



# Third Quarter Economic Report 2005

Government of the Hong Kong  
Special Administrative Region

# ***THIRD QUARTER ECONOMIC REPORT 2005***

ECONOMIC ANALYSIS DIVISION  
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT  
FINANCIAL SECRETARY'S OFFICE  
GOVERNMENT OF THE  
HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

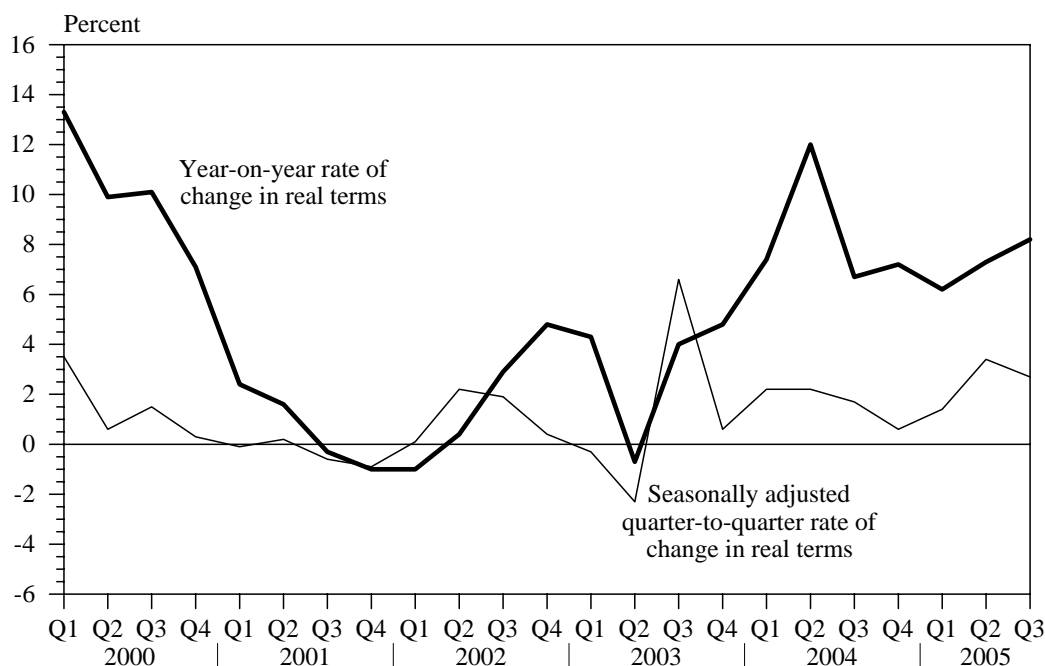
- *The Hong Kong economy turned out a spectacular performance in the third quarter of 2005, with real GDP leaping by 8.2% over a year earlier, after an already robust 6.7 % growth in the first half. While external trade remained the key driving force in the current economic expansion, the domestic sector also grew solidly further thereby adding strength to the economic growth.*
- *Externally, notwithstanding various uncertainties looming in the trading environment, merchandise exports continued to surge, thanks to the fairly strong performance of the overseas markets as well as Mainland's buoyant trade flows. Meanwhile, exports of services also stayed strong, buoyed by flourishing offshore trade and transportation services as well as further growth in inbound tourism (**Chapter 2**).*
- *Domestically, consumption demand re-accelerated to grow at 4.6% in the third quarter, supported by improving employment incomes and a generally upbeat sentiment. Sanguine economic prospects and the general business upturn continued to spur machinery and equipment demand. Yet construction activity was still sluggish, thereby persistently holding back the pace of investment upturn. A particularly noteworthy development was the re-emergence of a slight inventory build-up after several quarters of depletion.*
- *The strength of economic expansion continued to manifest in new job creation, with over 200 000 additional jobs created since the trough in mid-2003, some 42% of them falling in the lower-skilled category. Total employment rose to another new high in the third quarter, pushing the seasonally adjusted unemployment rate down to a four-year low of 5.5%. The improvement was across-the-board in all sectors, and spanned across all age groups and most occupation categories. Meanwhile, labour income continued to increase (**Chapter 5**).*
- *The property market turned quieter in recent months largely under the impact of further interest rate hikes. Overall property prices met with moderation pressure, though the adjustment was mild as the longer-term market outlook stayed positive (**Chapter 3**).*

- *Local stock prices showed a fairly strong performance in the third quarter of 2005, but consolidated somewhat in the more recent months as concerns about further interest rate increases intensified. Nevertheless, market turnover remained at a relatively high level (Chapter 4).*
- *Consumer price inflation notched up to 1.4% in the third quarter, along with the increasingly entrenched economic recovery, the progressive feed-through from the earlier rental rebound, and also some modest impact from higher fuel cost. Yet the overall inflationary pressures remained well contained to date and are likely to remain so through to the end of the year (Chapter 6).*

## **Overall situation**

1.1 The Hong Kong economy turned out an even more spectacular performance in the third quarter of 2005. While the external sector remained highly robust, consumer demand re-accelerated to a solid growth and investment demand rose further. With both the external and domestic fronts exceeding expectations, the *Gross Domestic Product (GDP)*<sup>(1)</sup> leaped by 8.2% in real terms in the third quarter over a year earlier. This was not only up from the 6.7% growth in the first half of 2005 (revised from the earlier estimate of 6.5%)<sup>(2)</sup>, it also marked the eighth consecutive quarter that the economy has attained above-trend growth. On a seasonally adjusted quarter-to-quarter comparison<sup>(3)</sup>, GDP also expanded notably further, for the ninth straight quarter, by 2.7% in real terms in the third quarter of 2005.

**Diagram 1.1 : Gross Domestic Product**



1.2 While the economic expansion had become more broad-based in the third quarter, the external sector with its robust performance was still the dominant driving force. *Total exports of goods* continued to grow significantly, by 12.8% year-on-year in real terms in third quarter, reflecting the fairly strong performance of the major overseas markets as well as the Mainland's buoyant trade flows, and also the strength of Hong Kong as the trade conduit for the Mainland economy. On invisible trade, offshore trade and exports of transportation services surged further, likewise mainly benefited by buoyant trade flows involving the Mainland. The further growth in inbound tourism also provided additional support. *Exports of services* thus expanded noticeably further, by 8.2% in real terms in the third quarter (*Chapter 2*).



**Table 1.1 : Gross Domestic Product and its main expenditure components  
and the main price indicators  
(year-on-year rate of change (%))**

	<u>2003</u> <sup>#</sup>	<u>2004</u> <sup>#</sup>	<u>2004</u>				<u>2005</u>		
			<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i> <sup>@</sup>									
Private consumption expenditure	-1.0	6.8	5.7 (1.2)	10.8 (2.3)	5.2 (0.1)	5.8 (1.9)	4.4 (0.2)	2.7 (0.4)	4.6 (2.2)
Government consumption expenditure	1.9	0.7	5.7 (0.1)	* (-3.3)	-1.3 (*)	-1.7 (1.4)	-4.8 (-2.9)	-2.3 (-0.7)	-1.8 (0.6)
Gross domestic fixed capital formation	0.9	4.1	5.1 (N.A.)	11.5 (N.A.)	2.1 (N.A.)	-1.4 (N.A.)	0.4 (N.A.)	4.5 (N.A.)	2.4 (N.A.)
<i>of which :</i>									
Building and construction	-5.6	-11.1	-12.4	-13.4	-14.3	-3.7	-1.0	-7.7	-8.4
Machinery, equipment and computer software	6.7	12.4	16.3	26.9	11.9	-2.1	0.7	10.1	8.1
Total exports of goods	14.2	15.3	15.0 (2.5)	18.7 (5.8)	15.3 (0.6)	12.6 (2.9)	8.9 (*)	11.1 (6.7)	12.8 (2.0)
Imports of goods	13.1	14.1	16.3 (3.7)	20.3 (3.6)	14.2 (-1.1)	7.0 (0.6)	3.8 (1.6)	7.0 (5.5)	11.0 (2.3)
Exports of services	7.9	15.3	13.9 (0.6)	32.7 (0.7)	12.2 (5.9)	7.7 (*)	8.8 (1.5)	8.6 (0.9)	8.2 (5.7)
Imports of services	-2.1	10.7	3.6 (-4.3)	30.0 (9.9)	7.2 (-1.0)	6.1 (0.8)	5.4 (-3.8)	0.1 (4.4)	3.7 (2.3)
<b>Gross Domestic Product</b>	<b>3.1</b>	<b>8.2</b>	<b>7.4</b> <b>(2.2)</b>	<b>12.0</b> <b>(2.2)</b>	<b>6.7</b> <b>(1.7)</b>	<b>7.2</b> <b>(0.6)</b>	<b>6.2</b> <b>(1.4)</b>	<b>7.3</b> <b>(3.4)</b>	<b>8.2</b> <b>(2.7)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>-6.4</b>	<b>-3.3</b>	<b>-4.6</b> <b>(-0.5)</b>	<b>-3.4</b> <b>(-0.8)</b>	<b>-2.9</b> <b>(-0.8)</b>	<b>-2.5</b> <b>(-0.5)</b>	<b>-1.5</b> <b>(0.5)</b>	<b>-0.7</b> <b>(*)</b>	<b>-0.2</b> <b>(*)</b>
<b>Composite Consumer Price Index</b>	<b>-2.6</b>	<b>-0.4</b>	<b>-1.8</b> <b>(0.3)</b>	<b>-0.9</b> <b>(*)</b>	<b>0.8</b> <b>(-0.2)</b>	<b>0.2</b> <b>(0.3)</b>	<b>0.4</b> <b>(0.3)</b>	<b>0.8</b> <b>(0.5)</b>	<b>1.4</b> <b>(0.4)</b>
<b><u>Change in nominal GDP (%)</u></b>	<b>-3.4</b>	<b>4.7</b>	<b>2.4</b>	<b>8.3</b>	<b>3.7</b>	<b>4.5</b>	<b>4.5</b>	<b>6.5</b>	<b>8.1</b>

Notes : (#) Revised figures.

(+) Preliminary figures.

(@) The entire GDP series have been revised following the completion of an exercise by the Census and Statistics Department to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005.

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

N.A. Not applicable, as no clear seasonal pattern is found in gross domestic fixed capital formation, due to the presence of considerable short-term fluctuations.

(\*) Change of less than 0.05%.

1.3 On the domestic front, local consumer spending held firm in the third quarter, supported by improving employment incomes. Amidst the generally upbeat sentiment, *private consumption expenditure (PCE)* re-accelerated to grow at 4.6% in real terms in the third quarter over a year earlier, distinctly up from the 3.5% growth in the first half. *Government consumption expenditure* declined further in the third quarter, in line with the Government's continued efforts to restore the fiscal balance.

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

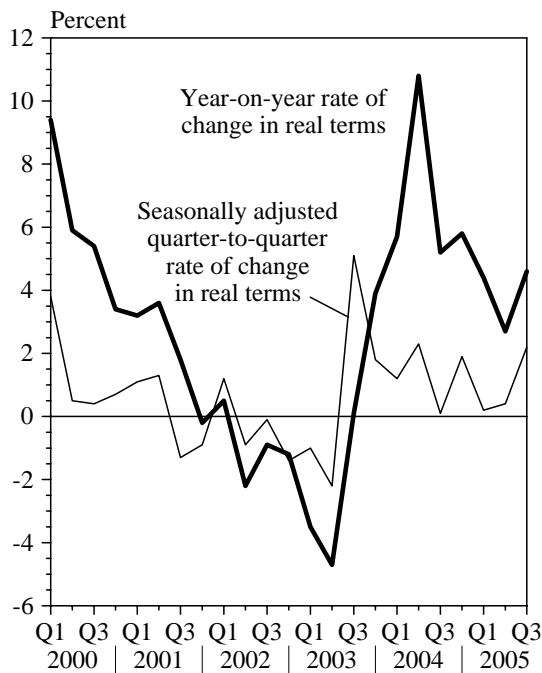
*Of which :*

		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2004	Annual	7	1	16	10	6	11	19	7
	Q1	7	1	17	6	6	-2	11	6
	Q2	13	-2	20	27	11	50	150	11
	Q3	5	2	14	4	3	8	4	5
	Q4	5	3	14	6	3	3	-4	6
2005	Q1	5	3	10	9	2	7	10	4
	Q2	4	4	8	6	2	-8	6	3
	Q3	5	3	7	5	5	1	3	5

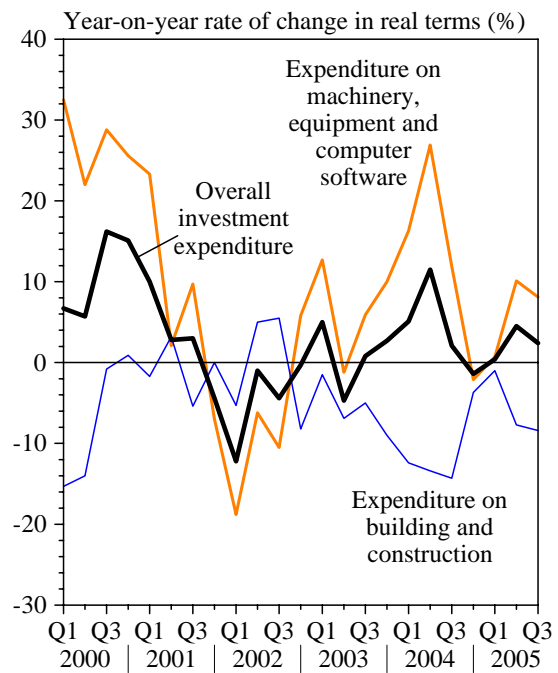
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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.

**Diagram 1.2 : Consumer spending**



**Diagram 1.3 : Investment spending**



1.4 Overall investment spending in terms of *gross domestic fixed capital formation* grew further, though only modestly by 2.4% in real terms in the third quarter over a year earlier, after a 2.5% growth in the first half of the year. Business sentiment remained generally upbeat, against the background of the brisk pace of economic expansion. This, together with the need to expand capacity to cope with the increased business volume, led to a further visible increase in investment in machinery, equipment and computer software in the third quarter. However, the weak building and construction activity continued to hold back the pace of upturn in overall investment. Expenditure on building and construction fell off further in the third quarter, as there were still relatively few large-scale building and infrastructure projects in progress. Yet with the sustained revival of the property market and with several large-scale infrastructural projects being planned or in the pipeline, this industry can be expected to recover gradually in the period ahead.

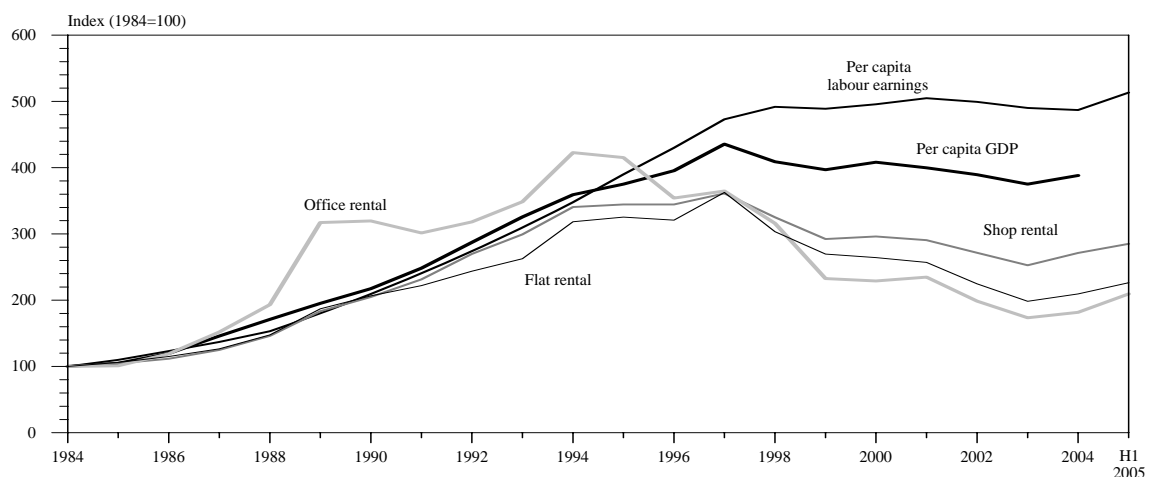
## Box 1.1

### Rising rentals and the Hong Kong economy

Property rentals have been rising noticeably since late 2003, in tandem with the economic recovery and the revival of the property market. There is concern from the community that the significant rise-back in rentals would lead to a resurgence in inflation, undermine profitability of businesses, and hamper the recovery in the economy. This box examines these issues in the context of the long-term trends of property rentals in relation to economic growth. From a macro perspective, the property market is an integral part of the market economy and in this context, property market performance can be seen as one manifestation of the state of the economy, in the same way as share prices, trade performance, unemployment rate, wages or inflation. By the same token, property rentals, as a measure of the return or yield from investment in property, is one form of return on capital, akin to dividend earned on holding stocks and shares, or interest on bonds or bank deposits.

Analysing the relationship between property rentals and the economy over the past two decades, between 1984 and 1997, flat rentals were indeed on an almost uninterrupted rise, by an average of 10.4% per annum, but per capita GDP rose even faster, by 12.0% per annum, and even more so for per capita labour earnings, by 12.7% per annum. This suggests that the surge in flat rental actually went in tandem with, and was well supported by, improved incomes as the economy boomed. Moreover, the significant rise-back in flat rentals over the past two years has also to be seen in conjunction with their marked decline between 1997 and 2003, by some 45%, far more distinct when matched against the corresponding decline of 14% in per capita GDP. The analysis clearly suggests that while the property market shows considerable volatility from year to year, in the long run property prices and rentals basically move in tandem with the economy.

Property rentals vs per capita GDP and labour income



## **Box 1.1 (cont'd)**

### **Impact of the recent surge in rentals on the economy**

So far, there is little sign that the increase in property rentals has contributed to any surge in inflation, as the feeding-through to the retail price level has not been significant. The GDP deflator and the domestic demand deflator remain soft, suggesting that overall price and cost pressure on the economy remains modest (*Diagram 1.4 and Paragraph 1.5*).

There is also some worry that sharp increases in property rentals in Hong Kong may undercut the competitiveness of Hong Kong as a business hub. This would indeed be a concern if the surge in property rentals goes way beyond what the households can support in terms of rental affordability, and what the businesses can support in terms of earning capacity or income prospect. But this does not appear to be the case up to now. Taking residential properties as an illustration, notwithstanding the significant rebound in flat rentals, affordability of tenants in the second quarter of 2005 is still better than any time during the entire period 1984-1999. This suggests that the recent bounce-back in flat rental has been well supported by improved job and income prospect, and in this context, it should be seen as no more than a catch-up consequential to the sharp fall-off in the earlier years. Furthermore, as the economic recovery deepens, employment income can be expected to improve further, which should in turn underpin tenants' affordability to rent.

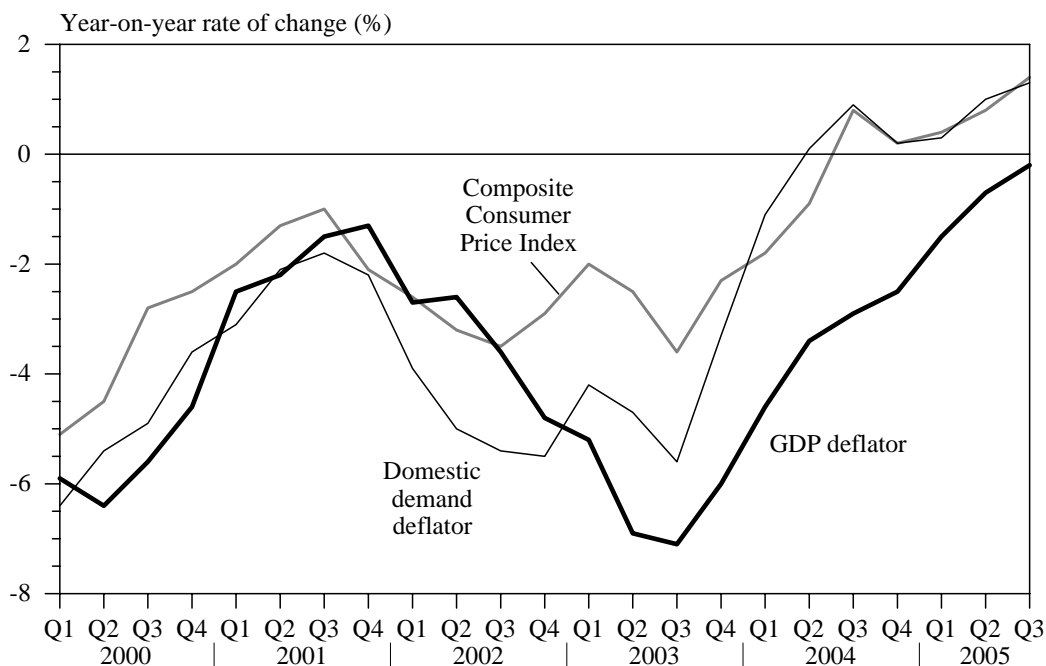
Similarly, the same is true for office and shop rentals. More specifically, between 1984 and 2004, office rentals have risen by a cumulative 82% and shop rentals by 171%, but they were both considerably smaller than the corresponding growth of 288% in per capita GDP, or that of 387% in per capita labour earnings. Thus, again, the strong pick-up in office and shop rentals of Hong Kong since late-2003 can be seen as largely a reflection of the upbeat business prospect and higher expected earning capability of businesses in Hong Kong as the Hong Kong economy enters a cyclical upturn. Indeed, despite the surge in rentals since late 2003, the number of regional headquarters and regional offices in Hong Kong has risen to a new high in 2005.

Yet admittedly, in the short run, the negative impact of rising rentals would be more noticeable at the micro level. Some service sectors, particularly retail trade and restaurants, for which rent expense accounts for a large share of the operating cost, will feel more of the pinch, particularly so for those operators with low profit margin. Nevertheless, granting that the rise in rental cost is driven up primarily by improved sales or business, the increase in operating cost on a per dollar of output basis may not be as marked as it appears to be (*Paragraph 6.3 and Diagram 6.3a*).

In sum, the current levels of rental affordability suggest that in overall terms, the recent surges in property rentals in the past two years or so are largely a result of improved income and hence generally in line with the economic fundamentals.

1.5 Consumer price inflation climbed up slightly further during the third quarter, reflecting the buoyant economic upturn, progressive feed-through from the earlier rental rebound and also some modest impact from higher fuel cost. Yet on the whole, price pressures remained well contained so far, thanks to the matching expansion in productive capacity along with continued productivity enhancement. In the third quarter, the *Composite Consumer Price Index* rose by 1.4% over a year earlier, giving an average increase of 0.9% for the first nine months of 2005 as a whole. As to the *GDP deflator*, the persistent downtrend over the past few years was largely arrested by the third quarter, thanks to the faster rise in domestic prices and the further fading out of the terms of trade drag amidst a stronger US dollar. Excluding the relative price movements of exports and imports, the domestic demand deflator moved up by 1.3% in the third quarter, in line with the trend of consumer price inflation. In general, the recent trends in the various price indicators suggest that price pressures in the economy were still rather moderate.

**Diagram 1.4 : Price movements**



## Net output or value added by major economic sector

1.6 The services sector continued to feature prominently as a driving force in Hong Kong's overall economic growth. Latest available figures for the second quarter of 2005 indicate that net output in the services sector as a whole rose distinctly further by 7.5% in real terms over a year earlier. Buoyed by the strong external sector and the further expansion of inbound tourism, transport, storage and communications, as well as wholesale, retail and import/export trades, restaurants and hotels, showed the fastest increases in net output in the second quarter. On the other hand, net output in the construction sector continued to shrink, reflecting the lingering weakness of the industry. Net output in the manufacturing industry declined only marginally, thanks to the accelerated growth in the output of the electrical and electronics industries.

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

			<u>2004<sup>#</sup></u>				<u>2005<sup>#</sup></u>	
	<u>2003<sup>#</sup></u>	<u>2004<sup>#</sup></u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-10.3	1.7	0.5	-0.2	2.3	3.8	-2.3	-0.1
Construction	-4.9	-8.4	-9.1	-10.7	-12.0	-2.0	-0.7	-8.3
Services <sup>(b)</sup>	4.5	8.9	8.4	12.7	7.5	7.4	6.5	7.5
Of which:								
Wholesale, retail and import/export trades, restaurants and hotels	9.1	13.4	12.2	20.6	12.5	9.8	11.0	11.7
Transport, storage and communications	0.7	17.4	13.5	26.3	15.8	15.2	12.8	12.3
Financing, insurance, real estate and business services	5.7	7.3	11.1	8.3	3.5	6.6	3.6	7.8
Community, social and personal services	0.5	3.9	2.6	7.3	3.0	2.7	1.2	0.2

Notes : (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.

(#) Revised figures.

## Some highlights of economic policy

1.7 In his Policy Address on 12 October, the Chief Executive indicated, among other things, the following strategic directions to help the economy to power ahead:

- *First*, the Government will continue to enhance the quality of the financial markets through enhancing the regulatory regime, promoting good corporate governance, and development of the bond market. In this regard, the implementation of the New Basel Capital Accord to set the highest international standards will help strengthen the position of Hong Kong as a leading international financial centre in the region. Also, measures have been taken to abolish estate duty and exempt offshore funds from profits tax to foster the growth of the asset management industry. Furthermore, the scope of renminbi business in Hong Kong will be extended further.
- *Secondly*, CEPA III will extend tariff-free access to more Hong Kong products and further liberalise market access for existing CEPA services sectors, thus providing new business opportunities on the Mainland to Hong Kong enterprises and professionals, and enhancing Hong Kong's attractiveness to overseas investors.
- *Thirdly*, the Individual Visit Scheme (IVS) has been extended to cover four more Mainland cities from 1 November, bringing the number to 38 cities. This should give a further boost to Hong Kong's inbound tourism.
- *Fourthly*, strengthening regional economic co-operation under the Pan-PRD initiatives will enable Hong Kong to tap the vast potential in the Mainland market and to leverage on the rapidly growing Mainland economy, indeed the world's industrial base and fastest growing economy.
- *Fifthly*, to upgrade the quality of the local workforce to effectively cope with competition brought by globalisation, the Government needs to take a more proactive approach to attract talent from the Mainland and overseas to come and settle in Hong Kong. It is intended that talented people and overseas who meet specific eligibility criteria would be allowed to stay in Hong Kong without the need to secure a local job offer beforehand.
- *Sixthly*, to maintain Hong Kong's vitality as Asia's world city, the Government would continue to invest in infrastructural development. Major projects in the pipeline or under consideration include the Hong



Kong-Zhuhai-Macao Bridge, Guangzhou-Shenzhen-Hong Kong Express Rail Link, Sha Tin to Central Link, MTRC West Hong Kong Island Line, KCRC Northern Link, MTRC South Hong Kong Island Line and a new cruise terminal.

**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 Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. The latest guidelines enable national accounts statistics to reflect in a better way the economic contribution of banks in facilitating the channeling of funds from units with surplus funds (e.g. depositors) to units with demand for funds (e.g. borrowers). As a result of this statistical development, GDP, GNP and BoP statistics were revised.
- (3) 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*

- *The robust growth trend in external trade seen in the second quarter continued into the third quarter. Apart from sustained expansion in the global economy and an on-going export boom in the Mainland economy, the strong trade performance also reflected the external competitiveness of Hong Kong as a trade conduit for the Mainland and for the region.*
- *Total exports of goods again recorded double-digit growth in the third quarter, marked by continued distinct growth in the Mainland and EU markets, steady growth in the US market, and pick-up in growth in quite a number of the East Asian economies, including Japan, Taiwan, South Korea and Malaysia.*
- *Exports of services likewise maintained fairly strong growth in the third quarter of 2005. While exports of trade-related services continued to benefit distinctly from the Mainland's strong trade flows, exports of finance, business and other services grew in tandem with the upturn in business activities. Exports of travel-related services also expanded further, although the momentum was not as fast as in the past few quarters.*
- *The additional measures introduced under CEPA III, on top of the substantial measures provided under CEPA I and II, will offer new business opportunities on the Mainland for Hong Kong enterprises and professionals and further enhance Hong Kong's attractiveness to overseas investors.*
- *The Eighth Plenary of the Hong Kong/Guangdong Co-operation Joint Conference held in late September will step up co-operation between Hong Kong and Guangdong in several key areas. Strengthening economic co-operation between the two places would create a win-win situation.*

### **External environment**

2.1 The global economy continued to expand at a fairly strong pace in the third quarter of 2005. The impacts of surging oil prices and higher US interest rates had so far been moderate. The US economy still recorded an above trend growth in the third quarter, despite the damages caused by Hurricane Katrina. Meanwhile, the increasing inflationary pressures arising from higher fuel prices had led the Federal Reserve to keep raising interest rates at a measured pace. The Mainland economy continued to grow robustly in the third quarter, with both

exports and domestic investment surging further. The Japanese economy showed stronger signs of a sustained recovery, while most of the other Asian economies showed moderate to solid growth. Yet the growth pace of the EU economy as a whole remained slow.

2.2 Crude oil prices, after soaring to an all time high when Hurricane Katrina hit the US in late August, drifted somewhat lower towards the end of the third quarter. The spot price of Brent crude oil averaged at US\$63.3 per barrel in September, up from an average of US\$54.8 per barrel three months earlier. In mid-November, it fell back to below US\$60 per barrel. High oil prices had led to higher inflation in many economies. High oil prices and rising interest rates are now the key downside risks to the global economic landscape, although their dampening effects on global and regional demand would likely be felt more in late 2005 and in 2006. The recent strengthening of the US dollar may also have some negative impact on Hong Kong's exports in the months ahead. Besides, the potential threat from Avian Flu has emerged as a new source of uncertainty clouding the global and regional economic outlook.

## **Visible trade**

### ***Total exports of goods***

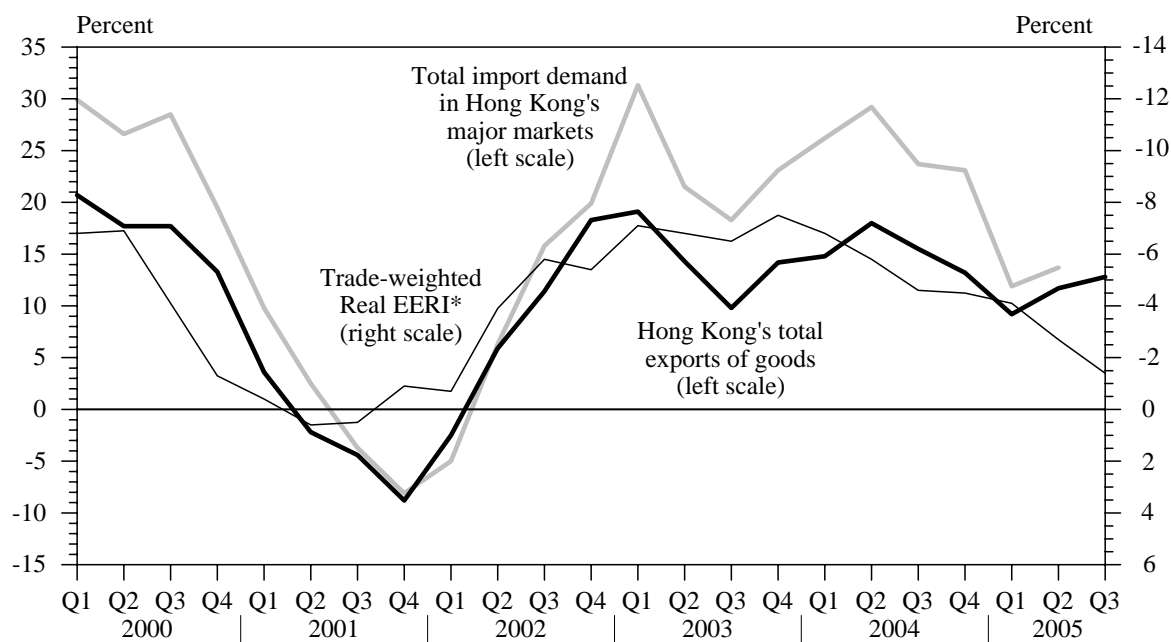
2.3 In the third quarter of 2005, *total exports of goods* (comprising re-exports and domestic exports) again recorded double-digit growth, at 12.8% in real terms<sup>(1)</sup> over a year earlier, following a 9.2% and 11.7% growth in the first and second quarters respectively. *Re-exports*<sup>(2)</sup> remained the key growth driver within overall exports, surging by 12.7% in real terms. Apart from the sustained expansion in global economy and the on-going export boom in the Mainland economy, the strong trade performance also reflects the external competitiveness of Hong Kong as a trade conduit for the Mainland and for the region. *Domestic exports* also rebounded strongly after two consecutive quarters of decline, mainly driven by a distinct rise-back in textile and clothing (T&C) exports. Conceivably, some local manufacturers have moved some of their clothing production back to Hong Kong, as a precautionary measure in view of the looming uncertainties and protectionist sentiments against "Made in China" T&C items in the US and EU markets<sup>(3)</sup>. Concurrently, domestic exports of non-clothing items taken together also performed well. This trend, if continued, should help create additional jobs for the local manufacturing workers.

**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>			
2004 Annual	15.9	15.3	1.2	16.8	16.3	1.1	3.5	2.4	1.5			
Q1	13.0	14.8	(3.0)	-0.7	14.0	15.9	(3.3)	-0.8	-0.6	0.7	(-1.6)	-0.6
Q2	17.8	18.0	(5.4)	0.5	18.7	19.0	(5.6)	0.5	4.9	5.1	(2.7)	0.2
Q3	17.2	15.5	(1.1)	1.9	18.5	16.8	(1.1)	2.0	0.8	-0.5	(0.8)	1.8
Q4	15.3	13.2	(2.9)	2.6	15.7	13.8	(3.0)	2.5	8.6	4.8	(2.5)	4.2
2005 Q1	10.6	9.2	(0.1)	2.1	11.7	10.4	(1.0)	2.0	-6.9	-9.5	(-14.4)	4.8
Q2	12.5	11.7	(6.7)	1.8	13.8	13.0	(6.9)	1.6	-6.4	-8.3	(3.6)	4.7
Q3	12.5	12.8	(1.9)	1.0	12.4	12.7	(0.7)	1.0	14.0	14.3	(24.6)	1.1

Note : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

**Diagram 2.1 : Hong Kong's total exports of goods, total import demand in Hong Kong's major markets, and exchange rate movements  
(year-on-year rate of change)**



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

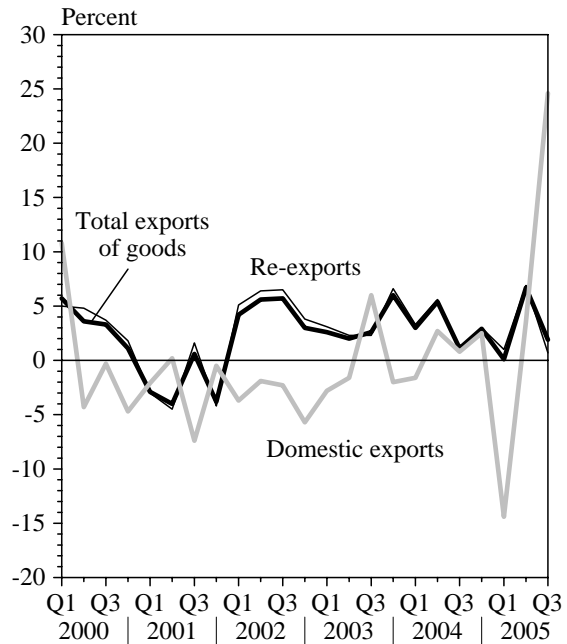
(\*) For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real EERI is presented here upside down, so that positive changes denoting real appreciation of the Hong Kong dollar appear at the lower part and negative changes denoting real depreciation at the upper part of the diagram.

**Diagram 2.2 : Total exports of goods, re-exports and domestic exports**

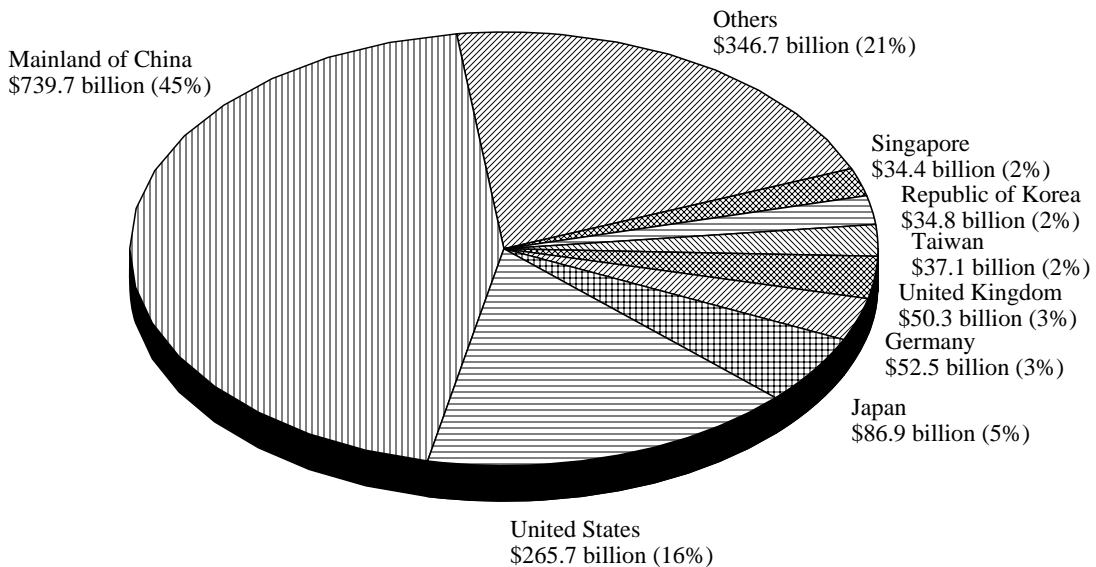
**(a) Year-on-year rate of change in real terms**



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



**Diagram 2.3 : Total exports of goods by major market in the first three quarters of 2005**



*Total exports of goods in the first three quarters of 2005 : \$1,648.1 billion*

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

		<u>Mainland of China</u>	<u>United States</u>	<u>Japan</u>	<u>United Kingdom</u>	<u>Germany</u>	<u>Taiwan</u>	<u>Singapore</u>	<u>Republic of Korea</u>
2004	Annual	17.8	5.3	14.2	14.8	12.0	17.9	24.0	25.1
	Q1	17.0	4.6	10.9	13.8	7.9	26.2	31.1	33.2
	Q2	21.4	7.2	17.4	13.3	16.9	27.0	30.1	27.5
	Q3	19.9	4.1	13.6	14.5	12.0	14.3	20.9	23.1
	Q4	13.4	5.6	14.9	17.1	11.4	7.1	16.8	18.1
2005	Q1	9.9	5.1	11.5	11.9	18.2	-5.4	15.7	5.4
	Q2	13.3	7.6	10.8	9.4	15.1	4.8	14.5	5.4
	Q3	14.9	8.4	11.1	2.0	12.9	8.4	0.8	12.7

2.4 Analysed by market, exports to the Mainland continued to record double-digit growth in the third quarter of 2005. The stellar performance was underscored by the Mainland's strong trade flows as well as its robust domestic demand. Exports to the EU were also strong, mainly reflecting the increasing penetration of Mainland's products into this market. Exports to the US maintained solid growth amidst the still firm domestic demand there. Export performance to other major East Asian markets, such as Japan, Taiwan, South Korea and Malaysia, also fared strongly, offsetting the slackening in the Singapore market.

### ***Imports of goods***

2.5 Driven both by continued surge in re-exports and also the relative improvement in retained imports, *imports of goods* likewise recorded double-digit growth at 10.4% in real terms in the third quarter over a year earlier, distinctly up from increases of 4.4% and 7.6% in the preceding two quarters. As economic recovery became more entrenched and domestic demand improved, *retained imports* picked up to a 4.1% growth in real terms, reversing the declining trend over the past three quarters.

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

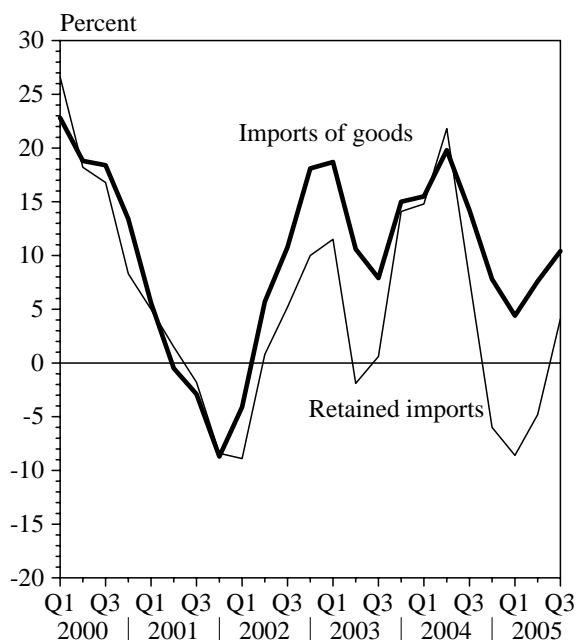
		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>
2004	Annual	16.9	14.1	2.9	14.8	8.9	6.0
	Q1	15.7	15.5	(3.6)	18.1	14.8	(4.1)
	Q2	22.1	19.8	(3.7)	29.5	21.8	(-0.4)
	Q3	18.4	14.2	(-0.5)	15.6	7.8	(-4.5)
	Q4	11.9	7.8	(0.8)	-0.8	-6.0	(-4.5)
2005	Q1	8.1	4.4	(1.3)	-1.4	-8.6	(1.9)
	Q2	10.1	7.6	(5.6)	0.4	-4.8	(1.9)
	Q3	11.5	10.4	(1.7)	8.8	4.1	(4.5)

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

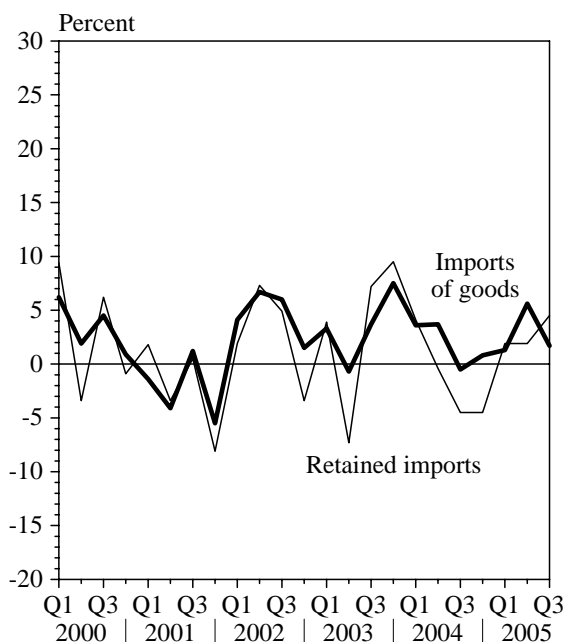
- (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

**Diagram 2.4 : Imports of goods and retained imports**

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



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



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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2004	Annual	3.0	5.8	13.1	8.0	8.3
	Q1	2.2	7.1	17.8	22.1	9.1
	Q2	21.6	19.6	25.6	15.6	23.7
	Q3	-1.1	5.0	14.8	6.9	4.7
	Q4	-8.5	-4.7	-2.5	-9.5	-1.5
2005	Q1	-6.7	-1.5	1.5	-19.5	-1.1
	Q2	-22.6	0.7	16.3	-8.8	-10.9
	Q3	-1.2	3.3	10.9	0.9	-1.4

## **Invisible trade**

### *Exports of services*

2.6 *Exports of services* were also strong in the third quarter, growing by 8.2% in real terms over a year earlier, following increases of 8.8% and 8.6% in the first and second quarters respectively. Exports of trade-related services continued to benefit from the strong trade flows involving the Mainland, while the continued upturn in business activities also gave a boost to exports of finance, business and other services. Exports of travel services expanded further, although the momentum was not as fast as in the past few quarters. But this has to be seen in conjunction with the very rapid growth in inbound tourism over the past year or so. Also, there was possibly some postponement of leisure trips by Mainland visitors to match the opening of the new Disney theme park in mid-September. The robust external trade coupled with the growth in inbound tourism also benefited exports of transportation services.



## Box 2.1

### Impact of high oil prices on the Hong Kong economy

The Hong Kong economy is highly service-oriented and is relatively less energy dependent. Reflecting this, fuel cost accounts for only around 2% of total business cost (or around 4% if labour cost is excluded). As such, the direct impact of soaring oil prices on production cost and disposable household income should be relatively mild in overall terms. Yet the cost impact on the more oil-intensive industries, such as airline, local transport, restaurants, construction and fishery, will be relatively higher.

However, the indirect impact stemming from the trade front is of much more concern to Hong Kong, given Hong Kong's dependence on trade. Sustained high oil prices could dent the growth momentum of the global economy and this would inevitably impinge on Hong Kong's trade growth. An earlier study estimates that a US\$10/barrel permanent increase in oil prices will knock down Hong Kong's GDP growth by 0.6 of a percentage point in the first year of incidence, taking on board both the direct impact on household disposable income, as well as the indirect impact working through the trade front.

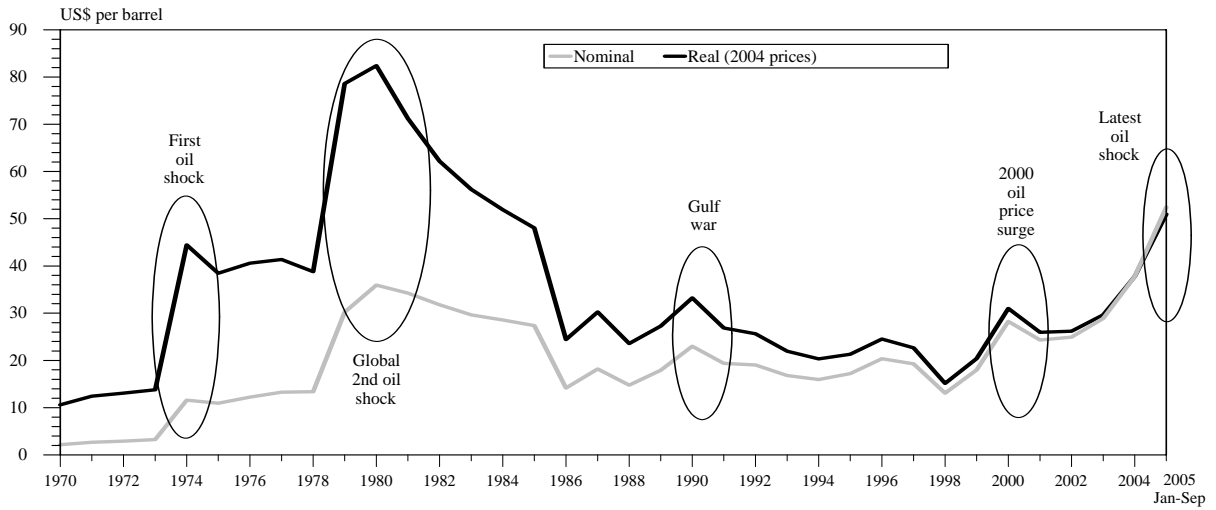
Over the years, fuel usage in Hong Kong has also become increasingly efficient. Hong Kong's primary energy requirements<sup>(1)</sup> rose by an average annual rate of 1.9% over the past decade, much slower than that of 3.5% of the real GDP growth. Also, Hong Kong is not particularly dependent on oil as a source of primary energy requirements. Overall, about 49% of Hong Kong's primary energy needs come from oil products. More than half of the electricity generated in Hong Kong comes from coal. In addition, Hong Kong has a very efficient public transport system that is heavily used. Hong Kong imposes relatively high taxes on the use of private motor vehicles and on petrol, thus encouraging the use of energy-efficient public transport.

Thus, with much of Hong Kong's economic activity now geared towards services, and with improved fuel usage efficiency and the use of coal in our electricity generation, the impact of oil price upsurge on Hong Kong's production costs should be much milder now than before. Moreover, with the oil dependency in industrialised economies likewise coming down over the years, the impact of oil price surge on global economic activity should also be relatively less damaging now than before. In fact, the global economy has been rather resilient so far in absorbing the impact of higher oil prices. While the growth pace of the United States, the key driving force of global economic growth, has moderated in 2005 from that in 2004, so far it has been fairly robust. This notwithstanding, the distinct surge in oil prices over the past two years is still a key risk that could potentially impinge on global economic activity in the period ahead, with more of the negative impact likely to show up in late 2005 and 2006.

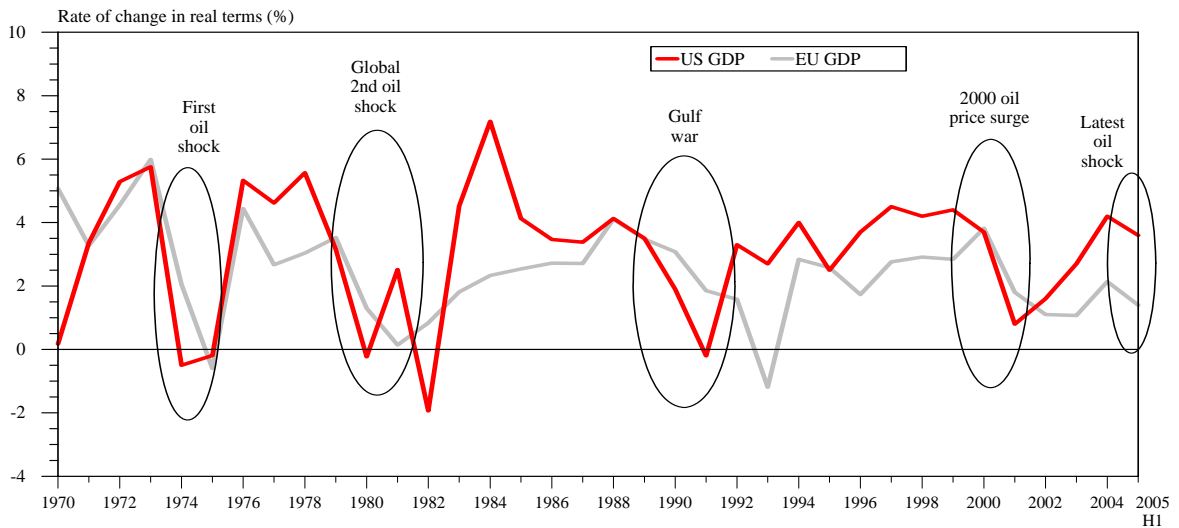
For an analysis of the impact of high oil prices on consumer price inflation, see **Box 6.1** in Chapter 6.

- (1): "Primary energy requirements" refer to the overall energy consumption within a geographic territory. It represents the total supply of energy available to the territory, which supports all the requirements for energy transformation and final consumption in that territory. In general, primary energy requirements of a territory include both its indigenous energy sources and imported energy commodities consumed within the territory.

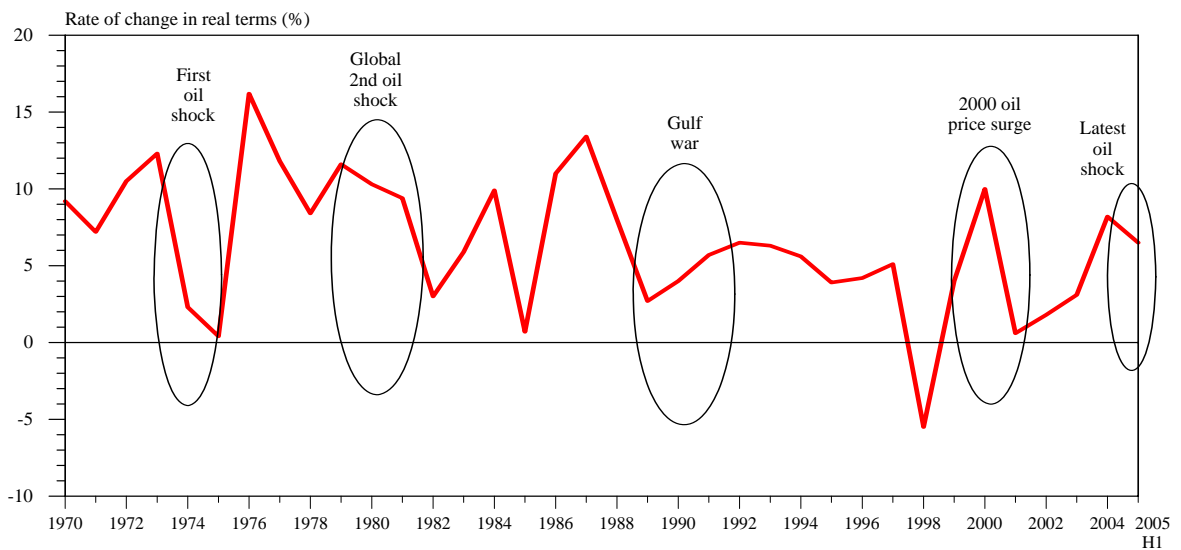
### Nominal and real crude oil prices, 1970 - 2005



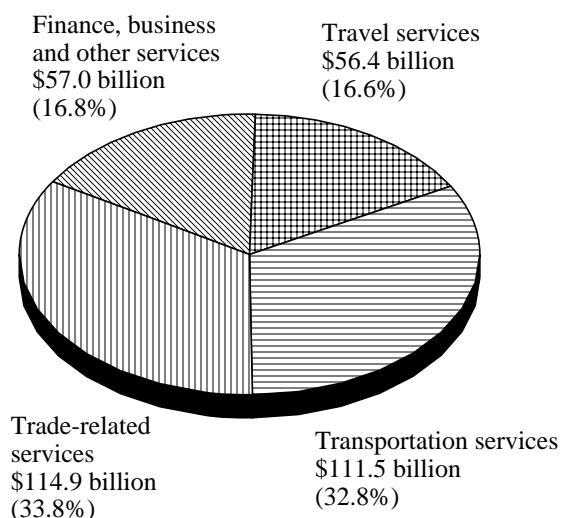
### US and EU GDP growth , 1970 - 2005 H1



### Hong Kong GDP growth , 1970 - 2005 H1

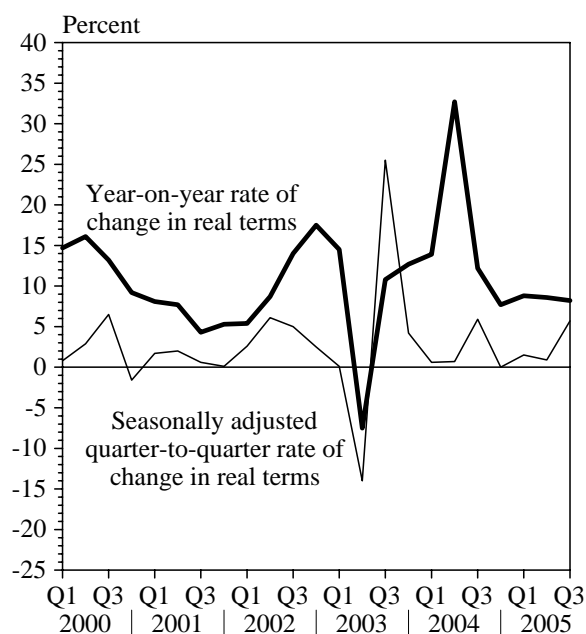


**Diagram 2.5 : Exports of services by major service group in the first three quarters of 2005**



Exports of services in the first three quarters of 2005 : \$339.8 billion

**Diagram 2.6 : Exports of services**



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

*Of which :*

		Exports of services	Trade-related services <sup>(a)</sup>	Transportation services	Travel services <sup>(b)</sup>	Finance, business and other services
2004	Annual	15.3	14.3	17.4	19.4	11.5
	Q1	13.9	(0.6)	16.3	11.3	11.7
	Q2	32.7	(0.7)	19.6	152.3	13.7
	Q3	12.2	(5.9)	12.6	3.5	11.2
	Q4	7.7	(*)	11.2	8.7	9.4
2005	Q1	8.8	(1.5)	12.9	5.6	10.4
	Q2	8.6	(0.9)	13.1	7.5	6.4
	Q3	8.2	(5.7)	12.5	6.1	3.4

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(a) Comprising mainly offshore trade.

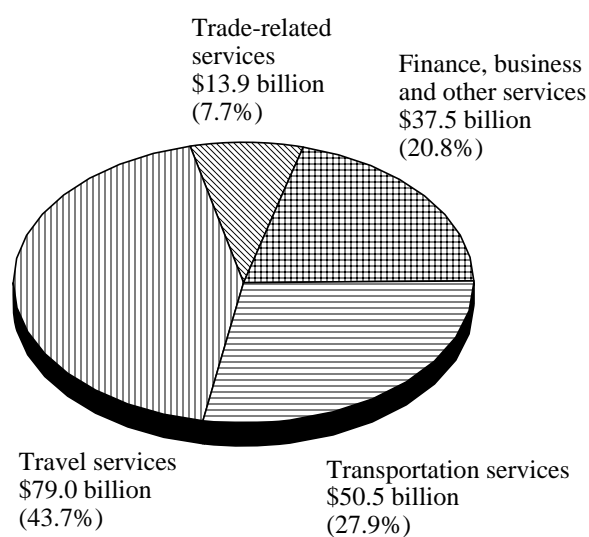
(b) Comprising mainly inbound tourism receipts.

(\*) Change of less than 0.05%.

## Imports of services

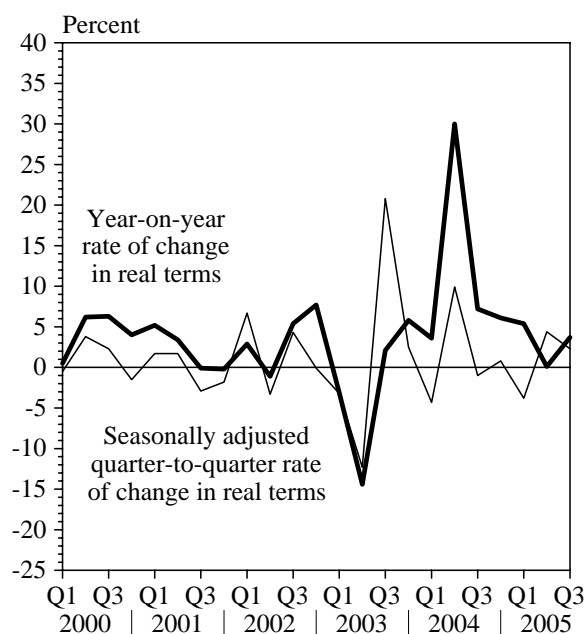
2.7 *Imports of services* showed a 3.7% increase in real terms in the third quarter over a year earlier, following increases of 5.4% and 0.1% in the first and second quarters respectively. Imports of travel services resumed a slight increase in the quarter, after the decline in the second quarter which was nevertheless distorted by the difference in timing of Easter Holidays between 2004 and 2005. Meanwhile, imports of trade-related services and of transportation services continued to grow steadily, in tandem with the strong trade flows in the period. Imports of finance, business and other services also attained further growth, bolstered by an active financial market and the continued upturn in business activities.

**Diagram 2.7 : Imports of services by major service group in the first three quarters of 2005**



*Imports of services in the first three quarters of 2005 : \$180.9 billion*

**Diagram 2.8 : Imports of services**



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

		<i>Of which :</i>					
		<u>Imports of services</u>	<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services</u>	
2004	Annual	10.7	10.6	16.0	9.4	5.3	
	Q1	3.6 (-4.3)	-2.1	11.3	11.3	4.9	
	Q2	30.0 (9.9)	45.0	34.6	14.5	6.2	
	Q3	7.2 (-1.0)	4.0	13.7	7.8	6.0	
	Q4	6.1 (0.8)	5.8	8.1	6.4	4.5	
2005	Q1	5.4 (-3.8)	5.7	7.3	8.0	1.8	
	Q2	0.1 (4.4)	-6.9	5.8	8.2	5.1	
	Q3	3.7 (2.3)	0.3	6.5	7.7	5.9	

Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.

(+) Comprising mainly outbound travel spending.

### Visible and invisible trade balance

2.8 There was a surplus of \$51.5 billion in the combined visible and invisible trade balance in the third quarter of 2005, equivalent to 7.5% of the total value of imports of goods and services. These were considerably larger than the corresponding figures of \$41.2 billion and 6.7% in the third quarter in 2004. Thus, the expansion in trade surplus, a reflection of Hong Kong's external competitiveness, continues to provide strong impetus to Hong Kong's economic growth.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2004	Annual	2,027.0	421.9	2,099.5	233.8	-72.5	188.1	115.6
	Q1	434.4	97.0	467.2	53.2	-32.8	43.9	11.0
	Q2	497.9	96.0	527.3	55.9	-29.4	40.0	10.6
	Q3	546.7	112.6	555.2	62.9	-8.5	49.7	41.2
	Q4	548.0	116.3	549.7	61.8	-1.8	54.6	52.8
2005	Q1	479.1	108.1	498.8	57.5	-19.7	50.6	30.9
	Q2	555.4	107.3	575.0	57.4	-19.6	49.9	30.3
	Q3	614.6	124.4	621.6	65.9	-6.9	58.4	51.5

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

## **Trade policy and other developments**

2.9 As a small open economy, the external sector has played an important and substantive role in Hong Kong's economic development. Hong Kong's pro-market economic policy, by facilitating the flows of goods, services, people and capital, has contributed significantly to the vibrancy of the external sector. The rapid growth and development of the Mainland economy has provided ample opportunities for Hong Kong's external sector as well as the overall economy. To reinforce the niche position of Hong Kong as a trading and logistics hub in the region and to strengthen Hong Kong's external sector further, it is important that Hong Kong can seize the opportunities to leverage on the Mainland and at the same time engage itself globally.

2.10 Following the Eighth Plenary of the Hong Kong/Guangdong Co-operation Joint Conference held in late September, co-operation between Hong Kong and Guangdong will be stepped up further in several key areas. Agreement was reached to enhance the efficiency of land-based cargo flow by relaxing the "one-truck one-driver" requirement and extending the duration of the cross-boundary joint venture contract of cross-boundary freight vehicles. Consensus was also reached to better utilise the CEPA framework to help Hong Kong enterprises to set up operations in Guangdong, and to assist Guangdong enterprises to set up operations in Hong Kong and to use Hong Kong as a platform for tapping the overseas markets. The two places also agreed to broaden the co-operation within the Pan-PRD region, particularly in infrastructure development. Strengthening economic co-operation between Hong Kong and Guangdong will create a win-win situation for the two places.

2.11 On 18 October, an agreement on liberalisation measures under the third phase of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA III) was reached. The Mainland will give all products of Hong Kong origin tariff free treatment starting from 1 January 2006. On trade in services, 23 new liberalisation measures spreading across ten sectors will be introduced. These additional measures, on top of the substantial measures provided under CEPA I and II, will offer new business opportunities on the Mainland for Hong Kong enterprises and professionals and enhance Hong Kong's attractiveness to overseas investors.

## Notes :

- (1) 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. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (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.
- (3) On 8 November, China and the US reached an agreement on China's exports of textile and clothing (T&C) products to the US. The agreement sets the growth rates for 21 categories of T&C products at 10-15% in 2006, 12.5-16% in 2007 and 15-17% in 2008. In return, the US undertook to exercise restraints in application of safeguard measures on other T&C categories not covered in the agreement. The agreement helps reduce the uncertainty hanging over China's trade with the US.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *The property market turned quieter in recent months largely under the impact of further interest rate hikes. This represented a consolidation from the earlier hectic situation. Overall property prices met with moderation pressure, though the adjustment was mild as the longer-term market outlook stayed positive.*
- *Inbound tourism gathered further strength so far this year, mainly underpinned by a distinct pick-up in visitor arrivals from long-haul markets and Southeast Asia. The opening of Hong Kong Disneyland in September, and extension of the Individual Visit Scheme to four more Mainland cities as from November, fostered development of the tourism sector.*
- *The logistics sector generally continued to fare well, benefiting from buoyant trade flows and on-going upgrading of efficiency in this sector. The performance of activities related to air freight was particularly remarkable.*
- *Advancement of port facilities in the Pearl River Delta region has enhanced the global competitiveness of the region, from which Hong Kong has benefited in different ways. Instead of focusing only on the competition aspect, attention should be broadened to the complementarity that can be built under the evolving structure of comparative advantages in South China.*
- *The Policy Address announced by the Chief Executive in October 2005 re-affirmed the policy commitment towards promotion of cultural and creative industries, and introduced further measures to facilitate development on this front.*



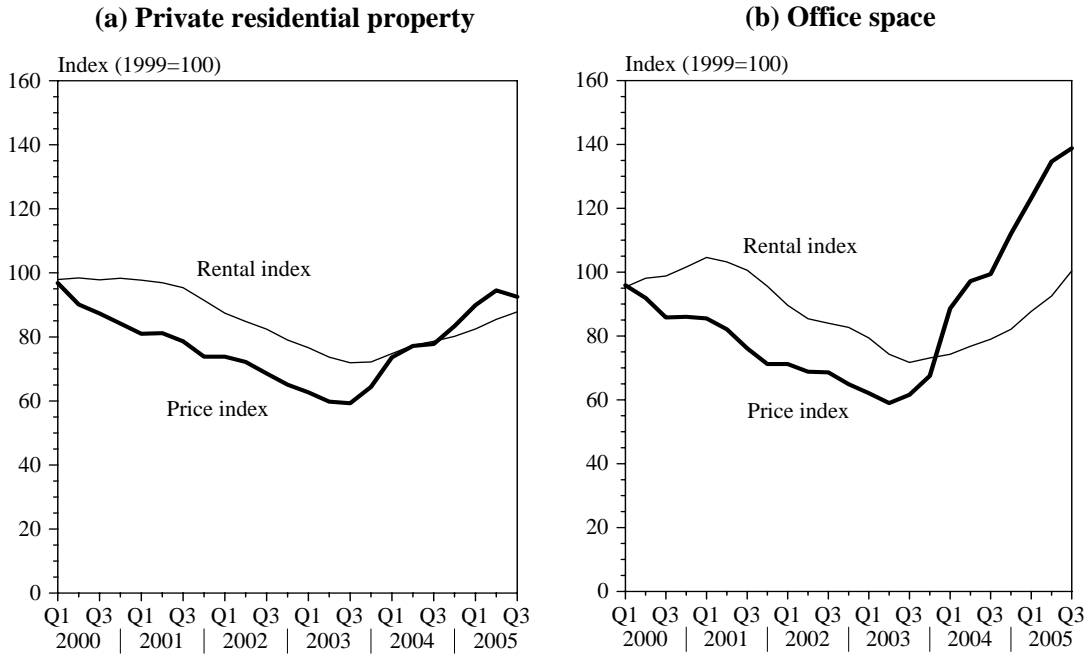
## Property

3.1 The property market as a whole turned quieter in recent months, representing a consolidation from the hectic situation earlier this year. The consolidation was particularly apparent for residential property, as acquisition interest was curbed by the further hike of 1.75 percentage points in the best lending rate by major banks from July to early November. Overall property prices met with moderation pressure, though the adjustment was mild as the longer-term market outlook stayed positive. The leasing market continued to improve steadily in overall terms, underpinned by progressive pick-up in end-user demand.

3.2 In the sales market for *residential property*, activities slowed distinctly since June 2005, as sentiment turned more cautious upon the earlier price surge, successive interest rate rises, and moves by some banks to claw back more attractive mortgage packages. Although the favourable results of the land auction in late September stimulated somewhat primary sales, the secondary market remained quiet more recently. On a quarter-to-quarter comparison, flat prices reverted to decline by 2% in the third quarter of 2005, with the decrease being concentrated in the small to medium sized flats. Concurrently, flat rentals moved up steadily by 3% along with sustained improvement in leasing demand.

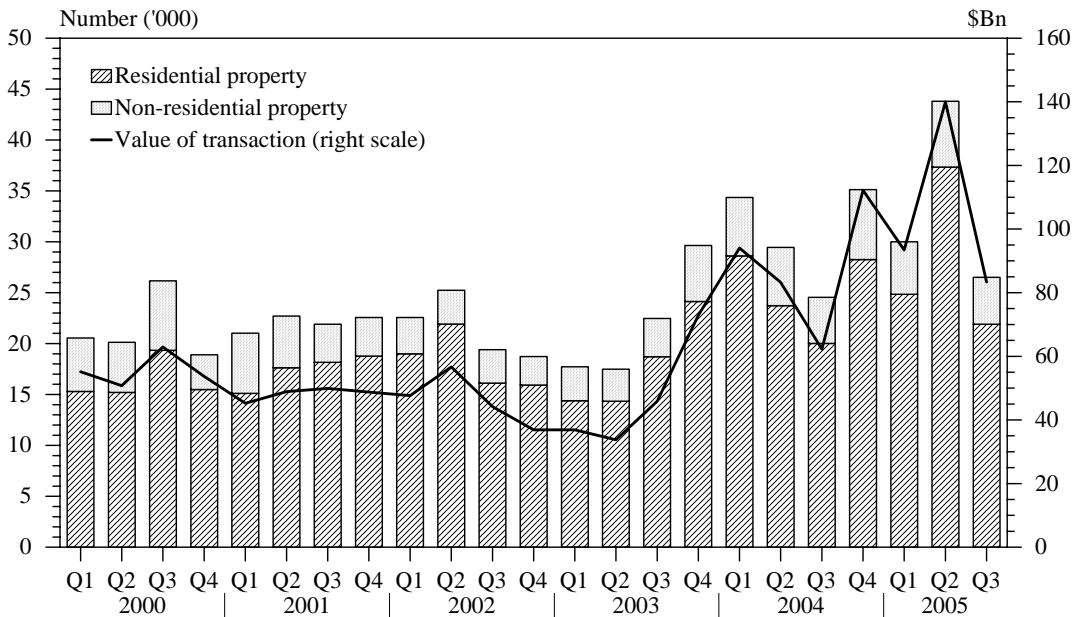
3.3 On *non-residential properties*, trading activities likewise cooled off in recent months under the impact of higher interest rates, except for industrial property of which investment demand was buoyed by high rental yields and desire to convert the premises into commercial uses. In the third quarter of 2005, prices of flatted factory space and office space rose at moderated paces of 5% and 3% respectively quarter-to-quarter, while prices of shopping space eased back by 3%. Regarding the leasing activities, rentals of office space and shopping space picked up further amidst solid end-user demand, by 9% and 1% respectively in the third quarter. Concurrently, rentals of flatted factory space held stable as leasing activities remained quiet.

**Diagram 3.1 : Price and rental indices**



Note : See Table 14 of the Statistical Appendix for detailed figures on prices and rentals for all major types of property.

**Diagram 3.2 : Sale and purchase agreements by broad type of property**

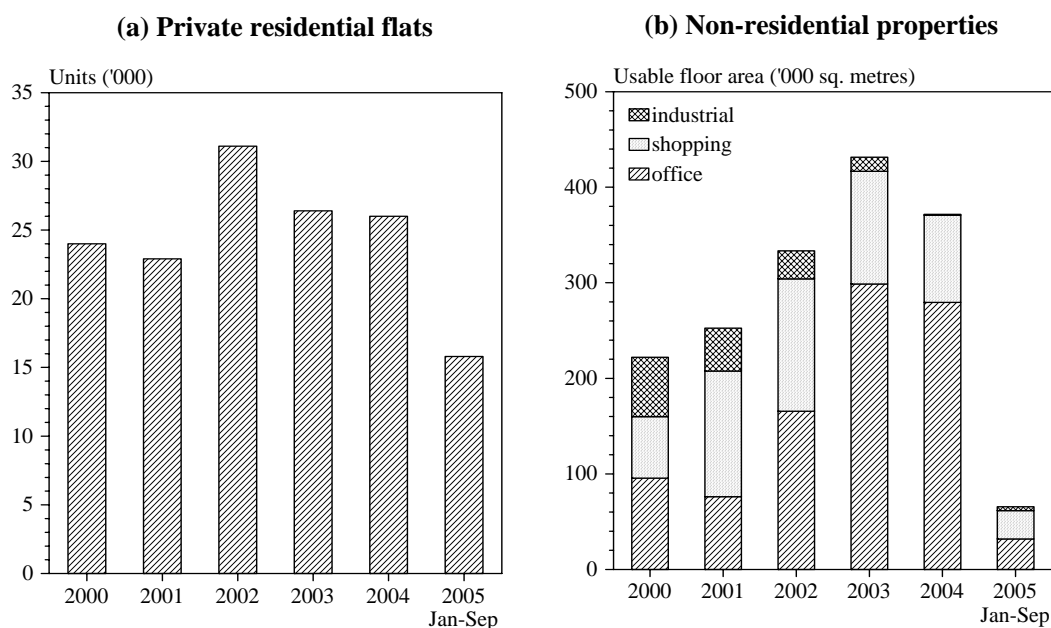


Note : See Table 13 of the Statistical Appendix for details.

3.4 On the supply of new property, *completions* of properties stayed on a moderating trend, reflecting the lagged impact of slack building activities in the earlier years. In the first nine months of 2005, completions of private

residential flats fell by 17% over a year earlier to 15 800 units. Yet it is estimated that the supply of new private residential flats can be quite substantial at more than 70 000 units in the next two to three years, after considering the residential units being constructed but not yet sold by pre-sale, unsold units of completed projects, and other potential sources of new supply. Regarding non-residential properties, completions plummeted by 81% in the first nine months of 2005, with the decrease being concentrated in office and shopping spaces.

**Diagram 3.3 : Completions of property by major type**



3.5 On 6 September 2005, the Supervisory Group on Divestment of the Housing Authority (HA) decided to re-launch the global offering of units in The Link Real Estate Investment Trust (The Link REIT) for the divestment of HA's retail and carpark facilities<sup>(1)</sup>. Details of the expected timetable for the global offering and the Hong Kong public offering of units in The Link were announced on 13 November 2005. In essence, the Hong Kong public offering opened on 14 November and closed at noon, 17 November. Listing of the units in The Link REIT on the Stock Exchange of Hong Kong is scheduled to commence on 25 November 2005.

## Land

3.6 In August 2005, three residential sites totalling 2.80 hectares were successfully triggered by developers for sale from the 2005/06 Application List. Response to the land auction for the three sites held on 27 September was favourable, with prices fetched exceeding the trigger prices by 53-70%.

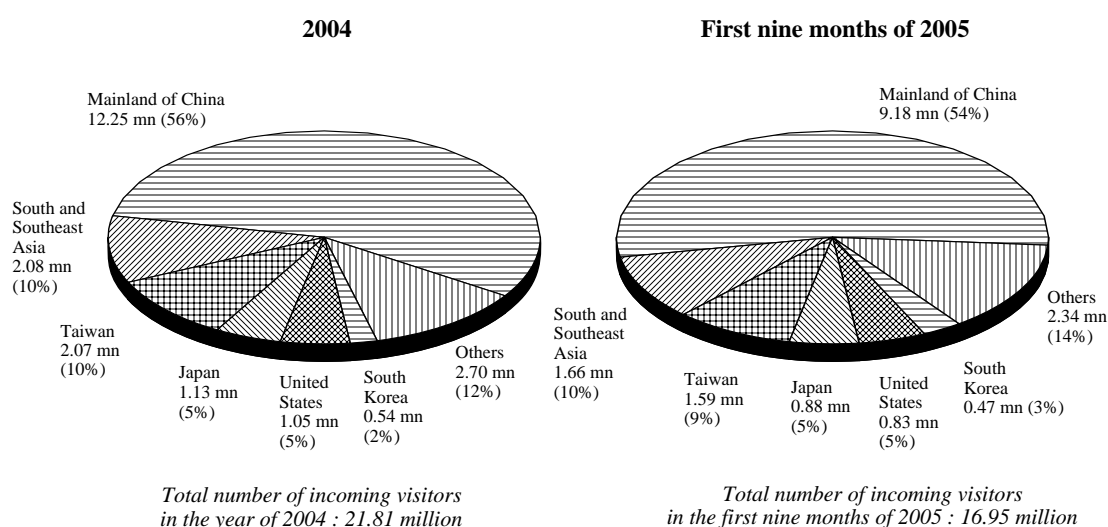
## Tourism

3.7 Inbound tourism gathered further strength, with the number of *incoming visitors* rising further by 8% in the first nine months of 2005 over a year earlier. The increase was mainly driven by buoyant arrivals from long-haul markets and Southeast Asia. Meanwhile, arrivals from the Mainland continued to increase, albeit at a moderated pace.

3.8 The robust performance of inbound tourism in recent years has been underpinned by the increase in visitor arrivals from the Mainland, in particular after the implementation and progressive expansion of the Individual Visit Scheme (IVS) since July 2003. Currently, IVS visitors constitute more than 40% of incoming visitors from the Mainland. With effect from November 2005, IVS has been extended further to Chengdu, Jinan, Shenyang and Dalian, bringing the total number of Mainland cities covered by the Scheme to 38.

3.9 In order to maintain its position as a premier destination for tourists around the world, Hong Kong has been investing heavily in developing world-class tourism infrastructures. The opening of Hong Kong Disneyland on 12 September 2005 marked a milestone in this respect. Two other major infrastructure projects, namely Ngong Ping 360 and Hong Kong Wetland Park, are in the pipeline for target completion in 2006. In October 2005, the Executive Council endorsed the redevelopment plan for the 28-year-old Ocean Park. The redevelopment is targeted for completion in two phases by end-2008 and 2010 respectively.

**Diagram 3.4 : Number of incoming visitors by source**



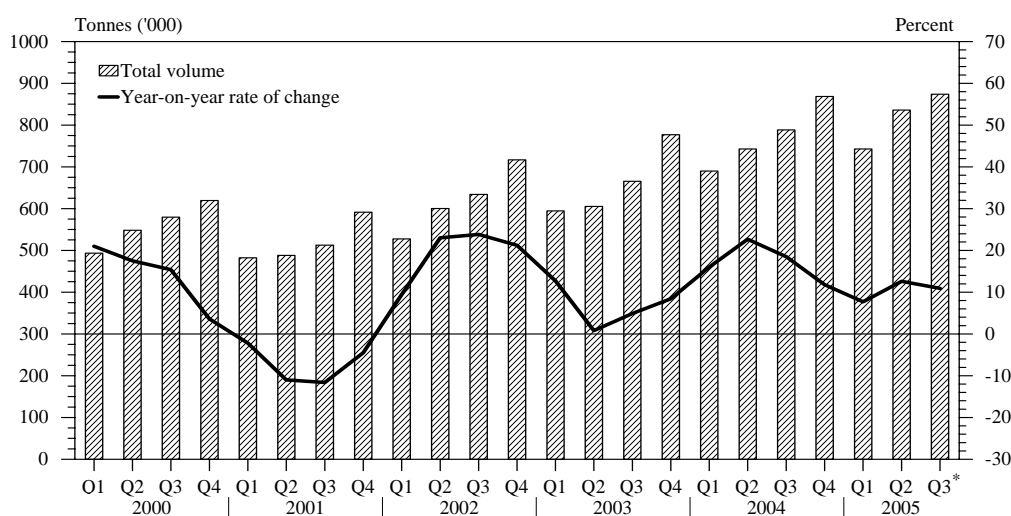
Note : Figures in brackets are the respective shares in the total number of incoming visitors.

## Logistics

3.10 The logistics sector in overall terms continued to fare well so far in 2005, underpinned by buoyant trade flows and on-going upgrading of efficiency in this sector. The growth was more apparent for activities related to air freight, alleviating the impact of moderated growth in port freight. Currently, air freight and port freight likewise handle about one-third of Hong Kong's total trade (excluding transshipment) in value terms.

3.11 In recent years, air freight has benefited substantially from the rising proportion of high-value and time-sensitive items in the Mainland's external trade. With its world-class international connectivity and efficiency, the Hong Kong International Airport (HKIA) is often the preferred option for traders. In the first nine months of 2005, *air cargo* movements rose further by 10% year-on-year in volume terms. In view of the rapid development in airport facilities in the Mainland, HKIA has been seeking strategic partnership with other airports in the region to achieve complementarity and maintain its competitive edge.

Diagram 3.5 : Cargo carried by air

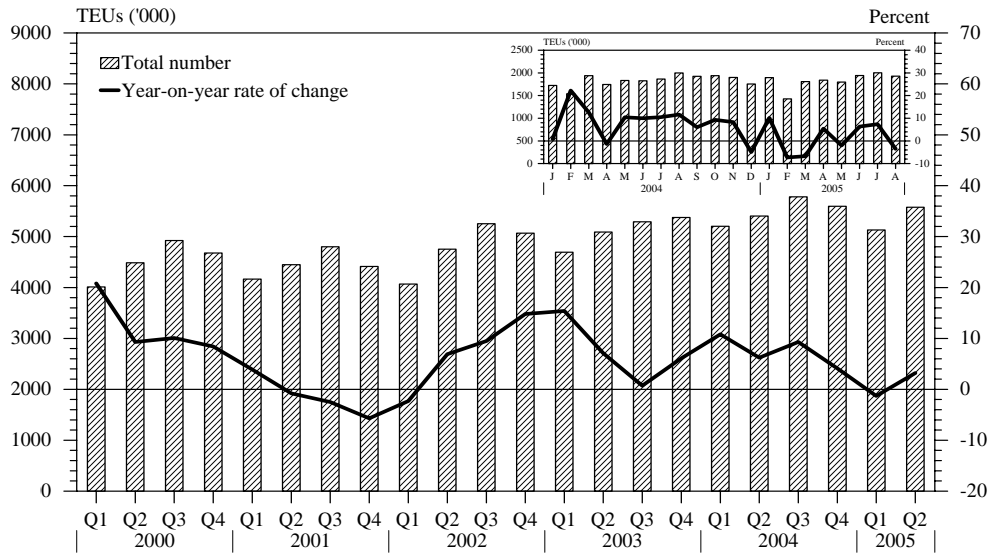


Note : (\*) Provisional figures.

3.12 On port cargo movement, *container traffic* handled by Hong Kong Port continued to rise, albeit at a moderated pace. The on-going structural shift from re-export trade to offshore trade via the Mainland ports still carried impact. In the first eight months of 2005, total container throughput in terms of Twenty-foot Equivalent Units (TEUs) increased by 1% year-on-year. In order to maintain the competitiveness of Hong Kong Port and the logistics sector at large, the Government has been working closely with the industry to

implement initiatives recommended in the Study on Hong Kong Port – Master Plan 2020 and has initiated measures to strengthen physical connectivity with the Mainland, enhance the handling capacity of port facilities, and lower trucking cost through streamlined regulatory requirements (see **Box 3.1** for details).

**Diagram 3.6 : Container throughput**



### Box 3.1

#### **Advancement of port facilities in the Pearl River Delta region : opportunities and challenges for Hong Kong**

There is often a misguided view that the rapid development of port facilities in the Pearl River Delta region (PRD) impedes competitiveness of Hong Kong, largely based on the observation that some port cargo movements are diverted from Hong Kong to other ports in the region. Yet from a wider perspective, more efficient port facilities in PRD are indeed beneficial to the Hong Kong economy on many aspects. Instead of confining the focus to competition and whether Hong Kong is poised to “lose out”, attention should be broadened to the complementarity that can be built under the evolving structure of comparative advantages within the whole region of South China, and how Hong Kong can “move on” in response.

A direct way by which Hong Kong benefits is through the impetus to offshore trade, an increasingly popular trading mode around the world spurred by globalisation and advancement in supply chain management. Availability of efficient port facilities in PRD enables Hong Kong traders and manufacturers to enjoy greater flexibility in arranging cargo freight offshore for time and cost savings. Meanwhile, their operation bases in Hong Kong can focus on higher value-added activities such as merchandising, marketing, and logistics management. This restructuring process has contributed to a robust performance of the trading and logistics sector in Hong Kong over the past several years.

	<u>2000</u>	<u>2004</u>
Share of trading and logistics sector in GDP (%)	23.8	27.4*
Share of merchandising and other trade-related services in exports of services (%)	31.0	34.7
Value of goods involved in offshore trade <sup>+</sup> (\$Bn)	826	1,181 <sup>#</sup>

Notes : (\*) Preliminary estimate.

(+) Including here merchandising service only. Merchandising for offshore transaction is not covered as statistics before 2002 are not available.

(#) 2003 figure.

From another perspective, port is part of a wider cluster of activities that combine to sustain the prosperity of South China. More efficient ports and lower shipping costs in PRD enhance the global competitiveness of the whole region. To the extent that the region benefits, Hong Kong stands to share the fruit in many different ways, including more business opportunities with higher return in PRD, greater service demand from the region, and increased investment inflows across the boundary, etc. It is fundamentally not a zero-sum game by which other ports' gain automatically implies Hong Kong's loss.

Hong Kong's challenge is to keep pace with the emerging business opportunities in the region, strengthen integration with PRD, and maintain its position as the leading trading and logistics hub. In this connection, the Government has initiated various measures to foster the integral development of trading and logistics services. As far as the port sector is concerned, a package of initiatives is recommended in the Study on Hong Kong Port – Master Plan 2020 to enhance Hong Kong's port competitiveness. The Government has been working closely with the industry to take forward the recommendations. The progress of the initiatives is summarised below :

### Box 3.1 (cont'd)

- (i) *Trucking cost* - Following the discussion with the Guangdong authorities, the “4-up-4-down” rule and “1-truck-1-driver” rule have been relaxed, and the validity period of licenses for operating cross-boundary trucking business has been increased from three to six years<sup>(2)</sup>. The Guangdong authorities have also agreed to extend customs operating hours progressively according to the cargo volume and practical needs of different regions.
- (ii) *Port fees and charges* - The Government will streamline the port procedures, reduce port fees and charges, and increase the mid-stream cargo handling capacity through establishing more service anchorages, with a view to attracting more river trade cargoes and ocean-going vessels to Hong Kong. These measures will be implemented in early 2006 upon completion of the necessary legislative procedures.
- (iii) *Terminal handling charge (THC)* – The Government will continue to facilitate dialogue among relevant parties with the aim to enhancing the transparency of THC and its determining mechanism.
- (iv) *Port productivity* – The Government is providing planning support to container port operators and assisting them in implementing changes to land and transport infrastructure. Suitable adjacent port back-up land will be made available to meet port operational needs. The first batch of land is expected to be rolled out by end-2005.
- (v) *Improvement to transport infrastructure* – To facilitate flow of goods across the boundary, a new bridge connecting Lok Ma Chau/Huanggang dedicated for goods vehicles has been commissioned in January 2005, and the Hong Kong-Shenzhen Western Corridor will be opened in mid-2006. In addition, the Stonecutters Bridge connecting Container Terminal 9 with other terminals in Kwai Chung will be completed by 2008.

Apart from the port, the airport is becoming increasingly important in the logistics industry for handling a rising proportion of high-value and time-sensitive items in cargo movement. To a certain extent, this signifies that Hong Kong is moving up the value chain. In recent years, the Airport Authority has been actively seeking out strategic partnerships with the individual Mainland airports, with a view to strengthening development and cooperation in logistics sectors of both sides.

On overall infrastructure planning, the Government will conduct an Ecology Study on northwestern Lantau to assess its environmental suitability for the development of Container Terminal 10, and work out the optimal timing for construction of the terminal based on the updated Port Cargo Forecasts study. Both studies are scheduled to commence before the end of 2005. Regarding the proposed Lantau Logistics Park, a detailed feasibility study is being conducted for target completion in the first half of 2006. Furthermore, the governments of Hong Kong, Guangdong and Macao are actively pursuing advance work on the Hong Kong-Zhuhai-Macao Bridge linking the west side of PRD.

To strengthen Hong Kong as the prime logistics information conduit, the Government will facilitate the launch of the Digital Trade Transportation Network in December 2005. The Network will provide an open, neutral and secure e-platform to facilitate information flow along the supply chain in an efficient, reliable and affordable manner.

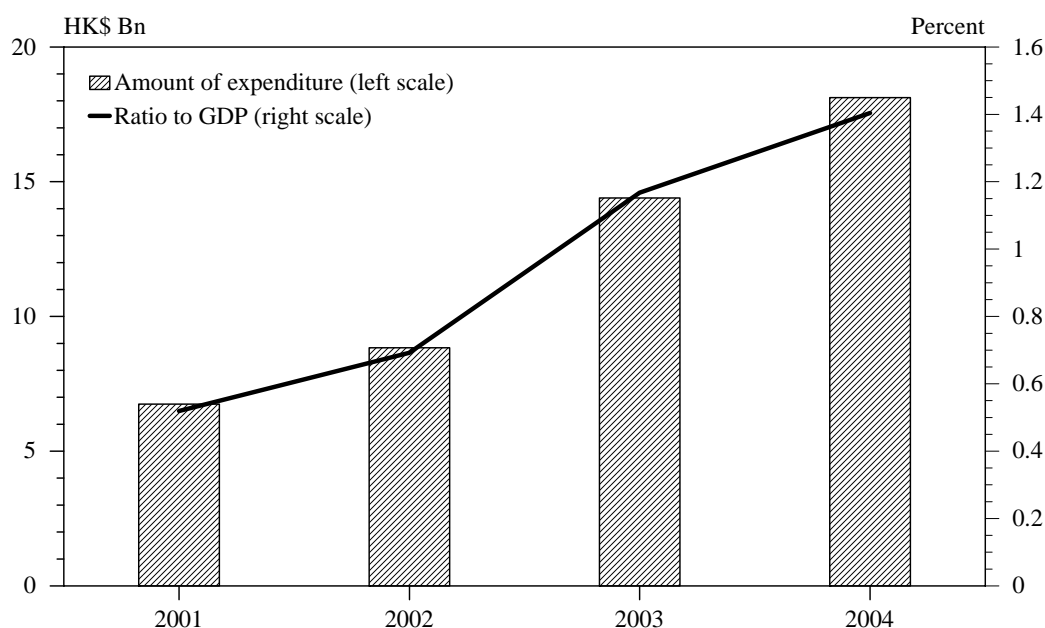


## **Creativity and innovation**

3.13 The Policy Address announced by the Chief Executive in October 2005 re-affirmed the commitment of the Government to promote the cultural and creative industries. Through the Commission on Strategic Development, the Government would explore practical measures, including creating an enabling environment for commercialisation of creative ideas, and opening up more opportunities for exchanges and interplay among creative talent. Besides, the Government would continue to allocate resources to foster a rich variety of cultural and arts activities and to promote cultural and arts education. In order to strengthen the consultative framework for communication with the local film industry, a flagship of our creative industries, the Government has recently set up the Film Development Committee to take stock of the present state, opportunities and challenges facing the industry before charting a development course and drawing up a clear action plan. Furthermore, the Government would encourage the cultural sector and community organisations to study the major issues pertaining to the long-term development of the cultural and creative industries, and would be prepared to consider rendering assistance.

3.14 Recognising the value-added significance of creativity, the business sector in Hong Kong has devoted more resources to innovation activities in recent years. Latest survey findings showed that expenditure on scientific and technological innovation in the business sector increased markedly further by 26% to \$18.1 billion in 2004<sup>(3)</sup>. Besides, the business community was actively engaged in innovation activities in strategy and management, though the resources involved were not readily quantifiable.

**Diagram 3.7 : Expenditure on scientific and technological innovation in the business sector**



**Notes :**

- (1) The Housing Authority (HA) decided in July 2003 to divest its retail and car-parking (RC) facilities. This was to be implemented through the establishment of a Real Estate Investment Trust (namely The Link REIT) and its listing on the Stock Exchange of Hong Kong. The initial public offering of The Link REIT, originally scheduled to be launched in December 2004, was postponed as the judicial review challenge initiated by two citizens against HA's statutory power to divest its RC facilities could not reach finality before the scheduled listing date of The Link REIT. On 20 July 2005, the Court of Final Appeal unanimously ruled that the sale of the RC facilities by the HA to The Link REIT was within the capacity of the HA.
- (2) Since 1994, to facilitate supervision, the Mainland customs stipulated that each designated cross-boundary truck driver and his tractor, trailer and container had to depart for the Mainland and return to Hong Kong together. This "4-up-4-down" requirement has been partially relaxed as from 1 January 2005, allowing free combinations of tractor, trailer and container. On 28 September 2005, Hong Kong-Guangdong Cooperation Joint Conference announced that with immediate effect, the "1-truck-1-driver" rule was relaxed by allowing cross-boundary freight vehicles of Hong Kong-Guangdong joint venture enterprises to apply for back-up drivers in addition to the assigned drivers. The duration of the cross-boundary joint venture contracts for cross-boundary freight vehicles was also extended from three years to six years.
- (3) For details, see the Report on 2004 Annual Survey of Innovation Activities in the Business Sector published by Census and Statistics Department.

## CHAPTER 4 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *The financial sector in general continued to fare well in the third quarter of 2005, benefiting from the progressive pick-up in economic activities.*
- *Although Hong Kong dollar interest rates rose further along with the US interest rate movement, credit demand of individual sectors kept growing steadily. Meanwhile, asset quality of the banking sector continued to improve.*
- *The Chief Executive announced in his latest Policy Address that the Central People's Government had in-principle agreed to continue to expand the scope of renminbi business in Hong Kong. Details of the expansion were announced on 1 November and will be implemented in phases. Implementation of the expansion would further strengthen the financial link between the Mainland and Hong Kong to mutual benefit.*
- *The stock market was generally buoyant in the third quarter of 2005, with the Hang Seng Index closing at above 15 400 at end-September. Yet in October, the Index drifted lower in quieter trading as investment sentiment was undermined by increased worries over an extension of the US dollar interest rate up-cycle.*
- *Other financial services and activities such as equity capital raising, fund management and insurance continued to show a healthy development.*

### **Interest rates, aggregate balance and exchange rates**

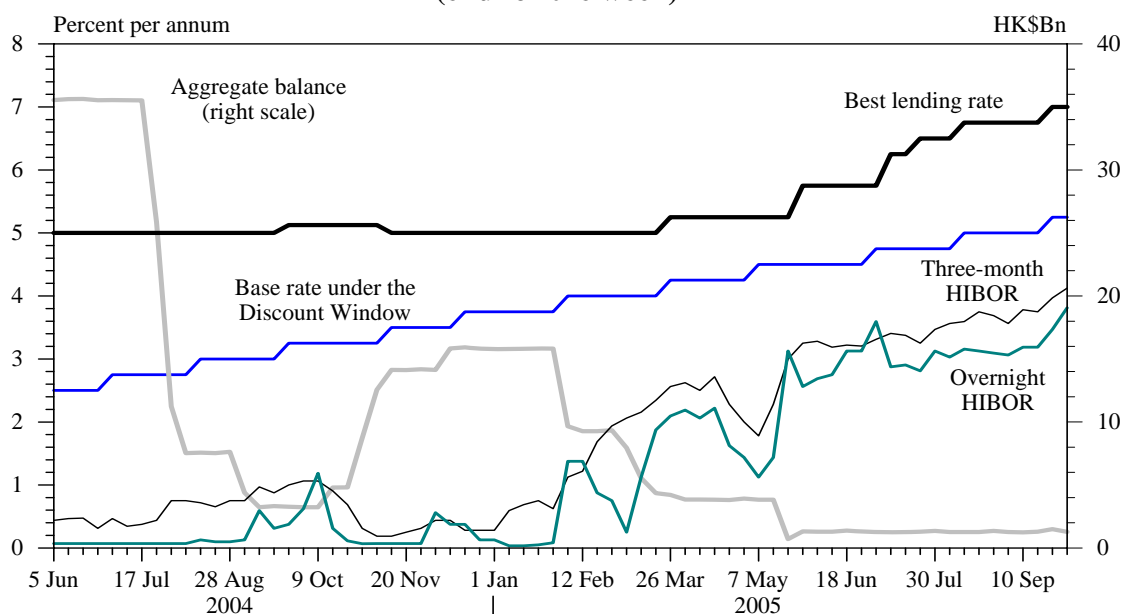
4.1 Hong Kong dollar interest rates continued to track closely with the movement of their US dollar counterparts in the third quarter of 2005. The Base Rate under the Discount Window operated by the HKMA was adjusted upward three times during the quarter by a cumulative total of 75 basis points to 5.25% at end-September, following the increases in the US Fed Funds Target

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

Rate. Hong Kong dollar interbank interest rates, deposit rates as well as the best lending rate turned up accordingly. Furthermore, the spread between three-month HIBOR and the corresponding Euro-dollar deposit rate switched from a discount of 16 basis points at end-June to a premium of 7 basis points at end-September, reflecting the larger increases in Hong Kong dollar interest rates. Meanwhile, the Aggregate Balance hovered at around HK\$1.3 billion during most of the third quarter and closed the quarter at this level.

**Diagram 4.1 : Aggregate balance under Currency Board arrangements and interest rates (end for the week)**

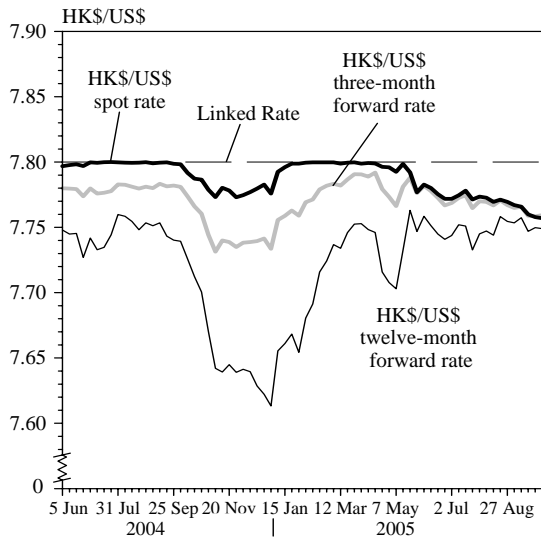


4.2 In the third quarter of 2005, the Hong Kong dollar strengthened further against the US dollar. Following the People’s Bank of China’s announcement of a major reform in the renminbi (RMB) exchange rate regime on 21 July 2005<sup>(1)</sup>, the Hong Kong dollar appreciated slightly within the Convertibility Zone. The spot exchange rate of Hong Kong dollar against the US dollar closed at 7.7570 at end-September, compared with 7.7718 at end-June. Over the same period, the discount of the twelve-month Hong Kong dollar forward rate over the spot rate decreased from 280 pips (each pip equivalent to HK\$0.0001) to 80 pips.

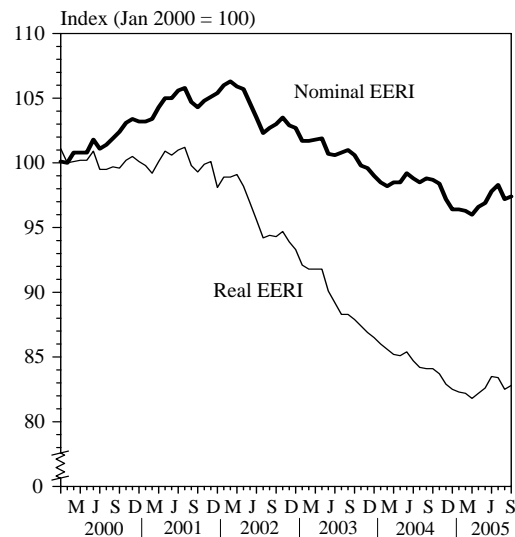
4.3 Under the Linked Exchange Rate System, movements in the exchange rate of the Hong Kong dollar against other currencies follow closely those in the US dollar. As the US dollar strengthened against the Pound Sterling and Yen yet weakened against the Euro and the RMB from June to September 2005, the trade-weighted Nominal and Real Effective Exchange Rate Indices<sup>(2)</sup> of the

Hong Kong dollar fell slightly, by 0.4% and 0.8% respectively over the same period.

**Diagram 4.2 : Exchange rate of the Hong Kong dollar against the US dollar (end for the week)**



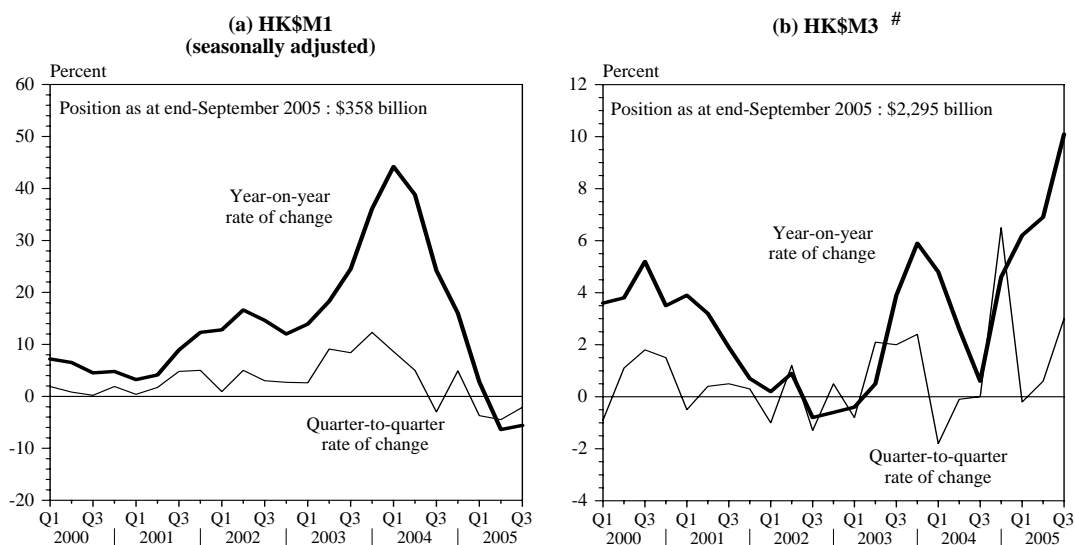
**Diagram 4.3 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar (average for the month)**



### Money supply and deposits

4.4 During the third quarter of 2005, the movements of narrow and broad money supply continued to diverge. Compared with end-June, the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1)<sup>(3)</sup> at end-September decreased by 2.1%, mainly reflecting the decrease in demand deposits. On the other hand, Hong Kong dollar broad money supply (HK\$M3) continued to rise, by 3.0 % with higher interest rates giving rise to an increase in time deposits.

**Diagram 4.4 : Hong Kong dollar money supply<sup>^</sup>**



Notes: (^) Figures refer to the positions at end of quarter.

(#) Adjusted to include foreign currency swap deposits.

4.5 Total deposits with authorized institutions<sup>(4)</sup> at end-September 2005 rose by 1.8% compared with end-June, with increases occurring in both Hong Kong dollar deposits (adjusted to include foreign currency swap deposits)<sup>(5)</sup> and foreign currency deposits.

## Loans and advances

4.6 Total loans and advances increased by 0.6% to \$2,269 billion at end-September 2005 compared with end-June, mainly driven by an increase in loans for use outside Hong Kong. While loans for use in Hong Kong, at \$2,035 billion, showed little change over the same period, loans to such economic sectors as building, construction, property development and investment, and financial concerns registered moderate increases. On the other hand, the outstanding amount of mortgage loans decreased by 1.1%, along with quieter trading in the property market.

**Table 4.1 : Loans and advances for use in Hong Kong by major usage**

Loans to :									
		Finance	Manu-	Whole-	Building,	Purchase	Financial	Stock-	All loans
% change during the quarter		visible trade	facturing sector	sale and retail trade	construction, property development and investment	of residential property <sup>(a)</sup>	concerns	brokers	and advances for use in Hong Kong <sup>(b)</sup>
2004	Q1	6.4	5.4	2.5	-1.5	0.1	4.3	6.0	0.3
	Q2	14.7	8.7	0.2	1.5	-0.7	2.1	-5.9	1.9
	Q3	5.5	4.9	5.8	-0.3	-0.5	0.8	-8.8	0.8
	Q4	1.0	6.4	0.4	7.6	0.2	6.5	5.7	3.2
2005	Q1	2.4	8.1	-0.6	4.3	0.6	-0.8	5.8	1.6
	Q2	12.2	10.1	6.7	2.7	1.1	3.4	10.9	4.2
	Q3	-1.4	-2.1	-2.3	2.0	-1.1	2.2	-7.8	*
Total amount at the end of September 2005 (HK\$Bn)		147	118	102	420	615	176	11	2,035
% change over a year		14.4	23.9	4.1	17.6	0.9	11.6	14.4	9.2

Notes : (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 in this table.

(\*) Change of less than 0.05%.

**Diagram 4.5 : Hong Kong dollar loan-to-deposit ratio\***



Note : (\*) Hong Kong dollar deposits have been adjusted to include foreign currency swap deposits.

## Banking

4.7 Asset quality of the local banking sector improved further. The ratio of classified loans to total loans of retail banks decreased from 1.95% at end-March 2005 to 1.76% at end-June. The delinquency ratio for *residential mortgage loans* declined to 0.18% at end-September from 0.22% at end-June 2005. Over the same period, the arrears for over three months in *credit card repayment* decreased slightly to 0.39% from 0.40%.

**Table 4.2 : Asset quality of retail banks<sup>(a)</sup>**  
(as % of total loans)

<u>As at the end of</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2004 Q1	90.07	6.26	3.66
Q2	91.41	5.59	3.00
Q3	92.35	4.98	2.67
Q4	93.76	3.99	2.25
2005 Q1	94.30	3.75	1.95
Q2	95.03	3.21	1.76

Notes : (a) 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".

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

4.8 Since February 2004, banks in Hong Kong have been offering RMB deposit-taking, exchange and remittance services to customers. At end-September 2005, a total of 38 licensed banks were engaged in RMB banking business in Hong Kong. RMB deposits with authorized institutions increased steadily to RMB22.6 billion at end-September, accounting for 1.2% of total foreign currency deposits with all authorized institutions.

4.9 Following the announcement by the Chief Executive in his latest Policy Address that the Central People's Government had in-principle agreed to continue to expand the scope of RMB business in Hong Kong, new measures were unveiled on 1 November. *First*, designated merchants are to be allowed to open RMB deposit accounts and conduct one-way exchange of their RMB deposits into Hong Kong dollars, and the categories of merchants defined as designated merchants are to be expanded. *Second*, Hong Kong residents are to be allowed to open RMB current accounts and make payments for consumer spending in Guangdong Province by cheques within a daily limit, and the limits applicable to the exchange of RMB cash and RMB remittances are to be relaxed. *Third*, the cap on credit limits for RMB cards issued by participating banks is to be removed. These measures will be implemented in phases after the respective arrangements and technical preparatory work are completed.

**Table 4.3 : RMB deposits in licensed banks**

<u>As at end of</u>		Savings deposits (RMB Mn)			Interest rates on <sup>(a)</sup>		Number of licensed banks engaged in RMB business <sup>(c)</sup>
					Time deposits (RMB Mn)	Total deposits (RMB Mn)	
2004	Q1	2,095	2,298	4,394	N.A.	N.A.	36
	Q2	2,853	3,950	6,803	0.50	0.58	39
	Q3	3,136	4,533	7,669	0.48	0.60	38
	Q4	5,417	6,710	12,127	0.46	0.60	38
2005	Q1	6,440	8,536	14,976	0.46	0.65	38
	Q2	9,358	11,540	20,898	0.46	0.65	39
	Q3	10,219	12,425	22,643	0.46	0.65	38

Notes : (a) The interest rates are sourced from a survey conducted by the HKMA.

(b) Period average figures.

(c) Licensed banks started to offer RMB deposit taking, currency exchange and remittance services on 25 February 2004.

N.A Not available.



4.10 After the reform to the RMB exchange rate regime in July 2005, there is a rising demand from small and medium-sized enterprises and other retail customers for easily accessible financial instruments to hedge their RMB exposure. In response, the Treasury Markets Forum of Hong Kong (TMF) launched the retail RMB non-deliverable forward contracts on 9 November, with a total of 16 banks joining the programme so far. The contracts are offered at a minimum size of US\$10,000 and in five different tenors ranging from one to 12 months.

4.11 In June 2004, the Basel Committee on Banking Supervision released a revised capital adequacy framework (commonly known as "Basel II") to better align regulatory capital requirements with inherent risks of banks. The HKMA intends to follow the Basel timetable for implementing Basel II in Hong Kong (i.e. simpler approaches from 1 January 2007 and the most advanced approaches from 1 January 2008). In this connection, a legislative framework for the implementation of BASEL II was set out as part of the Banking (Amendment) Ordinance 2005 which was passed by the Legislative Council on 6 July 2005.

## **Insurance**

4.12 The insurance sector continued to proliferate, with the total value of business receipts surging further by 14.7% in the second quarter of 2005 over a year earlier<sup>(6)</sup>. Both general business and long-term business (mainly related to individual life and annuity business) showed sustained growth, with premiums growing around 14% over the same period.

**Table 4.4 : Insurance business in Hong Kong (HK\$Mn)**

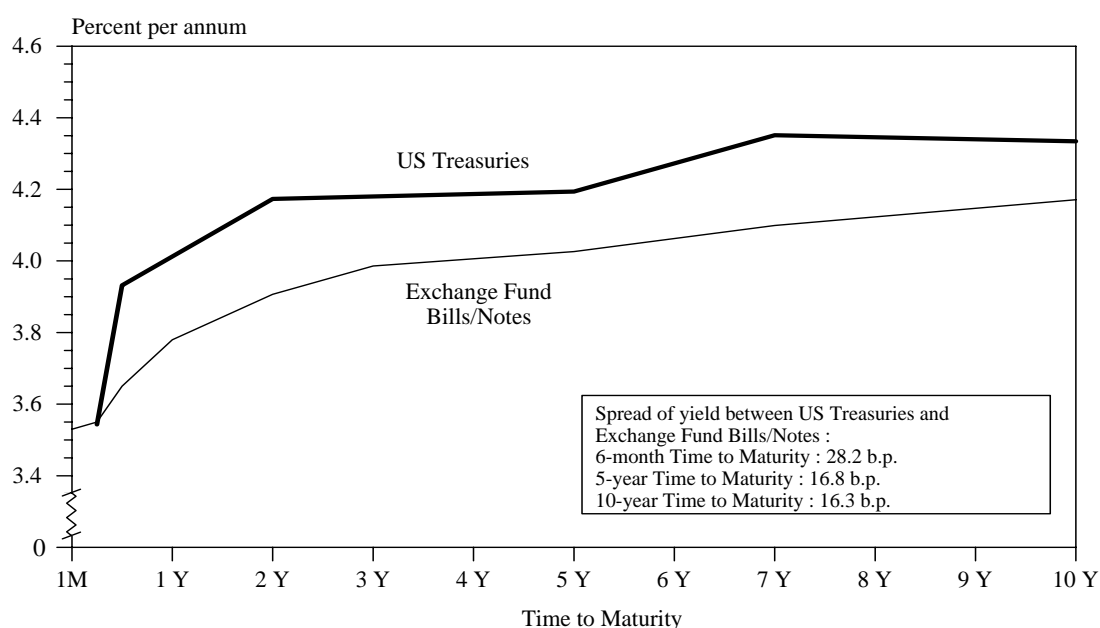
	<u>General business :</u>			<u>Premium for long-term business* :</u>				
	<u>Gross premium</u>	<u>Net premium</u>	<u>Underwriting profit</u>	<u>Individual life and annuity (non-linked)</u>	<u>Individual life and annuity (linked)</u>	<u>Other individual business</u>	<u>Non-retirement scheme group business</u>	<u>All long-term business</u>
2004 Q1	6,878	4,855	386	5,663	3,802	49	58	9,572
Q2	5,430	3,907	893	5,137	4,946	47	38	10,168
Q3	5,691	3,998	580	3,939	3,788	47	41	7,815
Q4	4,993	3,513	295	4,983	5,979	52	26	11,040
2005 Q1	6,944	4,909	63	4,814	4,209	45	41	9,109
Q2	6,171	4,422	141	6,099	5,376	41	48	11,564
% change from 2004 Q2 to 2005 Q2	13.6	13.2	-84.2	18.7	8.7	-12.8	26.3	13.7

Note : (\*) Figures refer to new businesses only. Retirement scheme businesses are excluded.

## The debt market

4.13 Both the Hong Kong dollar and US dollar yield curves shifted upwards during the third quarter of 2005. In response to the progressive monetary tightening by the US Federal Reserve, the short-term yields of US dollar and Hong Kong dollar likewise rose substantially. Reflecting the larger increase in Hong Kong dollar interest rates, the yield spreads between the US Treasuries and the corresponding Exchange Fund Notes narrowed across all the tenors.

**Diagram 4.6 : Hong Kong dollar and US dollar yield curves  
(as at the end of September 2005)**



4.14 On the retail bond market in Hong Kong, in July 2005 the Hong Kong Mortgage Corporation issued two tranches of notes respectively denominated in Hong Kong and US dollars under the Retail Bond Issuance Programme. The issuance amounted to a total of \$625 million and received satisfactory response from the market. In August, the HKMA issued a new tranche of 2-year Exchange Fund Notes worth of \$200 million to retail investors under the refined Retail Exchange Fund Notes Programme.

4.15 Issuance of debt securities is increasingly popular in the private sector of Hong Kong. The total issuance of private sector debt securities in the first nine months of 2005, at \$149 billion, already exceeded the total issuance for 2004 as a whole, at 139 billion. At end-September 2005, the total outstanding value of all Hong Kong dollar debt securities (public sector, private sector and Multilateral Development Banks) increased to \$664 billion, as compared to \$644 billion at end-June<sup>(7)</sup>. This was equivalent to 29% of HK\$M3, or 21% of the Hong Kong dollar-denominated assets of the entire banking sector<sup>(8)</sup>.

4.16 The Pan-Asian Bond Index Fund (PAIF), one of the nine component funds of the Asian Bond Fund 2 (ABF 2)<sup>(9)</sup>, was listed in Hong Kong in July 2005. This followed the first listing of ABF2 viz ABF Hong Kong Bond Index Fund in June. PAIF is the first listed Asian bond fund to invest in as many as eight bond markets in the region.

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

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs<sup>(a)</sup></u>	<u>Local corporates</u>	<u>Non-MDBs overseas borrowers<sup>(b)</sup></u>	<u>Private sector total</u>	<u>MDBs<sup>(b)</sup></u>	<u>Total</u>
<b>New Issuance</b>											
2004	Annual	206.0	17.8	10.3	234.0	50.8	9.1	79.4	139.3	3.5	376.8
	Q1	51.6	4.4	-	56.0	8.9	3.1	24.9	36.9	1.4	94.3
	Q2	52.1	10.1	-	62.3	13.1	0.1	17.9	31.2	2.0	95.4
	Q3	51.2	0.8	10.3	62.2	13.6	0.6	15.6	29.8	0.1	92.1
	Q4	51.1	2.5	-	53.6	15.1	5.3	21.0	41.4	-	95.0
2005	Q1	52.0	1.3	-	53.4	18.0	1.2	31.1	50.3	-	103.7
	Q2	53.1	2.3	-	55.4	20.0	2.4	36.3	58.7	1.1	115.3
	Q3	54.1	1.9	-	56.0	11.6	4.7	23.7	40.0	0.7	96.7
<b>Outstanding (period-end figures)</b>											
2004	Q1	120.6	53.8	-	174.4	137.9	35.7	196.0	369.6	24.9	568.9
	Q2	121.2	60.3	-	181.5	139.2	32.7	203.4	375.3	25.1	582.0
	Q3	121.9	58.5	10.3	190.7	141.4	31.0	207.8	380.2	24.7	595.6
	Q4	122.6	60.2	10.3	193.0	141.5	34.6	214.1	390.2	24.7	607.9
2005	Q1	123.2	57.3	10.3	190.8	145.9	32.0	228.6	406.6	23.5	620.9
	Q2	124.3	56.1	10.3	190.7	148.4	33.2	248.1	429.7	23.6	644.0
	Q3	125.4	57.1	10.3	192.8	154.0	36.4	256.2	446.7	24.1	663.6

Notes: Figures may not add up to the corresponding totals due to rounding.

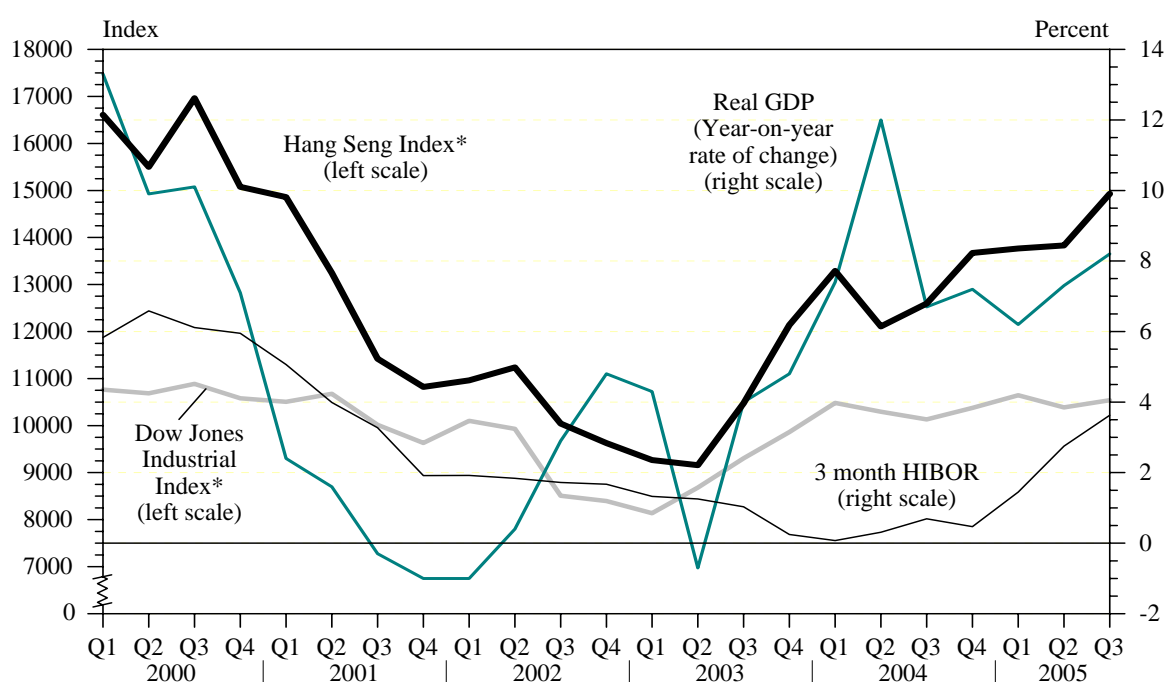
(a) AIs : Authorized Institutions.

(b) MDBs : Multilateral Development Banks.

## The stock and futures markets

4.17 *The local stock market* was buoyant for most of the time in the third quarter of 2005. Market sentiment in July and early August was underpinned by progressive improvement in the local economy and better-than-expected profitability of most blue-chips. After a brief consolidation in late August and early September triggered by concerns over the impact of the Hurricane Katrina on international oil prices and the global financial markets, the local stock market regained strength towards the end of the third quarter. This was underpinned by favourable response to the land auction held in late September and capital inflows for impending fund raising activities in October. The Hang Seng Index closed at 15 429 at end-September, up by 8.6% over end-June. Yet, in early October 2005, the Hang Seng Index dipped below 15 000 as renewed concerns over an extension of up-cycle in US dollar interest rates dampened investment sentiment.

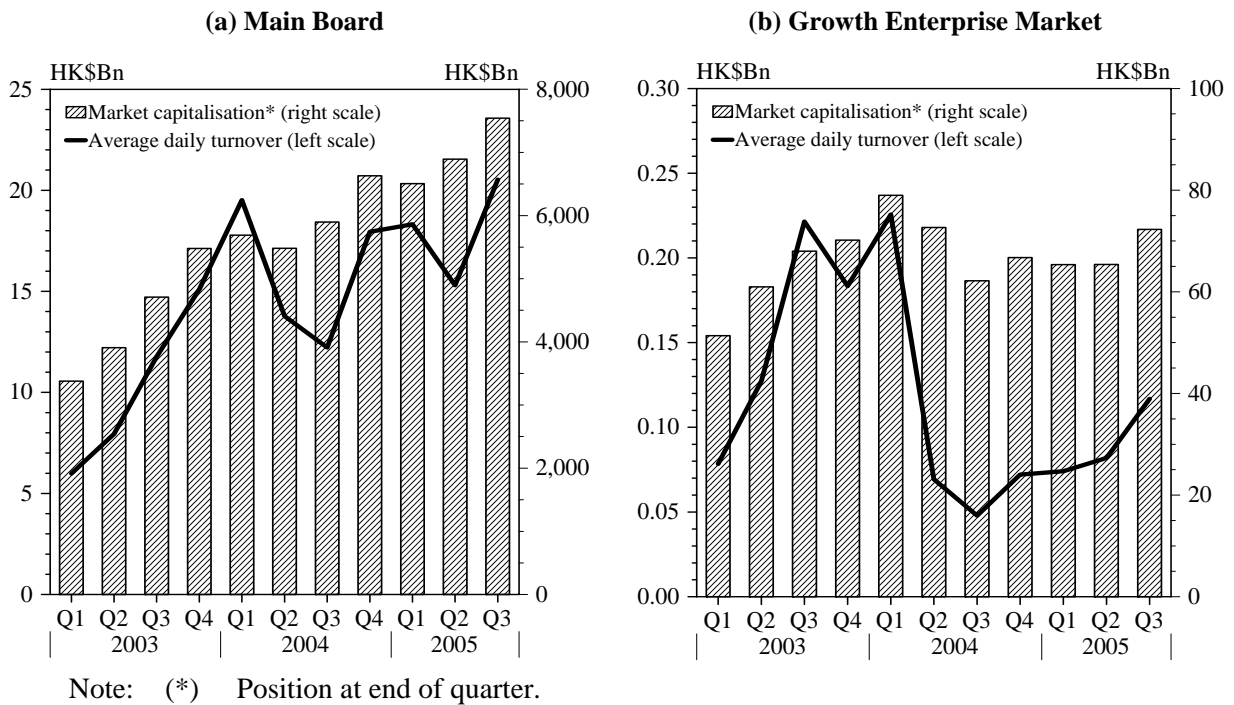
**Diagram 4.7 : Hang Seng Index, and selected economic and financial indicators**



Note: (\*) Period average figures.

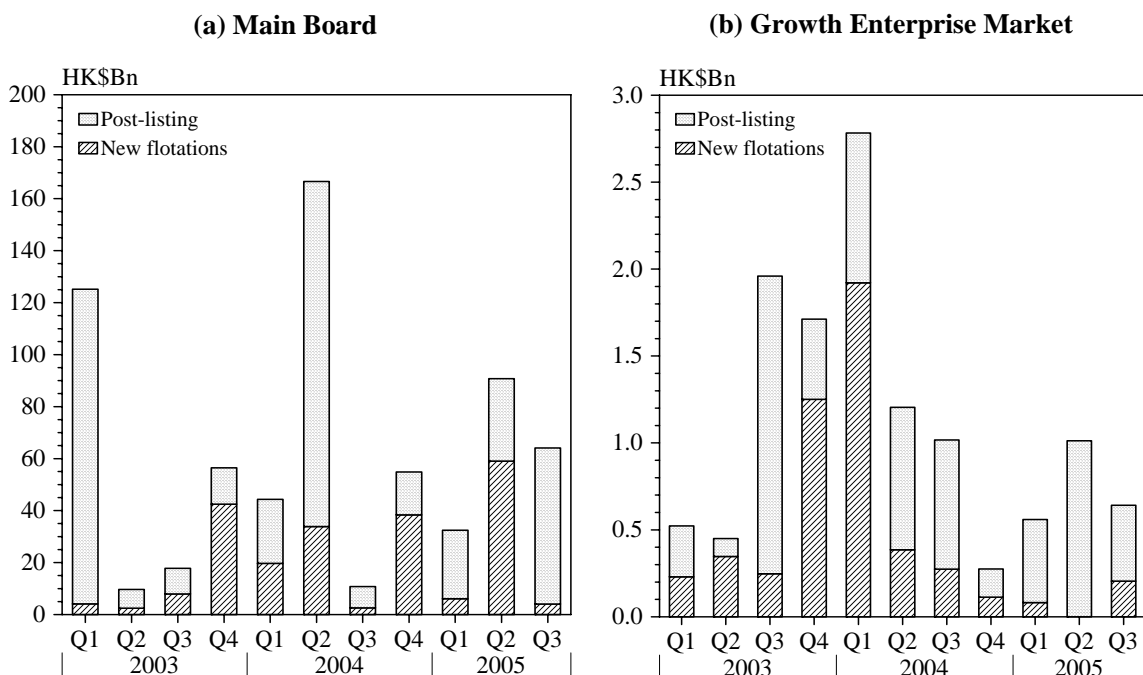
4.18 Market capitalisation for the Main Board at end-September 2005, at \$7,544 billion, was 9.4% higher than the end-June position. Average daily turnover rebounded significantly, by 34% in the third quarter over the preceding quarter. As to the Growth Enterprise Market (GEM), the market capitalisation amounted to \$72.3 billion at end-September 2005, 10.6% higher than end-June. The average daily turnover also picked up sharply, by 43% from the second to the third quarter.

**Diagram 4.8 : Average daily turnover and total market capitalisation of the Hong Kong stock market**



4.19 In the third quarter of 2005, a total of \$64,750 million equity capital were raised through new share flotations and post-listing<sup>(10)</sup> in the Main Board and the GEM. For the first nine months of 2005 as a whole, a total of \$189,509 million were raised and this value ranked fourth internationally among major international stock exchanges<sup>(11)</sup>.

**Diagram 4.9 : Funds raising activities in the Hong Kong stock market**



4.20 *Derivatives trading* remained brisk during the third quarter of 2005, with the average daily turnover of the Hang Seng Index Futures contracts, the Hang Seng Index options contracts, H-shares Index Futures contracts, and stock options and futures surging by 20%-137% over a year earlier<sup>(12)</sup>. Following its commencement of trading on 23 May 2005, the FXI China 25 Futures and Options<sup>(13)</sup> registered a respective average daily turnover of 12 and 53 contracts in the third quarter of 2005.

**Table 4.6 : Average daily turnover of derivatives contracts of the Hong Kong stock market**

		<u>Hang Seng Index Futures</u>	<u>Hang Seng Index Options</u>	<u>H-shares Index Futures</u>	<u>Stock Options</u>	<u>Stock Futures</u>
2004	Q1	33 468	8 030	5 517	25 723	81
	Q2	36 649	10 053	8 565	21 002	65
	Q3	34 386	7 143	7 331	20 995	52
	Q4	34 852	7 717	6 856	23 170	82
2005	Q1	38 872	10 243	7 510	26 583	45
	Q2	36 396	11 266	7 492	23 907	34
	Q3	42 122	14 543	8 809	49 784	71
% change from 2004 Q3 to 2005 Q3		22.5	103.6	20.2	137.1	36.5
% change from 2005 Q2 to 2005 Q3		15.7	29.1	17.6	108.2	108.8

4.21 In August 2005, the Securities and Futures Commission (SFC) released a consultation paper on possible reforms to the prospectus regime as the final phase of a three-part review and reform exercise. The consultation paper contains a series of possible reform initiatives presented as 21 proposals on such aspects as regulatory harmonisation/consolidation, enhancement of investor protection and pre-deal research. The three-part exercise aims to bring Hong Kong's law in Company Ordinance prospectus regime up-to-date to encourage capital raising and issuance of securities in Hong Kong, while ensuring satisfactory standards of investor protection.

4.22 Also, the SFC revised the Codes on Takeovers and Mergers and Share Repurchases in October 2005. The revisions keep the Codes up-to-date with market developments and international practice, and help ensure continued fair treatment for shareholders affected by takeovers and mergers.

## Fund management and investment funds

4.23 Following the Financial Secretary's proposal in his 2005-06 Budget, the Revenue (Abolition of Estate Duty) Bill 2005 was passed by the Legislative Council on 2 November 2005 to abolish estate duty. The abolition of estate duty is a crucial strategic investment in Hong Kong's financial services industry and overall economy, and is expected to attract more local as well as overseas investors to hold assets in Hong Kong. Also, this would enhance the long-term competitiveness of Hong Kong as an international financial centre.

4.24 In the third quarter of 2005, gross sales and net sales (after deducting redemptions) of *unit trusts and mutual funds*<sup>(14)</sup> amounted to US\$3,787 million and US\$218 million respectively. Analysed by asset size, equity funds continued to take up 64% of the total value of funds, followed by fixed income/bond funds, money market funds and asset allocation funds. Regarding *MPF schemes*, the aggregate net asset value of the approved constituent funds rose to \$143.2 billion at end-September 2005, from \$131.5 billion at end-June<sup>(15)</sup>.

4.25 Following earlier consultation, the SFC revised the Hedge Funds Guidelines in the Code on Unit Trusts and Mutual Funds in September 2005. The revisions include strengthening assessment criteria for managers of SFC-authorized hedge funds, additional disclosure requirement in specific areas relating to the operation of the funds, and codification of existing practices in the authorization of hedge funds. These aim to provide a more pragmatic and holistic approach to access hedge funds for authorization purpose.

### Notes :

- (1) The People's Bank of China reform in the renminbi (RMB) exchange rate regime includes, inter alia, an initial adjustment of the exchange of the US dollar against the RMB to 8.11 yuan per US dollar (equivalent to 2% revaluation) and a move of the exchange rate regime into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. In addition, the daily trading price of the US dollar against the RMB in the inter-bank foreign exchange market will continue to be allowed to float within a band of  $\pm 0.3$  percent around the central parity published by the People's Bank of China.
- (2) 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 14 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 1999 and 2000.

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.

- (3) 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.

- (4) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2005, there are 131 licensed banks, 36 restricted licence banks and 35 deposit-taking companies in Hong Kong. Altogether, 202 authorized institutions (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (5) Foreign currency swap deposits are deposits involving customers buying foreign currencies in the spot market and placing them as deposits with authorized institutions, whilst at the same time entering into a contract to sell such foreign currencies (principal plus interest) forward in line with the maturity of such deposits. For most analytical purposes, they should be regarded as Hong Kong dollar deposits.
- (6) As at end-September 2005, there were 178 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 113 in general insurance business, and 19 in composite insurance business. These authorized insurers come from 23 countries and territories (including Hong Kong).
- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) Assets of the banking sector include notes and coins, amount due from authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposits (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.

- (9) The ABF2 was launched by the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) as an initiative to further develop local bond markets in the region. The ABF2 comprises a Pan-Asian Bond Index Fund (PAIF) and eight Single-market Funds. Besides ABF Hong Kong Bond Index Fund and Pan-Asian Bond Index Fund, the remaining component funds of ABF2 are expected to be listed in other countries in the near future.
- (10) At end-September 2005, there were 907 and 202 companies listed on the Main Board and GEM respectively.
- (11) The ranking is sourced from the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 54 stock exchanges, covering almost all globally recognised stock exchanges.
- (12) At end-September 2005, there were 39 classes of stock options contracts and 38 classes of stock futures contracts.
- (13) The FXI China 25 is a tradable index that tracks the performance of the 25 largest Mainland enterprise stocks (H shares and red chips) listed in Hong Kong. Each constituent's weighting in the index is free-float adjusted and capped at 10 per cent.
- (14) These figures are sourced from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorized funds that have responded to the survey. To provide a more accurate picture of the retail fund market in Hong Kong, the survey has been revamped, with effect from 2005, such that it would cover only retail transactions (including switching) and exclude institutional transactions. At end-September 2005, there were a total of 1 036 authorized-funds covered by the Survey.
- (15) There were 19 approved trustees at end-September 2005. On MPF products, 43 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 334 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. Around 224 100 employers, 1.94 million employees and 288 500 self-employed persons have participated in MPF schemes.

## CHAPTER 5 : THE LABOUR SECTOR

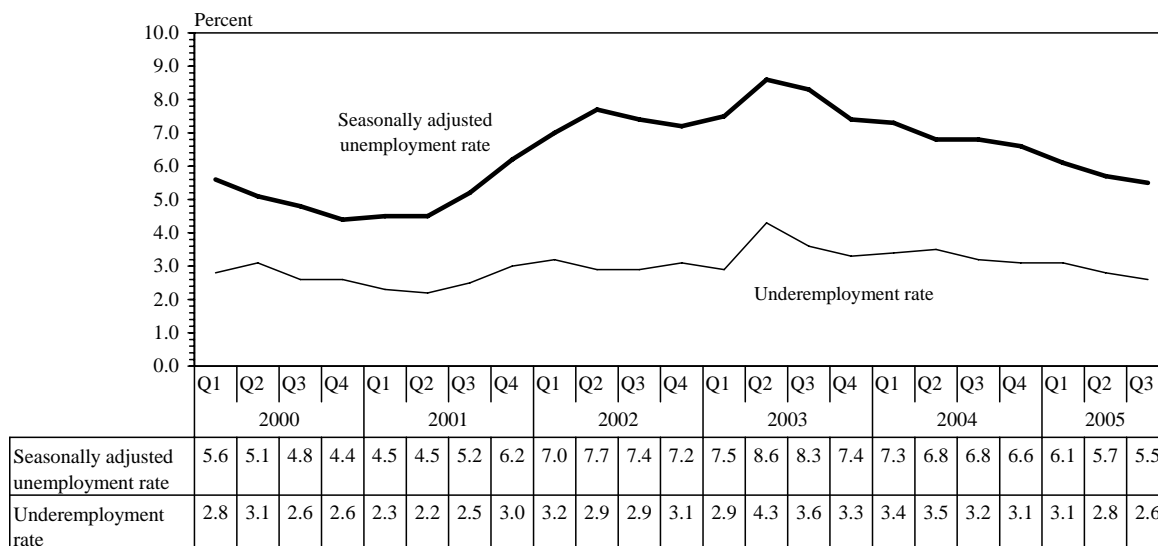
### Summary

- Major labour market indicators continued to exhibit a broad-based improvement in the third quarter of 2005. In particular, the unemployment and underemployment rates fell to their lowest levels in four years.
- Total employment rose to successive new highs in recent months, as new jobs were created at various occupational levels primarily in the service sectors.
- Nominal wages and earnings resumed increase in early 2005 and the uptrend was well sustained in the more recent months.

### Overall labour market situation

5.1 The labour market kept turning better on a broad front during the third quarter of 2005. The *seasonally adjusted unemployment rate*<sup>(1)</sup> fell to 5.5% and the *underemployment rate*<sup>(2)</sup> to 2.6%, representing their lowest levels since August - October 2001. The number of unemployed persons edged up by 1 200 to 205 700. Yet when viewed against the large number of fresh graduates and school leavers having entered the labour market, this suggested that a significant proportion of the newcomers had already been absorbed into employment. Meanwhile, the median duration of unemployment remained broadly stable at 76 days. Whereas, the number of persons unemployed for six months or more rose modestly to 59 700, this was the second lowest level in three and a half years.

**Diagram 5.1 : Unemployment and underemployment rates**



## Total employment and labour supply

5.2 *Total employment*<sup>(3)</sup> as enumerated from households expanded by 0.8% in the third quarter of 2005 over the preceding quarter, or by 2.6% over a year earlier. The total number of employed persons went up to another record high of 3.39 million. Compared to the trough in mid-2003, there was a net creation of 202 500 jobs, of which 58% belonged to the higher-skilled categories, including managers and administrators, professionals and associate professionals. But the share for lower-skilled jobs was no less significant at 42%, comprising mainly clerks, service workers and shop sales workers, and workers in elementary occupations. Another notable development was a relative shift in employment composition since early 2005, from part-time to full-time workers and from self-employed persons to employees. Conceivably, this was due to the growing confidence among business firms to create additional jobs of full-time nature alongside the sustained revival in economic activity, while the increased employment opportunities also induced more of the self-employed persons to seek work in the corporate sector.

5.3 *Total labour force*<sup>(4)</sup> also grew, by 0.8% quarter-to-quarter and 1.2% year-on-year. In the latest period, the increased labour supply was attributable partly to the entry of fresh graduates and school leavers into the labour market during the summer months. This notwithstanding, recent statistics show that 65% of these newcomers had been absorbed into employment during the third quarter of 2005, which compared favourably with the corresponding ratio of 62% in the third quarter of 2004<sup>(5)</sup>.

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed</u> <sup>(a)</sup>	<u>Persons underemployed</u>
2004	Annual	3 551 000	(1.6)	3 308 600	(2.8)	242 500	116 700
	Q1	3 530 300	(1.2)	3 279 700	(1.5)	250 700	119 100
	Q2	3 543 800	(1.4)	3 302 900	(3.3)	240 900	122 800
	Q3	3 555 200	(1.7)	3 304 700	(3.3)	250 500	113 500
	Q4	3 574 900	(2.0)	3 347 000	(3.0)	227 900	111 300
2005	Q1	3 565 100	(1.0)	3 354 500	(2.3)	210 600	109 800
	Q2	3 569 200	(0.7)	3 364 700	(1.9)	204 500	100 400
	Q3	3 597 300	(1.2)	3 391 600	(2.6)	205 700	95 000
			<0.8>		<0.8>		

Notes : (a) These include first-time job-seekers (a) and re-entrants into the labour force.  
 ( ) % change over a year earlier.  
 < > % change over the preceding quarter.

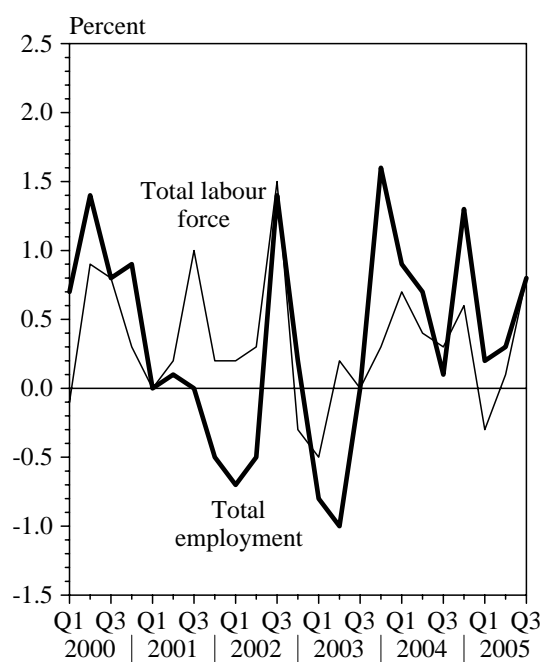
Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Total labour force and total employment**

**(a) Year-on-year rate of change**



**(b) Quarter-to-quarter rate of change**



### Profile of employment

5.4 The data enumerated from *private sector establishments* portrayed a broadly similar picture of strong expansion in employment in the corporate sector, by 2.6% in June 2005 over a year earlier. Within the service sectors, financing, insurance, real estate and business services, and community, social and personal services were the ones registering more noticeable employment gains. A more detailed analysis by sub-sector revealed that most of the new jobs in fact came from the import / export trades, amusement and recreational services, the retail trade and business services, which were underpinned by the robust performance of external trade and the pick-up in local consumer spending and inbound tourism. In stark contrast, employment in the local manufacturing sector and at construction sites<sup>(6)</sup> continued to shrink, due to reduced volume of work and output in those spheres.

5.5 As to the *civil service*, employment continued to decrease by 3.0% in June 2005 from a year earlier, reflecting the ongoing impacts of natural wastage and the second Voluntary Retirement Scheme. Insofar as civil service establishment is concerned, the target is to reduce the size to 163 000 by end-March next year, from 166 000 at end-March this year.

**Table 5.2 : Employment by major economic sector**

	<u>2004</u>					<u>2005</u>	
	<u>Annual Average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Wholesale and import/export trades	567 700 (1.7)	556 600 (-1.3)	563 100 (0.9)	577 000 (3.8)	574 100 (3.4)	583 100 (4.8)	579 100 (2.8)
Retail trade	217 300 (3.1)	214 600 (2.3)	216 500 (3.6)	219 400 (6.0)	218 400 (0.6)	216 000 (0.7)	224 600 (3.7)
Restaurants and hotels	207 900 (6.0)	204 600 (3.2)	209 500 (9.7)	206 600 (6.6)	210 900 (4.7)	210 700 (2.9)	214 500 (2.3)
Water transport, air transport and services allied to transport	104 500 (6.6)	101 600 (1.4)	104 500 (8.7)	104 800 (8.5)	107 000 (8.1)	107 900 (6.2)	110 900 (6.1)
Storage and communications	35 900 (2.2)	35 900 (8.0)	36 100 (2.2)	35 300 (0.1)	36 100 (-1.0)	35 300 (-1.7)	36 400 (0.8)
Financing, insurance, real estate and business services	437 000 (3.6)	428 600 (1.4)	434 200 (3.6)	437 800 (3.7)	447 400 (5.6)	447 600 (4.4)	457 200 (5.3)
Community, social and personal services	420 200 (3.2)	412 000 (3.5)	418 100 (4.4)	415 700 (0.4)	435 200 (4.5)	434 400 (5.4)	437 000 (4.5)
Manufacturing	168 000 (-3.0)	168 900 (-5.6)	169 600 (-1.7)	168 000 (-2.8)	165 300 (-1.8)	163 100 (-3.5)	161 900 (-4.5)
Building and construction sites	66 300 (-5.7)	69 100 (-4.5)	69 900 (-0.1)	64 900 (-8.1)	61 200 (-10.3)	65 800 (-4.8)	60 000 (-14.2)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>2 271 400 (2.4)</i>	<i>2 239 000 (0.6) &lt;0.7&gt;</i>	<i>2 268 400 (3.1) &lt;1.0&gt;</i>	<i>2 276 000 (2.7) &lt;*&gt;</i>	<i>2 302 100 (3.1) &lt;1.3&gt;</i>	<i>2 310 000 (3.2) &lt;0.9&gt;</i>	<i>2 327 300 (2.6) &lt;0.5&gt;</i>
<i>Civil service<sup>(b)</sup></i>	<i>160 800 (-3.8)</i>	<i>163 000 (-3.6)</i>	<i>161 700 (-3.9)</i>	<i>160 100 (-3.8)</i>	<i>158 400 (-3.8)</i>	<i>157 300 (-3.5)</i>	<i>156 800 (-3.0)</i>

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) The total figures on private sector employment cover also employment in mining and quarrying and in electricity and gas supply, besides employment in the major sectors indicated above.

(b) These figures cover only those employed on civil service terms of appointment. Judicial officers, ICAC officers, locally engaged staff working in overseas Hong Kong Economic and Trade Offices, 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.

(\*) Change of less than 0.05%.

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

## Profile of unemployment

5.6 Within the labour force, those persons engaged in the retail trade, restaurants and hotels, and miscellaneous personal services generally faced a more visible decrease in unemployment rate during the third quarter, as they tended to benefit more from the increasing job opportunities generated by the upturn in local consumer spending and vibrant tourism industry. Another group of people also having a visible reduction in unemployment were construction workers, but this was due more to a contraction in labour supply than a gain in employment. Partly in line with these sectoral developments, the unemployment rates for lower-skilled employees like service workers and shop sales workers, craft and related workers, and plant and machine operators and assemblers exhibited more notable drops, as did those for persons with lower secondary education or below. As for workers at the upper segment, those with higher educational attainment, or those engaged in financing, insurance, real estate and business services generally faced some increase in their unemployment rates. But this was not due to any job loss. Rather, it was due to a faster growth in labour supply than in employment.

**Diagram 5.3 : Unemployment rates by major economic sector\***

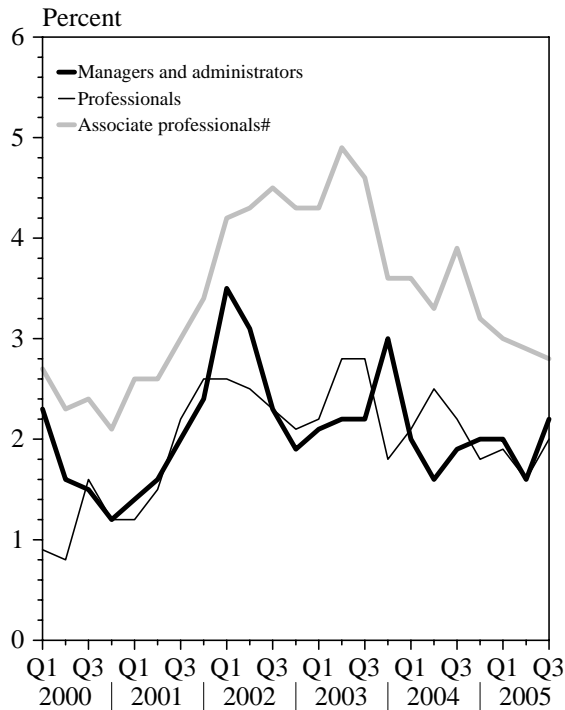


Notes : (\*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.

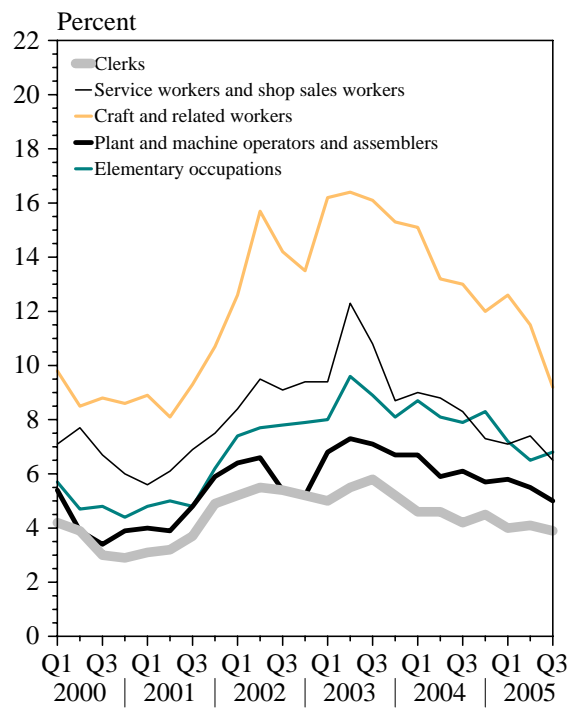
(#) Including both site and non-site workers.

## Diagram 5.4 : Unemployment rates by major occupation category\*

(a) Workers at the upper segment



(b) Workers at the lower segment

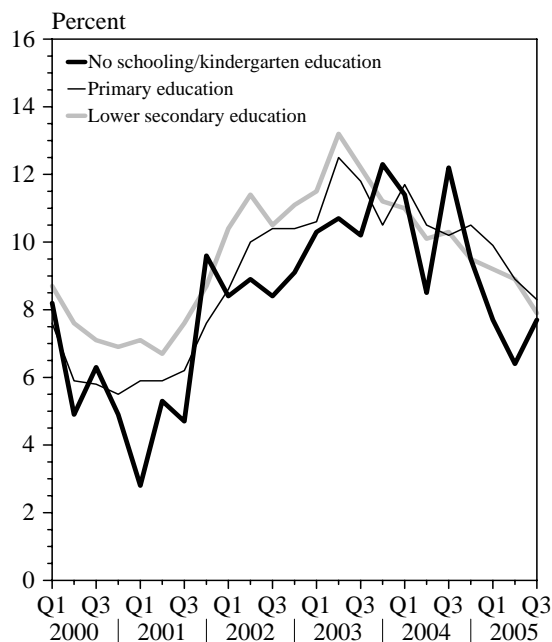


Notes : (\*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.

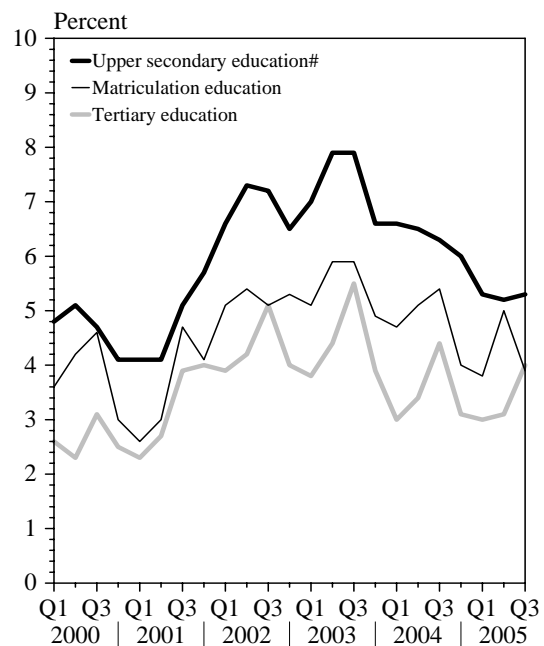
(#) Including technicians and supervisors.

## Diagram 5.5 : Unemployment rates by educational attainment\*

(a) Workers with lower secondary education or below



(b) Workers with upper secondary education or above



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

(#) Including craft courses.



## **Profile of underemployment**

5.7 Similar to the unemployment profile, underemployment largely followed a downtrend over the past couple of years. Yet it differed from the unemployment trend in that for most of the time, the decline in the underemployment rate tended to be concentrated only in a few segments of the labour market. More recently, these included service workers and shop sales workers, and associate professionals engaged in hotels and the wholesale and retail trades, craft and related workers engaged in the construction sector, and plant and machine operators and assemblers engaged in the transport sector. In terms of educational attainment, it was the less educated people, specifically those with primary education or below, who were the most affected group.

## **Vacancies**

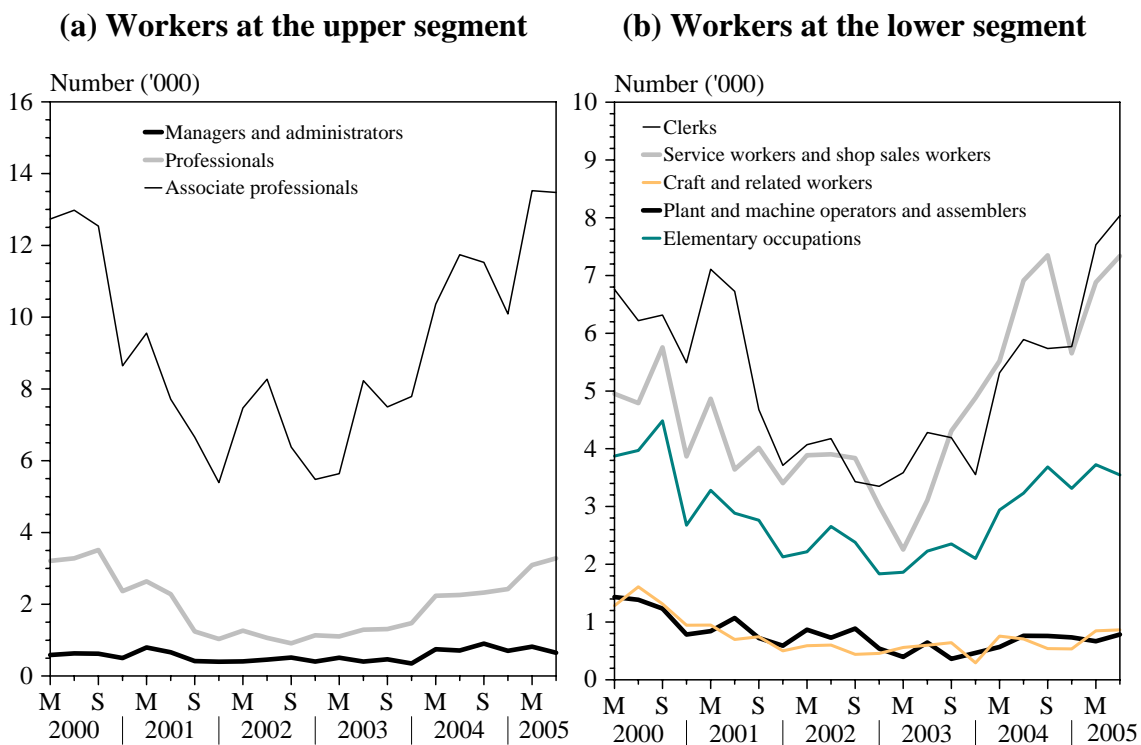
5.8 In June 2005, the total number of job vacancies in the *private sector establishments* continued to surge by 17.9% over a year earlier, as business operators kept up the momentum of their recruitment drive amid the sustained economic recovery. By comparison, job vacancies for managers, administrators, professionals and associated professionals showed a faster growth of 18.3%, with the increase occurring primarily in the financing, insurance, real estate and business services, and the community, social and personal services sectors. Vacancies at the lower-end rose somewhat less, by 17.5%, and most of this increase took place in restaurants and the retail trade. Among the additional vacancies in the private sector establishments, 47% were found at the upper segment and 53% at the lower segment. As to the civil service, vacancies arising from exemption from the general recruitment freeze amounted to only around 1 100 at end-June this year, and they were mostly in the disciplined services.

5.9 On latest indications, overall job vacancies should have gone up further in the third quarter of 2005, as manifested by the year-on-year jump of 53.4% in the vacancies received by the Labour Department. This was equivalent to another record high of 1 800 vacancies on a working day basis. Concurrently, the number of placements attained by the department also went markedly higher, by 36.4%.

5.10 From time to time, the Labour Department has organized general or theme-specific job fairs at different locations, for employers to recruit staff and for job seekers to find suitable jobs. These are in addition to the regular employment services rendered by the department, including the network of job

centres, a telephone employment service centre, a job vacancy processing centre and an interactive employment service website. More recently, it was announced in the Policy Address that two extra job centres would be set up in Yuen Long and North District respectively, with a view to enhancing further the employment services in the remote areas. As a result, the total number of job centres would increase from 10 to 12.

**Diagram 5.6 : Vacancies by major occupation category**



**Table 5.3 : Vacancies by major economic sector**

	<u>No. of vacancies</u>							Vacancy rate in Jun 2005 (%)
	<u>Annual average</u>	<u>2004</u>				<u>2005</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	
Wholesale and import/export trades	7 600 (56.5)	7 200 (64.7)	8 700 (77.5)	8 000 (51.7)	6 400 (33.0)	10 300 (42.4)	9 300 (7.2)	1.6
Retail trade	2 600 (58.7)	2 300 (108.2)	2 400 (55.2)	3 300 (97.3)	2 600 (11.0)	3 000 (33.7)	3 300 (35.7)	1.4
Restaurants and hotels	2 100 (63.2)	1 800 (113.1)	2 200 (100.6)	2 500 (50.1)	2 100 (27.1)	2 400 (39.3)	2 700 (24.3)	1.3
Water transport, air transport and services allied to transport	1 100 (129.0)	900 (102.3)	1 300 (161.0)	1 300 (192.8)	800 (60.6)	1 400 (57.9)	1 500 (19.0)	1.3
Storage and communications	600 (55.7)	600 (83.8)	400 (-3.3)	800 (83.7)	400 (73.7)	400 (-27.4)	600 (38.8)	1.6
Financing, insurance, real estate and business services	9 000 (59.6)	8 600 (106.0)	9 000 (45.4)	9 300 (62.2)	8 900 (40.4)	10 500 (21.5)	11 200 (23.8)	2.4
Community, social and personal services	5 900 (40.7)	5 200 (56.5)	6 200 (34.2)	5 800 (20.7)	6 200 (59.2)	6 800 (30.1)	7 200 (15.2)	1.6
Manufacturing	1 500 (46.9)	1 500 (37.5)	1 600 (30.2)	1 500 (67.0)	1 400 (61.7)	2 000 (33.1)	1 900 (16.2)	1.1
Building and construction sites	# (53.9)	# (57.7)	100 (118.5)	# (69.2)	# (-8.3)	# (-92.7)	# (-84.7)	*
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>30 700 (55.8)</i>	<i>28 400 (78.7)</i>	<i>32 200 (55.0)</i>	<i>32 800 (55.3)</i>	<i>29 200 (39.8)</i>	<i>37 100 (30.4)</i>	<i>38 000 (17.9)</i>	1.6
<i>Civil service<sup>(b)</sup></i>	<i>600 (-59.8)</i>	<i>400 (-72.3)</i>	<i>300 (-82.6)</i>	<i>100 (-94.2)</i>	<i>1 600 (36.8)</i>	<i>1 500 (231.5)</i>	<i>1 100 (270.4)</i>	0.7

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

(a) The total figures on private sector vacancies cover also vacancies in mining and quarrying and in electricity and gas supply, besides vacancies in the major sectors indicated above.

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Schemes. A general recruitment freeze to the civil service has been imposed with effect from 1 April 2003. The civil service vacancies during the general recruitment freeze period refer only to the number of vacant posts for which exemptions from recruitment freeze have been granted.

( ) % change over a year earlier.

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

(#) Less than 50.

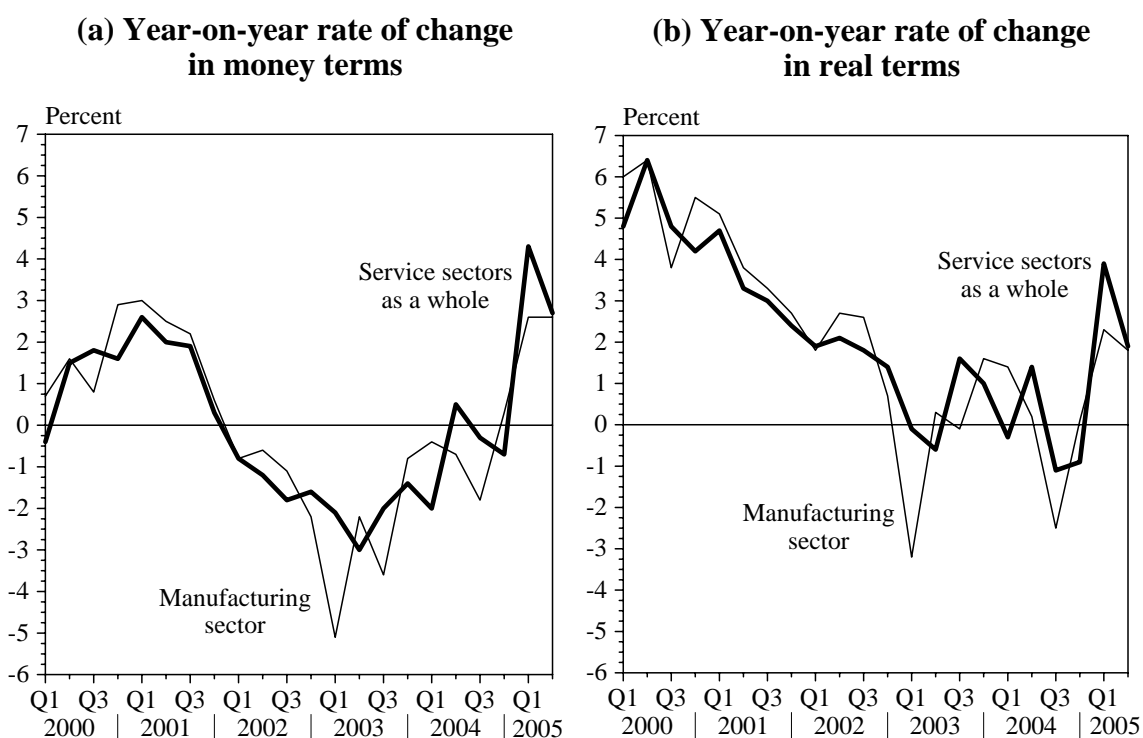
(\*) Less than 0.05%.

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

## Earnings and wages

5.11 Labour income has remained on a modest rise so far this year, upon the upward pressure on wages and earnings arising from the tighter labour market conditions. As an indicator of *labour earnings*<sup>(7)</sup>, payroll per person engaged in the private sector establishments moved up by 2.7% in money terms or 1.8% in real terms<sup>(8)</sup> in the second quarter of 2005 over a year earlier, further to the increases of 4.4% and 4.0% respectively in the preceding quarter. Pay rises were observed across almost all the major economic sectors, with larger gains occurring in the import / export trades, hotels, the retail trade, ocean-going and air transport, insurance and real estate. On the other hand, labour earnings in community, social and personal services were still held back by the pay cut among most employees in the subvented organisations along with that of civil servants since January this year. Furthermore, workers engaged in the large establishments generally had greater increases in payroll than those in the small and medium-sized establishments. As for the third quarter, latest indications pointed to a sustained uptrend, as manifested in part by the year-on-year increase of 3.6% in the median monthly employment earnings in July-September 2005, according to the data enumerated from the General Household Survey.

**Diagram 5.7 : Earnings by broad economic sector**



5.12 Another development worth noting is that in recent years, there has been an increasing shift in the emphasis of employees' remuneration package away from fixed wage rate towards variable or performance-linked pay. In most cases, the employee's payroll comprises both regular and irregular elements. By its very nature, the irregular component exhibits a much higher degree of volatility than the regular counterpart. For instance, during 2002-2004 the variable pay component of the payroll fell visibly between individual years, ranging from 6.9% to 7.7%, in contrast to a mild decrease of only 0.2 - 1.5% in the regular pay component. Yet more recently, the variable pay component staged a strong rebound by 7.0% year-on-year in the first half of this year, exceeding distinctly the 3.3% rise recorded for the regular pay component.

5.13 As for *labour wages* covering only the regular earnings of private sector employees up to the supervisory level, whereas there was also an upward adjustment in overall terms, the increase amounted to only 0.4% in money terms in June 2005 over a year earlier. After discounting the effect of consumer price inflation, labour wages were down modestly by 0.9% in real terms. This was attributable to the still loose manpower resource balance prevalent at the lower segment of the labour market, as well as the recent trend in the corporate sector towards adopting the variable or discretionary pay system in rewarding employees.

5.14 Analysed by major economic sector, nominal wages went up noticeably in some sectors, including transport services associated with air cargo forwarding and container haulage and leasing, financial concerns other than banks, and barber and beauty shops. Yet for most of the other sectors, there were either marginal increases or else slight declines.

#### **Notes :**

- (1) 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.

In April 2001, the Census and Statistics Department put out a revised series of seasonally adjusted unemployment rate compiled by reference to the X-11 ARIMA method, which adjusts for all seasonal variations in employment and unemployment (i.e. the changes due to holiday effects, seasonally ups and downs in economic activity, seasonal variations in first-time job-seekers, etc). This replaces the former series which adjusts only for seasonal variations in the proportion of first-time job-seekers in the labour force. For more details, see Note (3) at the end of Chapter 5 of the Half-yearly Economic Report 2001.

- (2) 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.

- (3) The employed population refers to 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).
- (4) 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.
- (5) The corresponding ratio for the same quarter in 2001 to 2003 was even lower, at 49-52%.
- (6) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector also decreased, by 1.1% in the third quarter of 2005 from a year earlier.

Employment for the construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professional, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.

- (7) In addition to wages, which include all regular 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.
  
- (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 middle to lower income groups, is taken as the price deflator for wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.

## CHAPTER 6 : PRICES

### *Summary*

- *The climb-up in consumer price inflation continued through the third quarter of 2005, reflecting the buoyant economic activity. Yet overall price pressures remained well contained, thanks to the matching expansion in productive capacity along with continued productivity enhancement. For the third quarter as a whole, consumer price inflation was only a modest 1.4%, up from 0.8% in the second quarter.*
- *On the local cost front, unit labour cost remained broadly stable. Moreover, the distinct rises in office and shop rentals over the past two years were well underpinned by the strong activity upturn and increased business sales, so that in unit rental cost terms the cost pressure so far remained well contained. Meanwhile, there were only mild upward pressures from imported inflation, notwithstanding soaring crude oil prices.*
- *Looking ahead, consumer price inflation is expected to move up further in the rest of the year, upon the increasing lifting effect from higher private housing rentals and a tighter labour market, essentially reflecting the gradual pass-through of higher business costs as the economy continues to forge ahead.*
- *The decline in the GDP deflator narrowed visibly further in the third quarter, mainly due to the faster rise in domestic prices and the continued fading out of the terms of trade drag amidst a stronger US dollar.*

### **Consumer price inflation**

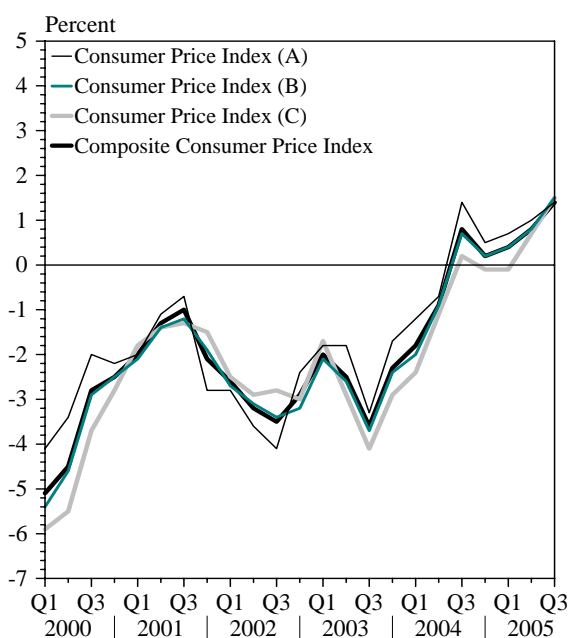
6.1 Consumer price inflation moved up mildly during the third quarter of 2005, in tandem with the rise-back in business costs as a natural consequence of a full-fledged economic upturn. Yet on the whole, local price pressures remained modest, as the aggregate demand and supply was still broadly in balance up to now, thanks to the substantial expansion in productive capacity along with the continued solid growth in labour productivity over the past year. As a result, despite the strong economic upturn, unit labour and unit rental costs were still broadly stable. On the external front, there were also only mild upward price pressures, although the surge in international crude oil prices to successive record highs during the third quarter should have added further cost burdens to certain business sectors.



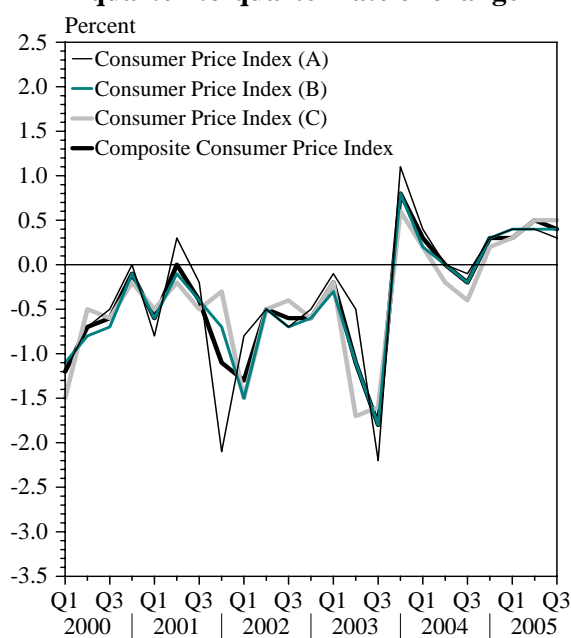
6.2 Reflecting these underlying developments, consumer price inflation in terms of the *Composite Consumer Price Index (CPI)*<sup>(1)</sup> picked up mildly to 1.4% in the third quarter, up from 0.8% in the second quarter. For the first nine months of 2005 as a whole, the Composite CPI was only 0.9% higher than a year earlier, though already in stark contrast to the 0.4% decline in 2004. Looking ahead, consumer price inflation is expected to move up further in the rest of the year, upon the increasing lifting effect from higher private housing rentals and a tighter labour market, essentially reflecting the gradual pass-through of higher business costs as the economy continues to forge ahead. For the year as a whole, consumer price inflation is expected to be well within 1.5%.

**Diagram 6.1 : Consumer Price Indices**

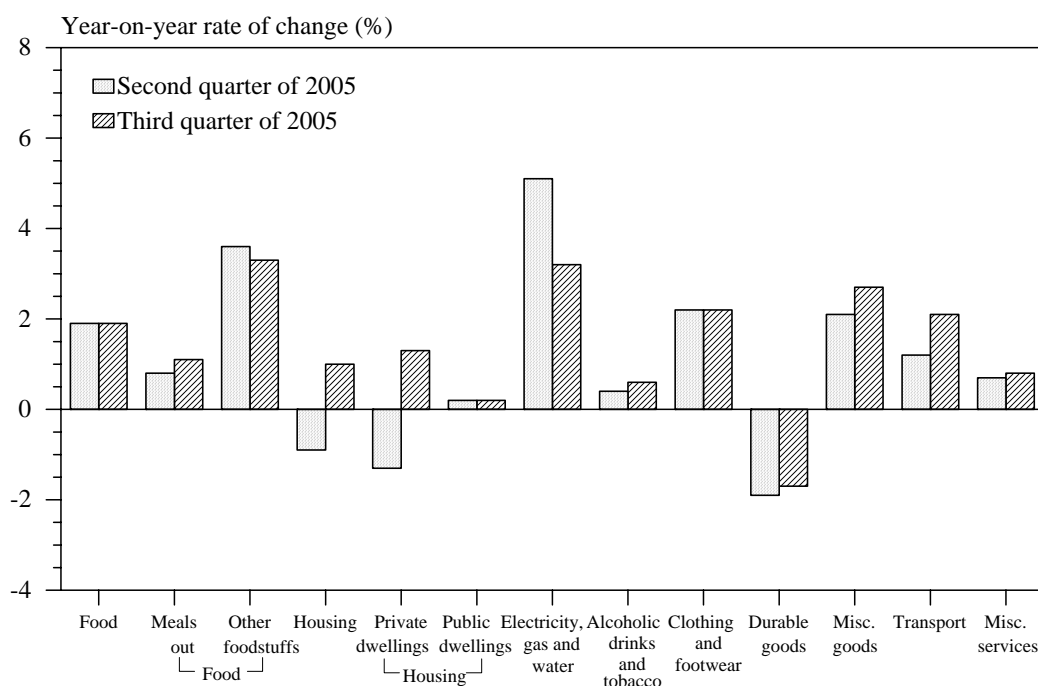
**(a) Year-on-year rate of change**



**(b) Seasonally adjusted quarter-to-quarter rate of change**



## Diagram 6.2 : Composite Consumer Price Index by component



**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>	
2004	Annual	-0.4		*		-0.5		-0.9	
	H1	-1.3		-1.0		-1.4		-1.8	
	H2	0.5		0.9		0.4		0.1	
	Q1	-1.8	(0.3)	-1.2	(0.4)	-2.0	(0.2)	-2.4	(0.2)
	Q2	-0.9	(*)	-0.7	(*)	-0.9	(*)	-1.1	(-0.2)
	Q3	0.8	(-0.2)	1.4	(-0.1)	0.7	(-0.2)	0.2	(-0.4)
	Q4	0.2	(0.3)	0.5	(0.3)	0.2	(0.3)	-0.1	(0.2)
	2005	H1	0.6		0.8		0.6		0.3
	Q1-Q3	0.9		1.0		0.9		0.7	
	Q1	0.4	(0.3)	0.7	(0.4)	0.4	(0.4)	-0.1	(0.3)
	Q2	0.8	(0.5)	1.0	(0.4)	0.8	(0.4)	0.7	(0.5)
	Q3	1.4	(0.4)	1.4	(0.3)	1.5	(0.4)	1.5	(0.5)
	Jul	1.3		1.3		1.3		1.3	
	Aug	1.4		1.3		1.4		1.5	
	Sep	1.6		1.5		1.7		1.7	

Notes : ( ) Figures in parentheses denote seasonally adjusted quarter-to-quarter rates of change.

(\*) Change of less than 0.05%.

**Table 6.2 : Composite Consumer Price Index by component  
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting</u>	<u>Annual</u>	<u>Q1</u>	<u>2004</u>			<u>2005</u>		
				<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	26.67	1.0	0.1	1.0	1.4	1.7	1.9	1.9	1.9
<i>Meals bought     away from home</i>	16.39	0.2	-0.5	0.3	0.5	0.5	0.6	0.8	1.1
<i>Other foodstuffs</i>	10.28	2.5	1.1	2.3	2.8	3.6	3.9	3.6	3.3
Housing <sup>(a)</sup>	29.91	-5.2	-7.7	-6.7	-2.3	-3.9	-2.6	-0.9	1.0
<i>Private dwellings</i>	24.59	-6.6	-9.3	-8.2	-3.8	-4.9	-3.4	-1.3	1.3
<i>Public dwellings</i>	2.07	2.5	0.1	0.1	10.3	0.1	0.1	0.2	0.2
Electricity, gas and water	2.98	11.4	21.8	3.0	12.7	9.8	4.1	5.1	3.2
Alcoholic drinks and tobacco	0.94	*	-0.1	0.4	-0.1	-0.3	0.1	0.4	0.6
Clothing and footwear	4.13	6.4	6.1	9.2	6.7	4.0	3.4	2.2	2.2
Durable goods	6.24	-2.2	-3.6	-1.4	-1.9	-2.1	-2.2	-1.9	-1.7
Miscellaneous goods	5.70	3.6	3.8	4.4	3.6	2.5	1.5	2.1	2.7
Transport	9.01	0.4	-0.4	0.4	0.7	0.8	0.7	1.2	2.1
Miscellaneous services	14.42	-0.2	-3.4	*	1.2	1.2	1.4	0.7	0.8
All items	100.00	-0.4	-1.8	-0.9	0.8	0.2	0.4	0.8	1.4

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.

(\*) Change of less than 0.05%.

## Box 6.1

### Impact of oil price hikes on the Composite CPI

Hong Kong's economy is highly service-oriented and not very oil-dependent, with fuel cost accounting for only around 2% of total business operating cost (or around 4% if labour cost is excluded) for the economy as a whole. Yet certain businesses like electricity and gas companies, transport operators, as well as restaurant and hotels, will be more affected by high oil prices due to the higher share of fuel cost in their total operating costs.

Oil price hikes will lead to higher import prices and hence higher retail prices of oil products in Hong Kong. Yet such direct impact on local consumer prices should not be that significant, given that oil products including motor gasoline, LPG, and kerosene have a combined weighting of only 0.89% in the Composite CPI. Specifically, in September 2005, prices of motor gasoline and LPG were 9.8% and 9.1% higher than a year earlier, as against a 46.0% surge in Brent oil price over the same period. Towngas charges, which were also lifted by higher oil price indirectly, were 10.8% higher. They together contributed 0.21 of a percentage point to the 1.6% CCPI inflation in September (0.25 of a percentage point if the fuel cost adjustments by electricity companies, which had been largely mitigated by other rebates/discounts, were also taken into account). For the first nine months of 2005 as a whole, these fuel-related components contributed 0.14 of a percentage point to the 0.9% CCPI inflation so far this year (0.18 if including electricity companies' fuel cost adjustments).

<u>Economic sector</u>	<u>Fuel cost as a proportion of non-labour business operating cost (%)</u>	<u>Impact of a US\$10/barrel increase in world crude oil prices on total business operating cost (% point)</u>
Electricity, gas and water	around 60	around 4
Wholesale, retail and import/export trades, restaurants and hotels	1.5	0.19
<i>Within which :</i>		
Restaurants and hotels	9.6	1.05
Transport, storage and communications	9.5	2.16
Financing, insurance, real estate and business services	4.9	0.08
Community, social and personal services	4.9	0.06
All sectors as a whole	4.3	0.42

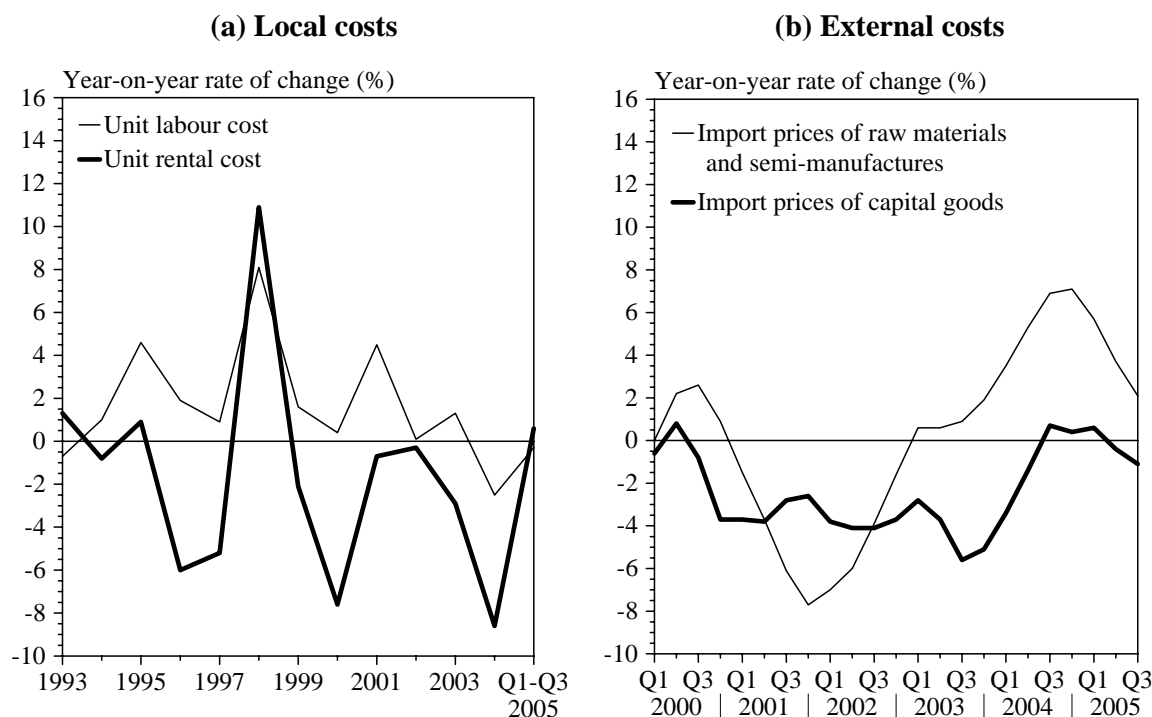
Note : (\*) By reference to 2003 as the benchmark year. The oil-related import cost content within the fuel cost content shown in this table varies amongst different economic sectors, depending on the type and amount of oil products consumed.

There would also be some indirect or spill-over effects, as business operators pass on part or all of the higher oil cost onto their consumers should the high oil prices sustain for a period of time, and consumer demand continue to improve. Yet in general, as Hong Kong economy is not oil-dependent, the second round or spill-over effects should be rather modest. Moreover, the pass-through of higher oil prices so far had been slightly less than estimated, because part of the cost increases stemming from oil price had been absorbed in the profit margin. Indeed, for most of the local transport services, the price increases had been very modest, at around 1-2% year-to-date. The increase in prices of dining out in local restaurants and hotels had also been rather mild.

## Costs of factor inputs

6.3 Analysing the trend of various business costs facing the firms, *labour earnings and wages* went up further in the second quarter (paragraphs 5.11 and 5.13), though on a per unit basis, labour cost was still broadly stable<sup>(3)</sup>. Similarly, the notable increase in business-related rentals on new leases, particularly those for office space and retail premises, was well underpinned by the solid performance of retail businesses, so that on a per unit basis, rental cost likewise remained well contained. As to the cost of *capital equipment and material costs*, the trend of import prices of capital goods and raw materials indicated moderated cost pressures in the third quarter. But against this, the cost of funding in capital investment should have risen amidst the successive hikes in local interest rates. Also, the surge in fuel-related costs should have added pressures to the more oil-intensive business sectors such as transport, restaurants and construction, even though for the economy as a whole, the price pressures stemming from soaring oil price remained rather modest as of now.

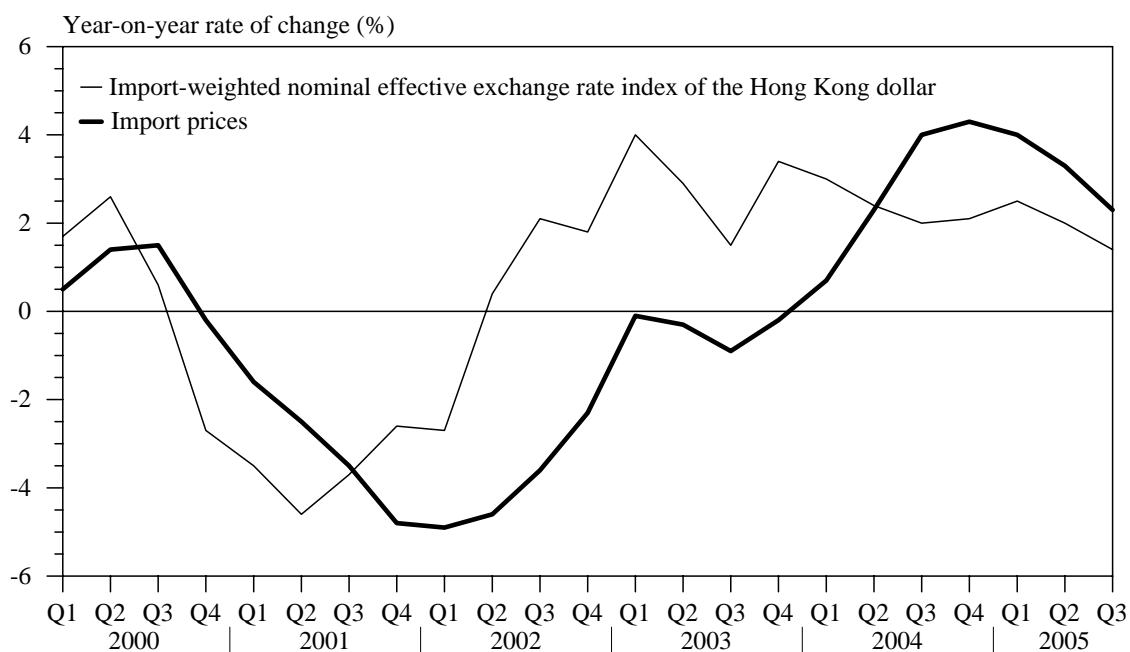
**Diagram 6.3 : Costs of factor inputs**



**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</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2004	Annual	3.7	1.2	5.7	27.0	-0.8	2.9
	H1	3.8	0.5	4.5	14.4	-2.4	1.5
	H2	3.7	1.8	7.0	39.7	0.6	4.1
	Q1	3.9	0.5	3.5	5.0	-3.4	0.7
	Q2	3.6	0.6	5.3	24.8	-1.4	2.3
	Q3	4.1	1.6	6.9	37.1	0.7	4.0
	Q4	3.5	1.9	7.1	42.4	0.4	4.3
	2005	H1	2.1	3.4	4.6	33.3	0.1
Q1-Q3		1.3	3.2	3.7	35.4	-0.4	3.1
Q1		2.8	3.2	5.7	27.1	0.6	4.0
Q2		1.5	3.6	3.7	39.9	-0.4	3.3
Q3		-0.3	2.9	2.1	38.3	-1.1	2.3

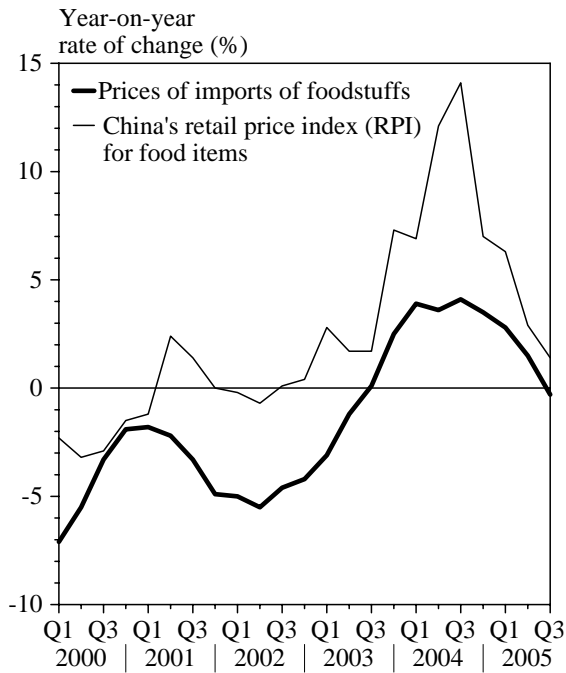
**Diagram 6.4 : Prices of imports and nominal effective exchange rate index (EERI) of the Hong Kong dollar**



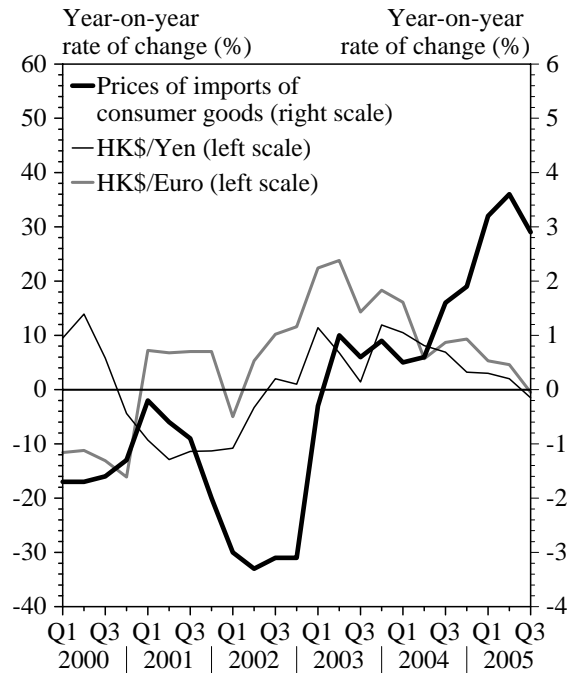
Note : An increase in nominal EERI indicates weakening of the Hong Kong dollar.

**Diagram 6.5 :**

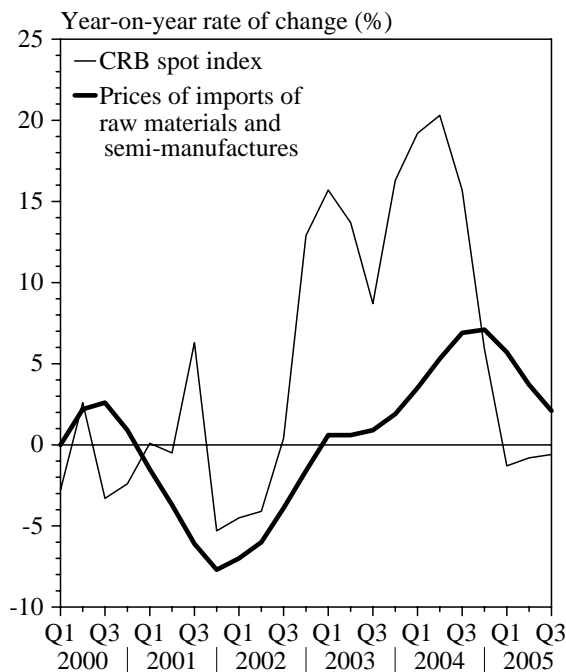
**(a) Prices of imports of foodstuffs and China's food prices**



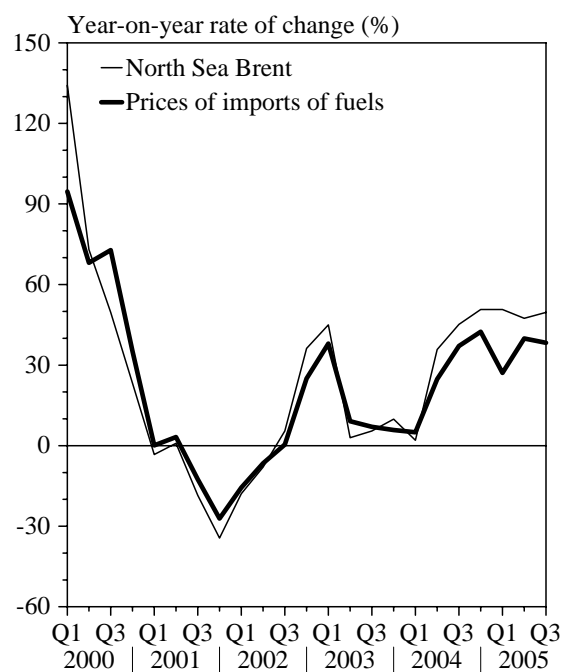
**(b) Prices of imports of consumer goods and selected exchange rates**



**(c) Prices of imports of raw materials and semi-manufactures and international commodity prices**



**(d) Prices of imports of fuel and international crude oil prices**



## Output prices

6.4 Owing to the lack of noticeable cost pressures stemming from both the domestic and external fronts as well as the presence of competitive pressure in the international markets, the rise in domestic output prices still remained modest. The *prices of local manufacturing output*, as measured by the Producer Price Index<sup>(4)</sup>, notched up only slightly in the second quarter over a year earlier. As to the *prices of output in selected service sectors*, there were continued modest increases in many sectors, though with particularly marked increase in the hotel sector, as pricing power returned amidst the vibrant inbound tourism, and with the exception of the telecommunications sector as keen competition and continued technological advancement continued to push down the charges for international calls and mobile phone services.

6.5 The prices of total exports of goods, as measured by the unit value index of total exports of goods, edged up by 1.0% in the third quarter of 2005 over a year earlier. With the prices of total exports of goods rising by a smaller extent than the prices of imports of goods, the terms of trade in goods<sup>(5)</sup> for Hong Kong still fell by 1.3% in the third quarter, though further narrowed from the 1.4% decline in the second quarter. For the first nine months of 2005 as a whole, there was an average decrease of 1.5%, as compared to that of 1.7% in 2004.



**Table 6.4 : Producer Price Indices for the local manufacturing sector and selected service sectors (year-on-year rate of change (%))**

<u>Industry group</u>	<u>Annual</u>	<u>2004</u>				<u>2005</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	2.2	2.8	2.7	2.0	1.4	0.5	0.7
Selected services sector <sup>(#)</sup>							
Hotels and boarding houses	10.6	2.9	17.7	12.4	10.4	14.0	11.8
Land transport	-0.1	-1.9	0.4	1.2	*	0.9	0.4
Maritime transport	1.3	2.7	0.8	1.2	0.6	1.6	0.1
Air transport	2.3	1.2	4.9	3.5	-0.2	1.6	2.9
Telecommunications	-10.1	-13.6	-7.9	-10.2	-8.3	-8.2	-7.6
Miscellaneous communications services	2.4	2.9	2.8	2.0	1.8	-0.3	0.1

Notes : (#) Producer Price Indices for the 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.

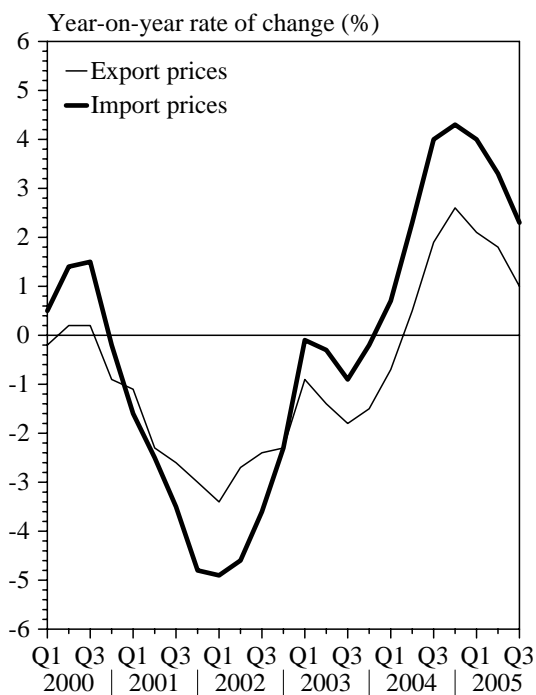
(\*) Change of less than 0.05%.

**Table 6.5 : Unit value indices of total exports of goods by major market  
(year-on-year rate of change (%))**

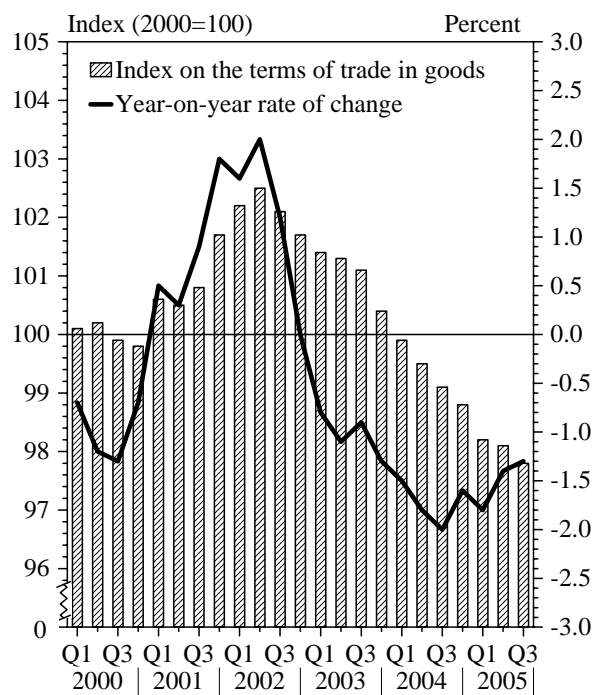
		<u>United States</u>	<u>Mainland of China</u>	<u>Germany</u>	<u>United Kingdom</u>	<u>Japan</u>	<u>Singapore</u>	<u>All markets</u>
2004	Annual	0.2	2.7	*	0.6	0.6	-1.3	1.2
	H1	-0.5	1.1	-0.4	-0.3	-0.3	-3.2	-0.1
	H2	0.8	4.1	0.4	1.2	1.3	0.3	2.3
	Q1	-0.6	0.2	-0.9	-0.7	-0.6	-4.2	-0.7
	Q2	-0.4	1.9	*	0.1	0.1	-2.3	0.5
	Q3	0.4	3.8	0.5	1.0	1.2	0.3	1.9
	Q4	1.3	4.4	0.3	1.4	1.4	0.3	2.6
2005	H1	1.1	2.9	0.9	1.5	1.1	-0.3	2.0
	Q1-Q3	0.8	2.3	1.1	1.6	1.4	-0.6	1.6
	Q1	1.2	3.3	0.9	1.3	0.8	-0.5	2.1
	Q2	1.0	2.6	0.9	1.7	1.4	-0.1	1.8
	Q3	0.6	1.1	1.4	1.9	2.0	-1.2	1.0

Note : (\*) Change of less than 0.05%.

**Diagram 6.6 : Prices of total exports of goods and imports of goods**



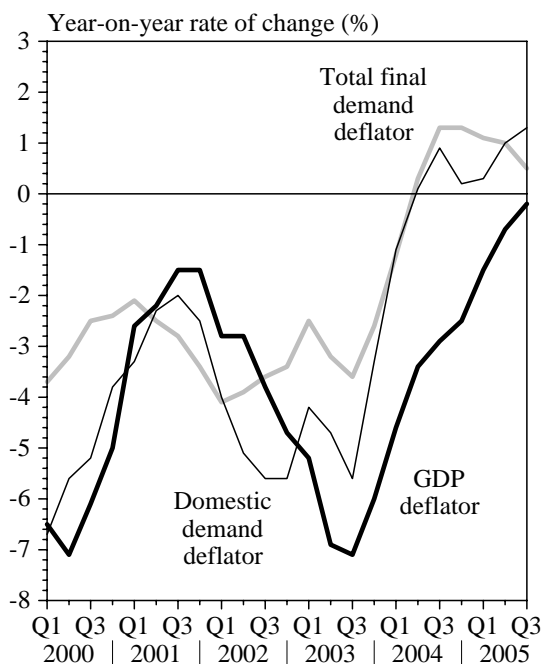
**Diagram 6.7 : Terms of trade in goods**



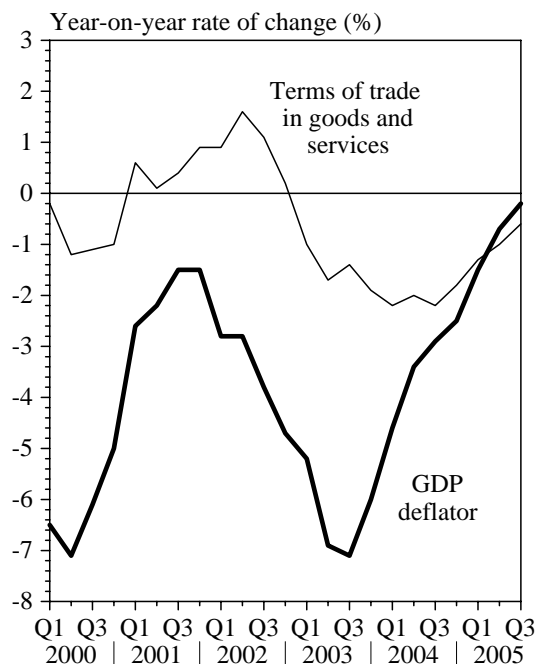
## GDP deflator

6.6 The decline in the *GDP deflator*<sup>(6)</sup>, as a broad measure of overall price changes in the economy, narrowed visibly further to a meagre 0.2% in the third quarter of 2005, from 0.7% in the second quarter. This was mainly attributable to the continued fading out of the terms of trade drag amidst the further strengthening of the US dollar. Excluding the relative price movements of exports and imports, the *domestic demand deflator* had a faster increase in the third quarter of 2005, whilst the *total final demand deflator* continued to edge up. These indicated somewhat increased, though still modest, price pressures in the local economy.

**Diagram 6.8 : GDP deflator, total final demand deflator and domestic demand deflator**



**Diagram 6.9 : GDP deflator and terms of trade in goods and services**



**Table 6.6 : GDP deflator and the main expenditure component deflators<sup>@</sup>**  
(year-on-year rate of change (%))

	<u>Annual<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>2004</u> <u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>2005</u> <u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
Private consumption expenditure	-0.5	-2.4	-0.6	1.0	*	0.5	1.7	1.6
Government consumption expenditure	-2.9	-3.3	-3.1	-2.7	-2.7	-2.1	-1.7	-1.6
Gross domestic fixed capital formation	2.5	1.9	3.0	2.2	2.7	2.3	1.9	0.9
Total exports of goods	0.5	-1.5	0.1	1.3	1.6	1.3	0.4	-0.2
Imports of goods	2.5	0.5	2.2	3.7	3.5	2.9	1.8	0.8
Exports of services	0.9	-0.8	2.1	1.4	1.2	2.4	3.0	2.2
Imports of services	3.8	3.6	3.4	4.7	3.6	2.6	2.5	1.0
<b>Gross Domestic Product</b>	<b>-3.3</b>	<b>-4.6</b>	<b>-3.4</b>	<b>-2.9</b>	<b>-2.5</b>	<b>-1.5</b>	<b>-0.7</b>	<b>-0.2</b>
		<-0.5>	<-0.8>	<-0.8>	<-0.5>	<0.5>	<*>	<*>
Total final demand	0.5	-1.2	0.3	1.3	1.3	1.1	1.0	0.5
Domestic demand	0.1	-1.1	0.1	0.9	0.2	0.3	1.0	1.3

Notes : (#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

(@) The entire series of GDP deflator has been revised following the completion of an exercise by the Census and Statistics Department to implement the latest international guidelines on the compilation of financial intermediation services produced by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005.

## 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 enumerated from the Household Expenditure Survey. Then, by aggregating the expenditure patterns of all the households covered by these three indices, a Composite CPI is compiled.

The expenditure ranges of the households covered in the 1999/2000-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Monthly expenditure range (at 1999/2000 prices)</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 1999/2000-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	26.67	31.88	25.94	21.38
<i>Meals bought     away from home</i>	16.39	17.94	17.20	13.28
<i>Other foodstuffs</i>	10.28	13.94	8.74	8.10
Housing	29.91	29.13	29.68	31.22
<i>Private dwellings</i>	24.59	21.76	25.48	26.67
<i>Public dwellings</i>	2.07	5.08	1.03	--
<i>Maintenance costs     and other     housing charges</i>	3.25	2.29	3.17	4.55
Electricity, gas and water	2.98	3.99	2.81	2.02
Alcoholic drinks and tobacco	0.94	1.50	0.86	0.39
Clothing and footwear	4.13	3.36	4.47	4.55
Durable goods	6.24	4.96	6.93	6.73
Miscellaneous goods	5.70	5.25	5.58	6.43
Transport	9.01	8.23	9.05	9.94
Miscellaneous services	14.42	11.70	14.68	17.34
All items	100.00	100.00	100.00	100.00

- (2) It should be noted that, in any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the rental index for private residential flats compiled by the Rating and Valuation Department (RVD). According to RVD, rentals for new lettings rose further by around 3% in the third quarter of 2005, though somewhat slower than the 4% increase in the second quarter.

- (3) Unit labour cost is proxied by dividing the estimated total payroll cost (nominal payroll per person engaged multiplied by total employment) by nominal GDP. Unit rental cost is proxied by dividing the estimated total rental cost of the retail sector (8-quarter moving average rental index for retail premises multiplied by occupied shopping space) by total consumption expenditure in the domestic market.
- (4) 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.
- (5) The terms of trade in goods is defined as the ratio of the prices of total exports of goods to the prices of imports of goods.
- (6) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding constant price 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.

The GDP series has undergone a major revision in August 2005 to incorporate the latest guidelines on the compilation of financial intermediation services. As a result, the entire historical series of the GDP deflator is revised accordingly. In particular, the revised series shows larger declines in the GDP deflator in 2003 and 2004 (0.3 and 0.5 of a percentage point lower than the old series respectively). This probably reflected the narrowing in net interest margin of local banks due to intense competition during that period.



## Statistical Appendix

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**Table 1 : Gross Domestic Product by expenditure component<sup>@</sup>**  
**(at current market prices)**

	(\$Mn)					
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
Private consumption expenditure	691,708	755,508	833,825	795,948	765,282	774,280
Government consumption expenditure	93,624	103,541	112,751	116,550	119,993	120,172
Gross domestic fixed capital formation	334,363	378,486	451,891	388,731	325,328	347,375
<i>of which:</i>						
Building and construction	158,898	185,648	223,264	208,235	171,930	155,441
Machinery, equipment and computer software	161,562	170,652	190,760	165,177	141,349	180,204
Changes in inventories	45,656	9,762	12,313	-15,651	-10,612	14,399
Total exports of goods	1,344,127	1,397,917	1,455,949	1,347,649	1,349,000	1,572,689
Domestic exports	231,657	212,160	211,410	188,454	170,600	180,967
Re-exports	1,112,470	1,185,758	1,244,539	1,159,195	1,178,400	1,391,722
Imports of goods	1,466,759	1,511,365	1,589,876	1,408,317	1,373,500	1,636,711
Exports of services	253,643	285,385	286,595	262,099	276,385	315,012
Imports of services	180,623	189,753	198,424	194,245	185,174	192,427
<b>GDP</b>	<b>1,115,739</b>	<b>1,229,481</b>	<b>1,365,024</b>	<b>1,292,764</b>	<b>1,266,702</b>	<b>1,314,789</b>
<i>Per capita GDP (\$)</i>	<i>181,241</i>	<i>191,047</i>	<i>210,350</i>	<i>197,559</i>	<i>191,736</i>	<i>197,268</i>
<b>GNP</b>	<b>1,125,229</b>	<b>1,218,405</b>	<b>1,363,409</b>	<b>1,317,362</b>	<b>1,291,470</b>	<b>1,323,543</b>
<i>Per capita GNP (\$)</i>	<i>182,783</i>	<i>189,326</i>	<i>210,101</i>	<i>201,318</i>	<i>195,485</i>	<i>198,581</i>
Total final demand	2,763,121	2,930,599	3,153,324	2,895,326	2,825,376	3,143,927
Total final demand excluding re-exports <sup>(a)</sup>	1,834,209	1,949,977	2,130,313	1,952,900	1,886,191	2,045,858
Domestic demand	1,165,351	1,247,297	1,410,780	1,285,578	1,199,991	1,256,226
Private	1,018,096	1,078,661	1,233,803	1,107,816	1,014,347	1,075,654
Public	147,255	168,636	176,977	177,762	185,644	180,572
External demand	1,597,770	1,683,302	1,742,544	1,609,748	1,625,385	1,887,701

Definitions 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<sup>@</sup>  
(at current market prices) (cont'd)**

	(\$Mn)						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	Q1 <sup>#</sup>	<u>2005</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
Private consumption expenditure	782,587	747,850	718,465	763,473	192,471	200,195	200,445
Government consumption expenditure	128,866	131,291	130,148	127,214	32,078	28,475	30,177
Gross domestic fixed capital formation	333,036	286,020	261,369	278,946	70,370	74,884	72,660
<i>of which:</i>							
Building and construction	142,651	131,752	116,419	109,278	29,119	25,370	26,203
Machinery, equipment and computer software	180,011	144,832	136,539	152,871	36,173	42,979	41,917
Changes in inventories	-4,060	5,660	9,111	5,548	-4,926	-2,963	526
Total exports of goods	1,480,987	1,562,121	1,749,089	2,027,031	479,096	555,352	614,625
Domestic exports	153,520	131,079	122,126	126,386	24,066	28,066	40,428
Re-exports	1,327,467	1,431,041	1,626,964	1,900,645	455,030	527,286	574,197
Imports of goods	1,549,222	1,601,527	1,794,059	2,099,545	498,773	574,998	621,565
Exports of services	320,799	347,836	362,420	421,915	108,133	107,282	124,390
Imports of services	194,180	202,494	203,400	233,774	57,542	57,386	65,946
<b>GDP</b>	<b>1,298,813</b>	<b>1,276,757</b>	<b>1,233,143</b>	<b>1,290,808</b>	<b>320,907</b>	<b>330,841</b>	<b>355,312</b>
<i>Per capita GDP (\$)</i>	<i>193,135</i>	<i>188,118</i>	<i>181,262</i>	<i>187,547</i>	--	--	--
<b>GNP</b>	<b>1,327,356</b>	<b>1,282,409</b>	<b>1,261,634</b>	<b>1,318,012</b>	<b>327,906</b>	<b>335,604</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>197,379</i>	<i>188,951</i>	<i>185,450</i>	<i>191,499</i>	--	--	--
Total final demand	3,042,215	3,080,778	3,230,602	3,624,127	877,222	963,225	1,042,823
Total final demand excluding re-exports <sup>(a)</sup>	1,982,896	1,923,066	1,894,865	2,052,294	500,912	527,159	567,962
Domestic demand	1,240,429	1,170,821	1,119,093	1,175,181	289,993	300,591	303,808
Private	1,053,568	985,985	937,489	999,217	244,085	263,544	264,124
Public	186,861	184,836	181,604	175,964	45,908	37,047	39,684
External demand	1,801,786	1,909,957	2,111,509	2,448,946	587,229	662,634	739,015

Notes : (@) The Census and Statistics Department completed an exercise to implement the latest international guidelines on dealing with financial intermediation services provided by banks in the estimation of national accounts statistics of Hong Kong in mid-August 2005. As a result of this statistical development, GDP, GNP and BoP statistics presented in this Appendix were revised.

(a) Re-export margin is nevertheless retained in the total final demand.

(#) Revised figures.

(+) Preliminary figures.

(--) Not applicable.

N.A. Not available.

**Table 2 : Rates of change in Gross Domestic Product  
by expenditure component (in real terms)**

(%)

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Private consumption expenditure	2.1	3.9	6.2	-6.6	1.4	6.0	2.1
Government consumption expenditure	3.2	3.8	2.4	0.7	3.1	2.1	6.0
Gross domestic fixed capital formation	10.4	10.9	12.6	-7.3	-16.6	11.0	2.6
<i>of which:</i>							
Building and construction	1.1	7.0	10.5	-2.4	-15.5	-7.6	-1.1
Machinery, equipment and computer software	24.1	12.0	13.1	-7.9	-18.2	27.0	6.2
Total exports of goods	12.0	4.8	6.1	-4.3	3.7	17.1	-3.3
Domestic exports	2.0	-8.4	2.1	-7.9	-7.2	7.5	-10.2
Re-exports	14.3	7.5	6.8	-3.7	5.4	18.5	-2.4
Imports of goods	13.9	4.3	7.3	-7.3	*	18.2	-1.9
Exports of services	2.9	10.2	-0.4	-3.5	8.8	12.1	6.4
Imports of services	1.8	5.1	3.9	1.6	-4.4	4.2	2.0
<b>GDP</b>	<b>3.9</b>	<b>4.2</b>	<b>5.1</b>	<b>-5.5</b>	<b>4.0</b>	<b>10.0</b>	<b>0.6</b>
<i>Per capita GDP (\$)</i>	<i>1.9</i>	<i>-0.3</i>	<i>4.2</i>	<i>-6.2</i>	<i>3.0</i>	<i>9.0</i>	<i>-0.3</i>
<b>GNP</b>	<b>4.6</b>	<b>2.4</b>	<b>6.0</b>	<b>-3.5</b>	<b>4.0</b>	<b>8.6</b>	<b>2.2</b>
<i>Per capita GNP (\$)</i>	<i>2.6</i>	<i>-2.1</i>	<i>5.1</i>	<i>-4.3</i>	<i>3.0</i>	<i>7.6</i>	<i>1.3</i>
Total final demand	9.4	4.3	6.2	-6.0	1.3	14.4	-0.6
Total final demand excluding re-exports <sup>(a)</sup>	6.5	2.2	5.8	-7.6	-1.7	11.3	0.4
Domestic demand	7.2	2.1	8.2	-9.2	-4.4	10.3	1.0
Private	6.8	1.2	9.5	-9.9	-5.4	12.3	0.7
Public	10.3	9.2	-1.0	-3.8	2.1	-2.8	3.3
External demand	10.6	5.4	5.3	-4.3	4.4	16.4	-1.7

Notes : (a) Re-export margin is nevertheless retained in the total final demand.

(#) Revised figures.

(+) Preliminary figures.

**Table 2 : Rates of change in Gross Domestic Product  
by expenditure component (in real terms) (cont'd)**

(%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	Q1 <sup>#</sup>	<u>2005</u>		Average annual rate of change:	
					Q2 <sup>#</sup>	Q3 <sup>+</sup>	10 years 1994 to 2004	5 years 1999 to 2004
Private consumption expenditure	-1.0	-1.0	6.8	4.4	2.7	4.6	1.9	2.5
Government consumption expenditure	2.5	1.9	0.7	-4.8	-2.3	-1.8	2.6	2.6
Gross domestic fixed capital formation	-4.5	0.9	4.1	0.4	4.5	2.4	2.0	2.7
<i>of which:</i>								
Building and construction	-1.1	-5.6	-11.1	-1.0	-7.7	-8.4	-2.9	-5.4
Machinery, equipment and computer software	-7.6	6.7	12.4	0.7	10.1	8.1	5.9	8.4
Total exports of goods	8.7	14.2	15.3	8.9	11.1	12.8	7.2	10.1
Domestic exports	-11.2	-7.3	2.4	-9.6	-8.3	14.2	-4.0	-4.0
Re-exports	11.0	16.3	16.3	10.2	12.3	12.7	8.7	11.7
Imports of goods	7.9	13.1	14.1	3.8	7.0	11.0	6.7	10.1
Exports of services	10.9	7.9	15.3	8.8	8.6	8.2	6.9	10.5
Imports of services	3.9	-2.1	10.7	5.4	0.1	3.7	2.6	3.7
<b>GDP</b>	<b>1.8</b>	<b>3.1</b>	<b>8.2</b>	<b>6.2</b>	<b>7.3</b>	<b>8.2</b>	<b>3.5</b>	<b>4.7</b>
<i>Per capita GDP (\$)</i>	<i>0.9</i>	<i>2.9</i>	<i>7.0</i>	--	--	--	<i>2.1</i>	<i>3.8</i>
<b>GNP</b>	<b>0.1</b>	<b>5.0</b>	<b>8.0</b>	<b>5.3</b>	<b>8.5</b>	<b>N.A.</b>	<b>3.7</b>	<b>4.7</b>
<i>Per capita GNP (\$)</i>	<i>-0.8</i>	<i>4.8</i>	<i>6.7</i>	--	--	--	<i>2.3</i>	<i>3.9</i>
Total final demand	5.1	8.1	11.6	4.8	6.7	9.6	5.2	7.6
Total final demand excluding re-exports <sup>(a)</sup>	2.0	3.4	8.6	1.5	2.9	7.3	3.0	5.1
Domestic demand	-0.7	0.1	4.9	-2.3	-0.8	4.4	1.8	3.0
Private	-1.0	-0.2	6.1	-1.8	0.2	5.9	1.8	3.5
Public	1.2	1.7	-1.4	-5.3	-7.2	-5.4	1.8	0.4
External demand	9.1	13.1	15.3	8.9	10.7	12.0	7.2	10.2

Notes (cont'd) : (\*) Change of less than 0.05%.

(--) Not applicable.

N.A. Not available.

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

	2000		2001		2002		2003		2004 <sup>+</sup>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	920	0.1	1,003	0.1	1,002	0.1	824	0.1	886	0.1
Mining and quarrying	241	*	174	*	136	*	116	*	72	*
Manufacturing	67,646	5.4	59,760	4.8	51,396	4.2	44,403	3.7	44,525	3.6
Electricity, gas and water	36,917	2.9	37,957	3.1	39,609	3.2	38,847	3.2	39,546	3.2
Construction	62,054	4.9	57,167	4.6	51,534	4.2	44,910	3.7	40,386	3.2
Services	1,087,570	86.6	1,088,211	87.5	1,091,272	88.4	1,073,807	89.3	1,120,207	89.9
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	308,600	24.6	309,926	24.9	310,500	25.1	308,872	25.7	336,721	27.0
<i>Transport, storage and communications</i>	118,974	9.5	117,526	9.4	121,766	9.9	117,420	9.8	125,586	10.1
<i>Financing, insurance, real estate and business services</i>	268,399	21.4	251,495	20.2	247,045	20.0	251,100	20.9	265,439	21.3
<i>Community, social and personal services</i>	249,997	19.9	262,960	21.1	265,746	21.5	261,771	21.8	262,288	21.1
<i>Ownership of premises</i>	141,600	11.3	146,304	11.8	146,214	11.8	134,645	11.2	130,173	10.5
<b>GDP at factor cost</b>	<b>1,255,348</b>	<b>100.0</b>	<b>1,244,271</b>	<b>100.0</b>	<b>1,234,949</b>	<b>100.0</b>	<b>1,202,908</b>	<b>100.0</b>	<b>1,245,621</b>	<b>100.0</b>
Taxes on production and imports	57,908		53,917		43,325		48,057		58,606	
Statistical discrepancy (%)	0.1		*		-0.1		-1.4		-1.0	
<b>GDP at current market prices</b>	<b>1,314,789</b>		<b>1,298,813</b>		<b>1,276,757</b>		<b>1,233,143</b>		<b>1,290,808</b>	

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

(+) Preliminary figures

(\*) Less than 0.05%.

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

	(%)						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		<u>2005<sup>#</sup></u>	
				Q3	Q4	Q1	Q2
Agriculture and fishing	-0.7	-5.6	0.7	-1.5	4.4	-6.0	5.5
Mining and quarrying	-11.1	2.2	-17.0	-19.6	4.9	*	12.8
Manufacturing	-10.0	-10.3	1.7	2.3	3.8	-2.3	-0.1
Electricity, gas and water	3.8	1.8	2.1	1.7	1.6	5.1	4.8
Construction	-1.5	-4.9	-8.4	-12.0	-2.0	-0.7	-8.3
Services	2.8	4.5	8.9	7.5	7.4	6.5	7.5
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	4.5	9.1	13.4	12.5	9.8	11.0	11.7
<i>Transport, storage and communications</i>	6.5	0.7	17.4	15.8	15.2	12.8	12.3
<i>Financing, insurance, real estate and business services</i>	2.7	5.7	7.3	3.5	6.6	3.6	7.8
<i>Community, social and personal services</i>	-0.6	0.5	3.9	3.0	2.7	1.2	0.2
<i>Ownership of premises</i>	2.0	2.7	3.0	3.1	3.9	5.2	4.9
Taxes on production and imports	-0.1	2.9	12.4	8.1	5.5	-1.6	2.0
<b>GDP at constant (2000) market prices</b>	<b>1.8</b>	<b>3.1</b>	<b>8.2</b>	<b>6.7</b>	<b>7.2</b>	<b>6.2</b>	<b>7.3</b>

Notes : (#) Revised figures.

(\*) Change of less than 0.05%.

**Table 5 : Balance of payments account by major component  
(at current prices)**

	(\$Mn)								
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		<u>2005</u> <sup>#</sup>	
						Q3	Q4	Q1	Q2
Current account	54,494	76,315	96,800	128,240	127,401	52,258	50,721	33,433	31,092
Goods	-63,832	-64,970	-39,406	-44,970	-72,514	-8,511	-1,757	-19,677	-19,646
Services	122,584	126,620	145,341	159,020	188,141	49,702	54,566	50,591	49,896
Income	8,754	28,543	5,652	28,491	27,204	15,103	2,012	6,999	4,763
Current transfers	-13,013	-13,878	-14,787	-14,301	-15,429	-4,035	-4,100	-4,481	-3,921
Capital and financial account	-57,863	-97,359	-151,179	-179,086	-136,338	-37,482	-34,181	-54,444	-7,427
Capital and financial non-reserve assets (net change)	20,459	-60,829	-169,720	-171,497	-110,852	-57,973	-15,756	-51,890	-12,926
Capital transfers	-12,044	-9,155	-15,686	-8,292	-2,145	-1,376	-793	-2,653	-1,511
Financial non-reserve assets (net change)	32,503	-51,674	-154,033	-163,205	-108,707	-56,597	-14,963	-49,238	-11,415
<i>Direct investment</i>	19,976	96,948	-60,685	63,372	-44,406	-5,543	37,691	970	3,928
<i>Portfolio investment</i>	190,782	-322,045	-302,484	-264,619	-251,346	-41,454	53,022	-70,770	-91,131
<i>Financial derivatives</i>	1,661	39,640	51,563	78,288	48,827	6,447	19,059	4,206	5,749
<i>Other investment</i>	-179,917	133,783	157,573	-40,247	138,218	-16,046	-124,735	16,357	70,038
Reserve assets (net change) <sup>(a)</sup>	-78,321	-36,530	18,541	-7,589	-25,486	20,492	-18,426	-2,554	5,500
Net errors and omissions	3,369	21,044	54,379	50,846	8,937	-14,777	-16,540	21,012	-23,665
<b>Overall balance of payments</b>	<b>78,321</b>	<b>36,530</b>	<b>-18,541</b>	<b>7,589</b>	<b>25,486</b>	<b>-20,492</b>	<b>18,426</b>	<b>2,554</b>	<b>-5,500</b>

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

(a) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

(#) Revised figures.

**Table 6 : Visible and invisible trade  
(at current market prices)**

	(\$Mn)								
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>		
						Q4	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>+</sup>
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031	547,972	479,096	555,352	614,625
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545	549,729	498,773	574,998	621,565
<b>Visible trade balance</b>	<b>-64,022</b>	<b>-68,235</b>	<b>-39,406</b>	<b>-44,970</b>	<b>-72,514</b>	<b>-1,757</b>	<b>-19,677</b>	<b>-19,646</b>	<b>-6,940</b>
	<b>&lt;-3.9&gt;</b>	<b>&lt;-4.4&gt;</b>	<b>&lt;-2.5&gt;</b>	<b>&lt;-2.5&gt;</b>	<b>&lt;-3.5&gt;</b>	<b>&lt;-0.3&gt;</b>	<b>&lt;-3.9&gt;</b>	<b>&lt;-3.4&gt;</b>	<b>&lt;-1.1&gt;</b>
Exports of services	315,012	320,799	347,836	362,420	421,915	116,325	108,133	107,282	124,390
Imports of services	192,427	194,180	202,494	203,400	233,774	61,759	57,542	57,386	65,946
<b>Invisible trade balance</b>	<b>122,585</b>	<b>126,619</b>	<b>145,342</b>	<b>159,020</b>	<b>188,141</b>	<b>54,566</b>	<b>50,591</b>	<b>49,896</b>	<b>58,444</b>
	<b>&lt;63.7&gt;</b>	<b>&lt;65.2&gt;</b>	<b>&lt;71.8&gt;</b>	<b>&lt;78.2&gt;</b>	<b>&lt;80.5&gt;</b>	<b>&lt;88.4&gt;</b>	<b>&lt;87.9&gt;</b>	<b>&lt;86.9&gt;</b>	<b>&lt;88.6&gt;</b>
Exports of goods and services	1,887,701	1,801,786	1,909,957	2,111,509	2,448,946	664,297	587,229	662,634	739,015
Imports of goods and services	1,829,138	1,743,402	1,804,021	1,997,459	2,333,319	611,488	556,315	632,384	687,511
<b>Visible and invisible trade balance</b>	<b>58,563</b>	<b>58,384</b>	<b>105,936</b>	<b>114,050</b>	<b>115,627</b>	<b>52,809</b>	<b>30,914</b>	<b>30,250</b>	<b>51,504</b>
	<b>&lt;3.2&gt;</b>	<b>&lt;3.3&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;5.7&gt;</b>	<b>&lt;5.0&gt;</b>	<b>&lt;8.6&gt;</b>	<b>&lt;5.6&gt;</b>	<b>&lt;4.8&gt;</b>	<b>&lt;7.5&gt;</b>

Notes : Figures in this table are reckoned on a GDP basis.

(#) Revised figures.

(+) Preliminary figures.

( ) 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**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>
							<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
	(% change)					\$Mn	(% change over a year earlier)			
<b>All markets</b>	<b>16.6</b>	<b>-5.8</b>	<b>5.4</b>	<b>11.7</b>	<b>15.9</b>	<b>2,019,114</b>	<b>15.3</b>	<b>10.6</b>	<b>12.5</b>	<b>12.5</b>
Mainland of China	20.8	0.6	12.3	21.1	19.7	888,543	17.1	12.0	14.7	14.2
United States	13.9	-9.8	1.0	-2.6	5.4	341,600	6.8	5.6	7.3	7.9
Japan	19.4	0.5	-4.5	12.3	14.4	107,545	16.3	11.9	11.6	12.5
United Kingdom	12.7	-12.2	-2.0	5.8	14.8	65,853	18.0	10.5	9.8	2.8
Germany	13.7	-13.9	-5.3	15.1	11.9	62,900	11.7	18.1	15.7	14.5
Taiwan	20.8	-11.1	-2.2	22.2	16.2	49,112	7.5	-3.2	4.3	6.5
Republic of Korea	34.5	-9.4	17.2	16.9	24.0	44,069	18.5	5.0	4.9	11.0
Singapore	13.4	-19.5	6.8	13.0	22.0	43,577	17.0	14.7	12.9	-2.0
Rest of the world	12.4	-8.4	3.5	7.1	17.3	415,916	19.5	12.1	13.9	16.7

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

**Table 8 : Imports of goods by source**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>
							<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
	(% change)					\$Mn	(% change over a year earlier)			
<b>All sources</b>	<b>19.0</b>	<b>-5.4</b>	<b>3.3</b>	<b>11.5</b>	<b>16.9</b>	<b>2,111,123</b>	<b>11.9</b>	<b>8.1</b>	<b>10.1</b>	<b>11.5</b>
Mainland of China	17.7	-4.6	5.1	9.6	16.9	918,275	16.7	13.9	14.2	15.3
Japan	22.3	-11.2	3.4	17.2	19.7	256,141	8.7	-0.8	0.2	-0.4
Taiwan	23.6	-13.1	7.4	8.0	22.8	153,812	12.8	3.1	3.8	8.5
United States	14.4	-7.0	-12.8	7.9	13.4	111,994	5.2	5.7	13.8	9.6
Singapore	25.0	-2.8	3.9	19.6	22.5	110,986	15.7	12.4	14.2	26.9
Republic of Korea	23.2	-12.2	7.3	15.0	15.0	100,467	3.2	-9.0	-1.0	4.5
Rest of the world	17.9	0.5	2.2	12.1	13.6	459,448	6.9	7.5	10.4	9.4

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

**Table 9 : Retained imports of goods by end-use category**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>			
	(% change)					\$Mn	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
							(% change over a year earlier)			
<b>Overall</b>	<b>23.5</b>	<b>-9.1</b>	<b>-9.0</b>	<b>2.6</b>	<b>14.8</b>	<b>545,503</b>	<b>-0.8</b>	<b>-1.4</b>	<b>0.4</b>	<b>8.8</b>
Foodstuffs	1.8	-2.6	0.2	1.5	8.6	49,217	*	3.6	1.1	2.9
Consumer goods	15.5	3.9	-5.2	-1.8	7.4	121,180	-5.9	4.9	-11.9	6.3
Fuels	30.3	-10.2	3.9	12.9	37.5	46,125	37.4	25.0	21.4	33.4
Raw materials and semi-manufactures	25.5	-22.3	-1.6	10.7	17.6	207,171	-1.3	-7.3	2.2	10.5
Capital goods	34.0	-2.8	-24.9	-6.6	13.3	121,497	-5.2	-6.9	4.0	-0.1

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

(\*) Change of less than 0.05%.

**Table 10 : Exports and imports of services by component**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>	<u>2005</u>			
	(% change)					\$Mn	<u>Q4</u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>14.0</b>	<b>1.8</b>	<b>8.4</b>	<b>4.2</b>	<b>16.4</b>	<b>421,915</b>	<b>8.9</b>	<b>11.5</b>	<b>11.8</b>	<b>10.4</b>
Transportation	11.5	-5.9	10.8	3.8	24.2	133,730	15.7	12.5	13.4	11.1
Travel	7.4	0.7	25.4	-4.4	26.2	70,145	0.8	16.1	11.1	7.3
Trade-related	19.7	9.0	9.0	12.2	12.4	146,356	10.7	12.1	12.8	11.8
Other services	14.5	3.4	-5.9	-1.4	3.9	71,684	2.7	4.4	7.6	9.1
<b>Imports of services</b>	<b>3.9</b>	<b>0.9</b>	<b>4.3</b>	<b>0.4</b>	<b>14.9</b>	<b>233,774</b>	<b>10.0</b>	<b>8.3</b>	<b>2.6</b>	<b>4.8</b>
Transportation	23.9	4.7	-4.7	7.8	19.8	62,670	11.4	10.7	9.4	9.0
Travel	-4.4	-1.4	0.8	-8.0	15.9	103,347	10.3	8.9	-3.9	1.2
Trade-related	6.3	5.7	24.2	9.2	12.8	18,058	11.0	12.2	11.7	10.0
Other services	5.0	0.5	20.0	8.2	8.1	49,699	7.4	2.9	5.2	5.2
<b>Net exports of services</b>	<b>34.4</b>	<b>3.3</b>	<b>14.8</b>	<b>9.4</b>	<b>18.3</b>	<b>188,141</b>	<b>7.8</b>	<b>15.4</b>	<b>24.7</b>	<b>17.6</b>

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

(#) Revised figures.

(+) Preliminary figures.

**Table 11 : Incoming visitors by source**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1	<u>2005</u> Q2	Q3
<u>('000)</u>									
<b>All sources</b>	<b>13 059.5</b>	<b>13 725.3</b>	<b>16 566.4</b>	<b>15 536.8</b>	<b>21 810.6</b>	<b>6 052.5</b>	<b>5 469.9</b>	<b>5 508.1</b>	<b>5 975.6</b>
Mainland of China	3 785.8	4 448.6	6 825.2	8 467.2	12 245.9	3 266.4	3 038.8	2 845.0	3 293.7
South and Southeast Asia	1 747.1	1 746.6	1 905.2	1 359.6	2 077.7	667.3	499.2	617.4	544.5
Taiwan	2 385.7	2 418.8	2 428.8	1 852.4	2 074.8	529.6	502.0	513.8	573.5
Japan	1 382.4	1 336.5	1 395.0	867.2	1 126.3	331.6	316.8	264.5	303.5
Europe	1 068.8	1 019.9	1 083.9	780.8	1 142.7	352.9	308.5	345.4	329.1
United States	966.0	935.7	1 000.8	683.8	1 051.7	305.7	260.8	293.6	274.9
Others	1 723.5	1 819.2	1 927.4	1 525.8	2 091.7	599.2	543.8	628.5	656.4
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>15.3</b>	<b>5.1</b>	<b>20.7</b>	<b>-6.2</b>	<b>40.4</b>	<b>17.0</b>	<b>10.8</b>	<b>8.5</b>	<b>4.0</b>
Mainland of China	18.1	17.5	53.4	24.1	44.6	15.4	4.1	3.5	-0.5
South and Southeast Asia	15.6	*	9.1	-28.6	52.8	30.0	32.6	15.8	8.8
Taiwan	15.6	1.4	0.4	-23.7	12.0	-2.5	4.2	2.6	2.0
Japan	17.7	-3.3	4.4	-37.8	29.9	26.6	44.0	3.0	-4.5
Europe	4.7	-4.6	6.3	-28.0	46.3	19.7	17.8	29.2	26.2
United States	12.5	-3.1	7.0	-31.7	53.8	27.4	18.9	11.6	4.3
Others	15.4	5.6	5.9	-20.8	37.1	22.3	19.1	24.0	24.1

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

(\*) Change of less than 0.05%.

**Table 12 : Hong Kong residents travelling abroad by destination**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1	<u>2005</u> Q2	Q3
<u>('000)</u>									
<b>All destinations</b>	<b>58 901.1</b>	<b>61 095.9</b>	<b>64 540.1</b>	<b>60 936.1</b>	<b>68 903.4</b>	<b>17 739.8</b>	<b>17 352.1</b>	<b>17 669.5</b>	<b>18 884.3</b>
Mainland of China <sup>(a)</sup>	50 083.1	52 002.9	55 648.4	52 555.6	59 675.5	15 533.3	15 011.6	15 460.6	16 234.8
Macao <sup>(a)</sup>	4 206.9	4 293.6	4 182.4	3 952.6	4 223.9	1 050.8	1 100.6	1 059.7	1 244.4
South and Southeast Asia	2 389.6	2 504.6	2 421.8	2 447.0	2 661.1	610.0	599.6	589.2	724.5
North Asia	739.0	761.6	774.5	699.8	806.4	190.3	225.1	173.5	218.2
Taiwan	468.7	525.5	538.2	414.5	536.1	130.8	138.1	137.2	144.5
Europe	323.5	323.7	346.6	322.7	373.6	74.0	94.4	94.0	125.4
Americas <sup>(b)</sup>	399.2	376.6	346.3	280.1	334.6	72.4	84.2	85.7	100.2
Australia and New Zealand	231.6	237.5	223.2	207.1	222.5	59.1	78.1	50.9	61.8
<u>(% change over a year earlier)</u>									
<b>All destinations</b>	<b>10.8</b>	<b>3.7</b>	<b>5.6</b>	<b>-5.6</b>	<b>13.1</b>	<b>7.3</b>	<b>9.8</b>	<b>1.3</b>	<b>5.5</b>
Mainland of China <sup>(a)</sup>	10.9	3.8	7.0	-5.6	13.5	7.5	9.8	2.0	6.0
Macao <sup>(a)</sup>	10.9	2.1	-2.6	-5.5	6.9	10.7	13.7	4.1	4.9
South and Southeast Asia	20.3	4.8	-3.3	1.0	8.7	-1.2	-1.1	-15.4	-3.3
North Asia	-5.0	3.1	1.7	-9.6	15.2	7.7	20.0	-17.0	-0.5
Taiwan	11.6	12.1	2.4	-23.0	29.3	2.2	14.4	-2.1	*
Europe	5.2	0.1	7.1	-6.9	15.8	5.2	7.5	*	6.4
Americas <sup>(b)</sup>	0.2	-5.7	-8.1	-19.1	19.5	1.6	7.2	7.4	-3.5
Australia and New Zealand	0.5	2.6	-6.0	-7.2	7.4	7.8	22.1	6.7	19.4

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

(a) With effect from 12 May and 31 August 2005 respectively, the Automated Passenger Clearance System (APCS) has commenced operation for handling Hong Kong resident departures at the Macao Ferry Terminal and the China Ferry Terminal. For Hong Kong residents using APCS at these two terminals, the estimates of breakdown to the Mainland or Macao were made by making reference to the profile of resident departures not using APCS. These estimates are included in the number of residents travelling to the Mainland and Macao.

(b) This category includes the United States, Canada, Central America and South America.

(\*) Change of less than 0.05%.

**Table 13 : Property market**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>Completion of new property by the private sector</b>							
<i>(‘000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	22 621	19 875	18 202	22 278	35 322	25 790	26 262
Commercial property	562	390	705	945	634	160	208
<i>of which :</i>							
Office space	355	269	456	737	428	96	76
Other commercial premises <sup>(b)</sup>	207	121	249	208	206	64	132
Industrial property <sup>(c)</sup>	375	440	343	300	191	62	45
<i>of which :</i>							
Industrial-cum-office premises	77	115	72	145	40	37	14
Conventional flatted factory space	249	242	181	31	4	19	30
Storage premises <sup>(d)</sup>	49	83	90	124	147	6	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	17 349	18 358	16 046	14 267	26 733	40 944	47 590
Subsidized sales flats <sup>(e)</sup>	16 672	10 725	21 535	21 993	26 532	22 768	26 174
<b>Building plans with consent to commence work in the private sector</b>							
<i>(‘000 m<sup>2</sup> of usable floor area)</i>							
Residential property <sup>(f)</sup>	688.2	1 058.2	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5
Commercial property	674.0	1 005.7	599.0	395.7	287.5	337.5	265.0
Industrial property <sup>(g)</sup>	457.4	530.5	461.6	69.5	84.9	129.2	45.7
Other property	159.0	375.8	259.2	201.5	125.8	240.2	75.0
Total	1 978.6	2 970.2	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(h)</sup>	76 633	129 484	172 711	85 616	77 087	65 340	69 667
Non-residential property	21 016	17 939	32 750	25 873	21 379	20 404	18 523
Total	97 649	147 423	205 461	111 489	98 466	85 744	88 190
<b>Total value (\$Bn)</b>							
Residential property <sup>(h)</sup>	200.3	381.7	690.3	278.5	212.0	168.4	150.9
Non-residential property	65.5	92.9	177.7	62.4	44.6	54.1	41.9
Total	265.8	474.7	868.0	340.9	256.6	222.5	192.8

Notes : (a) Figures before 2002 cover all completed residential premises to which either temporary or full Occupation Permits have been granted, as well as village type houses issued with Letters of Compliance. Property developments subject to a Consent Scheme need a Certificate of Compliance, Consent to Assign or Consent to Lease in addition to an Occupation Permit before the premises can be individually assigned. Village-type housing units are excluded as from 2002 and units issued with temporary Occupation Permits are also excluded as from 2004 onwards.

Residential premises here pertain to private residential units, excluding units built under the Private Sector Participation Scheme (PSPS), Home Ownership Scheme (HOS), Buy or Rent Option, Mortgage Subsidy Scheme, Sandwich Class Housing Scheme, Urban Improvement Scheme (UIS) and Flat-for-Sale Scheme. Figures from 2004 onwards also cover those private flats converted from subsidised flats.

(b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.

(c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.

(d) These include storage premises at the container terminals and the airport.

**Table 13 : Property market (cont'd)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1	<u>2005</u> Q2	Q3
<b>Completion of new property by the private sector<sup>+</sup></b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	31 052	26 397	26 036	6 938	3 921	7 251	4 627
Commercial property	304	417	371	23	18	40	4
<i>of which :</i>							
Office space	166	299	279	14	0	32	0
Other commercial premises <sup>(b)</sup>	138	118	91	9	18	8	4
Industrial property <sup>(c)</sup>	29	15	1	0	0	4	0
<i>of which :</i>							
Industrial-cum-office premises	0	15	0	0	0	4	0
Conventional flatted factory space	3	0	1	0	0	0	0
Storage premises <sup>(d)</sup>	27	0	0	0	0	0	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	20 154	13 986	20 947	5 550	9 571	5 864	5 534
Subsidized sales flats <sup>(e)</sup>	2 224	320	0	0	0	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property <sup>(f)</sup>	790.0	1 038.4	530.0	48.0	104.6	40.8	151.6
Commercial property	365.3	200.0	161.3	31.9	46.2	164.4	43.4
Industrial property <sup>(g)</sup>	107.1	0.8	16.4	7.1	0.0	11.6	20.6
Other property	109.3	444.2	407.1	65.7	132.2	178.9	35.1
Total	1 371.8	1 683.3	1 114.8	152.8	283.0	395.7	250.6
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(h)</sup>	72 974	71 576	100 630	28 258	24 842	37 337	21 895
Non-residential property	12 947	15 733	22 850	6 868	5 165	6 468	4 615
Total	85 921	87 309	123 480	35 126	30 007	43 805	26 510
<b>Total value (\$Bn)</b>							
Residential property <sup>(h)</sup>	154.3	153.6	276.7	85.4	73.5	115.1	64.3
Non-residential property	31.1	35.8	75.1	26.8	20.0	24.9	19.1
Total	185.4	189.4	351.8	112.2	93.4	140.0	83.4

Notes (cont'd) : (e) The Housing Authority housing production figures have been revised as from 1998. The revision is to 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) As from 1995, the classification of residential property has been revised to include developments under the UIS of the Housing Society, but to exclude developments under the HOS and the PSPS of the Housing Authority.

(g) These include multi-purpose industrial premises designed also for office use.

(h) It should be noted that primary sales of units under the HOS and the Tenants Purchase Scheme are not covered in this table, as sale and purchase agreements are commonly not required for these transactions. Also, sale and purchase agreements for primary sales of units under the PSPS are not included in the row on residential property, yet they are included in the row on non-residential property, and thus also in the row for the total.

(+) Figures for 2005 are provisional figures.

**Table 14 : Property prices and rentals**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	107.3	116.9	163.1	117.1	100.0	89.6	78.7
Office space <sup>(b)</sup>	194.6	188.4	213.1	134.5	100.0	89.9	78.7
Shopping space	129.7	134.0	177.3	128.3	100.0	93.6	86.8
Flatted factory space	198.7	171.4	168.9	131.8	100.0	91.2	82.0
Property rental indices <sup>(c)</sup> :							
Residential flats	120.7	119.0	134.5	112.6	100.0	98.1	95.4
Office space <sup>(b)</sup>	178.6	152.3	156.8	135.9	100.0	98.5	101.0
Shopping space	117.8	117.8	123.5	111.2	100.0	101.3	99.4
Flatted factory space	146.9	132.4	132.5	118.1	100.0	95.4	90.3
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-6.6	8.9	39.5	-28.2	-14.6	-10.4	-12.2
Office space <sup>(b)</sup>	-15.5	-3.2	13.1	-36.9	-25.7	-10.1	-12.5
Shopping space	-2.8	3.3	32.3	-27.6	-22.1	-6.4	-7.3
Flatted factory space	-11.2	-13.7	-1.5	-22.0	-24.1	-8.8	-10.1
Property rental indices <sup>(c)</sup> :							
Residential flats	2.2	-1.4	13.0	-16.3	-11.2	-1.9	-2.8
Office space <sup>(b)</sup>	-1.8	-14.7	3.0	-13.3	-26.4	-1.5	2.5
Shopping space	1.1	*	4.8	-10.0	-10.1	1.3	-1.9
Flatted factory space	-1.7	-9.9	0.1	-10.9	-15.3	-4.6	-5.3

Notes : (a) Figures pertain to prices of existing flats traded in the secondary market, but not new flats sold in the primary market.

(b) Since 2000, price and rental indices for office space in the private sector have been recompiled according to the revised grading criteria for office space. Hence, the figures from 2000 onwards are not strictly comparable to those in the earlier years.

(c) 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.

**Table 14 : Property prices and rentals (cont'd)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1	<u>2005</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	69.9	61.6	78.0	83.4	89.9	94.5	92.5
Office space <sup>(b)</sup>	68.4	62.5	99.3	112.0	123.2	134.6	138.8
Shopping space	85.0	85.5	119.3	134.2	144.3	151.2	147.2
Flatted factory space	74.8	71.7	88.6	99.7	108.6	122.5	129.0
Property rental indices <sup>(c)</sup> :							
Residential flats	83.4	73.6	77.7	80.2	82.5	85.5	87.8
Office space <sup>(b)</sup>	85.4	74.6	78.1	82.1	87.7	92.5	100.4
Shopping space	92.9	86.4	92.8	96.0	96.8	98.1	99.5
Flatted factory space	82.7	74.9	77.3	79.3	81.0	82.8	83.1
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-11.2	-11.9	26.6	29.5	22.1	22.4	18.9 <56.0> {-45.4}
Office space <sup>(b)</sup>	-13.1	-8.6	58.9	65.9	39.1	38.5	39.6 <135.3> {-38.3}
Shopping space	-2.1	0.6	39.5	40.8	32.0	31.3	24.1 <81.7> {-23.9}
Flatted factory space	-8.8	-4.1	23.6	35.3	35.1	46.7	42.2 <84.3> {-25.6}
Property rental indices <sup>(c)</sup> :							
Residential flats	-12.6	-11.8	5.6	11.1	10.3	10.5	11.7 <22.1> {-36.8}
Office space <sup>(b)</sup>	-15.4	-12.6	4.7	12.3	18.0	20.4	27.1 <40.0> {-36.9}
Shopping space	-6.5	-7.0	7.4	9.8	8.9	6.6	5.4 <18.3> {-20.1}
Flatted factory space	-8.4	-9.4	3.2	6.7	7.0	7.8	7.2 <15.1> {-37.8}

Notes (cont'd) : (#) Figures for non-residential property are provisional.  
 (+) Provisional figures.  
 (\*) Change of less than 0.05%.  
 < > % change from the trough in 2003.  
 { } % change from the peak in 1997.



**Table 15 : Monetary aggregates**

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	171,642	198,311	188,135	178,260	205,339	203,966	229,841
M2 <sup>(a)</sup>	1,260,427	1,503,603	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774
M3 <sup>(a)</sup>	1,278,288	1,520,461	1,684,325	1,840,824	1,935,471	2,002,358	2,016,635
Total money supply (\$Mn)							
M1	190,471	217,460	208,093	197,666	225,156	243,847	258,056
M2	2,282,849	2,532,236	2,788,808	3,111,942	3,386,196	3,649,492	3,550,060
M3	2,363,963	2,611,636	2,871,425	3,168,199	3,434,467	3,692,753	3,594,130
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,171,627	1,400,077	1,551,555	1,699,726	1,773,169	1,851,177	1,854,651
Foreign currency	1,054,612	1,058,180	1,158,728	1,300,302	1,477,448	1,676,670	1,551,852
Total	2,226,238	2,458,256	2,710,282	3,000,027	3,250,617	3,527,847	3,406,502
Loans and advances (\$Mn)							
HK\$	1,237,330	1,447,844	1,742,481	1,695,027	1,607,126	1,652,191	1,647,684
Foreign currency	2,501,228	2,467,045	2,379,189	1,609,400	1,205,784	809,259	537,301
Total	3,738,558	3,914,890	4,121,670	3,304,427	2,812,910	2,461,450	2,184,986
Nominal Effective Exchange Rate Indices							
(Jan 2000 = 100) <sup>(c)(d)</sup>							
Trade-weighted	91.6	94.0	98.0	103.4	100.9	101.7	104.7
Import-weighted	89.6	93.0	97.9	105.5	101.4	101.5	105.1
Export-weighted	93.7	95.1	98.1	101.3	100.4	101.9	104.3
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	2.2	15.5	-5.1	-5.2	15.2	-0.7	12.7
M2 <sup>(a)</sup>	15.1	19.3	--	9.7	5.2	3.4	0.5
M3 <sup>(a)</sup>	14.9	18.9	--	9.3	5.1	3.5	0.7
Total money supply :							
M1	2.8	14.2	-4.3	-5.0	13.9	8.3	5.8
M2	14.6	10.9	--	11.6	8.8	7.8	-2.7
M3	14.2	10.5	--	10.3	8.4	7.5	-2.7
Deposit <sup>(b)</sup>							
HK\$	15.3	19.5	--	9.5	4.3	4.4	0.2
Foreign currency	13.5	0.3	--	12.2	13.6	13.5	-7.4
Total	14.4	10.4	--	10.7	8.4	8.5	-3.4
Loans and advances							
HK\$	10.5	17.0	20.4	-2.7	-5.2	2.8	-0.3
Foreign currency	16.6	-1.4	-3.6	-32.4	-25.1	-32.9	-33.6
Total	14.5	4.7	5.3	-19.8	-14.9	-12.5	-11.2
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	-4.0	2.6	4.3	5.5	-2.4	0.8	2.9
Import-weighted	-4.3	3.8	5.3	7.8	-3.9	0.1	3.5
Export-weighted	-3.6	1.5	3.2	3.3	-0.9	1.5	2.4

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placements of less than one month in the monetary aggregates. As such, figures after 1997 cannot be compared with those in the previous period.

Total Money Supply:

- M1: Legal tender notes and coins with the public, plus customers' demand deposits with licensed banks.
- M2: M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit issued by licensed banks and held outside the monetary sector.
- M3: M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

**Table 15 : Monetary aggregates (cont'd)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1	<u>2005</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	259,411	354,752	412,629	412,629	387,168	360,889	350,711
M2 <sup>(a)</sup>	1,984,049	2,107,269	2,208,591	2,208,591	2,201,393	2,214,278	2,278,991
M3 <sup>(a)</sup>	2,004,225	2,122,861	2,219,557	2,219,557	2,214,594	2,227,497	2,294,678
Total money supply (\$Mn)							
M1	295,650	413,423	484,494	484,494	464,340	438,286	431,190
M2	3,518,326	3,813,442	4,166,706	4,166,706	4,164,250	4,166,978	4,243,283
M3	3,561,852	3,858,044	4,189,544	4,189,544	4,189,596	4,192,256	4,270,585
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,824,911	1,930,790	2,017,911	2,017,911	2,004,436	2,017,559	2,080,347
Foreign currency	1,492,631	1,636,227	1,848,145	1,848,145	1,848,632	1,837,973	1,845,630
Total	3,317,542	3,567,018	3,866,056	3,866,056	3,853,068	3,855,532	3,925,977
Loans and advances (\$Mn)							
HK\$	1,615,667	1,573,079	1,666,740	1,666,740	1,699,027	1,757,386	1,763,803
Foreign currency	460,659	462,000	488,964	488,964	482,728	499,281	505,312
Total	2,076,325	2,035,079	2,155,704	2,155,704	2,181,755	2,256,666	2,269,115
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(c)(d)</sup>							
Trade-weighted	104.0	100.7	98.3	97.3	96.2	97.1	97.6
Import-weighted	104.7	101.6	99.2	98.2	96.9	97.7	98.3
Export-weighted	103.3	99.8	97.3	96.4	95.5	96.4	96.9
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	12.9	36.8	16.3	16.3	2.9	-6.3	-5.5
M2 <sup>(a)</sup>	-0.7	6.2	4.8	4.8	6.4	7.1	10.1
M3 <sup>(a)</sup>	-0.6	5.9	4.6	4.6	6.2	6.9	10.1
Total money supply :							
M1	14.6	39.8	17.2	17.2	6.4	-2.1	-3.1
M2	-0.9	8.4	9.3	9.3	9.2	8.9	8.6
M3	-0.9	8.3	8.6	8.6	8.6	8.2	8.1
Deposit <sup>(b)</sup>							
HK\$	-1.6	5.8	4.5	4.5	6.2	7.1	10.6
Foreign currency	-3.8	9.6	13.0	13.0	10.8	9.0	5.4
Total	-2.6	7.5	8.4	8.4	8.4	8.0	8.1
Loans and advances							
HK\$	-1.9	-2.6	6.0	6.0	8.1	9.4	9.8
Foreign currency	-14.3	0.3	5.8	5.8	2.7	6.5	6.9
Total	-5.0	-2.0	5.9	5.9	6.9	8.7	9.2
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	-0.7	-3.2	-2.4	-2.2	-2.2	-1.7	-1.1
Import-weighted	-0.4	-3.0	-2.4	-2.1	-2.5	-2.0	-1.4
Export-weighted	-1.0	-3.4	-2.5	-2.2	-2.0	-1.5	-0.8

- Notes : (a) Adjusted to include foreign currency swap deposits.  
(b) Starting from April 1997, deposits include short-term Exchange Fund placements of less than one month. As such, figures after 1997 cannot be compared with those in the previous period.  
(c) Period average.  
(d) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.  
(-- ) Not applicable.

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

(%)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		<u>2005</u>	
						Q3	Q4	Q1	Q2
Wholesale trade	3.6	-12.0	-10.7	-5.0	4.7	3.3	0.9	3.9	7.9
Retail trade	3.8	-1.2	-4.1	-2.3	10.8	8.5	8.3	8.5	7.3
Import/export trade	12.0	-14.1	-2.8	6.5	12.4	11.6	9.1	13.5	10.0
Restaurants	2.1	-2.5	-5.4	-9.7	10.1	8.2	8.9	6.1	4.5
Hotels	16.7	-7.6	-2.3	-19.7	39.4	26.9	22.5	22.8	22.3
Transport <sup>(a)</sup>	20.8	-2.4	2.3	0.5	22.8	23.5	19.7	19.1	15.5
Storage	2.0	-14.9	-19.6	-4.5	17.0	16.5	10.6	5.2	10.5
Communications	8.7	-13.2	-2.6	-2.4	1.0	2.8	3.1	3.8	4.9
Banking	0.8	2.7	-0.8	*	4.4	-2.7	8.6	5.9	11.6
Financing (other than banking)	40.7	-12.6	-14.3	17.3	33.2	15.1	17.8	-1.9	11.8
Insurance	13.1	14.2	10.3	19.1	22.3	15.7	17.7	9.4	14.7
Real estate	-0.1	-16.9	-2.5	6.2	13.5	7.6	16.2	17.8	42.2
Business services	2.4	-9.6	-5.8	0.5	8.3	6.6	8.7	1.7	6.2
Film entertainment	14.4	15.2	-9.1	2.3	3.7	2.0	-4.3	9.1	5.2
Tourism, convention and exhibition services <sup>+</sup>	13.7	-3.8	10.7	-7.3	27.1	12.7	6.0	16.0	12.1
Computer and information services	24.6	-11.6	5.7	5.7	20.5	22.6	18.2	14.5	27.0

Notes : (a) Including business receipts from the Airport Authority Hong Kong.

(+) Figures for 2004 and 2005 are provisional figures.

(\*) Change of less than 0.05%.

**Table 17 : Labour force characteristics**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1	<u>2005</u> Q2	Q3
<u>(%)</u>									
Labour force participation rate	61.4	61.4	61.8	61.4	61.3	61.3	61.1	60.8	61.0
Seasonally adjusted unemployment rate	4.9	5.1	7.3	7.9	6.8	6.6	6.1	5.7	5.5
Underemployment rate	2.8	2.5	3.0	3.5	3.3	3.1	3.1	2.8	2.6
<u>('000)</u>									
Population of working age	5 498.7	5 579.2	5 642.8	5 694.0	5 796.0	5 834.4	5 837.7	5 866.5	5 899.5
Labour force	3 374.2	3 427.1	3 487.1	3 496.2	3 551.0	3 574.9	3 565.1	3 569.2	3 597.3
Persons employed	3 207.3	3 252.3	3 231.6	3 219.1	3 308.6	3 347.0	3 354.5	3 364.7	3 391.6
Persons unemployed	166.9	174.8	255.5	277.2	242.5	227.9	210.6	204.5	205.7
Persons underemployed	93.5	85.5	105.2	123.3	116.7	111.3	109.8	100.4	95.0
<u>(% change over a year earlier)</u>									
Population of working age	1.6	1.5	1.1	0.9	1.8	1.8	1.4	1.4	1.6
Labour force	1.6	1.6	1.8	0.3	1.6	2.0	1.0	0.7	1.2
Persons employed	3.1	1.4	-0.6	-0.4	2.8	3.0	2.3	1.9	2.6
Persons unemployed	-19.6	4.7	46.2	8.5	-12.5	-10.3	-16.0	-15.1	-17.9
Persons underemployed	-3.5	-8.6	23.0	17.3	-5.4	-4.2	-7.9	-18.3	-16.3

**Table 18 : Employment in selected major economic sectors**

Major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>			<u>2005</u>		
	(% change)					<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>		
						( % change over a year earlier)					No.
<b>Manufacturing</b>	<b>-6.4</b>	<b>-8.6</b>	<b>-9.0</b>	<b>-10.3</b>	<b>-3.0</b>	<b>-2.8</b>	<b>-1.8</b>	<b>-3.5</b>	<b>-4.5</b>	<b>161 900</b>	
<i>of which :</i>											
Wearing apparel, except footwear	-11.6	-14.9	-19.3	-11.6	-0.8	-2.6	*	-4.3	-9.9	20 500	
Textiles	-7.4	-8.7	-1.1	-16.8	-11.1	-8.4	-1.6	-3.8	1.5	19 600	
Electronics	4.7	-17.4	-13.1	-18.9	-2.3	-2.8	0.3	1.1	-7.3	14 200	
Plastic products	-11.8	-16.4	-17.0	-19.1	-16.8	-22.8	-14.5	-11.0	-4.8	3 300	
Fabricated metal products, except machinery and equipment	-8.8	-16.9	-14.6	-20.7	-4.9	-1.1	-8.4	-14.6	-7.0	5 800	
<b>Wholesale, retail, import/export trades, restaurants and hotels</b>	<b>4.7</b>	<b>-1.2</b>	<b>-2.3</b>	<b>-3.0</b>	<b>2.9</b>	<b>4.9</b>	<b>3.0</b>	<b>3.5</b>	<b>2.9</b>	<b>1 018 100</b>	
<i>of which :</i>											
Wholesale, retail and import/export trades	5.5	-1.9	-1.6	-1.9	2.1	4.4	2.6	3.6	3.1	803 700	
Restaurants and hotels	1.7	1.2	-4.8	-7.3	6.0	6.6	4.7	2.9	2.3	214 500	
<b>Transport, storage and communications</b>	<b>2.6</b>	<b>2.4</b>	<b>-1.8</b>	<b>-4.4</b>	<b>3.7</b>	<b>4.1</b>	<b>4.0</b>	<b>2.9</b>	<b>3.4</b>	<b>184 900</b>	
<i>of which :</i>											
Land transport	-2.3	2.6	-0.3	0.5	-2.2	-3.2	-1.7	-1.5	-1.7	37 700	
Water transport	0.3	3.3	1.0	-3.6	0.1	-4.0	2.2	1.3	1.4	28 600	
Services allied to transport	5.9	-0.8	1.1	-3.7	10.3	14.1	12.7	9.2	8.6	60 700	
<b>Financing, insurance, real estate and business services</b>	<b>5.3</b>	<b>1.6</b>	<b>-1.3</b>	<b>-1.9</b>	<b>3.6</b>	<b>3.7</b>	<b>5.6</b>	<b>4.4</b>	<b>5.3</b>	<b>457 200</b>	
<i>of which :</i>											
Financial institutions	0.1	-0.5	-5.6	-6.5	1.1	2.4	1.4	3.7	5.2	125 900	
Insurance	-1.1	7.1	0.3	1.2	2.4	-0.6	7.7	2.3	13.1	30 700	
Real estate	-0.7	-3.0	5.2	0.7	2.2	4.2	1.8	5.8	6.0	92 900	
Business services except machinery and equipment rental and leasing	13.6	4.5	-1.2	-0.2	6.0	4.9	9.8	4.6	3.9	206 900	
<b>Community, social and personal services</b>	<b>3.2</b>	<b>7.2</b>	<b>5.9</b>	<b>2.9</b>	<b>3.2</b>	<b>0.4</b>	<b>4.5</b>	<b>5.4</b>	<b>4.5</b>	<b>437 000</b>	
<i>of which :</i>											
Sanitary and similar services	4.3	5.1	13.8	6.0	1.5	0.2	-0.7	1.6	0.9	56 800	
Education services	3.3	6.9	2.5	2.9	1.8	*	2.4	1.4	1.6	131 600	
Medical, dental and other health services	-0.3	5.5	3.2	-0.3	2.5	2.6	3.7	1.3	0.4	76 000	
Welfare institutions	10.6	25.4	11.9	13.9	2.1	-1.1	-1.2	4.9	-2.4	51 400	
<b>Civil Service<sup>(a)</sup></b>	<b>-2.2</b>	<b>-3.5</b>	<b>-3.7</b>	<b>-2.4</b>	<b>-3.8</b>	<b>-3.8</b>	<b>-3.8</b>	<b>-3.5</b>	<b>-3.0</b>	<b>156 800</b>	

Notes : (a) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

(\*) Change of less than 0.05%.

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Sep	Dec	<u>2005</u> Mar	Jun
<u>(number)</u>									
Building sites									
Private sector	34 024	40 556	40 017	33 892	33 619	33 142	30 571	33 967	31 266
Public sector <sup>(a)</sup>	27 254	17 183	11 727	16 183	13 325	12 109	10 822	11 482	10 027
Sub-total	61 277	57 738	51 744	50 074	46 944	45 251	41 393	45 449	41 293
Civil engineering sites									
Private sector	1 657	2 633	2 869	2 755	2 564	2 672	2 855	3 090	2 281
Public sector <sup>(a)</sup>	16 666	19 931	18 611	17 466	16 772	16 980	16 999	17 222	16 427
Sub-total	18 322	22 564	21 480	20 221	19 336	19 652	19 854	20 312	18 708
<b>Total</b>	<b>79 599</b>	<b>80 302</b>	<b>73 223</b>	<b>70 295</b>	<b>66 280</b>	<b>64 903</b>	<b>61 247</b>	<b>65 761</b>	<b>60 001</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	9.1	19.2	-1.3	-15.3	-0.8	-2.9	-9.4	-2.1	-13.3
Public sector <sup>(a)</sup>	0.4	-37.0	-31.8	38.0	-17.7	-21.0	-30.0	-28.4	-30.0
Sub-total	5.1	-5.8	-10.4	-3.2	-6.3	-8.5	-15.9	-10.4	-18.1
Civil engineering sites									
Private sector	9.7	58.9	9.0	-4.0	-6.9	-22.6	31.7	49.6	-14.4
Public sector <sup>(a)</sup>	49.9	19.6	-6.6	-6.2	-4.0	-4.1	0.4	5.7	-2.3
Sub-total	45.1	23.1	-4.8	-5.9	-4.4	-7.1	4.0	10.7	-4.0
<b>Total</b>	<b>12.2</b>	<b>0.9</b>	<b>-8.8</b>	<b>-4.0</b>	<b>-5.7</b>	<b>-8.1</b>	<b>-10.3</b>	<b>-4.8</b>	<b>-14.2</b>

Note : (a) Including the Mass Transit Railway Corporation Limited, the Kowloon-Canton Railway Corporation and the Airport Authority Hong Kong.

**Table 20 : Average labour earnings by major economic sector**

(\$)

Major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		<u>2005</u>	
						Q3	Q4	Q1	Q2
Wholesale, retail and import/export trades	12,400 (2.4) <6.4>	12,700 (2.0) <3.7>	12,500 (-1.6) <1.4>	12,300 (-1.5) <1.1>	12,400 (0.4) <0.9>	11,300 (-0.7) <-1.4>	12,300 (0.1) <-0.2>	15,100 (5.6) <5.2>	12,100 (5.2) <4.4>
Restaurants and hotels	9,000 (-2.4) <1.5>	9,000 (0.1) <1.7>	8,700 (-4.2) <-1.1>	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,000 (1.4) <0.6>	8,100 (0.3) <*>	9,100 (6.4) <6.0>	7,900 (2.7) <1.9>
Transport, storage and communications	18,700 (0.9) <4.8>	18,900 (1.3) <3.0>	18,900 (-0.2) <2.9>	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	16,900 (-0.8) <-1.6>	19,600 (-2.5) <-2.7>	20,500 (5.5) <5.2>	18,000 (4.3) <3.5>
Financing, insurance, real estate and business services	19,200 (1.4) <5.4>	19,200 (0.4) <2.0>	18,800 (-2.2) <0.8>	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	16,900 (-1.4) <-2.2>	19,000 (-1.3) <-1.5>	21,000 (3.1) <2.8>	18,100 (1.2) <0.4>
Community, social and personal services	19,900 (0.1) <4.0>	20,000 (0.7) <2.3>	19,800 (-1.3) <1.9>	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	19,000 (-0.1) <-0.9>	18,300 (-1.1) <-1.3>	17,800 (-2.7) <-3.1>	17,800 (-0.3) <-1.1>
Manufacturing	11,700 (1.5) <5.5>	11,900 (2.1) <3.8>	11,800 (-1.2) <1.9>	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	10,600 (-1.8) <-2.5>	11,500 (0.3) <0.1>	12,700 (2.6) <2.3>	11,200 (2.6) <1.8>
<b>All sectors surveyed</b>	<b>15,200</b> <b>(1.4)</b> <b>&lt;5.3&gt;</b>	<b>15,400</b> <b>(1.8)</b> <b>&lt;3.5&gt;</b>	<b>15,300</b> <b>(-1.1)</b> <b>&lt;2.0&gt;</b>	<b>15,000</b> <b>(-1.8)</b> <b>&lt;0.8&gt;</b>	<b>14,900</b> <b>(-0.7)</b> <b>&lt;-0.2&gt;</b>	<b>14,100</b> <b>(-0.5)</b> <b>&lt;-1.3&gt;</b>	<b>15,100</b> <b>(-0.6)</b> <b>&lt;-0.9&gt;</b>	<b>16,800</b> <b>(4.4)</b> <b>&lt;4.0&gt;</b>	<b>14,600</b> <b>(2.7)</b> <b>&lt;1.8&gt;</b>

Notes : ( ) % change over a year earlier in money terms.

&lt; &gt; % change over a year earlier in real terms.

(\*) Change of less than 0.05%.

**Table 21 : Rates of change in wage indices by  
selected major economic sector**

(%)

Selected major economic sector	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u>		<u>2005</u>	
						Sep	Dec	Mar	Jun
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	1.8	1.4	-0.6	-1.7	-1.6	-1.9	-1.6	1.9	0.9
Restaurants and hotels	-0.9	0.7	-2.6	-4.1	-2.2	-1.8	-1.8	-0.1	-1.0
Transport services	-3.1	0.7	0.6	-1.9	-1.0	-0.3	-1.1	0.7	1.5
Financing, insurance, real estate and business services	0.4	-0.9	-0.8	-0.1	-0.5	-2.0	-1.4	-1.9	-0.3
Personal services	0.3	0.7	-1.5	-3.1	1.3	3.3	1.8	2.1	-0.9
Manufacturing	2.0	2.2	-1.4	-2.7	-1.3	-1.1	-1.7	1.2	0.5
<b>All sectors surveyed</b>	<b>0.5</b>	<b>0.8</b>	<b>-1.0</b>	<b>-1.9</b>	<b>-1.1</b>	<b>-1.3</b>	<b>-1.3</b>	<b>0.7</b>	<b>0.4</b>
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	4.9	4.1	1.7	0.4	-1.7	-3.1	-2.1	0.7	-0.4
Restaurants and hotels	2.1	3.3	-0.3	-2.1	-2.2	-3.0	-2.3	-1.2	-2.3
Transport services	-0.1	3.4	2.9	0.1	-1.0	-1.5	-1.6	-0.4	0.2
Financing, insurance, real estate and business services	3.4	1.7	1.5	2.0	-0.5	-3.1	-1.9	-3.0	-1.5
Personal services	3.4	3.3	0.8	-1.1	1.3	2.1	1.3	0.9	-2.2
Manufacturing	5.1	4.8	0.8	-0.7	-1.3	-2.3	-2.2	0.1	-0.8
<b>All sectors surveyed</b>	<b>3.6</b>	<b>3.4</b>	<b>1.3</b>	<b>0.2</b>	<b>-1.2</b>	<b>-2.5</b>	<b>-1.7</b>	<b>-0.5</b>	<b>-0.9</b>



**Table 22 : Rates of change in prices**

	(%)						
	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
GDP deflator	2.4	5.8	5.6	0.2	-5.8	-5.6	-1.8
Domestic demand deflator	5.0	4.9	4.5	0.4	-2.3	-5.0	-2.3
Consumer Price Indices <sup>(a)</sup> :							
Composite CPI	9.1	6.3	5.8	2.8	-4.0	-3.8	-1.6
CPI(A)	8.7	6.0	5.7	2.6	-3.3	-3.0	-1.7
CPI(B)	9.2	6.4	5.8	2.8	-4.7	-3.9	-1.6
CPI(C)	9.6	6.6	6.1	3.2	-3.7	-4.5	-1.5
Unit Value Indices :							
Domestic exports	2.4	0.3	-2.4	-2.8	-2.4	-1.0	-4.7
Re-exports	3.5	-0.5	-1.5	-3.9	-2.8	-0.1	-2.0
Total exports of goods	3.3	-0.3	-1.6	-3.8	-2.7	-0.2	-2.3
Imports of goods	5.0	-1.3	-2.3	-4.9	-2.0	0.8	-3.1
Terms of Trade Index	-1.6	1.0	0.7	1.2	-0.7	-1.0	0.9
Producer Price Index for all manufacturing industries	2.8	-0.1	-0.3	-1.8	-1.6	0.2	-1.6
Construction Labour and Material Cost Index	5.2	6.8	9.3	7.5	1.4	1.8	0.3
Tender Price Indices :							
Public sector building projects	17.8	14.4	17.6	9.1	-4.4	-13.1	-8.5
Public housing projects	18.3	11.4	18.9	9.0	-3.3	-11.9	-15.1

Notes : (a) As from October 2000 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 1999/2000-based CPI series. For the earlier periods, they are computed from the CPIs with old base period.

(#) Revised figures.

(+) Preliminary figures.

(\* Change of less than 0.05%.

N.A. Not available.

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

	(%)						
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1	<u>2005</u> Q2	Q3
GDP deflator	-3.5	-6.4	-3.3	-2.5	-1.5 #	-0.7 #	-0.2 +
Domestic demand deflator	-4.9	-4.5	0.1	0.2	0.3 #	1.0 #	1.3 +
Consumer Price Indices <sup>(a)</sup> :							
Composite CPI	-3.0	-2.6	-0.4	0.2	0.4	0.8	1.4
CPI(A)	-3.2	-2.1	*	0.5	0.7	1.0	1.4
CPI(B)	-3.1	-2.7	-0.5	0.2	0.4	0.8	1.5
CPI(C)	-2.8	-2.9	-0.9	-0.1	-0.1	0.7	1.5
Unit Value Indices :							
Domestic exports	-3.3	0.2	1.5	4.2	4.8	4.7	1.1
Re-exports	-2.7	-1.5	1.1	2.5	2.0	1.6	1.0
Total exports of goods	-2.7	-1.4	1.2	2.6	2.1	1.8	1.0
Imports of goods	-3.9	-0.4	2.9	4.3	4.0	3.3	2.3
Terms of Trade Index	1.2	-1.0	-1.7	-1.6	-1.8	-1.4	-1.3
Producer Price Index for all manufacturing industries	-2.7	-0.3	2.2	1.4	0.5	0.7	N.A.
Construction Labour and Material Cost Index	-0.3	-1.0	-1.2	-0.7	-1.7	-1.3	N.A.
Tender Price Indices :							
Public sector building projects	-11.7	-0.3	-1.5	2.9	3.8	0.6	N.A.
Public housing projects	-9.6	-10.0	3.5	5.7	8.5	8.8	N.A.

**Table 23 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
<b>All items</b>	<b>100.0</b>	<b>9.1</b>	<b>6.3</b>	<b>5.8</b>	<b>2.8</b>	<b>-4.0</b>	<b>-3.8</b>	<b>-1.6</b>
Food	26.67	7.1	3.9	3.6	1.9	-1.8	-2.2	-0.8
<i>Meals bought away from home</i>	<i>(16.39)</i>	<i>6.9</i>	<i>3.9</i>	<i>4.0</i>	<i>2.2</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.28)</i>	<i>7.4</i>	<i>3.9</i>	<i>3.0</i>	<i>1.5</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>
Housing <sup>(a)</sup>	29.91	13.1	10.2	9.2	4.7	-5.1	-8.2	-3.1
<i>Private housing rent</i>	<i>(24.59)</i>	<i>13.7</i>	<i>10.7</i>	<i>9.1</i>	<i>5.5</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>
<i>Public housing rent</i>	<i>(2.07)</i>	<i>9.0</i>	<i>8.3</i>	<i>13.5</i>	<i>-3.4</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>
Electricity, gas and water	2.98	7.4	5.0	5.0	1.4	-0.4	3.6	-1.9
Alcoholic drinks and tobacco	0.94	6.1	5.7	5.6	6.6	1.2	-0.9	3.3
Clothing and footwear	4.13	9.6	8.3	8.4	-0.8	-20.6	-10.1	-4.6
Durable goods	6.24	4.2	1.9	2.2	0.2	-6.3	-4.6	-7.1
Miscellaneous goods	5.70	6.3	2.7	5.4	2.6	-0.7	0.9	1.3
Transport	9.01	7.4	6.2	4.0	3.9	0.5	1.0	0.4
Miscellaneous services	14.42	10.3	6.1	4.5	2.7	-1.3	-0.2	0.5

Notes : As from October 2000 onwards, the year-on-year rates of change are computed from the 1999/2000-based Consumer Price Indices series. For the earlier periods, the year-on-year rates of change are computed from the 1994/95-based CPI series.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fee and other housing charges" and "Tools and materials for housing maintenance".

(\*) Change of less than 0.05%.

**Table 23 : Rates of change in Composite Consumer Price Index (cont'd)**

(%)								
	Weight	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	<u>2005</u> Q1	<u>2005</u> Q2	<u>2005</u> Q3
<b>All items</b>	<b>100.0</b>	<b>-3.0</b>	<b>-2.6</b>	<b>-0.4</b>	<b>0.2</b>	<b>0.4</b>	<b>0.8</b>	<b>1.4</b>
Food	26.67	-2.1	-1.5	1.0	1.7	1.9	1.9	1.9
<i>Meals bought away from home</i>	<i>(16.39)</i>	<i>-1.5</i>	<i>-1.5</i>	<i>0.2</i>	<i>0.5</i>	<i>0.6</i>	<i>0.8</i>	<i>1.1</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.28)</i>	<i>-3.1</i>	<i>-1.7</i>	<i>2.5</i>	<i>3.6</i>	<i>3.9</i>	<i>3.6</i>	<i>3.3</i>
Housing <sup>(a)</sup>	29.91	-5.7	-4.8	-5.2	-3.9	-2.6	-0.9	1.0
<i>Private housing rent</i>	<i>(24.59)</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-4.9</i>	<i>-3.4</i>	<i>-1.3</i>	<i>1.3</i>
<i>Public housing rent</i>	<i>(2.07)</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>
Electricity, gas and water	2.98	-7.0	1.4	11.4	9.8	4.1	5.1	3.2
Alcoholic drinks and tobacco	0.94	2.4	0.1	*	-0.3	0.1	0.4	0.6
Clothing and footwear	4.13	0.7	-2.7	6.4	4.0	3.4	2.2	2.2
Durable goods	6.24	-6.3	-6.4	-2.2	-2.1	-2.2	-1.9	-1.7
Miscellaneous goods	5.70	1.7	2.3	3.6	2.5	1.5	2.1	2.7
Transport	9.01	-0.6	-0.4	0.4	0.8	0.7	1.2	2.1
Miscellaneous services	14.42	-2.3	-3.2	-0.2	1.2	1.4	0.7	0.8

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

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
							(%)
Private consumption expenditure	8.4	5.2	3.9	2.1	-5.2	-4.5	-1.0
Government consumption expenditure	9.1	6.5	6.4	2.6	-0.1	-1.9	1.1
Gross domestic fixed capital formation	-1.0	2.0	6.0	-7.2	0.4	-3.8	-6.6
Total exports of goods	2.6	-0.7	-1.9	-3.3	-3.4	-0.5	-2.6
Imports of goods	4.8	-1.2	-1.9	-4.4	-2.6	0.8	-3.5
Exports of services	5.2	2.1	0.8	-5.1	-3.1	1.6	-4.3
Imports of services	9.4	-0.1	0.7	-3.6	-0.3	-0.3	-1.1
<b>Gross Domestic Product</b>	<b>2.4</b>	<b>5.8</b>	<b>5.6</b>	<b>0.2</b>	<b>-5.8</b>	<b>-5.6</b>	<b>-1.8</b>
Total final demand	3.5	1.7	1.3	-2.3	-3.7	-2.7	-2.6
Domestic demand	5.0	4.9	4.5	0.4	-2.3	-5.0	-2.3

Notes : (#) Revised figures.  
 (+) Preliminary figures.  
 (\*) Change of less than 0.05%.

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

(%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2004</u> Q4	Q1 <sup>#</sup>	<u>2005</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
Private consumption expenditure	-3.4	-2.9	-0.5	*	0.5	1.7	1.6
Government consumption expenditure	-0.6	-2.7	-2.9	-2.7	-2.1	-1.7	-1.6
Gross domestic fixed capital formation	-10.1	-9.4	2.5	2.7	2.3	1.9	0.9
Total exports of goods	-2.9	-2.0	0.5	1.6	1.3	0.4	-0.2
Imports of goods	-4.2	-0.9	2.5	3.5	2.9	1.8	0.8
Exports of services	-2.2	-3.4	0.9	1.2	2.4	3.0	2.2
Imports of services	0.4	2.6	3.8	3.6	2.6	2.5	1.0
<b>Gross Domestic Product</b>	<b>-3.5</b>	<b>-6.4</b>	<b>-3.3</b>	<b>-2.5</b>	<b>-1.5</b>	<b>-0.7</b>	<b>-0.2</b>
Total final demand	-3.7	-3.0	0.5	1.3	1.1	1.0	0.5
Domestic demand	-4.9	-4.5	0.1	0.2	0.3	1.0	1.3

