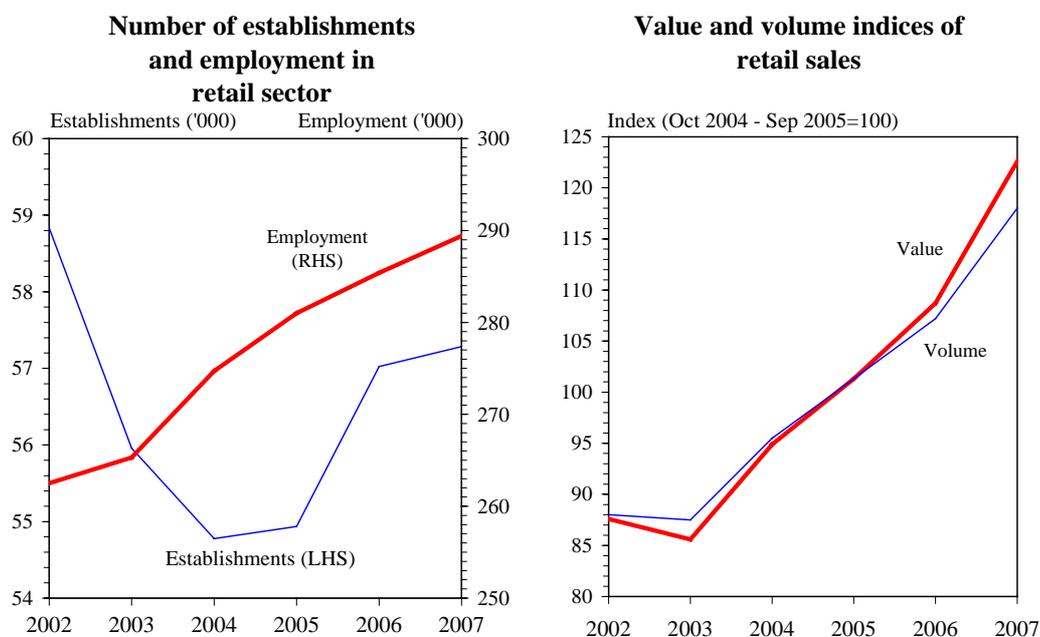


Box 1.1**Recent developments in retail business
and the contribution from inbound tourism**

The retail sector is one of the largest service industries, in terms of number of establishments and employed persons, in Hong Kong. In 2007, the number of establishments in the retail trade industry was about 57 000, employing some 289 000 persons or about 8.3% of Hong Kong's total employment. In terms of economic contribution, the retail trade directly generated \$37.6 billion of value added in 2006 (latest available figure), equivalent to 2.6% of the GDP of Hong Kong.

The retail trade industry went through a period of consolidation in 2003 due to the outbreak of the Severe Acute Respiratory Syndrome, but has recovered progressively along with the economic upturn over the past few years. The number of employment in the retail industry increased steadily since 2003, at an average annual rate of 2.2%, to 289 000 in the first three quarters of 2007. Given the relatively labour-intensive nature of retail business, it is an important source of employment for the local workforce.

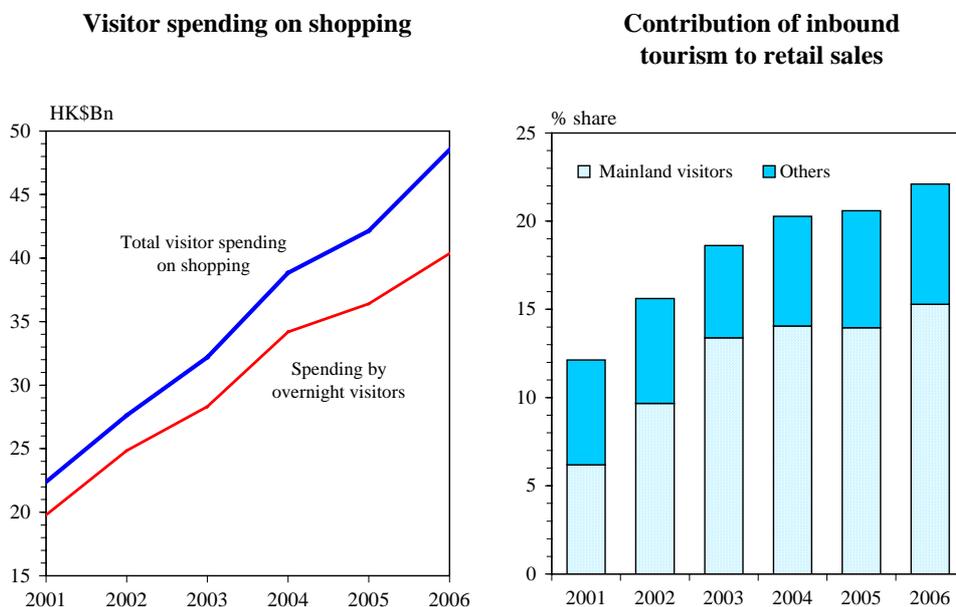


Retail business grew notably over the past several years reaching \$247.7 billion in 2007, achieving an annual average growth rate of 9.4% in value terms or 7.8% in volume terms during 2003 to 2007. Apart from the economic recovery, the vibrant inbound tourism, particularly after the launch of the Individual Visit Scheme in July 2003, has also been an important force driving the performance of retail business.

Being one of the most popular destinations for Mainland visitors and also visitors from the Asia Pacific region, Hong Kong saw its total number of visitors surpassed 28 million in 2007, substantially up from the figure of 16.6 million in 2002. Reflecting the importance of the Mainland market to Hong Kong's inbound tourism, Mainland visitors accounted for 55% of total visitor arrivals in 2007.

Box 1.1 (Cont'd)

The importance of inbound tourism to retail trade is reflected by the expenditure on shopping of incoming visitors, which amounted to \$48.5 billion in 2006 (the latest available figure). The share of expenditure on shopping of incoming visitors in the total value of retail sales increased distinctly from 15.6% in 2002 to a share of 22.1% in 2006.



Specifically, expenditure on shopping by Mainland visitors increased substantially from \$17.1 billion in 2002 to \$33.6 billion in 2006, at an average annual rate of 18.4%. The share of such expenditure in Hong Kong's total retail sales value rose from 9.7% in 2002 to 15.3% in 2006. Analysed by shopping categories, "jewellery and watches" and "clothing" had been the two largest categories that the Mainland visitors spent on, each of which accounted for about a quarter of their total spending on shopping in 2006.

Over the past two years or so, there has also been a significant improvement in confidence among the local consumers. This has also contributed markedly to the recent impressive performance of retail sales. Private consumption expenditure, which is actually a better gauge of consumption spending by local residents on account of its broader coverage and its exclusion of visitor spending, rose markedly by 7.8% in real terms in 2007, the fastest increase since 1993. The improving job security, rising income, better household financial positions and stronger performance of asset markets have all help underpin the upbeat sentiments among the local consumers.

The near-term prospects for the retail business remain promising. Inbound tourism is likely to continue to benefit from the thriving Mainland economy and fairly robust growth momentum in other Asian economies. The prevailing strong consumer confidence should also bode well for retail sales in 2008.