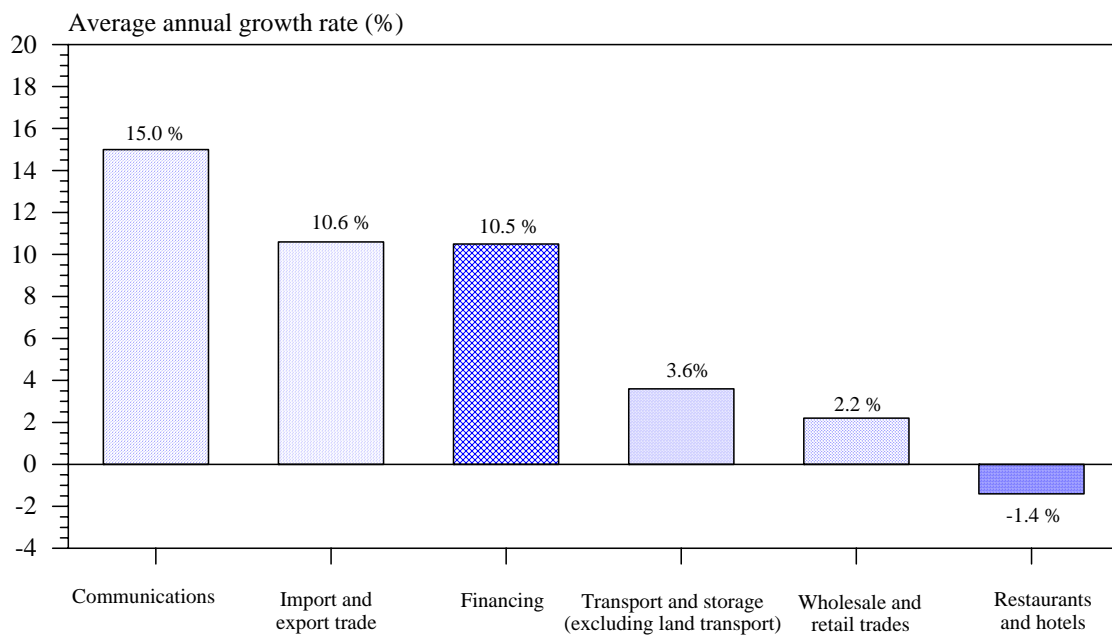
Note : For comparability reason, labour productivity here is defined as GDP per person engaged, due to the difficulty in obtaining data on average hours worked for the selected economies.

Box 1.1 (cont'd)

Labour productivity for individual economic sectors can be measured in terms of net output (i.e. constant price value added as compiled in the GDP accounting framework) per person-hours worked. Figures are available starting from 2000. Among the various economic sectors, “communications” showed the fastest increase in labour productivity between 2000 and 2005, bolstered by rapid technological advancement in this sector. By contrast, “wholesale and retail trade”, a more labour intensive sector, showed only modest increase in labour productivity over this five-year period. Labour productivity in “restaurants and hotels” recorded a small decline, but this reflected more the significant cyclical downturn in 2001-2003 as well as the impact of SARS, rather than its underlying trend.

Yet of particular note was the significant growth in productivity in “import and export trade” and “financing”. Given the larger sizes of these sectors in the economy, they have provided significant impetus to overall productivity growth. These developments also bode well for the competitiveness of Hong Kong as an international financial centre and a regional trade and logistics hub.

Hong Kong's average productivity growth in selected service sectors in 2000 - 2005



Note : Labour productivity here has adjusted for changes in working hours.