



# Third Quarter Economic Report 2007

Government of the Hong Kong  
Special Administrative Region



# ***THIRD QUARTER ECONOMIC REPORT 2007***

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

*November 2007*



# CONTENTS

## *Paragraphs*

### CHAPTER 1: OVERVIEW OF ECONOMIC PERFORMANCE

Overall situation	1.1	-	1.6
GDP by major economic sector		1.7	
Some highlights of economic policy	1.8	-	1.9
Box 1.1 Introducing the chain volume measures of the Gross Domestic Product			
Box 1.2 Accumulation of human capital stock through education and experience upgrading			

### CHAPTER 2: THE EXTERNAL SECTOR

Visible trade			
Total exports of goods	2.1	-	2.5
Imports of goods		2.6	
Invisible trade			
Exports of services		2.7	
Imports of services		2.8	
Visible and invisible trade balance		2.9	
Trade policy and other developments	2.10	-	2.12

### CHAPTER 3: DEVELOPMENTS IN SELECTED SECTORS

Property	3.1	-	3.6
Land		3.7	
Transport	3.8	-	3.13
Tourism	3.14	-	3.16
Logistics	3.17	-	3.18
Creativity and innovation	3.19	-	3.21
Box 3.1 Brief review of office market structure during the past decade			

### CHAPTER 4: THE FINANCIAL SECTOR

Overall situation	4.1	-	4.2
Interest rates and exchange rates	4.3	-	4.5
Money supply and banking sector	4.6	-	4.9
The debt market	4.10	-	4.11
The stock and derivative markets	4.12	-	4.16
Fund management and investment funds		4.17	
Insurance		4.18	
Box 4.1 Economic Impact of Competition in Mortgage Interest Rates			

## CHAPTER 5: THE LABOUR SECTOR

Overall labour market situation			5.1
Total employment and labour supply	5.2	-	5.3
Profile of unemployment	5.4	-	5.6
Profile of underemployment			5.7
Profile of employment in establishments	5.8	-	5.9
Vacancies	5.10	-	5.12
Earnings and wages	5.13	-	5.18
Box 5.1 Long-term Unemployment Situation since 2003			

## CHAPTER 6: PRICES

Consumer prices	6.1	-	6.3
Costs of factor inputs	6.4	-	6.5
Output prices			6.6
GDP deflator			6.7
Box 6.1 The GDP deflator and terms of trade			

## STATISTICAL APPENDIX

## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy stayed vibrant in the third quarter of 2007, with GDP expanding by 6.2% in real terms over a year earlier. This followed a robust 6.1% growth in the first half of the year and also marked the 16<sup>th</sup> consecutive quarter of distinctly above-trend growth.*
- *Financial services sector performed strongly, and stock market activity in particular was buoyant. The global credit market turbulence in August and September, while causing greater volatility, had only limited impact on the local financial markets.*
- *External trade grew notably further in the third quarter, by 6.4% in real terms. Merchandise exports to the Mainland and many other emerging markets held up fairly well, those to the EU grew further, but those to the US and Japan were lacklustre. Meanwhile, exports of services continued to surge, reflecting strong inbound tourism, vibrant financial market activities and sustained expansion of offshore trade.*
- *Domestic demand played a key role in driving the economy forward in the third quarter. Consumption spending rose strongly further, supported by tighter labour market conditions and rising household income and wealth. Investment spending expanded further, albeit at a slower pace. Yet business sentiment held up well as indicated by the latest Quarterly Business Tendency Survey results.*
- *With the economy sustaining its growth momentum, the seasonally adjusted unemployment rate edged down further to 4.1% in the third quarter, the lowest since mid-1998. Wages and earnings went up further in June 2007 over a year earlier, and job vacancies continued to surge.*
- *Along with the continued economic upturn, consumer price inflation crept up slightly in the third quarter. While the sustained rise in labour productivity helped to contain the local cost pressures, higher food prices in Hong Kong's major sources of imports, coupled with the renminbi appreciation and the weak US dollar, continued to exert some upward pressures on inflation.*

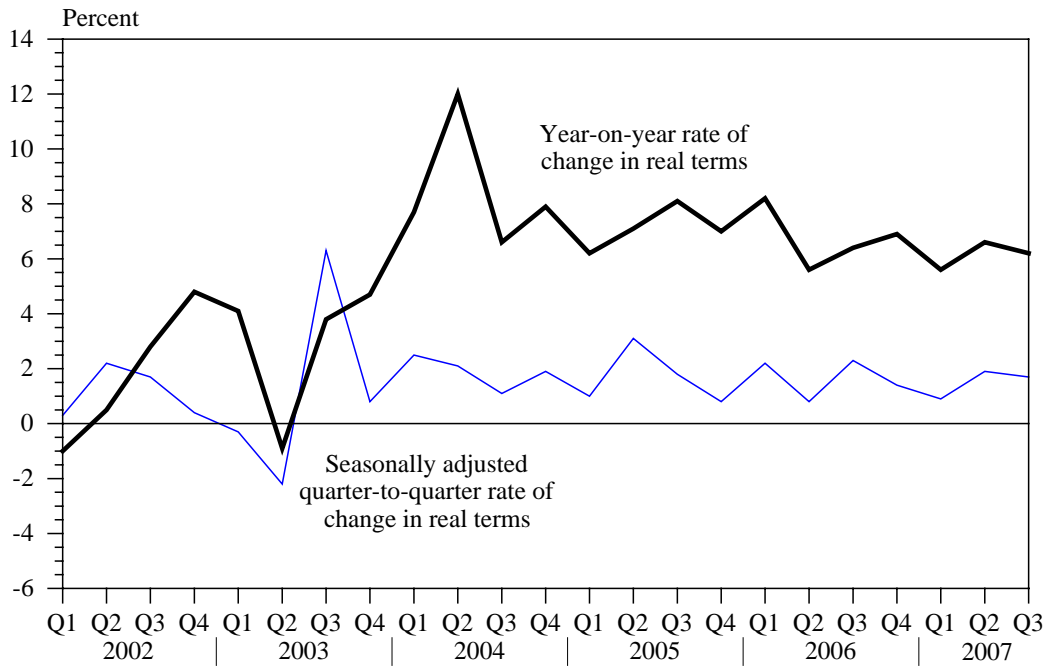
## Overall situation

1.1 The Hong Kong economy stayed vibrant in the third quarter, despite the global credit market turbulence in August and September. On the external front, merchandise exports saw further notable growth in the third quarter, while service exports remained buoyant and were resilient to the slowdown in US economic growth. On the domestic side, consumer spending grew strongly and became an important driver of overall economic growth. Investment spending on machinery and equipment slowed in growth, but this was largely affected by the high base of comparison in the third quarter of last year. Meanwhile, building and construction activity increased only marginally, due to the persistent fall in public sector output. The demand for labour strengthened further, translating into more job opportunities, further rise in labour incomes and lower unemployment. The underlying inflation rate, though remained moderate, crept up slightly in the third quarter. Higher food and energy prices, rising housing rentals and the exchange rate movements are areas to watch closely, for the upside risks they pose to inflation in the period ahead.

1.2 In the third quarter of 2007, the *Gross Domestic Product (GDP)*<sup>(1)</sup> leaped by 6.2% in real terms over a year earlier, following a robust growth of 6.1% in the first half of the year (note: the entire GDP series has been revised, for details, please see **Box 1.1**). By now, the economy has attained distinctly above-trend growth for sixteen consecutive quarters. On a seasonally adjusted quarter-to-quarter comparison<sup>(3)</sup>, GDP also rose strongly by 1.7% in real terms in the third quarter.



**Diagram 1.1 : Economy sustaining above-trend growth in the third quarter**



1.3 Merchandise exports saw further solid growth in the third quarter, despite the more uncertain trading environment and a weak US economy. The Mainland market remained strong, supported by its own vibrant trade flows and thriving domestic demand. Exports to such emerging markets as India, Malaysia, Thailand, Indonesia and Vietnam, also fared robustly. While the EU market showed further growth, the US and Japanese markets were rather weak. Overall, *total exports of goods* grew by 6.4% in real terms in the third quarter over a year earlier, after a strong 10.1% in the second quarter. Meanwhile, *exports of services* continued to display strength, surging further by 12.3% in real terms in the third quarter. The strong growth in inbound tourism, buoyant financial market activities and further expansion of offshore trade all contributed.

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

	<u>2005<sup>#</sup></u>	<u>2006<sup>#</sup></u>	<u>2006</u>				<u>2007</u>		
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	3.0	5.9	5.7 (1.9)	7.0 (1.6)	4.5 (0.4)	6.2 (2.1)	4.8 (0.6)	5.7 (2.3)	9.7 (4.5)
Government consumption expenditure	-3.2	0.3	1.3 (3.0)	-1.6 (-2.6)	-1.1 (0.4)	2.3 (1.5)	2.4 (3.1)	2.7 (-2.1)	1.2 (-1.3)
Gross domestic fixed capital formation	4.1	6.3	5.5	3.8	9.5	6.4	2.8	10.0	2.0
<i>of which :</i>									
Building and construction	-7.6	-7.4	-11.8	-3.0	-10.2	-3.9	-2.9	5.9	0.4
Machinery, equipment and computer software	12.8	18.0	23.7	13.2	22.9	13.2	3.9	11.5	0.6
Total exports of goods	10.4	9.3	13.7 (3.3)	5.5 (-0.1)	7.9 (3.8)	10.6 (2.7)	6.6 (1.0)	10.1 (2.2)	6.4 (-0.2)
Imports of goods	8.0	9.2	13.3 (2.7)	6.0 (-0.3)	7.5 (3.6)	10.6 (3.8)	7.1 (0.4)	11.6 (3.5)	8.3 (0.2)
Exports of services	11.7	8.9	9.0 (1.1)	9.3 (2.5)	8.6 (3.0)	8.7 (1.8)	9.0 (1.5)	11.6 (4.4)	12.3 (4.1)
Imports of services	7.8	6.6	4.3 (1.7)	9.6 (3.4)	5.3 (0.1)	7.5 (1.9)	4.5 (-0.4)	8.0 (5.9)	8.9 (1.3)
<b>Gross Domestic Product</b>	<b>7.1</b>	<b>6.8</b>	<b>8.2</b> <b>(2.2)</b>	<b>5.6</b> <b>(0.8)</b>	<b>6.4</b> <b>(2.3)</b>	<b>6.9</b> <b>(1.4)</b>	<b>5.6</b> <b>(0.9)</b>	<b>6.6</b> <b>(1.9)</b>	<b>6.2</b> <b>(1.7)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>-0.1</b>	<b>-0.1</b>	<b>-0.5</b> <b>(-0.6)</b>	<b>-0.4</b> <b>(0.1)</b>	<b>-0.6</b> <b>(0.2)</b>	<b>0.8</b> <b>(1.0)</b>	<b>1.2</b> <b>(*)</b>	<b>1.9</b> <b>(0.7)</b>	<b>3.4</b> <b>(1.7)</b>
<b>Composite Consumer Price Index</b>	<b>1.0</b>	<b>2.0</b>	<b>1.6</b> <b>(0.4)</b>	<b>2.0</b> <b>(0.7)</b>	<b>2.3</b> <b>(0.6)</b>	<b>2.1</b> <b>(0.4)</b>	<b>1.7</b> <b>(*)</b>	<b>1.3</b> <b>(0.4)</b>	<b>1.6</b> <b>(-0.1)</b>
<b><u>Change in nominal GDP (%)</u></b>	<b>7.1</b>	<b>6.6</b>	<b>7.7</b>	<b>5.2</b>	<b>5.7</b>	<b>7.8</b>	<b>6.8</b>	<b>8.7</b>	<b>9.8</b>

Notes : The GDP date series have been revised, following the release of the chain volume measures of GDP on 18 October 2007, which have replaced the previous constant price series. Figures are subject to revision later on as more data become available.

(#) Revised figures.

(+) Preliminary figures.

( ) 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%.

1.4 Domestic demand has been assuming a more important role in recent quarters in propelling the economy forward. Local consumer spending was particularly strong in the third quarter. Consumer sentiment was boosted by better income and job prospects as well as the bullish stock market performance. A more active residential property market should also have provided further support. *Private consumption expenditure (PCE)* rose markedly further by 9.7% in real terms in the third quarter. Meanwhile, *government consumption expenditure* increased slightly further in the third quarter.

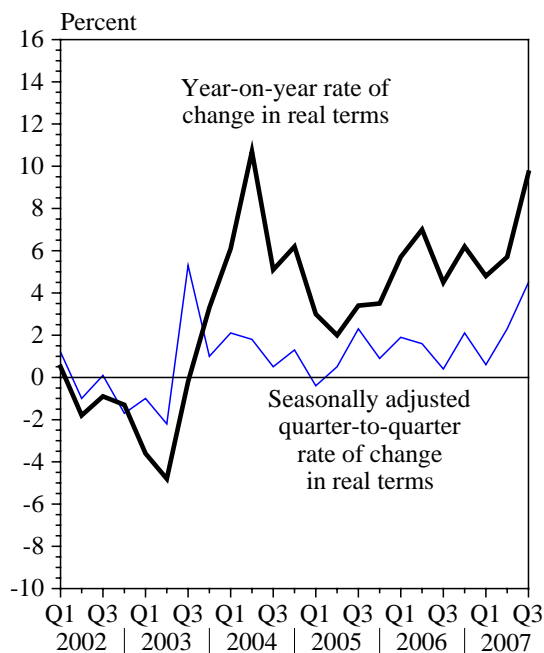
**Table 1.2 : Consumer spending by major component<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

		Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>					Residents' expenditure abroad	Visitor spending	<b>Private consumption expenditure<sup>(b)</sup></b>
			<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>				
2006	Annual	6.0	4.6	11.1	6.5	5.3	5.0	6.4	5.9	
	Q1	6.5	5.9	9.1	6.4	6.2	1.7	8.8	5.7	
	Q2	6.5	5.1	9.2	6.2	6.4	11.6	6.0	7.0	
	Q3	5.0	2.9	11.9	7.0	3.6	0.6	4.5	4.5	
	Q4	6.1	4.7	13.7	6.4	4.9	7.3	6.2	6.2	
2007	Q1	5.6	2.4	10.3	7.4	4.8	3.0	10.7	4.8	
	Q2	6.5	1.7	15.6	7.3	5.8	3.6	12.2	5.7	
	Q3	10.7	3.5	25.7	12.5	8.9	5.5	14.5	9.7	

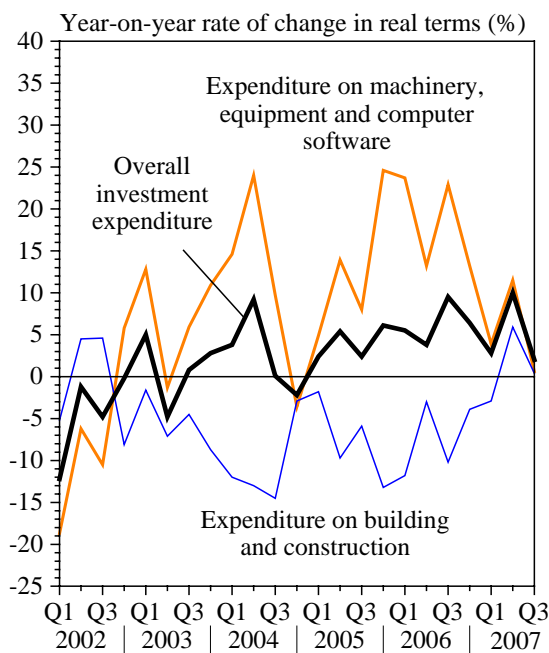
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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 becoming a key driver of economic growth**



**Diagram 1.3 : Overall investment spending rising further**

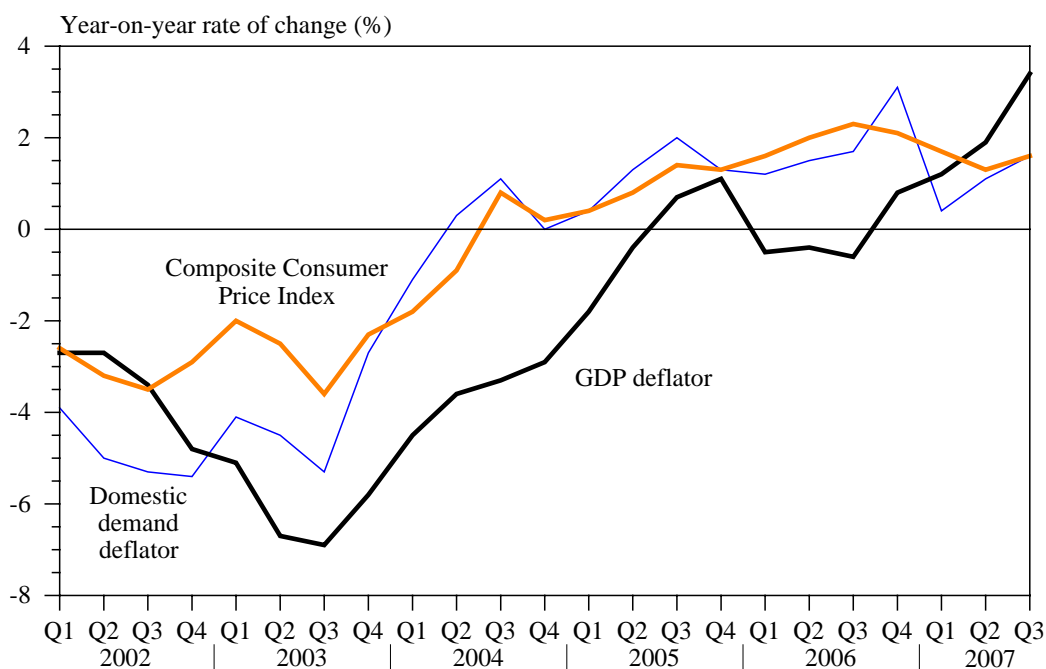


1.5 Overall investment spending in terms of *gross domestic fixed capital formation* went up further, by 2.0% in the third quarter of 2007 over a year earlier, having expanded strongly by 10.0% in the second quarter. Machinery and equipment investment increased slightly by 0.6% in the third quarter. The slow increase was largely due to a high base of comparison in the same quarter last year. The results of latest Quarterly Business Tendency Survey continued to indicate strong confidence in near-term business outlook. Private sector activity in the construction sector continued its notable rebound in the third quarter, albeit at a slower pace, while public sector activity remained on a decline. Expenditure on building and construction as a whole increased marginally by 0.4% in the third quarter.

1.6 Headline *consumer price inflation* remained rather modest in the third quarter, helped partly by the rates concession. Discounting the influence of this special factor, the underlying inflation rate appeared to trend slightly upward, due mainly to the notable rise in food prices in the third quarter. The Composite CPI rose by 1.6% year-on-year in the third quarter, slightly faster than the 1.3% increase in the second quarter. Excluding the influence of the rates concession, the Composite CPI saw a still moderate 2.7% increase in the third quarter, slightly up from the corresponding increase of 2.4% in the second quarter. With the favourable effects of rates concession fading out after September, the headline inflation is expected to go higher in the fourth quarter to reflect the underlying inflation situation. Also, higher food prices in Hong

Kong's major sources of food supply, the renminbi appreciation and the weak US dollar, as well as the elevated oil prices would continue to exert pressures on consumer prices from the external front, although the sustained labour productivity growth would provide a partial offset. As to the *GDP deflator*, with the change-over to the chain-volume GDP series using more up-to-date price structures, the movements of the GDP deflator are somewhat less heavily influenced by terms of trade than before. As a result, the rates of change in the GDP deflator have been revised up. In the third quarter, the GDP deflator rose by 3.4%, bringing an average of 2.2% in the first three quarters of 2007. The faster increase in the third quarter reflected the continued improvement in terms of trade, as well as a pick up in domestic prices along with CPI inflation.

**Diagram 1.4 : Underlying inflation pressures edging up**



## Box 1.1

### Introducing the chain volume measures of the Gross Domestic Product

The Gross Domestic Product (GDP) measures the total production or final expenditures on goods and services of an economy.

Conceptually, changes over time in the GDP at current prices can be factored into two components, reflecting (i) changes in the prices of goods and services produced or purchased and (ii) changes in their volumes. In order to measure the volume growth of GDP and its components, the effect of price changes has to be eliminated. Thus, the volume measure of GDP is sometimes referred to as the inflation-adjusted or real GDP. The change in the volume measure of GDP is widely used as a key macro-economic indicator of the real growth of the aggregate economic activity of an economy.

Intuitively, the volume measure of GDP is compiled by aggregating the volumes of various components, using their relative prices as weights to reflect their relative importance to the GDP aggregate.

In recent years, an increasing number of statistically advanced economies<sup>(a)</sup> have changed over from the constant price measure of GDP to the chain volume measure of GDP. This is to gear with the latest international statistical guidelines (*System of National Accounts 1993*) on national accounts statistics.

In respect of Hong Kong, the chain volume measures of GDP and its components have been introduced in October 2007 in place of the previous constant price measures. Compared with the previous constant price approach where the price structure as weights for aggregating the volumes of the GDP components is only updated once every several years, the new calculation of chain volume measure is a more enhanced approach, as the price structure is updated every year, thus providing a better measure of the growth of GDP in real terms.

In order to maintain the comparability of the data series, backdating of historical series of the volume measures of GDP and its expenditure components based on the new calculation method is made for the past 20 years. On the production side, the entire historical series of the real value added by economic activity is backdated to 2000.

In introducing this methodology enhancement, the GDP real growth rate for the first half of 2007 is revised slightly downwards from 6.3% to 6.1%, and for 2006, from 6.9% to 6.8%.

A relatively more significant revision is observed for the real growth

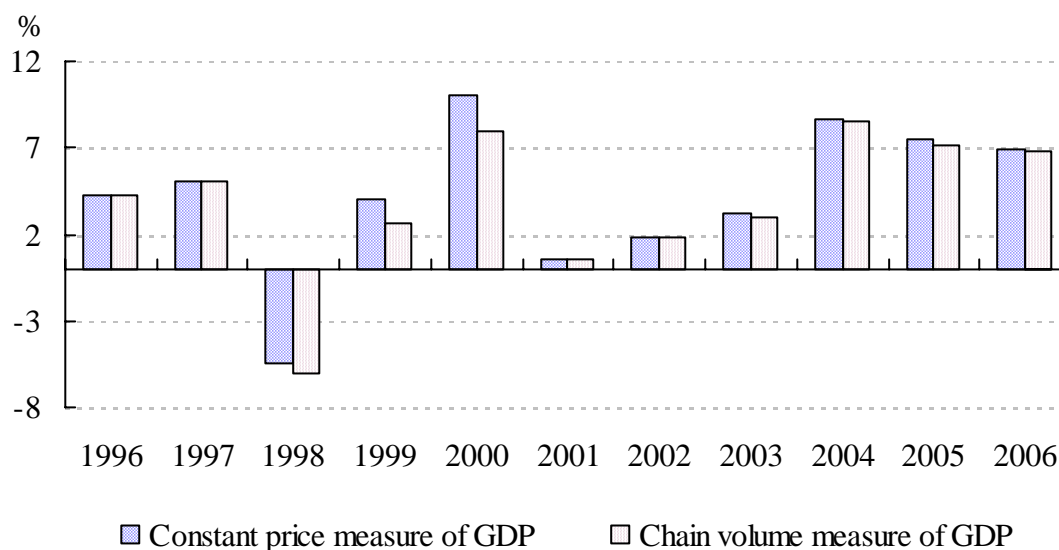
---

<sup>(a)</sup> Economies which have changed over to the chain volume measure of GDP include the US, Canada, Australia, New Zealand, Japan, UK and some European economies. Hong Kong is the second economy in Asia (after Japan) which has introduced this enhanced method for calculating the volume measure of GDP.

## Box 1.1 (Cont'd)

rate of GDP for 2000 (from 10% to 8%) due to volatility in the relative price and volume movements of the GDP components. The five-year (2001 to 2006) trend growth of the volume of GDP is revised downwards from 5.6% to 5.4%. Experience in other economies indicates that such downward revisions are normal when chain volume measures are used instead of constant price measures<sup>(b)</sup>. A comparison of the growth rates in real terms of the revised GDP series based on the chain volume measure against the previously published figures based on the constant price measure is given in the chart below.

**Comparison of the real growth rates of GDP before and after the revision**



A technical feature of the chain volume measures is that for earlier years, the GDP components in real terms may not add up to the GDP aggregate, owing to the fact that the price weights are updated every year. However, it should be noted that this non-additivity element arises from purely mathematical reasons; the discrepancy should not be interpreted as an indication of the quality of the GDP measure.

The adoption of the new calculation method of chain volume measure of GDP does not alter the broad picture of the economic growth cycles in the macro-economy of Hong Kong. The migration to the chain volume measure further aligns Hong Kong's GDP statistics with the latest international statistical guidelines and the good practice of statistically advanced economies. Most importantly, the enhanced calculation method provides a better measure of the real growth of GDP.

<sup>(b)</sup> Experience in other economies indicates that the GDP real growth rates are generally revised downwards when chain volume measure is used instead of the constant price measure. One of the reasons is that the contribution of those components which have recorded faster volume growth accompanied with falling prices or slower price increases are reduced as a result of adopting the up-to-date and more relevant price structure as weights in compiling the volume measure of the GDP aggregate. Thus, such downward revisions to the real growth rates of GDP are normal.

## Box 1.2

### Accumulation of human capital stock through education and experience upgrading

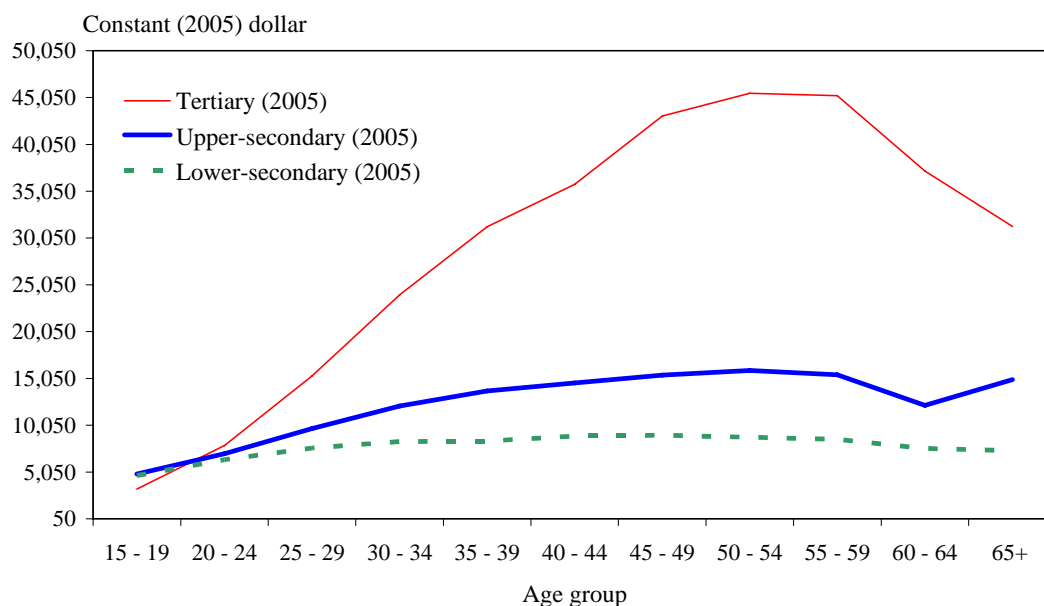
The quality of the workforce as a key determinant of an economy's growth potential is widely discussed in economic literature. Similar to amassing physical capital (stock of housing, plant and machinery, for example), an accumulation of human capital stock, i.e. the production capacity in the labour force, can also play an important role in driving economic growth. This article intends to quantify such a production capacity in the workforce as a factor of production.

- *Education and experience are two key factors explaining the big gaps in earning potentials between workers*

Productivity can vary greatly across individual workers. With the help of the data from the General Household Survey, the labour earnings of workers in different age-groups and with various educational attainment levels are illustrated in *Chart 1*.

**Chart 1: Earning potential of workers vary significantly across age and education attainment<sup>(1)</sup>**

#### Average monthly labour earnings (2005)



Three salient features can be observed: -

- 1) Within the same education attainment group, the difference in earnings power widens as workers become more mature, essentially a manifestation of the effects of experience accumulation. For example, the average income for a worker aged 45-49 with upper secondary school education is about 1.2 times higher than a young entrant aged 20-24. For tertiary-educated workers, the respective income gap between the age group 45-49 and that of 20-24 is considerably higher, at around 4.5 times.

<sup>(1)</sup> The three classes of education refer to (i) lower secondary and below; (ii) upper secondary and matriculation; and (iii) degrees and other diplomas. In the article, they will be referred as “lower secondary”, “upper secondary”, and “tertiary” respectively.



## Box 1.2 (Cont'd)

- 2) The earnings of workers with lower education tend to peak at an earlier period, at around 40-44 for the “lower secondary” group and around 45-49 for the “upper secondary” group, whereas the earnings of workers with higher education will continue to rise until 50-54. Again this highlights the differential effects from experience accumulation for different levels of education attainment.
- 3) Comparing tertiary-educated workers and other workers of the same age group, the earnings difference widens even more significantly as workers become more mature and gain in exposure and experience. Presumably, at the start of the career when a worker is in his early 20s, the difference in earning power of a tertiary-educated worker may not be that huge as against his peers who are with other educational attainments. Significant earnings gap only shows up in the more mature stage of his working life. For example, an average university graduate in his early 30s can earn around two times more than his contemporaries who have received only lower-secondary education. The gap widens all the way until 50+, effectively the end of full-time working for many ordinary workers, with an average degree holder earning four times more than an average worker with lower-secondary education.

- *Construction of human capital series*

A number of human capital stock series have been constructed for the Hong Kong economy, in order to take stock of the huge gaps in productivity and earnings potentials amongst workers with different education and demographic profiles. These series measure human resources in the “output value” sense, that is, in terms of the income or earning ability of the workforce, instead of the conventional approach of focusing on the input cost, i.e. the amount of education and post-education training that have been invested in the workforce. Both formal education and on-the-job-learning would also show up in the human capital stock in this case, to the extent that they are effective in enhancing the earnings potential of workers. Essentially, the construction of the human capital stock series involves adjusting the headcount numbers of workers of different age profiles and at different education attainment by their productivity ratios as proxied by their income ratios<sup>(2)</sup>, setting the numeraire to the income of an average worker in 2005<sup>(3)</sup>.

Following this methodology, human capital series which take into account the productivity differences amongst various segments of the workforce are constructed for each of the following population aggregates:

- 1) Population aged 15+ (population of working age);
- 2) Labour force; and
- 3) Total employment.

---

<sup>(2)</sup> Here it is assumed that the differences in labour earnings between workers reflect the relativities in their productivity. It should be a reasonable assumption given the general consensus that Hong Kong has a highly efficient labour market.

<sup>(3)</sup> 2005 is taken as the base year for benchmarking productivity/income ratios, for two reasons: (i) 2005 is a year when the economy has by and large fully recovered from the previous downturn (which started in late 1997 and ended in 2003). This was the first year in which the economy recorded mild inflation after 68 months of deflation. So 2005 can be regarded as the year when the economy is largely at a cyclically neutral position. This is important as the earnings ratios for weighing up the headcount workforce have to be distilled from cyclical fluctuation. (ii) 2005 is the most recent period that satisfies condition (i). This property of being up-to-date is also significant as the latest distribution of earnings should be used as weighting to reflect the productivity difference across various groupings of workers.

## Box 1.2 (Cont'd)

- *Human capital embedded in the total population*

**Chart 2** shows the movements of human capital embedded in the total population aged 15+ over the years 1996-2006. What it represents is the total human capital in Hong Kong's population that can be mobilized to yield income for the economy, including not only people who are working but also those who are now out of the workforce but can re-join the labour market any time. From the chart, it is clear that the growth in total human capital stock persistently exceeds the growth in headcount population aged 15+, suggesting rapid accumulation of human capital in the working age population, in tandem with the significant job upgrading and rise in education standards in aggregate terms.

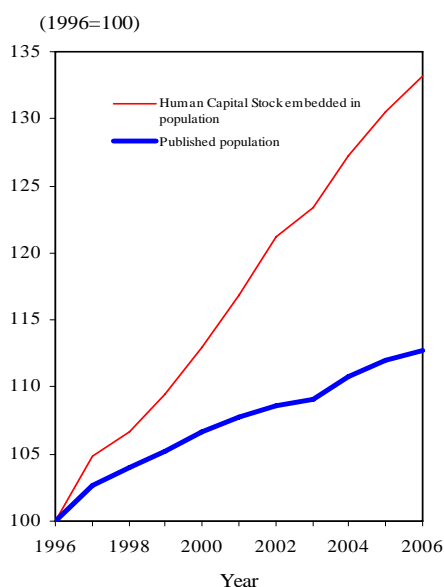
- *Human capital embedded in the labour force*

**Chart 3** compares the human capital embedded in the labour force and its headcount counterpart over the past 10 years. This covers the active portion of total human capital stock, covering only those workers who are in the workforce. The non-active portion corresponds to that part of the human capital stock for economically inactive people who choose to stay out of the workforce, e.g. full-time students aged 15+, non-working housewives, and retirees. Again the published headcount labour force series is consistently outgrown by the human capital stock embedded in it. While the labour force suffered a dent in 2003 due to the negative impact on economic activities from SARS which discouraged some people to leave the workforce, the human capital embedded in it was still growing, albeit at a slower rate. This divergence shows the resilience in the accumulation of human capital even in face of sudden shock in the economy. Also, the rapid growth in human capital stock accumulation embedded in the labour force quickly resumed once the negative shock from SARS in 2003 waned. This shows Hong Kong's strength and depth in its pool of human capital, which in turn underlined the economy's resilience against external shocks.

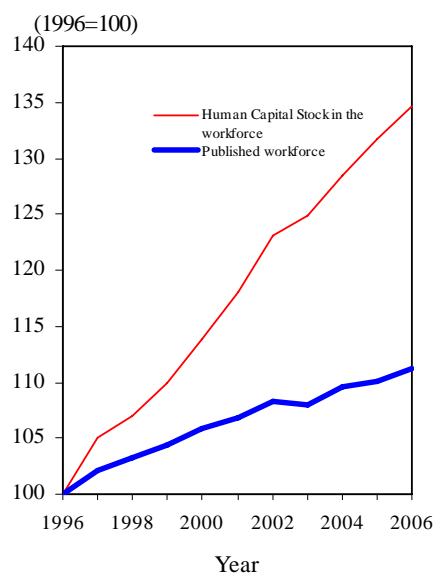
**Chart 2: Human capital stock embedded in population aged 15+ persistently growing faster than the headcount population.**

**Chart 3: Active portion of human capital stock based on the productivity augmented labour force series keeps growing faster than headcount labour force**

**Human Capital Stock in population vs published population**



**Human Capital Stock in labour force vs published labour force**



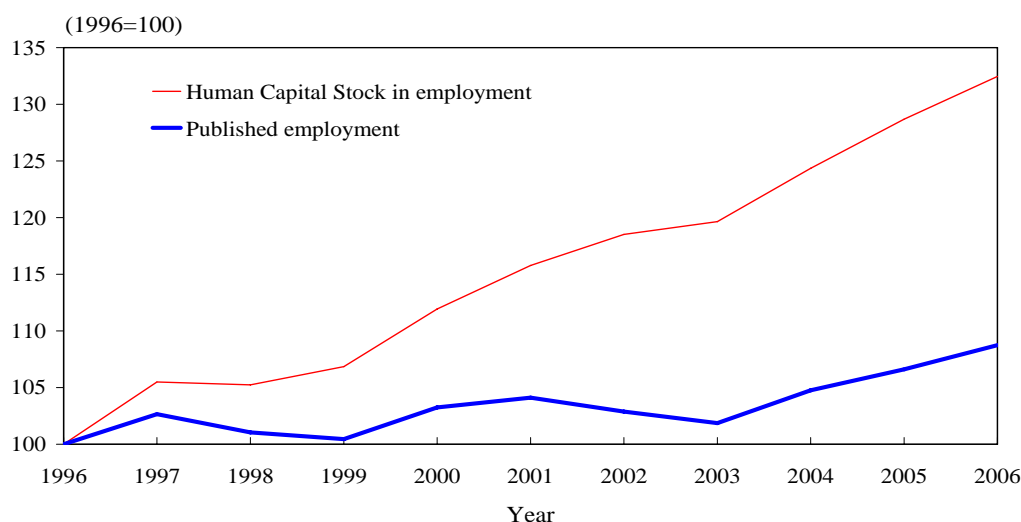
## Box 1.2 (Cont'd)

- *Human capital embedded in employment*

Another way of looking at how well labour force is being deployed or utilized is to construct a human capital stock series on employment. **Chart 4** shows the movements of human capital stock constructed based on employment series, versus that of the published employment series. The difference between the population sets involved in **Chart 3** and **Chart 4** is that the population in **Chart 3** includes the unemployed, where **Chart 4** does not. The resilience in the actually utilized human capital is even more pronounced here. Even during the economic downturns in the periods 1997-1999 and 2001-2003, when the total employment was actually falling, the human capital stock being deployed or utilized was still on the rise. It is also worthy to note that the growth in the utilized human capital stock has accelerated over the past few years, presumably reflecting the rapid evolution of the workforce in adapting to the “knowledge economy”, where the source of economic growth is more determined by the ability to generate intangible assets (ideas, skills and networks that channel flows of ideas, knowledge and funds) rather than amassing a large number of “blue-collar” workers with investment in machinery and physical assets oriented to produce tangible goods.

**Chart 4: Human capital stock in employment still grew during the years of economic downturn when employment fell**

**Human Capital Stock in employment vs published employment**



- *Education and experience are the two main factors in human capital stock accumulation*

The foregoing paragraphs suggest that education upgrading and experience accumulation are important in driving the growth of human capital stock in Hong Kong. The vibrant growth in human capital stock has in turn contributed to sustained labour productivity growth and hence economic growth in Hong Kong in the past decade, as will be analysed in greater details in a sequel to this article to be included in the next issue of the Quarterly Economic Report. It is likely that the continuous improvement in education attainment and sustained experience accumulation of the workforce will remain a major source of productivity and income growth for Hong Kong in the future. In this regard, continued hefty investment in education and fostering life-time learning are important strategies to enhance the competitiveness and productivity of our economy for sustained growth and development in the long term.

## GDP by major economic sector

1.7 The services sector remained on a strong expansion path. Latest available figures indicate that net output in the services sector as a whole rose markedly by 7.4% in real terms in the second quarter over a year earlier. The financial integration between Hong Kong and the Mainland continued to underpin the spectacular performance of Hong Kong's financial services sector. The double-digit export performance also rendered strong support to import/export trades. Real estate and business services also held up well. Net output of wholesale and retail trades as well as restaurants and hotels benefited notably from stronger consumer spending and vibrant inbound tourism. Net output of the construction sector also showed a moderate rebound, while that of manufacturing continued to decline.

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

	2006						2007	
	2005	2006	Q1	Q2	Q3	Q4	Q1	Q2
Manufacturing	2.1	2.2	7.0	5.3	-0.6	-1.4	-1.5	-2.3
Construction	-8.1	-8.3	-12.7	-3.8	-11.4	-4.3	-6.7	3.0
Services <sup>(b)</sup>	7.6	7.7	8.3	6.6	7.5	8.2	7.2	7.4
Of which:								
Wholesale, retail and import and export trades, restaurants and hotels	14.1	9.4	10.8	6.5	10.3	9.7	8.2	8.8
Import and export trade	15.9	10.1	11.9	6.5	11.0	10.6	8.4	9.2
Wholesale and retail trade	8.3	5.6	4.4	4.4	7.5	5.9	6.3	7.6
Restaurants and hotels	6.8	8.6	10.0	8.5	8.1	7.6	8.6	7.3
Transport, storage and communications	7.4	7.9	10.7	5.7	7.1	8.3	3.9	4.5
Transport and storage	6.9	7.9	10.6	5.3	7.0	8.8	3.6	4.0
Communications	9.4	8.0	10.9	7.7	7.7	6.1	5.7	6.7
Financing, insurance, real estate and business services	8.8	12.7	12.5	12.9	11.2	14.1	13.9	14.0
Financial services	12.2	20.2	21.2	21.1	16.9	21.5	17.9	17.9
Real estate and business services	4.2	2.3	0.9	1.0	3.5	3.8	7.6	7.1
Community, social and personal services	-0.1	1.9	1.4	1.5	1.9	2.6	1.5	1.1

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.

## Some highlights of economic policy

1.8 In October, the Chief Executive announced in his Policy Address a new direction for Hong Kong. The Address set out three guiding principles. First, promoting economic development would be the Government's primary goal. Secondly, development would be sustainable, balanced and diversified. Thirdly, development should bring about social harmony, so that different strata of people may also share the fruits of economic development.

1.9 Specifically on the economic arenas, a range of initiatives are announced, which will produce profound impacts on the future developments of the Hong Kong economy. The more important ones are highlighted below:

- (i) *Pushing ahead with 10 major infrastructure projects* for promoting economic growth and development. These projects will further facilitate the economic integration between Hong Kong and the Mainland as well as enlarge significantly the productive capacity and raise the efficiency of the Hong Kong economy.
- (ii) *Enhancing the status of Hong Kong as an international financial hub.* Efforts will be devoted to help Mainland enterprises and investors participate in Hong Kong's stock market through the Qualified Domestic International Investors Scheme and the pilot scheme for individual investors. A dedicated team has been set up to study the early introduction of Islamic debt offerings in Hong Kong. Also, Hong Kong will promote the development of its international arbitration services and forge closer ties with international arbitral bodies.
- (iii) *Promoting economic and trade development.* Assistance will be provided to Hong Kong enterprises in the Pearl River Delta to restructure, upgrade and relocate. The proposals in the Action Agenda of the Economic Summit held in September 2006 will be further pursued and implemented. The public will be consulted on the details of a competition law, with a view to introducing the bill in the 2008/09 legislative session.
- (iv) *Returning wealth to people.* The standard rate of salaries tax and profits tax rate will be lowered to 15% and 16.5% respectively in 2008/09. This will also enhance Hong Kong's competitiveness in attracting foreign investment and overseas talents. Another rates waiver will be granted for the last quarter of 2007/08.

- (v) *Mobilising social enterprises and enhancing employability.* The Government will invite the business community and non-profit organizations to participate in social enterprise projects. The retraining schemes will be expanded and one-stop employment support provided.
  
- (vi) *Optimising the demographic structure and attracting talents.* The Government will offer 12-year free education in public schools and for vocational training. Small-class teaching will be implemented, where suitable, in Primary One public schools from the 2009/10 school year. Efforts will be stepped up to develop Hong Kong as an education hub. Also, the Admission of Talents Scheme will be modified to attract talents by relaxing restrictions on age limits and other prerequisites. All these will increase Hong Kong's human capital stock and its efficiency, thereby contributing to the long term development of the economy.

**Notes :**

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
  
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
  
- (3) The 10 major projects include South Island Line, the Sha Tin to Central Link, The Tuen Mun Western Bypass and Tuen Mun-Chek Lap Kok Link, The Guangzhou-Shenzhen-Hong Kong Express Rail Link, The Hong Kong-Zhuhai-Macao Bridge, Hong Kong-Shenzhen Airport Co-ordination, Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop, West Kowloon Cultural District, Kai Tak Development Plan and New Development Areas.

## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *Merchandise exports remained fairly strong in the third quarter. The Mainland market, as supported by its strong trade flows and vibrant domestic demand, remained the major growth driver of Hong Kong's total exports. Robust growth was also seen in exports to many emerging markets, thus providing an offset to the weakness of the US market.*
- *The trading environment has turned more uncertain following the recent global financial market turbulence. The US market is likely to remain weak due to its housing market slump and also the tightening credit standards. The economic outlook for EU and Japan is likewise clouded by the evolving situation in the global financial markets, although their economies have continued to expand at a rather solid pace. The recent surge in oil prices also poses some threat to the global economy. As far as Hong Kong's trade performance is concerned, the macro-tightening measures in the Mainland as well as the movements of exchange rates are also factors to watch closely.*
- *Exports of services accelerated to a highly distinct growth in the third quarter. The buoyant financial market during the quarter gave rise to continued surge in exports of financial services. Exports of travel services also grew rapidly along with the marked pick-up in visitor arrivals. Meanwhile, the vibrant trade flows in the Mainland rendered strong support to exports of trade-related services, particularly offshore trade.*
- *The 2007-08 Policy Address announced 10 major infrastructure projects for promoting economic development, among which the four cross-boundary infrastructure projects will enhance the flow of people and goods between the Mainland and Hong Kong. This, along with the Closer Economic Partnership Arrangement and its four supplements, will enhance mutual economic co-operation between Hong Kong and the Mainland, and spur the growth of Hong Kong's service industries.*

## Visible trade

### *Total exports of goods*

2.1 Merchandise exports continued to show notable growth. The emerging market and developing economies were little affected by the global financial market turbulence in the third quarter, thereby providing some cushioning effect to the rather lacklustre performance of the more developed economies, particularly the US. With its economy and trade flows displaying further strength, the Mainland market continued to be the key driver of Hong Kong's export growth in the third quarter. Hong Kong's exports to such emerging markets as India, Malaysia, Thailand, Vietnam and Indonesia also fared well.

2.2 The outlook for global trading environment is, however, clouded with increasing uncertainties. The global financial market conditions have improved somewhat following injections of liquidity into the markets by the major central banks and the successive interest rate cuts by the US Federal Reserve in mid-September and end-October. However, the conditions of the global credit markets are yet to return to normal and the impacts of the turbulence on the global economy to fully emerge. For reference, in October the International Monetary Fund revised markedly downward the GDP growth forecast for US to 1.9% in 2008 from its earlier forecast of 2.8%, although the Fund is still highly positive about the near-term outlook for the major emerging economies, including the Mainland<sup>(1)</sup>.

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

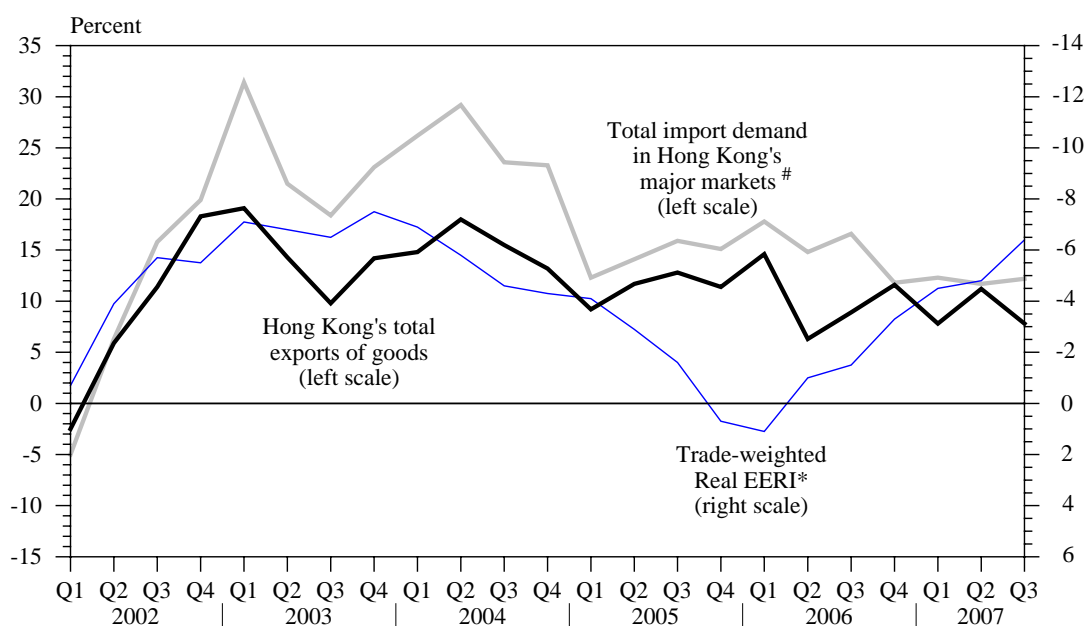
	<u>Total exports of goods</u>				<u>Re-exports</u>			<u>Domestic exports</u>			
	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2006 Annual	9.4	10.2	1.0	10.0	10.8	1.1	-1.1	1.1	-2.1		
Q1	12.1	14.6 (3.4)	-0.3	10.7	13.2 (3.9)	-0.2	38.7	42.3 (-3.1)	-2.9		
Q2	5.4	6.3 (-0.2)	0.6	4.6	5.3 (0.2)	0.9	19.9	23.9 (-6.7)	-3.9		
Q3	8.4	8.9 (4.1)	1.4	9.4	9.8 (4.9)	1.5	-6.1	-4.2 (-8.0)	-1.3		
Q4	11.9	11.6 (3.3)	1.9	15.3	14.9 (4.6)	2.0	-31.8	-30.9 (-19.9)	-0.8		
2007 Q1	9.0	7.8 (1.4)	2.7	11.8	10.6 (1.6)	2.8	-33.4	-33.5 (-1.1)	0.4		
Q2	11.7	11.2 (1.9)	2.0	13.5	13.1 (1.5)	2.1	-18.4	-19.4 (12.3)	0.6		
Q3	8.2	7.8 (0.4)	2.0	10.0	9.6 (0.9)	2.1	-20.9	-21.0 (-9.8)	0.8		

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



2.3 Total exports of goods grew by 7.8% in real terms<sup>(2)</sup> in the third quarter. Within these, *re-exports*<sup>(3)</sup> remained the mainstay of growth, given that re-exports accounted for 95.8% of goods export value. Re-exports posted a year-on-year growth of 9.6% in the third quarter. The downtrend in *domestic exports* continued, with a decline of 21.0% in real terms in the third quarter, after the fall of 19.4% in the second quarter.

**Diagram 2.1 : Merchandise exports continued to show notable growth (year-on-year rate of change)**

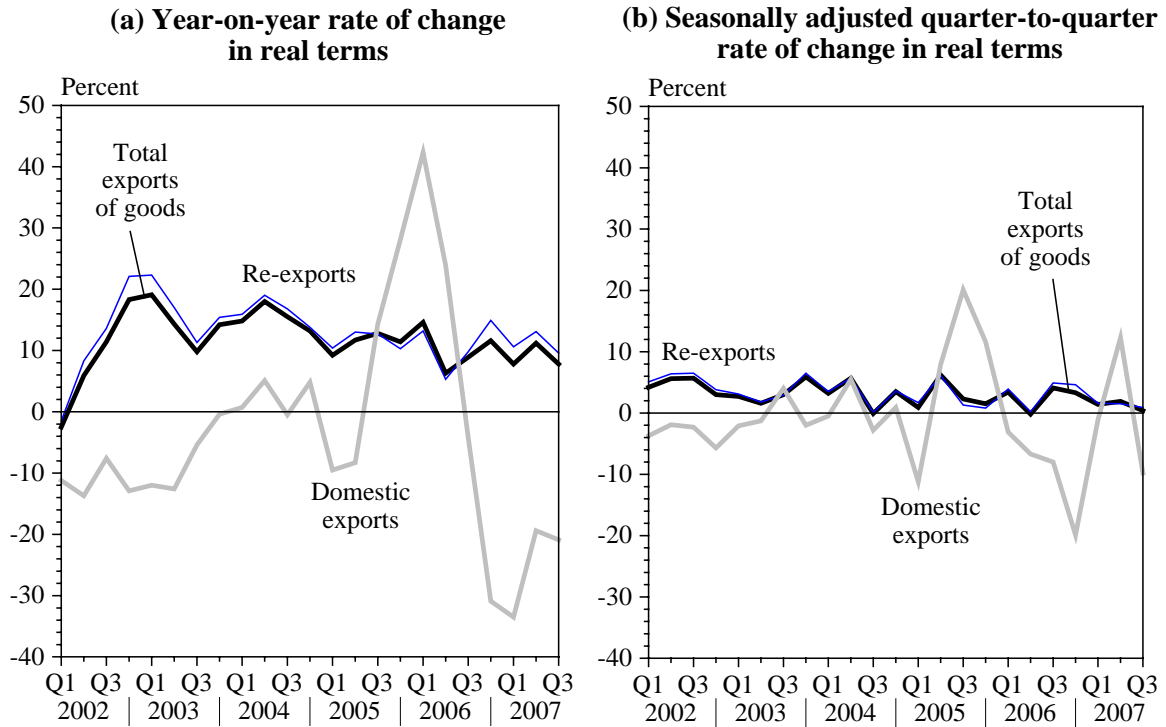


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

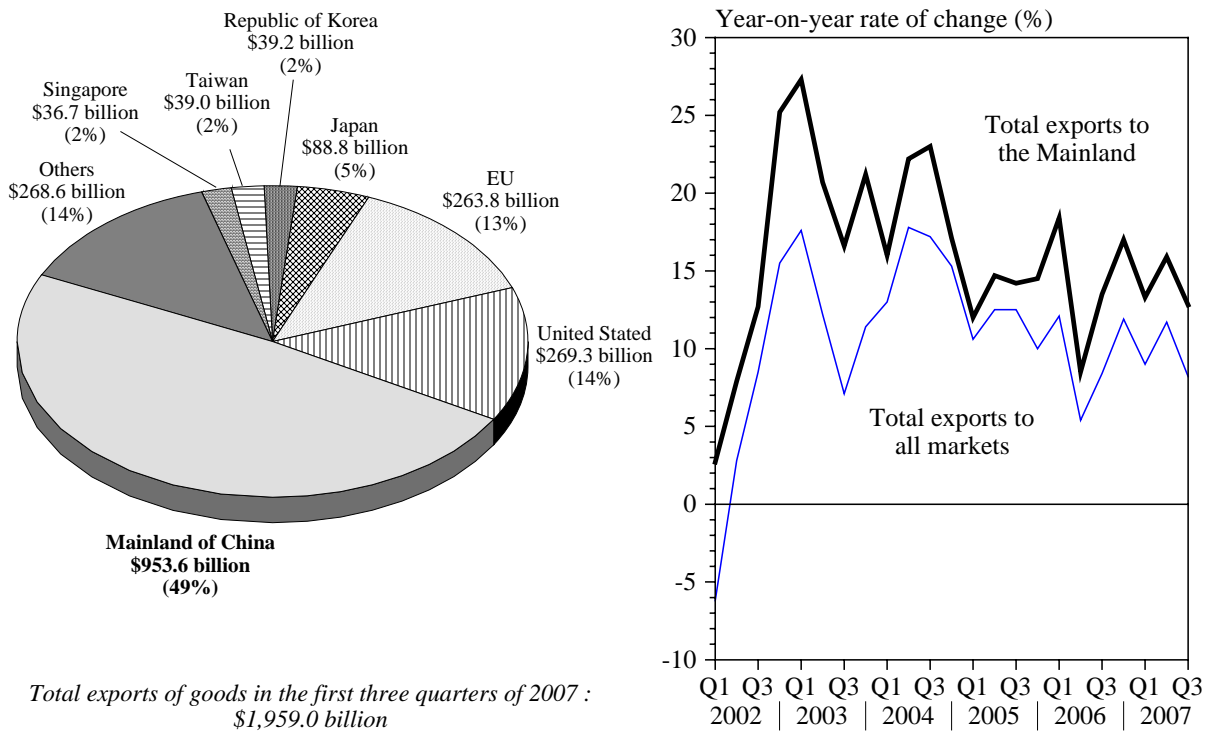
(\*) For ease of comparison with the rate of change in Hong Kong's total exports of goods, the scale for the Real EERI is presented here upside down, so that positive changes denoting real appreciation of the Hong Kong dollar appear at the lower part and negative changes denoting real depreciation at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

(#) Import demand figure for the third quarter of 2007 is based on information available up to August 2007.

**Diagram 2.2 : Re-exports remained the mainstay of total exports**



**Diagram 2.3 : The Mainland market is the main engine of export growth**



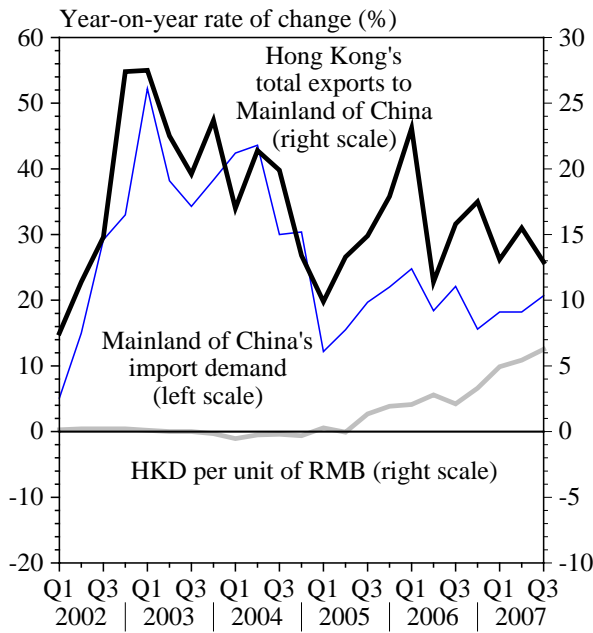
**Table 2.2 : Total exports of goods by major market  
(year-on-year rate of change in real terms (%))**

		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2006	Annual	16.7	1.7	4.7	2.4	8.8	4.3	4.5
	Q1	23.1	3.5	9.5	8.2	20.9	10.4	2.3
	Q2	11.4	-2.4	4.1	3.0	12.0	-5.3	-5.4
	Q3	15.8	-1.1	1.9	0.6	10.7	8.3	12.8
	Q4	17.5	7.0	4.1	-1.4	-5.4	4.2	8.3
2007	Q1	13.1	0.7	2.7	0.6	-8.9	-1.4	0.7
	Q2	15.5	1.0	5.2	4.0	3.8	9.0	3.9
	Q3	12.9	-3.9	4.3	-5.9	0.2	-3.2	0.2

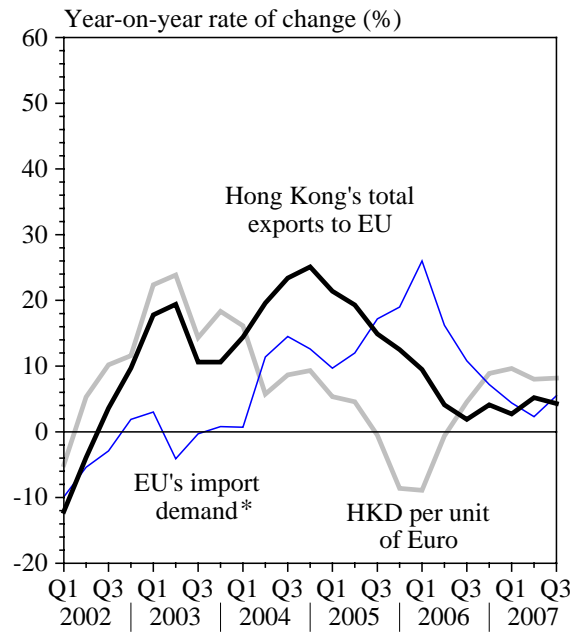
2.4 Analysed by market, exports to the Mainland maintained a double-digit growth in the third quarter, supported by its buoyant economy. The Mainland's trade flows and its domestic demand both stayed strong in the third quarter, continuing to benefit Hong Kong's external trade. Exports to such Asian emerging markets as India, Malaysia, Thailand, Vietnam and Indonesia also fared strongly in the third quarter. In contrast, exports to Japan reverted to decline in the third quarter, dragged by the weak currency and also the softness in its consumption demand. Exports to Taiwan, Korea and Singapore were also weak, mainly due to the fall-off in raw material intake, apparently likewise related to the falling US demand.

2.5 The US market slackened further to a moderate decrease in the third quarter, in tandem with the weakening in its import demand over the period. The US economy experienced sub-par growth in recent periods, due to the housing market downfall and the turmoil arising from the sub-prime mortgage problem. On the other hand, accompanying the steady economic expansion in the EU and the appreciation of the euro, exports to the EU continued to show moderate growth in the third quarter. This coupled with the strong performance of exports to the Mainland and other emerging markets, provided an offset to the weakness of the US market.

**Diagram 2.4 : Exports to the Mainland supported by strong import demand**

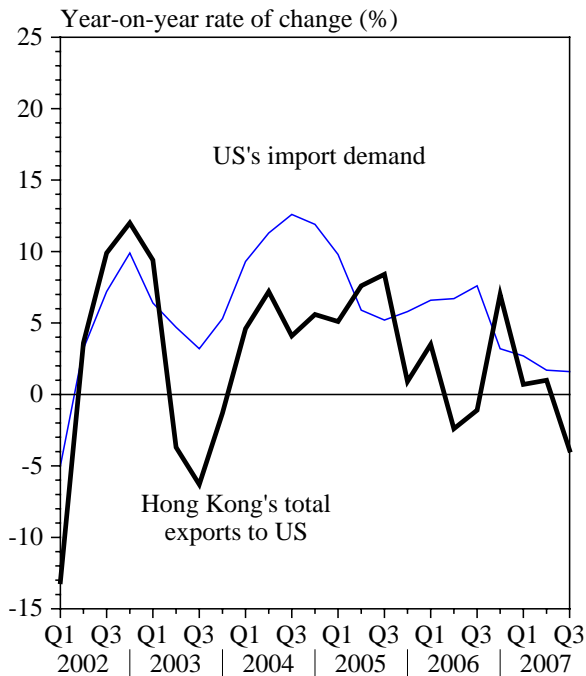


**Diagram 2.5 : Exports to EU was helped by steady economic expansion in EU and the euro appreciation**

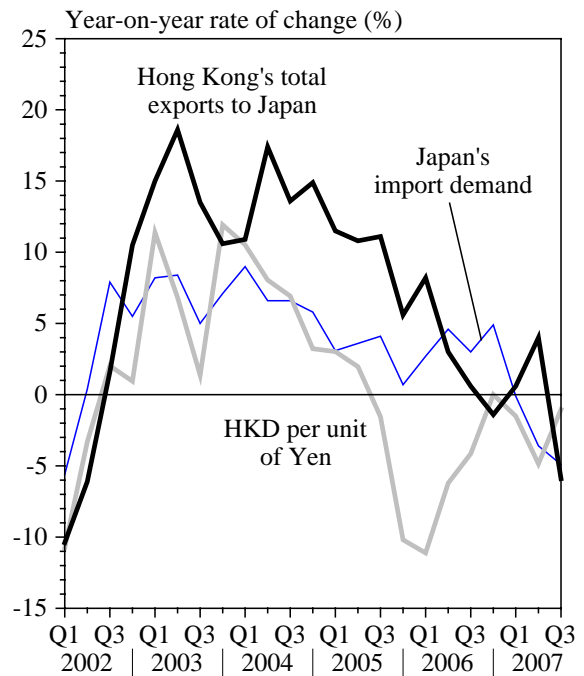


Note: (\*) Import demand figure for the third quarter of 2007 is based on information available up to August 2007.

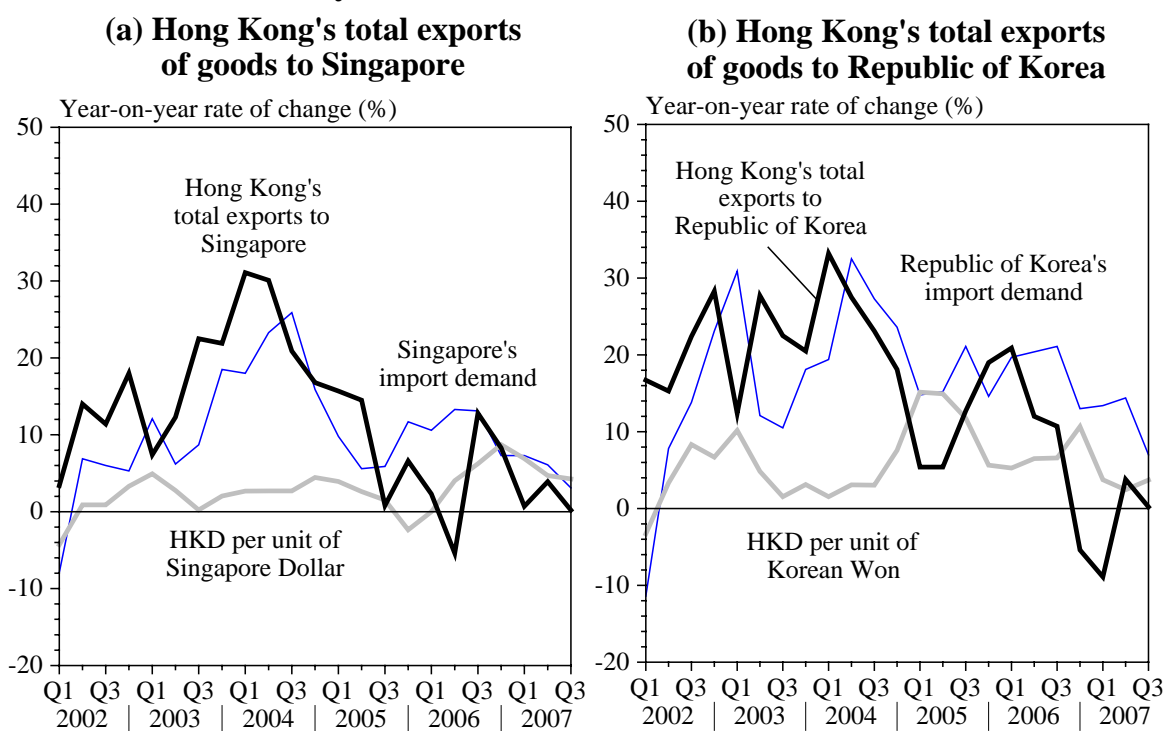
**Diagram 2.6 : Exports to US slackened further in tandem with its weakening import demand**



**Diagram 2.7 : Exports to Japan reverted to a decline, mainly due to the weak consumer demand**



**Diagram 2.8: Exports to Singapore and Korea were weak, mainly due to a fall-off on raw material intake**



### *Imports of goods*

2.6 *Imports of goods* continued to obtain a notable growth of 9.9% in real terms in the third quarter of 2007. *Retained imports*, referring to the imports for domestic uses, maintained strong growth momentum with a 10.9% increase in real terms in the third quarter. Within this, retained imports of consumer goods and foodstuffs both turned in some notable growth, given the positive consumer sentiment and the strength of consumption demand. Retained imports of raw materials and semi-manufactures continued to rise sharply against the relatively low base in the same period last year. Retained imports of capital goods also rose further despite the relatively high base in the same quarter last year.

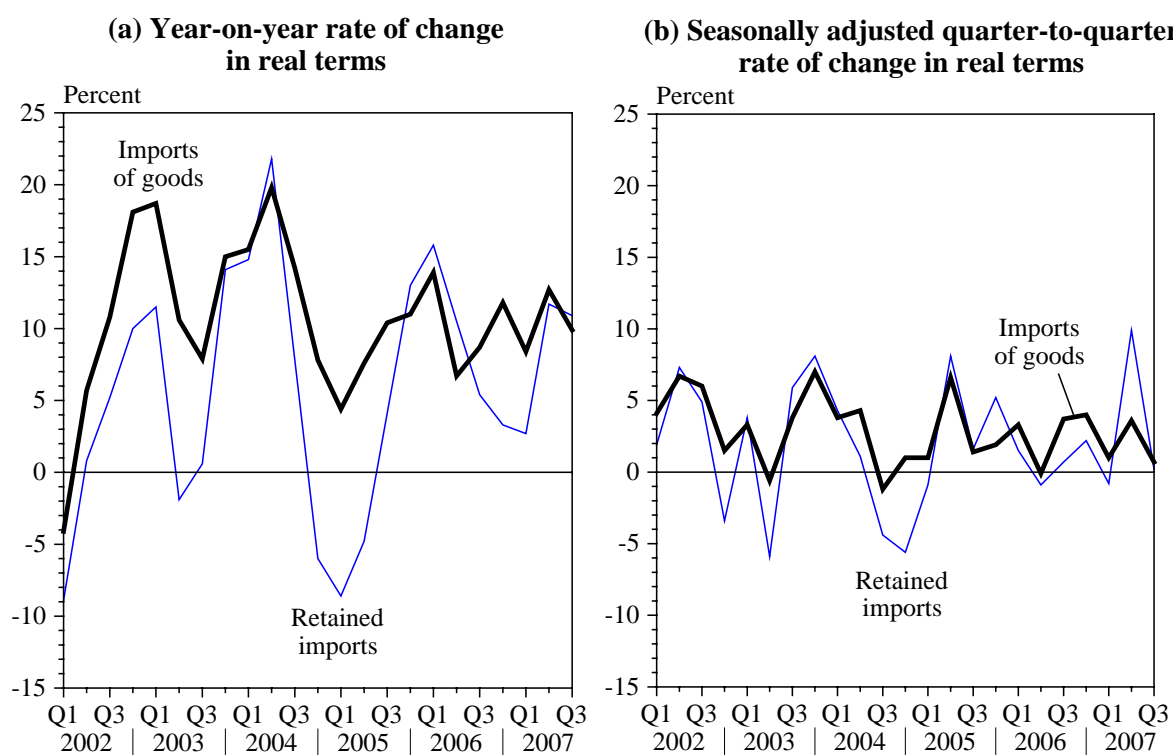
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports<sup>(a)</sup></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>
2006	Annual	11.6	10.2	2.1	14.3	8.4	3.2
	Q1	13.8	13.9	(3.3)	20.8	15.8	(1.5)
	Q2	8.1	6.7	(-0.1)	16.7	10.5	(-0.9)
	Q3	10.7	8.7	(3.7)	12.7	5.4	(0.7)
	Q4	14.0	11.8	(4.0)	8.2	3.3	(2.2)
2007	Q1	9.0	8.4	(1.0)	1.5	2.7	(-0.8)
	Q2	12.6	12.7	(3.6)	10.3	11.7	(9.9)
	Q3	9.1	9.9	(0.7)	6.6	10.9	(0.2)

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 2.9 : The rise in total imports remained notable**



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

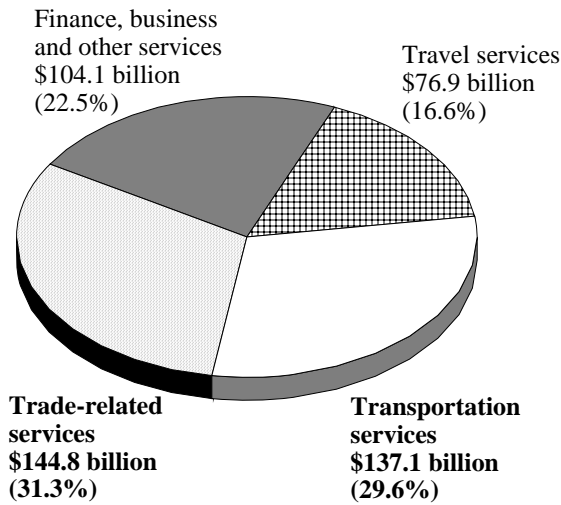
		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2006	Annual	14.4	2.0	27.6	-16.8	5.4
	Q1	16.9	4.3	38.4	-6.4	4.0
	Q2	37.3	4.8	19.8	-13.4	-4.9
	Q3	7.8	2.3	32.5	-27.5	3.5
	Q4	0.5	-2.9	22.2	-18.9	19.5
2007	Q1	-1.0	4.4	6.4	-2.9	8.6
	Q2	2.3	3.5	14.2	16.1	24.4
	Q3	6.6	8.9	1.6	33.7	-0.8

## **Invisible trade**

### *Exports of services*

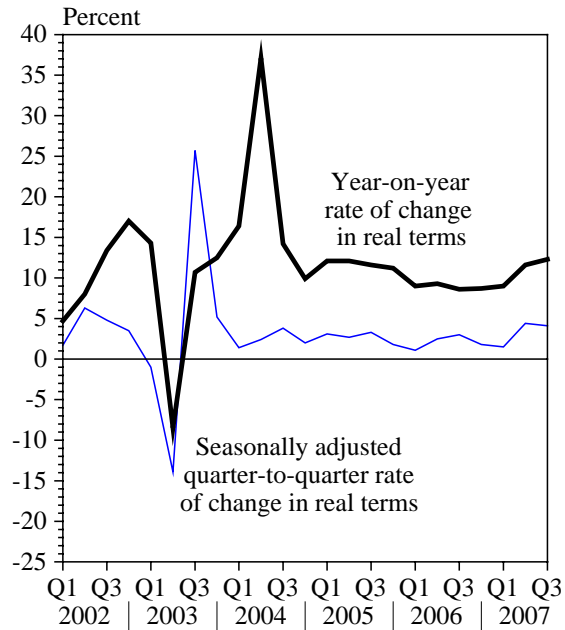
2.7 *Exports of services* attained further impetus in its strong growth momentum in the third quarter with a highly notable 12.3% growth in real terms, further accelerated from the 11.6% increase in the second quarter. The growth pattern was broad-based as all sectors contributed. Exports of financial services turned in a steeper surge amidst the buoyant financial market activities. Exports of travel services also showed rapid growth as the number of incoming visitors showed a sharp pick-up in the third quarter, particularly those from the Mainland. The weakening of the Hong Kong dollar along with the US dollar rendered further boost to visitor spending. Exports of trade-related services, comprising mainly offshore trade and riding on the Mainland's vibrant trade flows, continued to show some highly notable growth. Meanwhile, exports of transportation services continued to expand solidly.

**Diagram 2.10 : Trade-related and transportation services accounting for three-fifths of service exports, reflecting the important role of Hong Kong as a trading hub**



Exports of services in the first three quarters of 2007 : \$462.9 billion

**Diagram 2.11 : Exports of services accelerated to a highly notable and broad-based growth**



**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
2006	Annual	8.9	10.9	6.9	6.4	10.9
	Q1	9.0 (1.1)	13.2	7.3	8.9	4.9
	Q2	9.3 (2.5)	10.7	7.4	6.0	12.4
	Q3	8.6 (3.0)	11.5	5.8	4.5	12.1
	Q4	8.7 (1.8)	8.9	7.2	6.2	14.3
2007	Q1	9.0 (1.5)	9.7	3.9	10.7	14.5
	Q2	11.6 (4.4)	11.3	6.3	12.3	20.2
	Q3	12.3 (4.1)	11.2	6.1	14.6	22.3

Notes : (\*) The entire series have been revised, consequential to the release of the chain volume measures of GDP on 18 October 2007.

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

(a) Comprising mainly offshore trade.

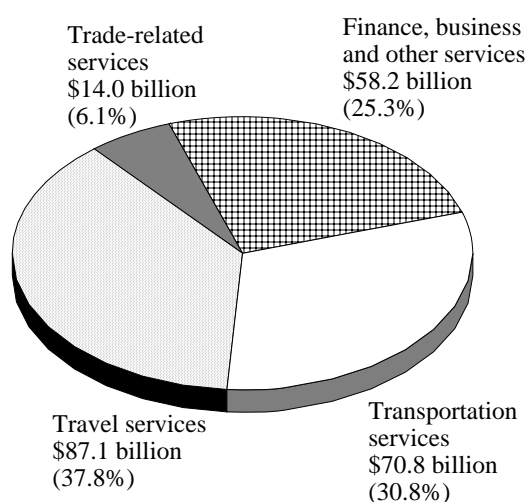
(b) Comprising mainly inbound tourism receipts.



## Imports of services

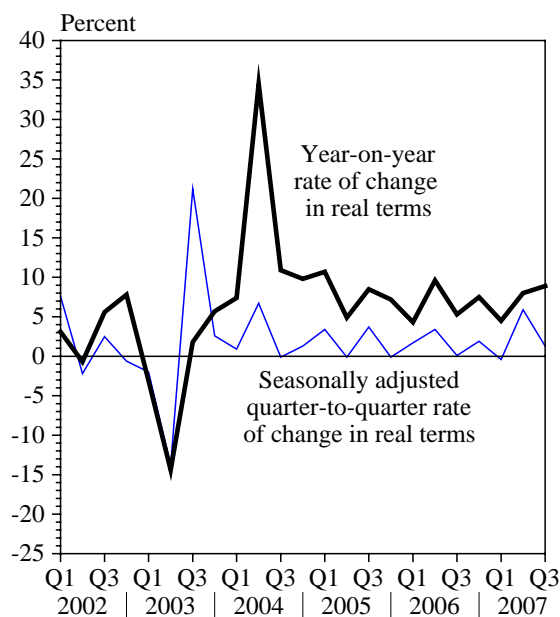
2.8 *Imports of services* grew notably further by 8.9% in real terms in the third quarter of 2007, after the 8.0% growth in the second quarter. Among the various types of imports of services, growth in financial, business and other services continued to outpace the growth in imports of travel and other services.

**Diagram 2.12 : Travel services, transportation services, and services involving finance and business are the main components in imports of services**



*Imports of services in the first three quarters of 2007 : \$230.1 billion*

**Diagram 2.13 : Imports of services grew notably further in the third quarter**



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

		<i>Of which :</i>				Finance, business and other services
		<u>Imports of services</u>	<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>services</u>
2006	Annual	6.6	4.1	6.8	1.6	12.4
	Q1	4.3 (1.7)	0.2	6.3	3.7	9.6
	Q2	9.6 (3.4)	9.1	9.5	1.4	13.0
	Q3	5.3 (0.1)	1.1	5.4	2.1	13.7
	Q4	7.5 (1.9)	6.6	6.0	-0.2	13.2
2007	Q1	4.5 (-0.4)	1.9	3.3	2.0	10.7
	Q2	8.0 (5.9)	3.9	7.0	3.5	17.3
	Q3	8.9 (1.3)	6.2	7.2	3.4	17.1

Notes : (\*) The entire series have been revised, consequential to the release of the chain volume measures of GDP on 18 October 2007.

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

(+) Comprising mainly outbound travel spending.

## Visible and invisible trade balance

2.9 As the surplus in the invisible trade account more than offset the deficit in the merchandise trade account, a surplus of \$59.7 billion was recorded in the combined visible and invisible trade balance in the third quarter of 2007, equivalent to 7.2% of the total value of imports of goods and services. This was slightly widened as compared to the corresponding figure of \$55.1 billion (also equivalent to 7.2% of the total value of import of goods and services then) in the third quarter of 2006. The continued sizeable surplus is a reflection of Hong Kong's external competitiveness in the global economy.

**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>
2006	Annual	2,467.4	561.5	2,576.3	283.8	-109.0	277.7	168.8
	Q1	538.5	128.4	568.3	65.0	-29.8	63.4	33.6
	Q2	586.7	129.0	622.1	68.3	-35.4	60.6	25.3
	Q3	667.2	149.5	685.8	75.8	-18.6	73.6	55.1
	Q4	674.9	154.6	700.2	74.6	-25.2	80.0	54.8
2007	Q1	587.3	144.1	621.5	69.5	-34.2	74.5	40.3
	Q2	656.5	146.9	702.7	75.6	-46.2	71.3	25.1
	Q3	722.1	172.0	749.4	84.9	-27.4	87.0	59.7

Notes : (\*) The entire series have been revised, consequential to the release of the chain volume measures of GDP on 18 October 2007.

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

## Trade policy and other developments

2.10 On 10 October 2007, the Policy Address announced four cross-boundary infrastructure projects, including (1) The Guangzhou-Shenzhen-Hong Kong Express Rail Link, which will start construction in 2009; (2) The Hong Kong-Zhuhai-Macau Bridge; (3) Hong Kong-Shenzhen Airport Co-operation, for which the feasibility of a rail connection between Hong Kong International Airport and Shenzhen Airport will be studied; and (4) Hong Kong-Shenzhen Joint Development of the Lok Ma Chau Loop. These projects, when completed, will further facilitate the flow of people and goods between Hong Kong and the Mainland and will generate huge economic benefits to the Hong Kong economy.

2.11 Against the background of the recent policy adjustments on processing trade in the Mainland, Hong Kong enterprises with manufacturing operations in the PRD have to seriously consider industrial restructuring, upgrading and relocation. The Government has been working closely with industry and taken a multi-pronged approach to tackle the situation, including relaying to the Central Government industry concerns, proposing to the Central Government other flexible measures to match with the policy adjustment, exploring with the provinces and industry alternative operating bases and helping investors obtain first-hand information about the investment environment. The Government also plans to improve the Small and Medium Enterprises Funding Schemes and help industries upgrade production facilities and explore new markets. In September, the Central Government in response allowed alternative arrangements regarding the Guarantee Shadow Margin Account requirements<sup>(4)</sup>.

2.12 The tense trading relationship between China and the EU over the textile trade drew to a close as an agreement was reached between the two sides in October. With effect from 1 January 2008, the quota restriction regime imposed by the EU on its textile imports from China would be scrapped. It will be replaced by a "double checking system" to track the issuing of licenses for the textile exports from China to the EU, with the level of such exports no longer being restricted.

### **Notes :**

- (1) International Monetary Fund (IMF) issued World Economic Outlook and Regional Economic Outlook for Asia and Pacific in October. According to IMF, the global economy is expected to continue its growth at a solid pace, at 5.2% in 2007 and 4.8% in 2008. The forecast growth rate for 2008 has been revised downward by 0.4 of a percentage point, as the IMF projects a slower US economy and takes into account its effect on other economies as well as the impact of the financial market turbulence. Despite this, the growth momentum in Asia is still projected to continue, with economic growth forecasts of 8.0% and 7.2% in 2007 and 2008 respectively. In particular, the Mainland's GDP growth is now forecasted at 11.5% and 10.0% in 2007 and 2008 respectively.
- (2) 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. The changes in real terms reported here are constant price measures, which may differ from those reported in Chapter 1. The latter are chain volume measures as compiled under the GDP accounts.
- (3) 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.

- (4) Towards the end of July, the Ministry of Commerce in the Central Government released a restricted commodities catalogue, requiring exporters of the products concerned to place guarantee deposits (the Guarantee Shadow Margin Account requirements) with the Bank of China. After intense efforts by the Hong Kong SAR Government, the Ministry of Commerce stated in early September that processing manufacturers could now settle the guarantee deposits with bank guarantees instead of cash. The industry in Hong Kong generally welcomed the announcement.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

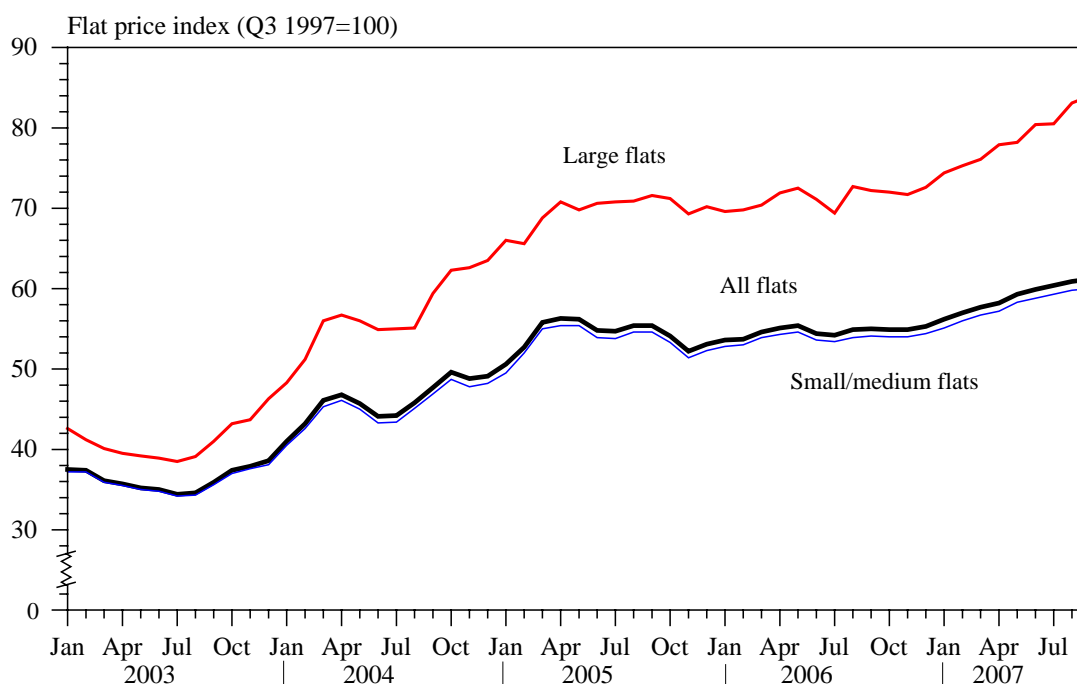
- *The residential property market continued to regain momentum after the earlier consolidation. Flat prices recorded steady increase for three consecutive quarters. The non-residential property markets especially the office segment kept faring strongly amidst general business upturn.*
- *As stated in the Policy Address by the Chief Executive in early October, the Government will press ahead with several large-scale infrastructure projects on domestic transportation system and cross-boundary transport links. Upon commissioning, these projects will consolidate Hong Kong's status as a global city and lay a new foundation for Hong Kong's sustained development in the future.*
- *Inbound tourism re-accelerated markedly in growth in recent months, with the driving force mainly from renewed surge in Mainland arrivals. Concurrently, arrivals from other source markets continued to increase extensively, sustaining a healthy broad-based growth pattern.*
- *The logistics sector continued to cruise ahead healthily. Port cargo movements remained on the rise in the third quarter while air cargo movements showed a faster growth.*
- *The Government is conducting a public engagement exercise on the development of the West Kowloon Cultural District, which represents a major long-term investment in arts and cultural infrastructure. Apart from fostering cultural and arts activities, the infrastructure is expected to stimulate investment in cultural and creative industries and nurture a pool of creative talent.*

### **Property**

3.1 The sales market for *residential property* continued to regain momentum in the third quarter of 2007. Overall flat prices rose further by about 2% during the quarter, giving a cumulative increase of about 11% over end-2006. Compared with the narrow band of movement over the course of market consolidation in 2006, this reflected a solid revival of acquisition interest as sustained economic growth translated into higher household income and improved job opportunities. Towards the end of the quarter, market sentiment was also somewhat boosted by the cut in the best lending rates of the banks by 0.25 of a percentage point.

3.2 The recent price upturn, whilst more noticeable for larger flats, was broadly based. In the third quarter of 2007, the prices of large and small/medium flats rose further by about 5% and 2% respectively, giving cumulative increases of 16% and 10% over end-2006. Yet against with the peak in 1997, the prices of large and small/medium flats were still 20% and 41% lower respectively. Home purchase affordability remained good, as flat price increases were well underpinned by improving household income.

**Diagram 3.1 : Flat prices firmed up in both the mass market segment and the luxury segment as housing demand improved extensively**

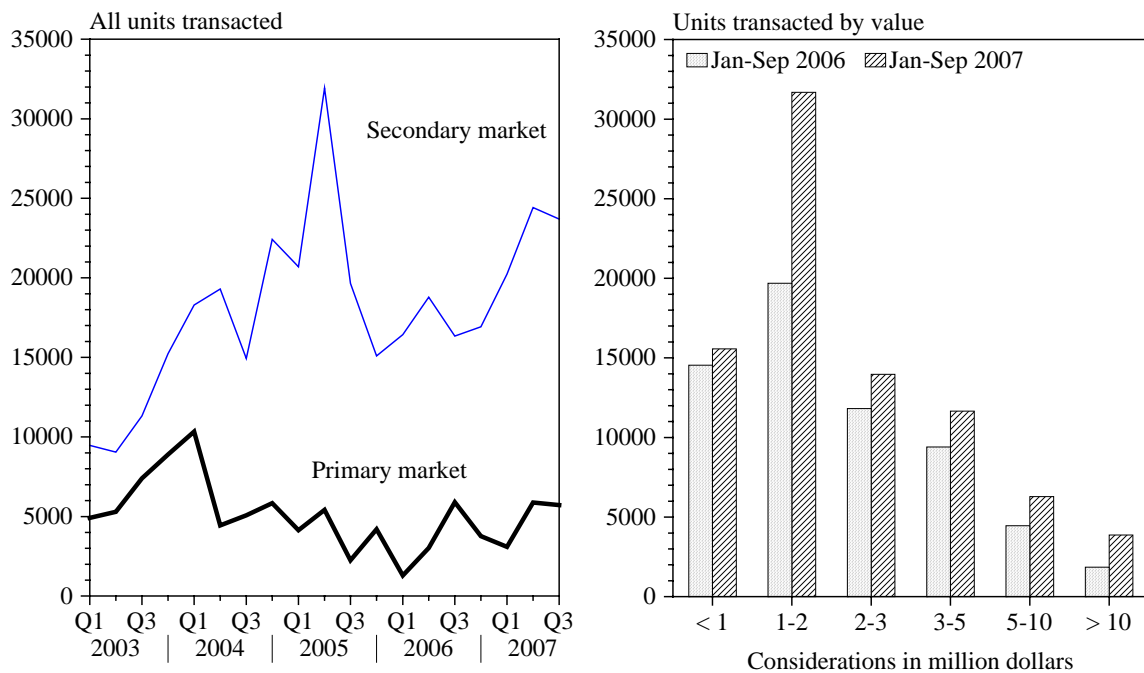


Notes : (1) Large flats refer to those with saleable area of 100 m<sup>2</sup> or above while small/medium flats refer to those with saleable area less than 100 m<sup>2</sup>. Their respective shares in private housing stock were 7% and 93% at end-2006.

(2) Price index pertains to secondary market transactions only.

3.3 Residential property transactions held firm at 29 421 units in the third quarter of 2007, after rebounding to the two-year high of 30 293 units in the second quarter. Compared with a year earlier, the transaction volume of residential property rebounded remarkably by 34% in the first nine months of 2007, comprising increases of 44% in the primary market and 33% in the secondary market. Analysed by the value of transactions, the increase was broadly based across flats in different price ranges.

**Diagram 3.2 : The recent rebound in housing sales was across-the-board**

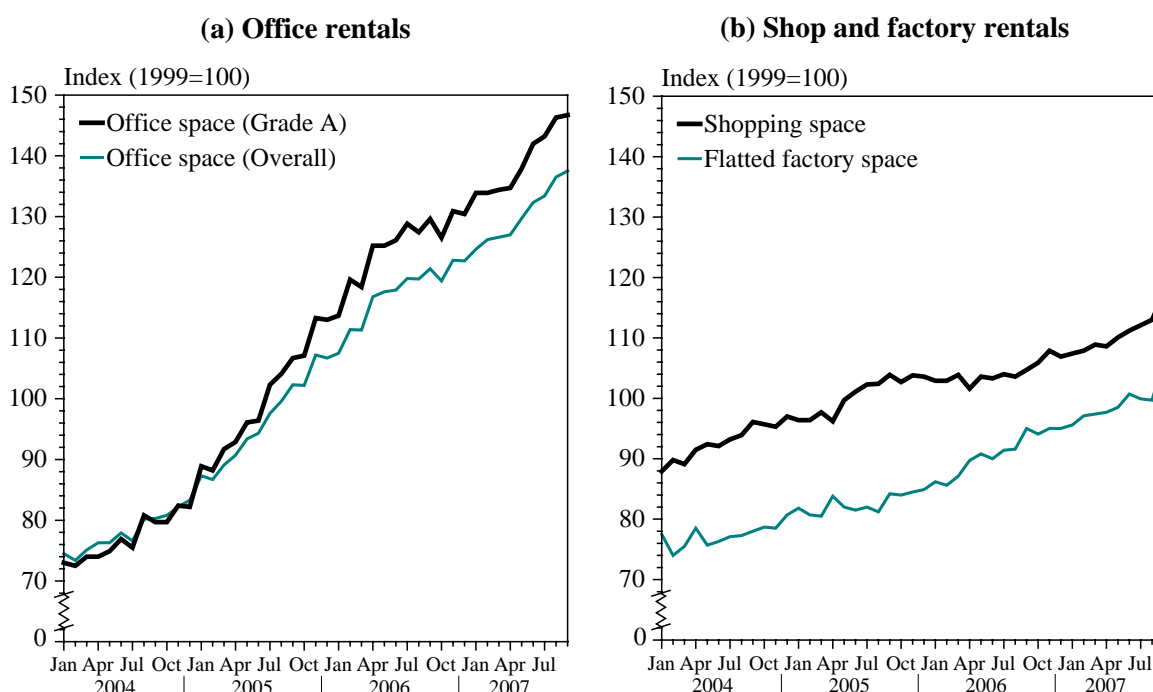


3.4 Leasing of residential property likewise fared well as household income continued to improve and user demand built up further. In the third quarter of 2007, overall flat rentals rose further by about 4%, giving a cumulative increase of about 10% over end-2006. The corresponding increases for large flats were faster, at about 7% and 18%, as compared to those of 3% and 9% for small/medium flats.

3.5 The market for *office space* stayed buoyant alongside the general pick-up in business activities. Rentals notched up across-the-board, by averages of about 4% in the third quarter and about 12% in the first nine months of 2007. The corresponding increases for Grade A office rentals were broadly similar, at 3% and 13%. After the earlier upsurge, the increase in Grade A office rentals turned steadier and was more in line with the market average over the past year or so. Although rentals in core districts kept rising distinctly, the wider rental gap prompted more office relocations from core to non-core areas where new supply was concentrated, thereby helping to contain the overall upward pressure (see **Box 3.1**). On the back of sanguine leasing outlook, the prices of office space in overall terms and for Grade A category moved up further by about 6% and 5% respectively in the third quarter of 2007, giving cumulative increases of 20% and 18% over end-2006.

3.6 As regards *shopping and flatted factory spaces*, the performance stayed benign in general. Leasing activities held steady amidst solid user demand. Rentals of shopping and flatted factory spaces moved up further by about 5% each in the third quarter of 2007, giving cumulative increases of about 10% and 12% respectively over end-2006. Prices firmed up particularly in respect of flatted factory space of which the higher market yields attracted much investment interest. In the third quarter, the prices of shopping and industrial spaces rose further by about 4% and 6%, giving cumulative increases of 13% and 19% over end-2006.

**Diagram 3.3 : Hectic leasing demand for commercial property alongside full-fledged pick-up in business activities**



## Land

3.7 Amidst increased optimism about the property market outlook, developers turned more confident in replenishing their land banks. Following sale of four residential sites triggered from the *Application List* in the second quarter, two residential sites were auctioned in the third quarter of 2007. Market response was favourable, with the prices fetched exceeding the trigger prices by 48% and 33%. Besides, two residential sites were triggered in the quarter for the auction held in October. The prices fetched were markedly higher than the trigger prices, by 141% and 128%.

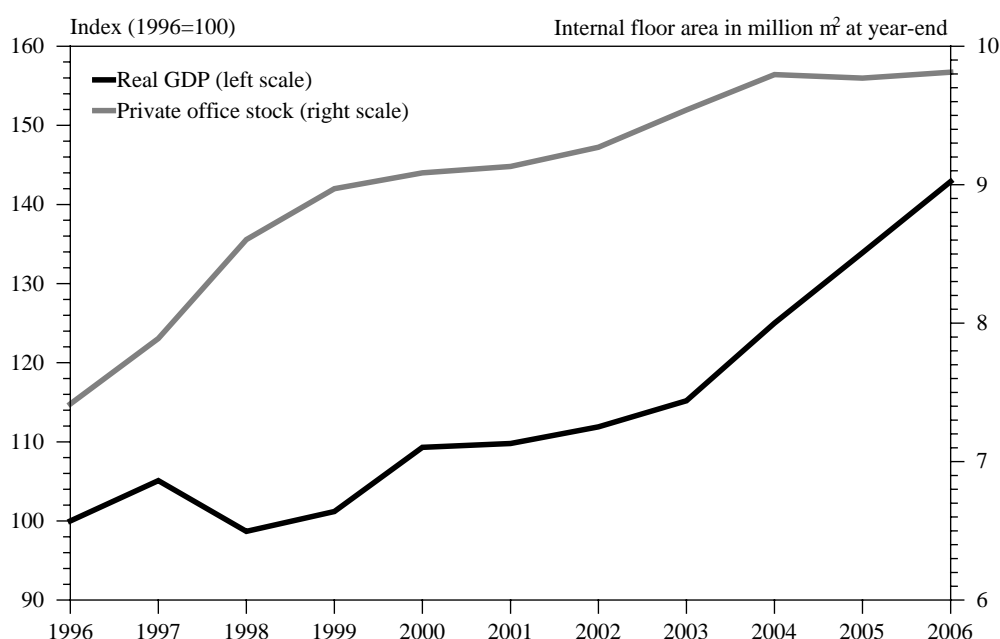


## Box 3.1

### Brief review of office market structure during the past decade

Over the past decade, the total stock of private office space in Hong Kong rose substantially by 32% from 7.4 million m<sup>2</sup> at end-1996 to 9.8 million m<sup>2</sup> at end-2006<sup>(a)</sup>. The expansion of the office market was in tandem with remarkable economic growth averaging at 4% per annum during 1997-2006. Also contributed were further shift of economic structure towards service orientation (with the share of services sector in GDP up from 86% in 1997 to around 90% in 2006) and development of Hong Kong as an international business hub (with the number of regional headquarters and offices up from 2 514 in 1997 to 3 845 in 2006).

#### Real GDP and stock of private office space, 1997-2006



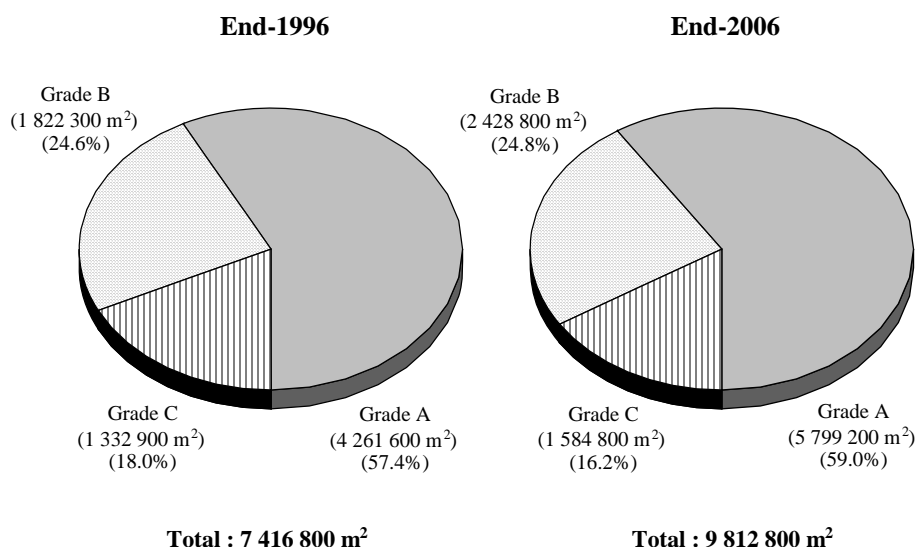
Analysed by grade<sup>(b)</sup>, market demand for quality office space has been hectic over the past decade as the economy has been moving up the value chain. This is particularly apparent in the finance, insurance, real estate and business services sectors where premier properties with professional management and modern facilities are increasingly required to meet operational needs. In response, new supply of office space has been concentrated in Grade A office space, with its share in total surging from 49% in 1996 to 85% in 2006 (and further to the forecast ratio of 94% in 2008). As a result, the Grade A office stock expanded markedly by 36% over the decade to 5.8 million m<sup>2</sup> at end-2006, with its share in total office stock rising to almost 60%. The new supply was well absorbed by the market, as manifested by the fall in the vacancy rate of Grade A office space from 8.3% to 7.6% during the past decade. The corresponding figure in Central/Admiralty went down even more, from 5.3% to 3.9%.

(a) All areas quoted in this article are in terms of internal floor area. Offices owned by the Government and managed by the Government Property Agency are not included in the calculation of private office stock.

(b) Office grading is based on rating of such parameters as quality of property management, facilities, finishes, sizes of floor plate, property age, etc. by Rating and Valuation Department (R&VD). For details, see "Hong Kong Property Review 2007" published by R&VD.

## Box 3.1 (Cont'd)

### Private office stock by grade



As regards Grade B and Grade C office spaces, the stock expanded by 33% and 19% respectively over the past decade but the increases occurred largely in the earlier years. New supply was relatively limited in the more recent years. Compared with a decade earlier, the share of Grade B in private office stock held stable at 25% at end-2006 while that of Grade C office space fell to 16%. The demand for lower-graded office space mainly came from small and medium enterprises so that the size of units involved were smaller in general. Crudely, it was estimated from a sample of leasing transactions in 2006 that the average sizes of Grade B and Grade C office units involved were 92 m<sup>2</sup> and 46 m<sup>2</sup> respectively as compared to the corresponding figure of 274 m<sup>2</sup> for Grade A office units<sup>(c)</sup>.

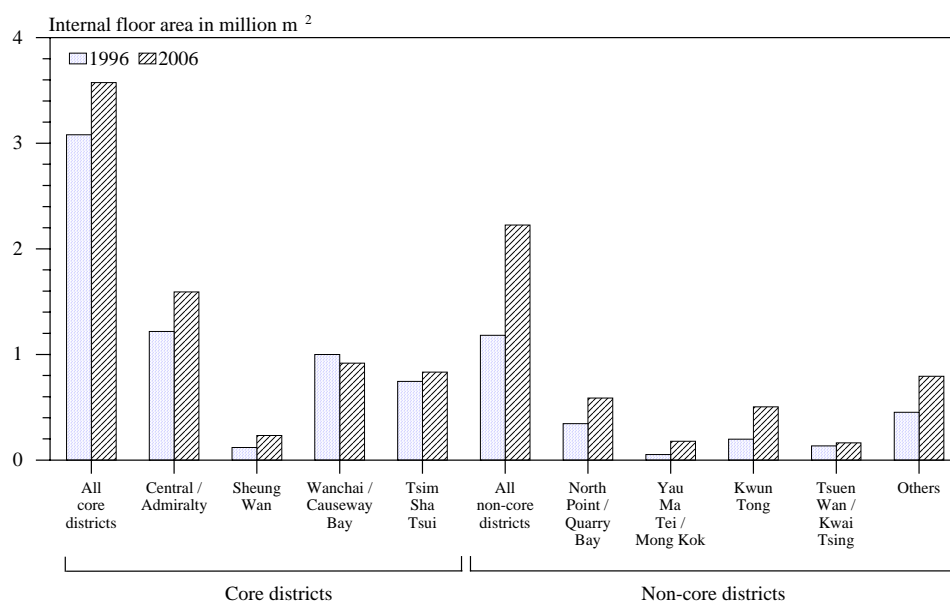
Analysed by location, office spaces in Grade B and C remain concentrated in more peripheral areas. Yet for Grade A office, the profile has become more decentralised due to faster increase for new supply in non-core districts than core districts. As a result, the share of Grade A office stock being located in non-core districts rose sharply from 28% at end-1996 to 38% at end-2006. Quarry Bay, North Point, Tsuen Wan and Kwun Tong are notable non-core areas with more Grade A office buildings. Among core districts, the share of Wan Chai/Causeway Bay dropped markedly from 23% to 16%. The shares of Central/Admiralty and Tsimshatsui fell more mildly, from 29% and 17% to 27% and 14% respectively.

A major driving force for Grade A office relocation from core to non-core districts is the more abundant supply of land available for office developments in fringe areas, in contrast to limited new sites in the core districts. This has led to wider rent gap between core and non-core districts which induces office relocation. The tendency is reinforced by growing efficiency of domestic transport system that makes peripheral areas increasingly accessible. Communications technology also plays a role. Its wider use has enabled enterprises to move at least part of the operations, especially back-up services, to more affordable peripheral locations. As new office supply in core districts is likely to remain tight, the tendency of office relocation is expected to continue in the short to medium term.

(c) Crude estimates by R&VD based on a sample of units analysed in 2006.

### Box 3.1 (Cont'd)

#### Grade A office stock by district



## Transport

3.8 As stated in the Policy Address by the Chief Executive in early October 2007, the Government will press ahead with several large-scale transport infrastructure projects in the years ahead, with a view to consolidating Hong Kong's status as a global city and laying a new foundation for its sustained development in the future. Upon commissioning, these projects will bring about more efficient transportation systems as well as closer rail and road transport links between Hong Kong and the neighbouring regions of Shenzhen and Pearl River Delta (PRD).

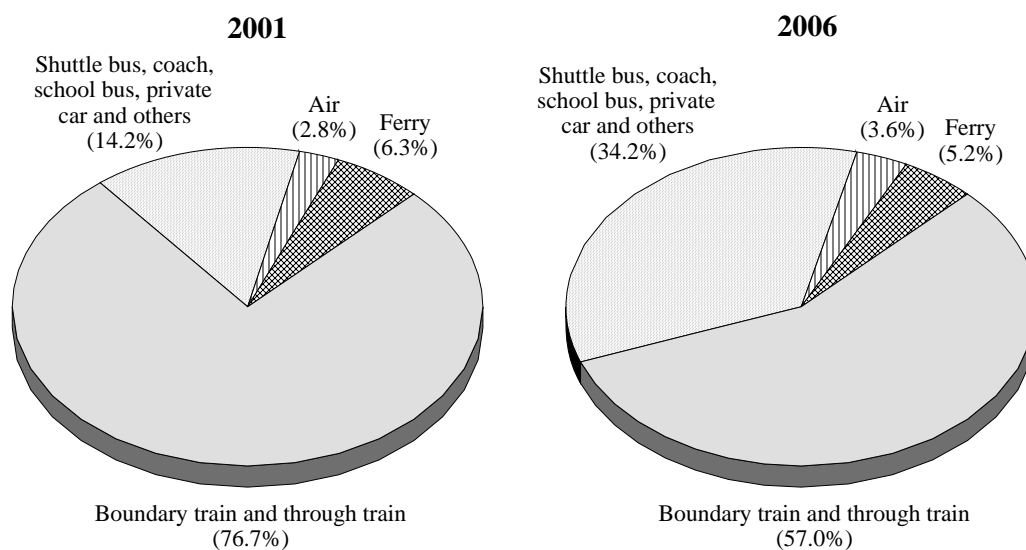
3.9 On *domestic transport infrastructure projects*, the Government is working towards commencement of construction works for two new rail projects, namely the Shatin to Central Link and the South Island Line, by 2010 and 2011 respectively. Upon commissioning, these two new rail links will substantially improve the local transportation system by which socio-cultural and business activities can be even better linked up, and by which the capacity for city development can be further enhanced.

3.10 On *cross-boundary transport links*, the Government is pressing ahead with the building of the Guangzhou-Shenzhen-Hong Kong Express Rail Link running from West Kowloon to Shibi, Guangzhou. The Hong Kong section of the Link will use a dedicated line to ensure its smooth operation. As regards

the Hong Kong-Zhuhai-Macao Bridge, the engineering feasibility studies for over 20 project items have been completed. The Government will continue to press ahead with the preparatory work, including following up with the site selection study for the Hong Kong boundary-crossing facilities and the financing arrangements of the project, with a view to finalising and submitting the feasibility study report to the Central Government for approval, and commencing the construction work as soon as possible. Besides, the Government is actively planning to develop the Tuen Mun Western Bypass and the Tuen Mun-Chek Lap Kok Link. Upon completion there will be a direct access linking up the Kong Sham Western Highway, the Northwest New Territories and the Hong Kong International Airport (HKIA).

3.11 Development of the aforesaid cross-boundary infrastructures will help cater for the rapid expansion in passenger and cargo flows between Hong Kong and the Mainland, which rely heavily on rail and road transports through PRD. According to an estimate, 57% of the cross-boundary passenger trips are made by rail transport and 34% by road transport<sup>(1)</sup>. As regards cargo traffic, some 28% of cross-boundary cargo flows in tonnage terms between Hong Kong and the Mainland are handled by land modes of transport. From a wider perspective, improved efficiency of cross-boundary land transport links will create substantial synergy for both Hong Kong and PRD by facilitating their economic integration, enhancing their outreach to global transport network, and strengthening their global competitiveness.

**Diagram 3.4 : Persistently land transport handles about 90% of cross-boundary passenger flows, but there has been a relative shift towards greater use of vehicular traffic**

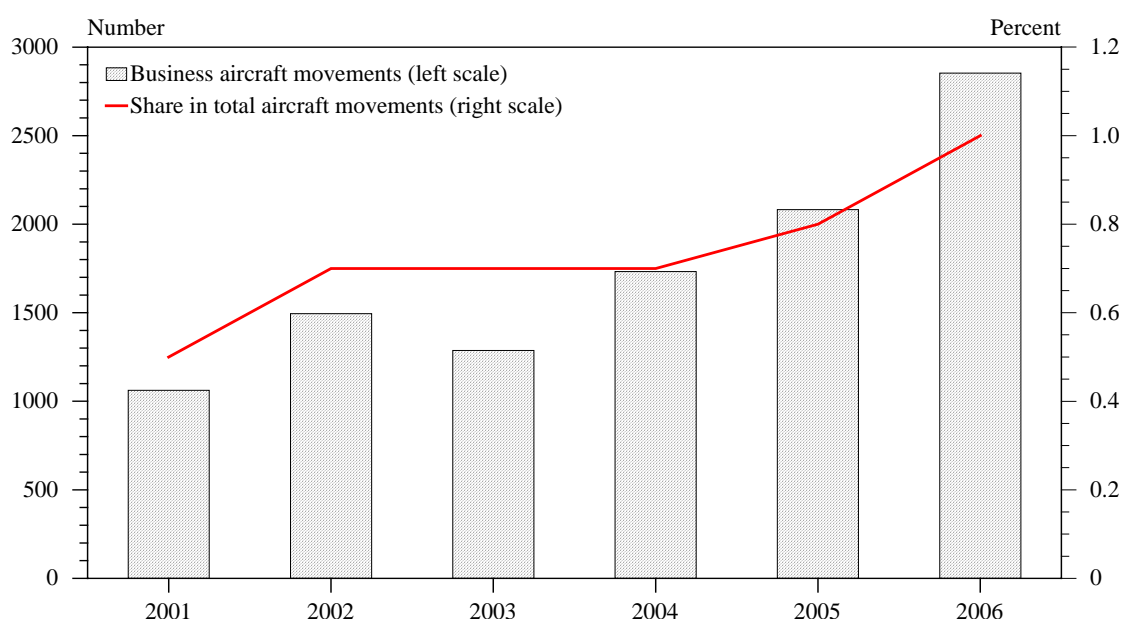


Note: Figures are based on the results of a two-week survey conducted by the Planning Department in late 2006.

3.12 Regarding air transport, the Policy Address highlights the advantages of capitalising the complementarity between HKIA and Shenzhen Airport. With the support from the Shenzhen Municipal Government, Hong Kong and Shenzhen will set up a joint task force to follow up on further cooperations between the two airports, including the feasibility of a rail connection linking them up.

3.13 In September 2007, a new hanger costing \$100 million has commenced operation at HKIA. Double in size than the existing one, the expansion responded to the fast-growing upmarket segment of business aviation<sup>(2)</sup>, as manifested by a surge in the movements of business aircrafts by 191% between 2000 and 2006. Further investment of \$80 million has been undertaken to expand the apron area in phases and to provide additional parking area for business jets.

**Diagram 3.5 : Surge in business aircraft movements signifying rapid expansion of the business aviation sector in recent years**



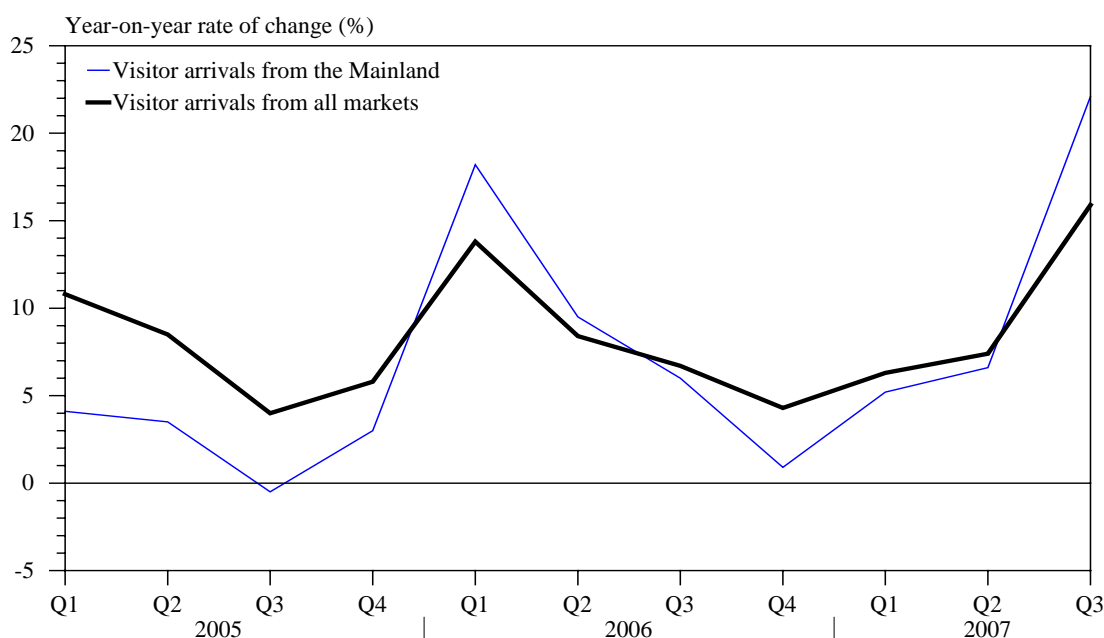
## Tourism

3.14 Inbound tourism showed a markedly accelerated growth in the third quarter of 2007, with the number of incoming visitors resuming a double-digit increase of 15.1% over a year earlier. This represented a distinct pick up from that of 6.8% in the first half, giving an increase of 9.6% in the first nine months of 2007. The growth acceleration was mainly driven by renewed surge in Mainland visitor arrivals, by 20.6% in overall terms and 33.3% under the Individual Visit Scheme in the third quarter. During the Golden Week in October, the Mainland visitor arrivals even soared by about 37.6% over the

same period in 2006. As a major and convenient destination for the Mainland tourists, Hong Kong continued to benefit from the rapid growth of the Mainland's outbound tourism market alongside its booming consumption.

3.15 Visitor arrivals from other major source markets continued to increase extensively, thereby sustaining a broad-based growth pattern. Arrivals from long-haul markets rose markedly further, by 12.3% in the third quarter of 2007 over a year earlier. The growth was more visible for such EU markets as the United Kingdom and France, benefiting from the appreciation of Euro against US dollar. Concurrently, arrivals from Asian markets other than the Mainland maintained steady growth, averaging at 6.2% in the third quarter.

**Diagram 3.6 : Incoming visitor growth re-accelerated distinctly further on the back of renewed surge in Mainland arrivals**



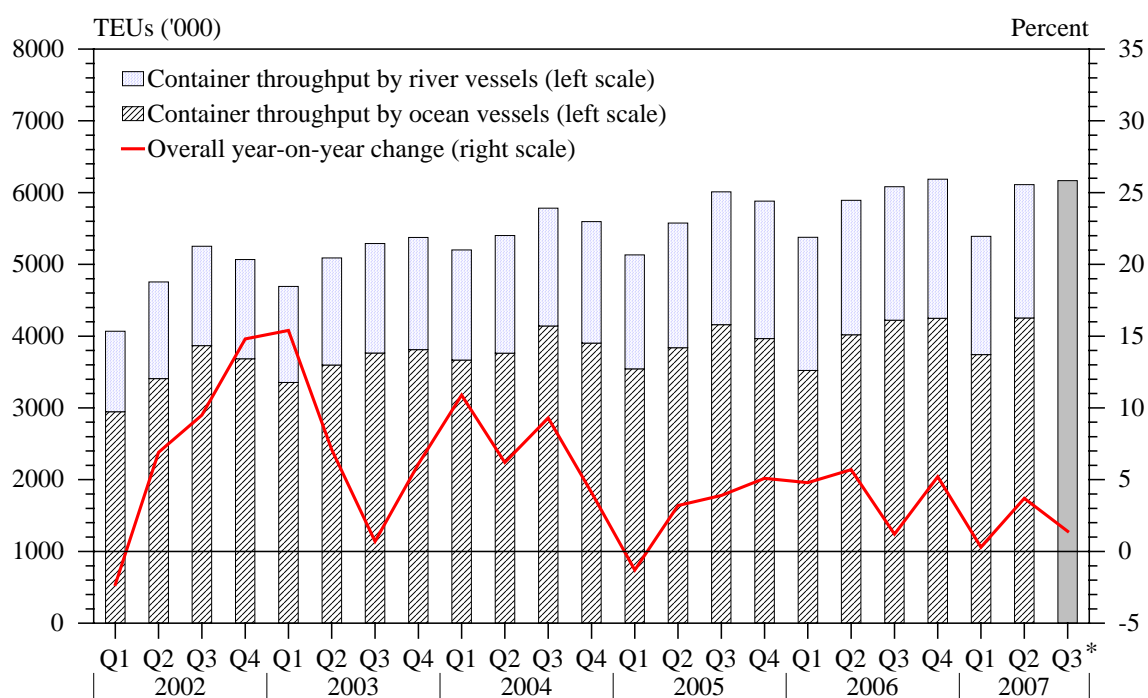
3.16 Apart from facilitating trading and business activities, the development of convention and exhibition services in Hong Kong over the years has helped boost tourism and other sectors through the impetus to business travels. In order to enhance the appeal of Hong Kong as an international convention, exhibition and tourism capital, the Government is working closely with the industries to improve our competitive edge amidst intense regional competition. In parallel, infrastructure development is in the pipeline to ensure an effective hardware that caters for market demand. The target completion of the atrium link extension in early 2009 is expected to increase the exhibition area of the Hong Kong Convention and Exhibition Centre by 42%. Besides, the Government is exploring with AsiaWorld-Expo the early commencement of

its phase 2 expansion, and with the Hong Kong Trade Development Council on the provision of additional convention and exhibition facilities.

## Logistics

3.17 The logistics sector continued to move ahead healthily so far in 2007, benefiting from increased shipment activities as trade volume in the region kept scaling up. On *port cargo* movement, overall container throughput handled by Hong Kong port rose further by an estimate of about 1.4% year-on-year in the third quarter, following an increase of 2.1% in the first half of 2007. Profile up to August showed that the growth impetus so far this year mainly came from cargo movements related to transhipment.

**Diagram 3.7 : Port container throughput continued to rise steadily on the back of sustained growth in trade and transhipment activities**

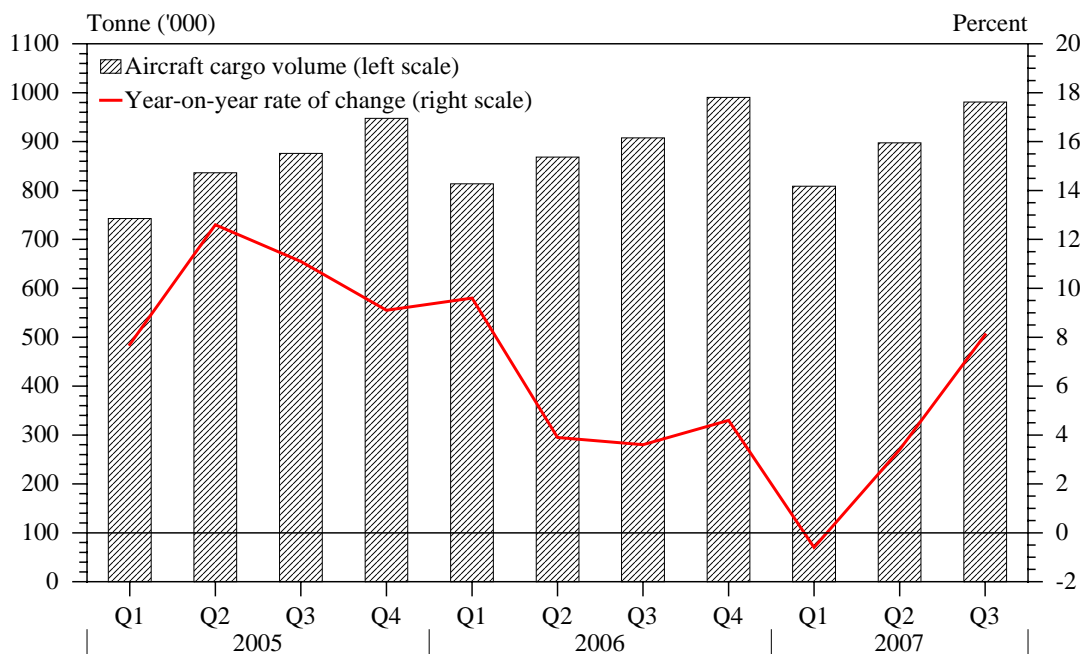


Note : (\*) Preliminary estimate by Hong Kong Port Development Council. Breakdown in throughput by ocean and river vessels is not available yet.

3.18 On *air freight*, cargo throughput picked up further by 8.1% year-on-year in the third quarter of 2007, after switching from a brief decline of 0.6% in the first quarter to an increase of 3.3% in the second quarter. For the first nine months of 2007 taken together, air cargo throughput expanded by 3.8% over a year earlier. A major factor behind the growth momentum in air freight was the expansion in air cargo throughput with the Mainland, of which the share in Hong Kong's total air cargo throughput had risen markedly from

5.8% in 2001 to 10.8% in 2006. In the first nine months of 2007, air cargo throughput with the Mainland rose further by about 12.7 % over a year earlier.

**Diagram 3.8 : Air freight resumed a faster growth in recent quarters after a brief ease-back earlier this year**



## Creativity and innovation

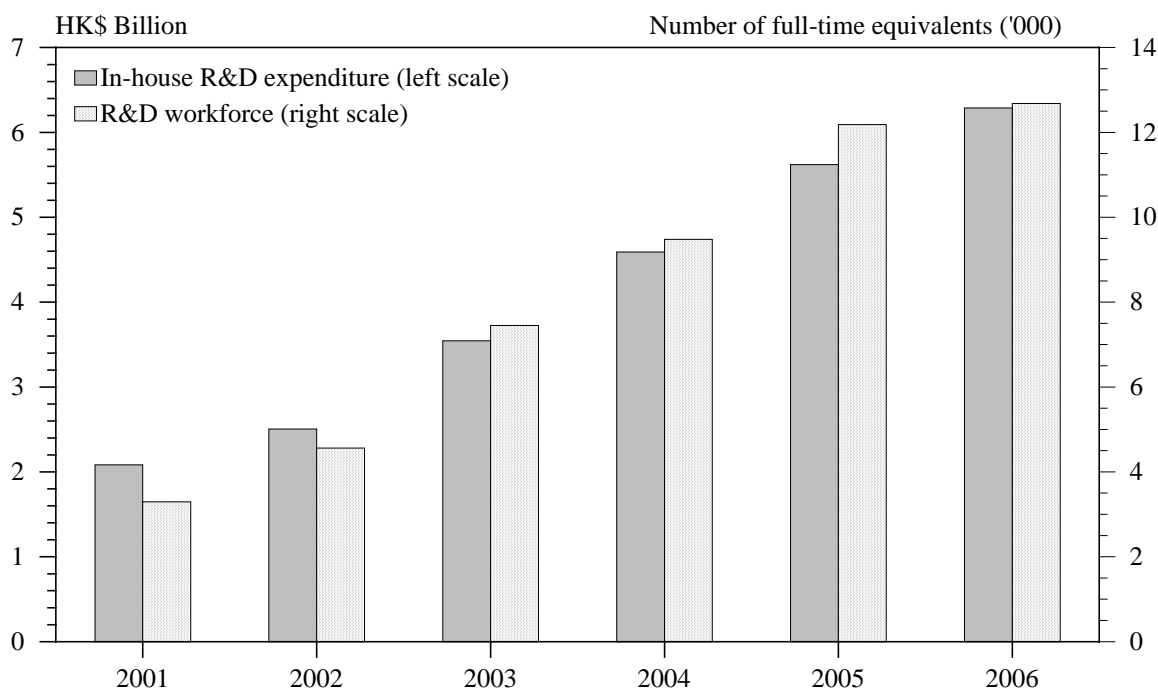
3.19 A public engagement exercise has been launched on the recommendations of the Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District (the Consultative Committee). The West Kowloon Cultural District (WKCD) project is a major investment in Hong Kong's cultural and arts infrastructure. The Consultative Committee recommends an upfront endowment of about \$19 billion (net present value at 2006), to be appropriated by the Legislative Council, be given to the proposed West Kowloon Cultural District Authority for developing and operating the WKCD in a self-sufficient and sustainable manner. Upon completion of the exercise in December 2007, it is targeted to introduce the bill on establishing the WKCD authority in early 2008 and have the legislation enacted in mid-2008 so that the authority can be set up as soon as possible to spearhead this giant investment project<sup>(3)</sup>. WKCD as an integrated cultural hub is expected to open up a wealth of new opportunities for investment in cultural and arts activities, thereby stimulating the development of cultural and creative industries in Hong Kong. By supporting arts education and cultural appreciation in the community, the infrastructure will also help nurture a pool of creative talents that are necessary for Hong Kong to develop into a creative economy.



3.20 In his Policy Address in early October, the Chief Executive highlighted the need to accelerate the development of creative industries in the next five years. In this connection, the Financial Secretary and the Commerce and Economic Development Bureau under his ambit will oversee the development plan for creative industries. They will draw up overall strategic plans for future development, complementary facilities and manpower training in collaboration with government departments, non-governmental organisations and professional bodies.

3.21 The concerted efforts by the Government to promote creative and innovative activities are echoed by increasing engagement of the business sector in research and development (R&D) activities. Latest indicators revealed that business expenditure on in-house R&D activities rose markedly further by 11.8% to a new high of \$6.3 billion in 2006<sup>(4)</sup>. Meanwhile, the size of R&D workforce also kept expanding, by 4.1% to 12 681 full-time equivalent.

**Diagram 3.9 : Business investment in research and development activities kept building up along with increasing recognition of creativity as a driver of growth**



**Notes :**

- (1) For details, see the Report on “Northbound Southbound 2006 – Profile of Travelling Between the Mainland and Hong Kong Based on the Cross-boundary Travel Survey 2006” published by Planning Department on 5 October 2007.
- (2) Business aviation, in general, refers to the own exclusive use of aircraft or helicopter by any company, government or persons for the transportation of people.
- (3) It is proposed that the WKCD be developed in two phases, with the first phase of the core arts and cultural facilities in full operation in 2015. For details, see the Recommendation Report of the Consultative Committee on the Core Arts and Cultural Facilities of the West Kowloon Cultural District, June 2007 at <http://www.hab.gov.hk/wkcd/>
- (4) For details, see the Report on “2006 Annual Survey of Innovation Activities in the Business Sector” published by Census and Statistics Department on 25 October 2007.

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

### *Summary*

- *The financial sector continued to perform robustly in the third quarter given the strong economic fundamentals in Hong Kong and the Mainland. The financial system stayed sound despite the volatility in global financial markets that was triggered by the US sub-prime mortgage problems.*
- *The cut in US interest rates prompted lowering of the savings deposit and best lending rates in Hong Kong. However, hectic IPO activities, coupled with the global credit market turbulence, kept HIBORs at a relatively high level during the third quarter, narrowing the negative interest rate gaps with the US dollar rates towards the end of the period. Growth in money supply and bank loans remained sturdy, amidst the economic expansion. The weakening of Hong Kong dollar along with the US dollar against most major currencies continued.*
- *Positive sentiment in the local stock market, amidst the prospects for more capital inflow, pushed both the Hang Seng Index and stock market turnover to successive record highs after a brief malaise in August. Fund-raising activities remained buoyant as well. Meanwhile, persistent optimism towards investment markets and increasing awareness about wealth management continued to drive the fund management and insurance sectors.*
- *Although the local financial markets have been mostly upbeat in the past few months, heightened market volatility, risk-adverseness in the credit market and a possible slower growth for the global economy are some of the major issues that warrant close monitoring.*
- *Hong Kong will relentlessly put efforts into building a diversified financial market to further consolidate its position as an international financial centre. In addition to facilitating Mainland enterprises and investors to participate in Hong Kong's stock market and use the city as a platform for more outward investment, development of the Renminbi (RMB) market and an Islamic bond market are other initiatives that were announced in the Policy Address in October 2007.*

---

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

## **Overall situation**

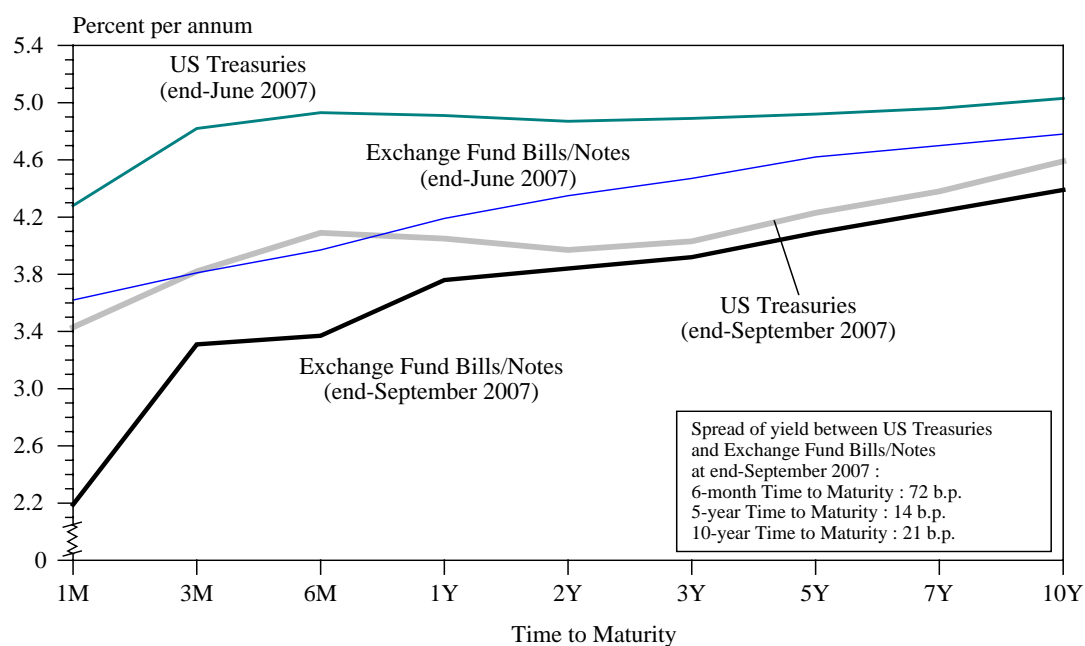
4.1 The global financial markets were volatile in the third quarter as the concern over sub-prime mortgage securities in the US led to heightened risk aversion among investors. Nevertheless, Hong Kong's financial system remained sound, given the strong supervisory framework and prudent management of local financial institutions. In particular, positive sentiment and sustained high level of liquidity in the market propelled the Hang Seng Index to record highs.

4.2 The banking sector continued to hold up well despite pressure from competition in loan pricing. Meanwhile, insurance and asset management businesses remained buoyant amidst the growth in demand for wealth management services. Moreover, the issuance of RMB-denominated bonds by Mainland financial institutions further enhanced Hong Kong's capability to handle RMB-denominated transactions. Other efforts to build a diversified financial market, such as attracting more overseas enterprises to list and developing an Islamic Bond market, will strengthen Hong Kong's role as an international financial centre as well.

## **Interest rates and exchange rates**

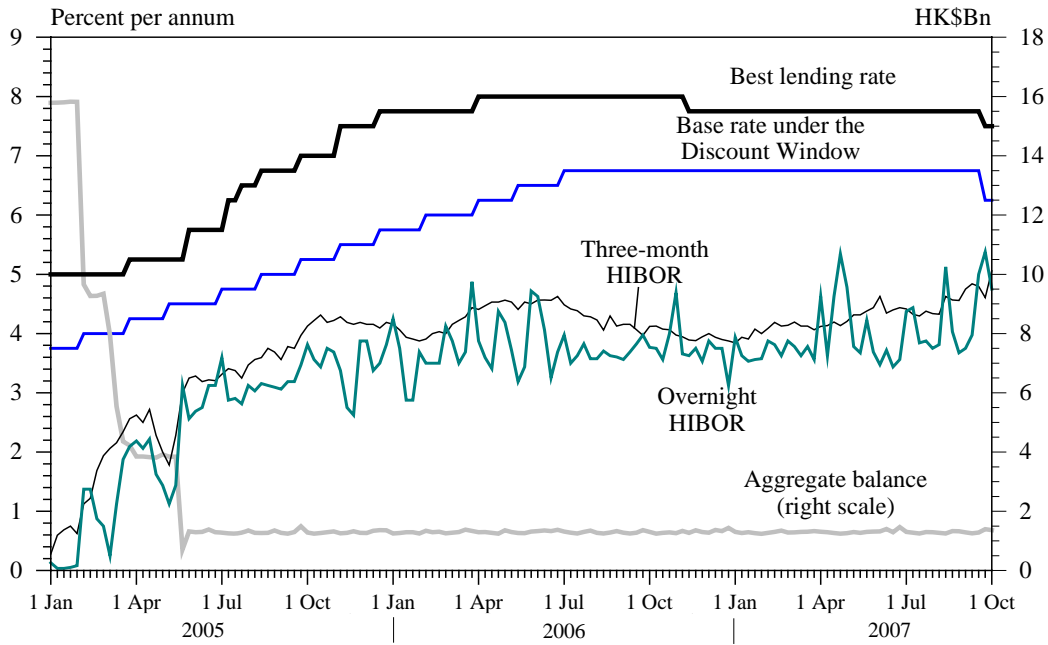
4.3 On 18 September, the US Federal Reserve cut both the Target Rate and the discount rate by 50 basis points to 4.75% and 5.25% respectively to prevent the recent disruptions in financial markets from spilling over to the broader economy. Consequently, the Discount Window Base Rate for Hong Kong dollar as offered by the HKMA was also cut in tandem to 6.25% according to the established formula<sup>(1)</sup>. For the interbank market for Hong Kong dollar, however, the overnight and three-month HIBORs rose to an average of 4.11% and 4.54% respectively during the period, underpinned by increased funding demand associated with vigorous equity initial public offering (IPO) activities. The discount of the three-month HIBOR over the corresponding Euro-dollar deposit rate continued to narrow, from 93 basis points at end-June to 27 basis points at end-September. For long-end of the yield curve, interest rate spread between 10-year Exchange Fund Notes and US Treasuries of the same maturity was 21 basis points at end-September, narrowing, by a smaller extent, from 25 basis points at end-June. Meanwhile, the Aggregate Balance remained little changed at around \$1.3 billion at end-September.

**Diagram 4.1: A tighter gap between Hong Kong and US dollar yield curves**



4.4 At the retail level, Federal Reserve's rate cut prompted local banks to trim their savings deposit and best lending rates (BLRs) also, albeit by a smaller magnitude. The two best lending rates in the market both declined by 25 basis points to 7.50% and 7.75% respectively on 20 September. The savings deposit rate also decreased by 25 basis points to 2.01%. However, with higher interbank interest rates, the average one-month time deposit rate offered by major authorised institutions<sup>(2)</sup> rose to 2.67% at end-September, up from 2.54% at end-June. Reflecting intense competition in the mortgage market, over 90% of the newly approved mortgages in the third quarter were priced at more than 2.5% below BLR. The fierce price competition in the mortgage market had lessened the repayment burden for mortgagors in a significant way over the past few years and has brought about some favourable effects on domestic consumer demand and the economy in general (See *Box 4.1*). However, a number of banks cut the discount to BLR on mortgage rates towards the end of the third quarter, citing upward pressure on funding costs. The composite interest rates, which indicated the average cost of funds for banks, rose from 3.09% at end-June to 3.34% at end-September<sup>(3)</sup>.

**Diagram 4.2: HIBORs remained high in spite of rate cuts in the US  
(end for the week)**

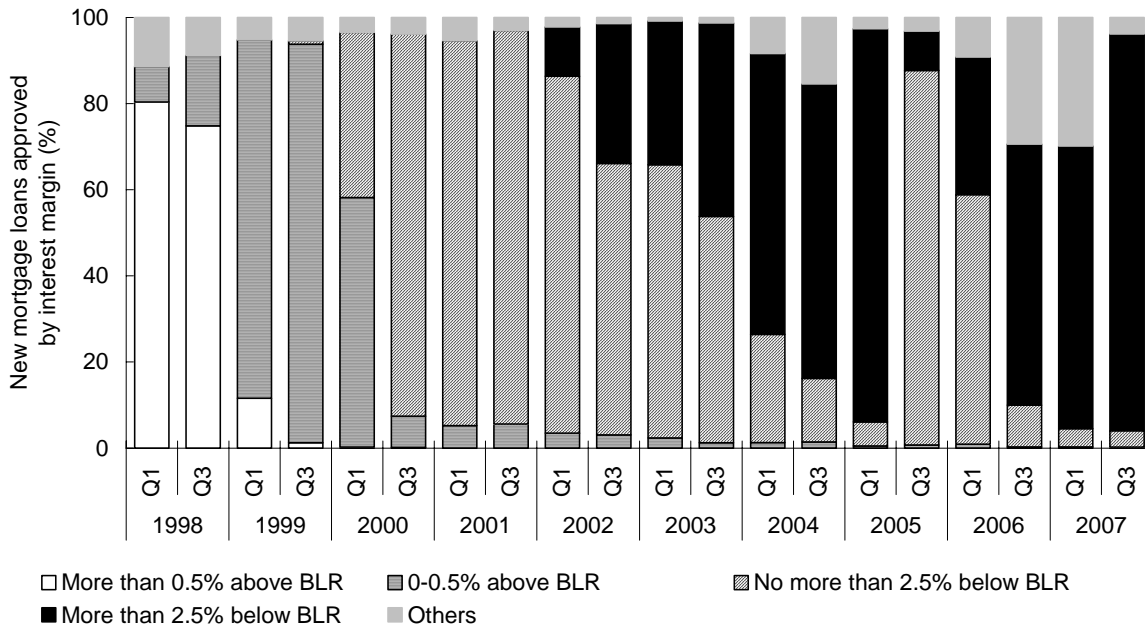


**Box 4.1**

**Economic Impact of Competition in Mortgage Interest Rates**

Residential mortgage lending, a key market segment for local banks, has experienced fierce competitive pressure over the past few years. According to statistics from HKMA, over 90% of new mortgages was issued at more than 2.5% below the best lending rate (BLR) in the third quarter of 2007; in the first half of 1998, more than 80% of new mortgage loans was issued at more than 0.5% above the BLR.

**Chart 1: Competition drove mortgage rates downward**



Mortgagors are obviously the major beneficiaries of this development. The intensified competition in mortgage lending since 1999 had brought about an estimated interest savings of about \$90 billion between 2000 and 2006 for these borrowers.

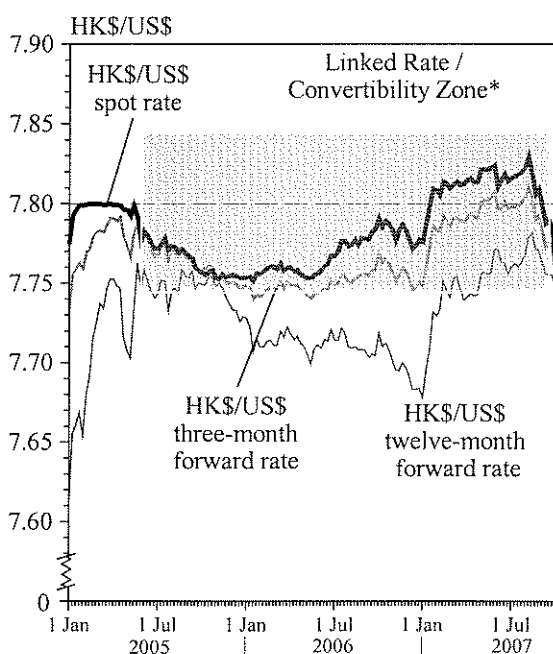
To put the benefit of lower mortgage rates into the perspective of homeownership, if the margin between mortgage rate and BLR has stayed unchanged at the level in early 1999, the latest mortgage repayment-income ratio (which is inversely related to the affordability of homeownership) would have been about 9 percentage points higher. In other words, the “typical” household living in private housing would have to set aside another 9% of their income to pay for a 20-year mortgage on an average residential flat.

In terms of economic impact, the interest savings would have boosted private consumption expenditure and, hence, overall GDP. Nevertheless, the economic impact should have been somewhat dampened by local residents’ high savings rate, their inclination to use part of their discretionary spending on overseas tours and the high ratio of retained imports of goods to support domestic consumption demand.

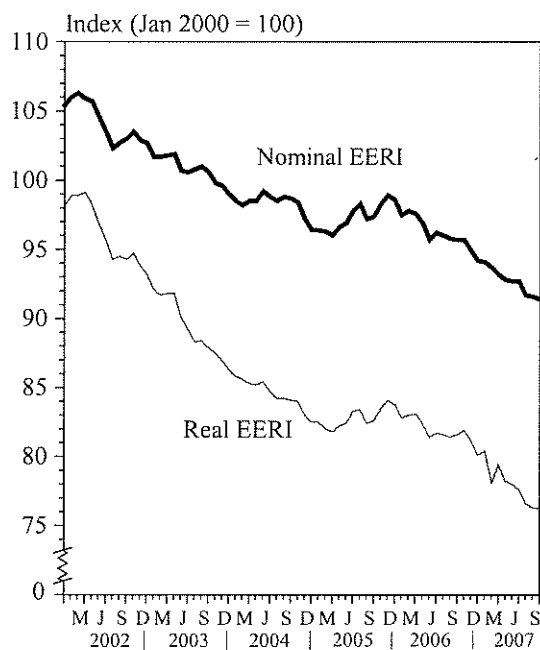
Looking ahead, while some local banks have already trimmed the negative margin between mortgage rates and BLR, the chance for a drastic reversal of the discount, thereby significantly increasing the repayment burden on mortgagors, is also not likely due to the persistent competitive environment in the local banking market. Besides, the prospects of lower US dollar interest rates and continued positive long-term outlook for the Hong Kong economy should lend support to the residential property market and local consumption demand as well in the near term.

4.5 Reversing the weakening trend of the first seven months of 2007, the Hong Kong dollar strengthened against the US dollar in August and September, reflecting some unwinding of carry trade positions and equity-related demand for Hong Kong dollar amidst the buoyant market and IPO activities in late-September and early-October. However, the Hong Kong dollar continued to lose further ground against other currencies given the persistent depreciation of the US dollar that reflected the negative spill-over effect associated with the sub-prime mortgage problem and the lowered US Fed Funds Target Rate. During the third quarter, the trade-weighted Nominal and Real Effective Exchange Rate Indices (EERIs)<sup>(4)</sup> of the Hong Kong dollar fell by 1.3% and 1.6% respectively. In line with the narrowing spread between HIBORs and Euro-dollar deposit rate, the discount of the 12-month Hong Kong dollar forward rate over the spot rate also tightened further from -555 pips (each pip is equivalent to HK\$0.0001) at end-June to -120 pips at end-September.

**Diagram 4.3: Forward spread narrowed further  
(end for the week)**



**Diagram 4.4: Trade-weighted EERI continued to trend downward amidst a weak US dollar  
(average for the month)**



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

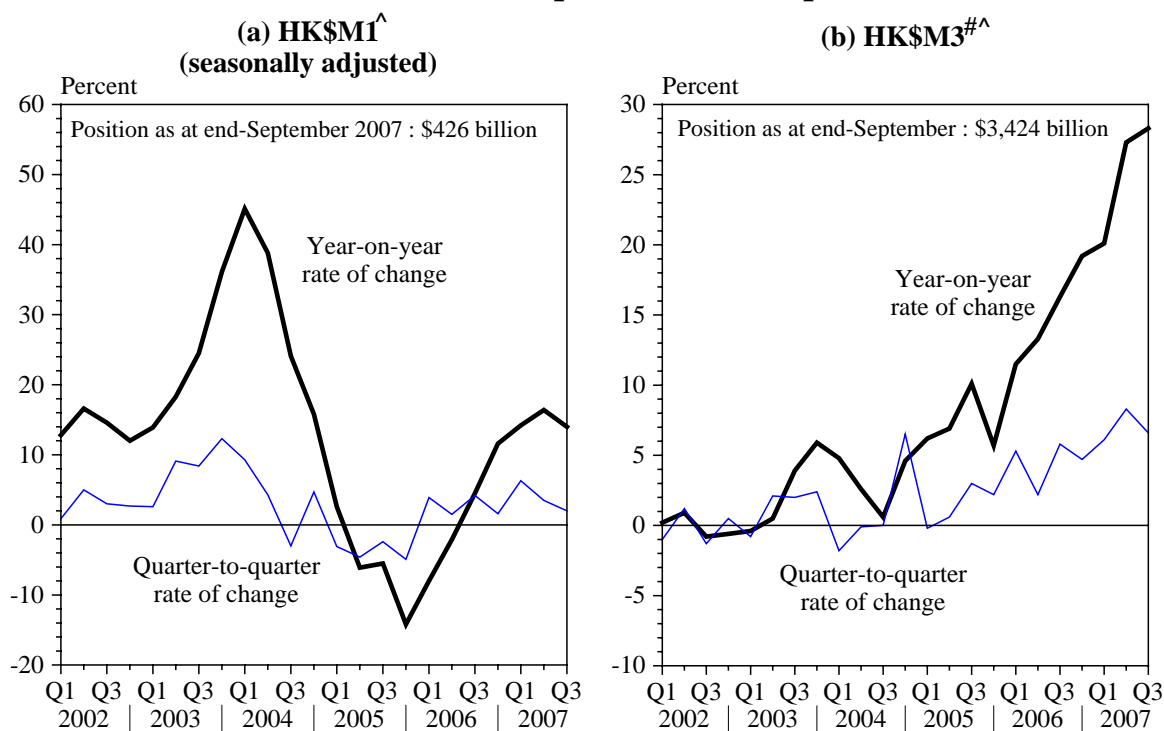
### Money supply and banking sector

4.6 Both narrow and broad money supply increased in the third quarter. In particular, the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1)<sup>(5)</sup> posted an increase of 2.0% at end-September over end-June, reflecting buoyant fund-raising activities and increased stock market turnover.



Hong Kong dollar broad money supply (HK\$M3) rose by 6.6% over the same period, along with the strong increase in time deposits. Total deposits with authorised institutions continued to expand, as financial positions of both the household and corporate sectors further strengthened amidst sustained improvement in labour market and the buoyant asset market.

**Diagram 4.5 : Money supply grew strongly amidst strengthening household and corporate financial positions**



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

(#) Adjusted to include foreign currency swap deposits.

4.7 Total loans and advances increased during the third quarter, by 6.4% to \$3,042 billion (comprising Hong Kong dollar loans of \$2,334 billion and foreign currency loans of \$708 billion) at end-September, alongside the sustained above-trend economic expansion. Moreover, loans for use in Hong Kong rose. Analysed by major usage, a particularly strong growth was seen in loans to stockbrokers, reflecting vibrant stock market activities and increased borrowing to finance the subscription for IPOs. The growth in loans to building, construction, property development and investment was comparable to the overall loan portfolio at authorised institutions. The generally steady flow of loans to purchase residential mortgage was in line with the healthy state of the residential property market and the low mortgage rate environment. The increase in loans to finance visible trade also matched Hong Kong's vibrant external trade sector. Meanwhile, the Hong Kong dollar loan-to-deposit ratio was 72.9% in the third quarter, compared with 73.7% in the second quarter.

**Table 4.1 : Loans and advances**

All loans and advances for use in Hong Kong											
Loans to :											
		Finance	Manu-	Whole-	Building,	Purchase	Financial	Stock-	Total <sup>(b)</sup>	All loans	Total
		visible	facturing	sale	construction,	of	concerns	brokers		and advances	loans
		trade	sector	and	property	residential				for use	and
				retail	development	property <sup>(a)</sup>				outside	advances
				trade	and					Hong Kong <sup>(c)</sup>	and
					investment						advances
% change	during										
	the quarter										
2006	Q1	-2.4	-1.9	0.9	0.6	-1.1	3.6	5.3	-0.3	9.1	0.7
	Q2	10.1	3.7	1.9	5.7	-0.6	-1.3	-6.0	2.8	12.0	3.9
	Q3	4.9	-5.4	0.1	-0.9	-0.5	4.7	620.6	1.5	16.7	3.3
	Q4	-4.7	-2.7	2.1	4.0	0.3	-2.5	-82.5	-1.4	-0.2	-1.2
2007	Q1	-1.0	3.5	1.9	1.0	-0.1	12.5	959.5	7.6	12.3	8.3
	Q2	12.2	7.3	3.9	6.1	1.2	8.4	39.5	6.4	10.7	7.0
	Q3	4.2	4.8	1.8	5.8	1.4	6.0	11.9	5.8	9.9	6.4
Total amount at end-September 2007 (HK\$Bn)		176	119	113	555	609	230	139	2,575	467	3,042
% change over a year earlier		10.3	13.2	10.0	18.0	2.7	26.6	169.8	19.5	36.4	21.8

- 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.
- (c) Also includes loans where the place of use is not known.

4.8 Asset quality of the local banking sector remained good. The ratio of classified loans to total loans of retail banks declined further, from 1.11% at end-December 2006 to 0.90% at end-June 2007. The arrears for over three months in credit card repayment stayed at 0.40% at end-June 2007, an average level for the past two years. For residential mortgage loans, the delinquency ratio decreased from 0.20% to 0.13% during the first three quarters of 2007. The capital adequacy ratio (CAR) for local banks remained stable, averaged at around 13.4% at end-June. All individual authorised institutions' CARs were above the statutory minimum ratios they are required to meet under the Banking Ordinance.

**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)
2006	Q1	95.97	2.71	1.32
	Q2	96.15	2.55	1.29
	Q3	96.44	2.37	1.19
	Q4	96.65	2.24	1.11
2007	Q1	97.11	1.89	1.00
	Q2	97.37	1.73	0.90

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.

4.9 Renminbi deposits with authorised institutions decreased slightly during the third quarter, amounting to RMB 27.5 billion yuan at end-September, down from RMB 27.6 billion yuan at end-June. With the second and third issuances of the renminbi-denominated bonds in Hong Kong, there seemed to be a shift away from the time deposits to these debt instruments, partly reflecting a higher yield for these bonds. The retail-level renminbi interest rates in Hong Kong remained unchanged at below 1%, much lower than yields carried by renminbi-denominated bonds.

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

<u>As at end of</u>		<u>Interest rates on<sup>(a)</sup></u>					<u>Number of licensed banks engaged in RMB business</u>
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Saving deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)	
2006	Q1	10,682	11,776	22,458	0.46	0.65	39
	Q2	11,285	11,427	22,712	0.46	0.65	39
	Q3	11,355	11,264	22,619	0.46	0.65	40
	Q4	12,228	11,175	23,403	0.46	0.65	38
2007	Q1	13,643	11,595	25,238	0.46	0.65	38
	Q2	17,228	10,391	27,618	0.46	0.65	38
	Q3	18,458	9,045	27,503	0.46	0.65	37

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

(b) Period average figures.

## The debt market

4.10 RMB-denominated bonds issued by China Development Bank, The Export-Import Bank of China and Bank of China up to the end of the third quarter marked a major milestone for the financial sector in Hong Kong. With a combined face value of RMB 10 billion yuan, the bonds varied in maturity (two to three years) as well as coupon interest rates (ranging from 3% to 3.35%). The issues were well-received by investors and further solidified the Hong Kong's status as an international financial centre.

4.11 At end-September 2007, the total outstanding value of all Hong Kong dollar debt securities rose by 4.6% over a year ago to \$756 billion<sup>(6)</sup>. This was equivalent to 22% of HK\$M3 or 17% of the Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>. The majority of these outstanding debts were issued by the private sector, while the remaining were mainly Exchange Fund papers and debt issued by the Government and statutory organisations. In order to create an increasingly diversified financial market in Hong Kong, the Government will step up efforts to nurture the growth of the debt market, including developing an Islamic bond market.

**Table 4.4 : New issuance and outstanding value of HK dollar debt securities (HK\$Bn)**

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporates	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New Issuance</b>											
2006	Annual	220.5	17.4	-	237.9	44.9	21.3	147.0	213.2	3.0	454.1
	Q1	54.4	6.9	-	61.3	14.1	7.0	35.6	56.7	0.2	118.2
	Q2	55.6	3.5	-	59.1	12.0	1.2	42.0	55.2	-	114.3
	Q3	54.1	2.6	-	56.7	10.0	7.0	35.5	52.5	1.8	111.0
	Q4	56.4	4.4	-	60.8	8.8	6.1	33.9	48.8	1.0	110.6
2007	Q1	55.0	4.0	-	59.0	13.3	5.4	37.9	56.6	1.5	117.1
	Q2	56.9	6.9	-	63.8	20.2	6.5	40.9	67.6	-	131.4
	Q3	56.1	1.5	-	57.6	6.7	5.7	18.7	31.1	-	88.7
<b>Outstanding (period-end figures)</b>											
2006	Q1	127.9	59.3	10.3	197.5	154.3	44.7	270.0	469.0	17.5	684.0
	Q2	129.3	54.0	10.3	193.6	152.9	43.3	295.3	491.5	17.1	702.2
	Q3	130.4	54.1	7.7	192.2	151.7	48.0	312.5	512.2	18.5	722.9
	Q4	131.8	56.9	7.7	196.4	147.4	52.4	332.4	532.2	19.5	748.1
2007	Q1	133.0	54.6	7.7	195.3	147.7	54.3	335.3	537.3	16.5	749.1
	Q2	134.4	58.0	7.7	200.1	151.6	58.9	350.5	561.0	14.4	775.5
	Q3	135.6	57.2	7.7	200.5	140.7	62.9	338.9	542.4	13.4	756.3

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

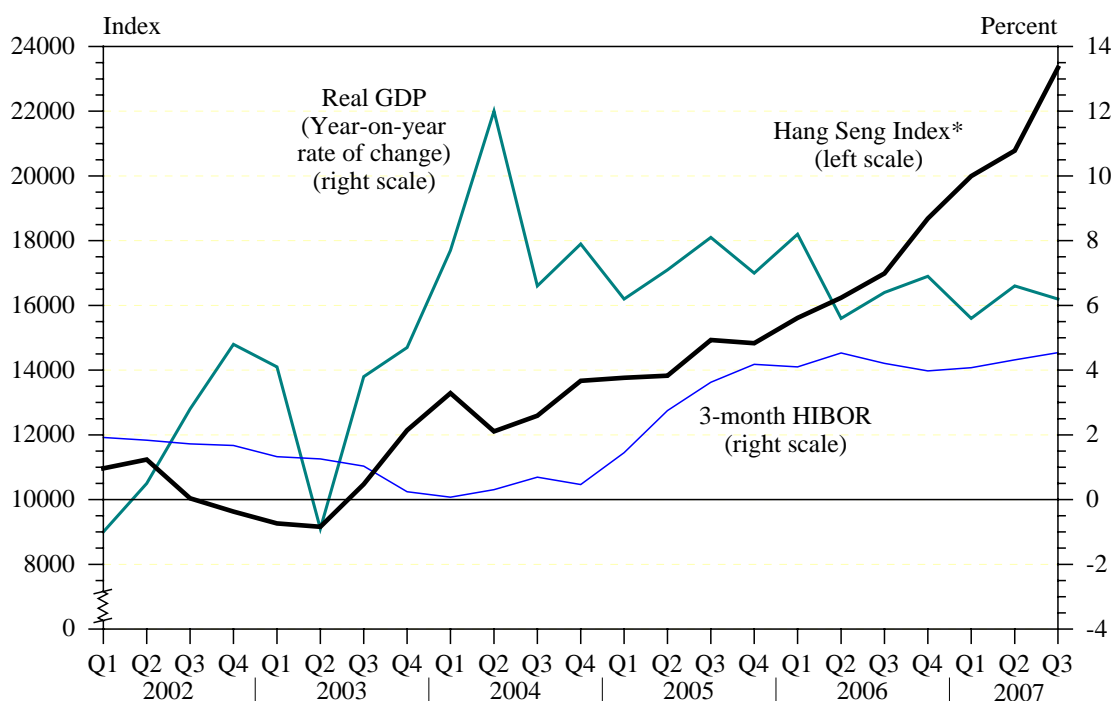
(a) AIs : Authorised Institutions.

(b) MDBs : Multilateral Development Banks.

## The stock and derivative markets

4.12 The local stock market<sup>(8)</sup> experienced a brief pull-back in August alongside the global credit market turmoil triggered by the US sub-prime mortgage problems. Nevertheless, the market staged a sharp rebound in mid-August and the momentum in the market picked up another notch in the second half of September. The Hang Seng Index (HSI) closed the third quarter at a record high of 27 142, and daily market turnover averaged at \$98 billion in the third quarter, 48% higher than the figure in the second quarter. Prospects for more capital inflow bolstered the sentiment among investors.

**Diagram 4.6: The market weathered the turbulence and trended up further in the third quarter**

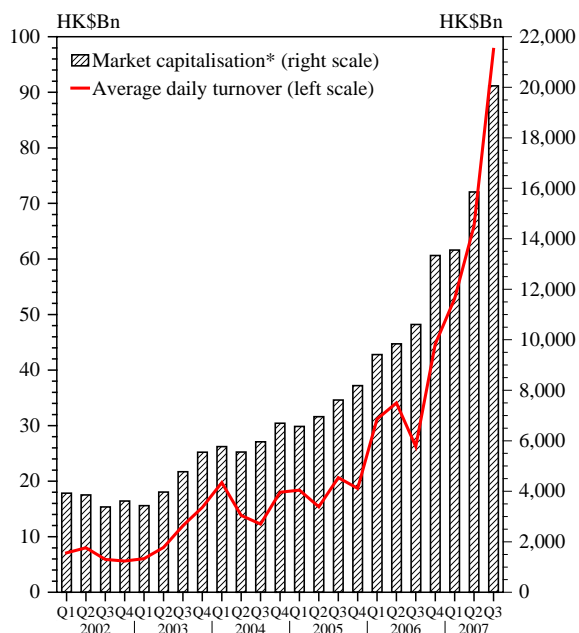


Note: (\*) Period average figures.

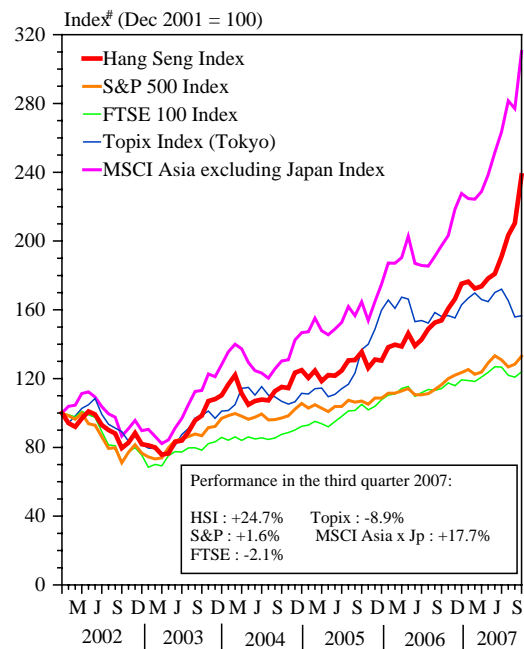
4.13 The 25% run-up in HSI during the third quarter also represented an out-performance relative to equity market benchmarks in major markets. Rising stock prices also boosted market capitalisation to \$20.1 trillion at end-September 2007, increasing by 26.5% from the end of June. Hong Kong ranked seventh among global stock markets at end-September in terms of market capitalisation, according to the World Federation of Exchanges<sup>(9)</sup>. Fund raising activities were vibrant in the midst of a buoyant market. Fund raised through new shares floatation and post-listing amounted to \$117 billion in the third quarter. Meanwhile, Hong Kong ranked seventh in terms of equity

fund raised in the first nine months of 2007 among all major exchanges in the world.

**Diagram 4.7: Hong Kong stock market expanded further**



**Diagram 4.8: HSI outperformed other major stock indices in the third quarter**



Notes : (\*) Position at end of quarter.

(#) Position at end of month.

4.14 Mainland enterprises remain a dominant force in the Hong Kong stock market. At the end of September, there were 388 Mainland enterprises listed on the Hong Kong stock market (including 143 H-share companies, 90 “Red Chips” companies and 155 private enterprises), accounting for 32% of the total number of listed companies. With an aggregate market capitalisation of \$11.6 trillion, Mainland enterprises together accounted for 58% of the total market capitalisation at end-September. Moreover, Mainland enterprises made up 70% of equity turnover and 66% of fund raised in the third quarter.

4.15 Derivatives trading during the third quarter was robust as well, given the abundant liquidity and the variety of products in the market. The derivative market was especially frenetic in August when volatility in the local stock market heightened amidst the turbulence in global financial markets, with distinctly high volume in index-related futures contracts<sup>(10)</sup>. In addition, the derivative warrant market remained buoyant and accounting for around 20% of

the overall market turnover value. Callable Bull/Bear Contracts (CBBs) had also become more popular among market participants, with average daily turnover reaching \$249 million in the third quarter, which was 173% higher than the preceding period.

4.16 In view of the growing number of new listings in recent years and to support future growth in structured products, the Hong Kong Exchanges and Clearing Limited announced that its cash market will expand the stock codes from the current four digits to five digits on 7 April 2008, subject to market readiness.

**Table 4.5 : Average daily turnover of derivatives contracts of the Hong Kong stock market**

		Hang Seng <u>Index Futures</u>	Hang Seng <u>Index Options</u>	H-shares <u>Index Futures</u>	Stock <u>Options</u>	Total Futures and <u>Options traded<sup>(a)</sup></u>	Derivative Warrants <u>(\$Mn)</u>
2006	Annual	51 491	16 582	19 759	73 390	173 708	7,247
	Q1	46 638	14 287	17 436	61 863	149 618	6,080
	Q2	54 535	17 141	22 703	65 038	172 719	6,354
	Q3	50 281	16 671	16 670	66 836	162 747	6,758
	Q4	54 770	18 278	22 564	100 169	210 829	9,818
2007	Q1	61 184	30 495	31 059	124 662	268 878	10,837
	Q2	62 301	31 774	34 783	137 742	285 315	11,662
	Q3	76 286	37 952	54 210	240 131	438 005	18,811
% change over a year earlier		51.7	127.7	225.2	259.3	169.1	178.3

Note: (a) Turnover figures for individual futures and options do not add up to the total futures and options traded as data for some products is not included in this table.

## **Fund management and investment funds**

4.17 In the third quarter of 2007, gross retail sales of mutual funds<sup>(11)</sup> amounted to US\$11.4 billion, little changed from the previous quarter. Funds managed under the MPF schemes continued to increase in the third quarter of 2007. The aggregate net asset value of the approved constituent funds rose to \$257 billion at end-September 2007, from \$230 billion at end-June 2007, partly driven by strong investment returns during the quarter<sup>(12)</sup>. Development in

retail hedge funds market continued in the third quarter as well<sup>(13)</sup>.

## Insurance

4.18 Insurance industry<sup>(14)</sup> experienced further growth in the second quarter of 2007 thanks to households' increasing consciousness about financial planning. In particular, the buoyant investment market has led to increased interest in investment-linked life insurance products in place of more traditional policies. Moreover, general insurance premium recorded strong increase in the period as well.

**Table 4.6: Insurance business in Hong Kong (HK\$Mn)**

	<u>General business :</u>			<u>Premium for long-term business* :</u>					Gross premium from long-term business and general business
	<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>	
2006 Q1	6,795	4,881	637	4,868	7,284	37	52	12,241	19,036
Q2	5,337	3,951	723	5,360	9,195	41	38	14,634	19,971
Q3	5,894	4,024	674	4,792	6,630	58	45	11,525	17,419
Q4	4,932	3,342	33	5,908	9,019	67	24	15,018	19,950
Annual	22,958	16,198	2,067	20,928	32,128	203	159	53,418	76,376
2007 Q1	6,792	4,904	441	5,982	10,122	62	45	16,211	23,003
Q2	6,156	4,451	598	3,307	13,189	62	50	16,608	22,764
% change over a year earlier	15.3	12.7	-17.3	-38.3	43.4	51.2	31.6	13.5	14.0

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



## Notes:

- (1) At present, the Base Rate is set at either 150 basis points above the prevailing US Fed Funds Target Rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is higher.
- (2) Authorised institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2007, there were 142 licensed banks, 29 restricted licence banks and 30 deposit-taking companies in Hong Kong. Altogether, 201 authorised institutions (excluding representative offices) from 32 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (3) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average costs of funds of banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (4) 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.

- (5) 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.

- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from authorised 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.

- (8) At end-September 2007, there were 1 018 and 192 companies listed on the Main Board and GEM respectively.
- (9) 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 (as of 10 October 2007), covering almost all globally recognised stock exchanges.
- (10) At end-September 2007, there were 47 classes of stock options contracts and 43 classes of stock futures contracts.
- (11) 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 authorised 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 2007, there were a total of 1 120 authorised-funds covered by the Survey.
- (12) There were 19 approved trustees at end-September 2007. On MPF products, 34 master trust schemes, two industry schemes and two employer-sponsored schemes, comprising altogether 318 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 239 000 employers, 2.10 million employees and 278 000 self-employed persons have participated in MPF schemes.
- (13) There were 14 retail hedge funds authorised by the Securities and Futures Commission (SFC) and the net asset size of SFC-authorised hedge funds amounted to US\$1.67 billion as at end-September, up by 8.4% from September 2006. The net asset size at end-September 2007 was more than 10 times of that as at end-2002, the year when the hedge funds guidelines were first issued.
- (14) As at end-September 2007, there were 181 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 117 in general insurance business, and 18 in composite insurance business. These authorised insurers come from 24 countries and territories (including Hong Kong)

## CHAPTER 5 : THE LABOUR SECTOR

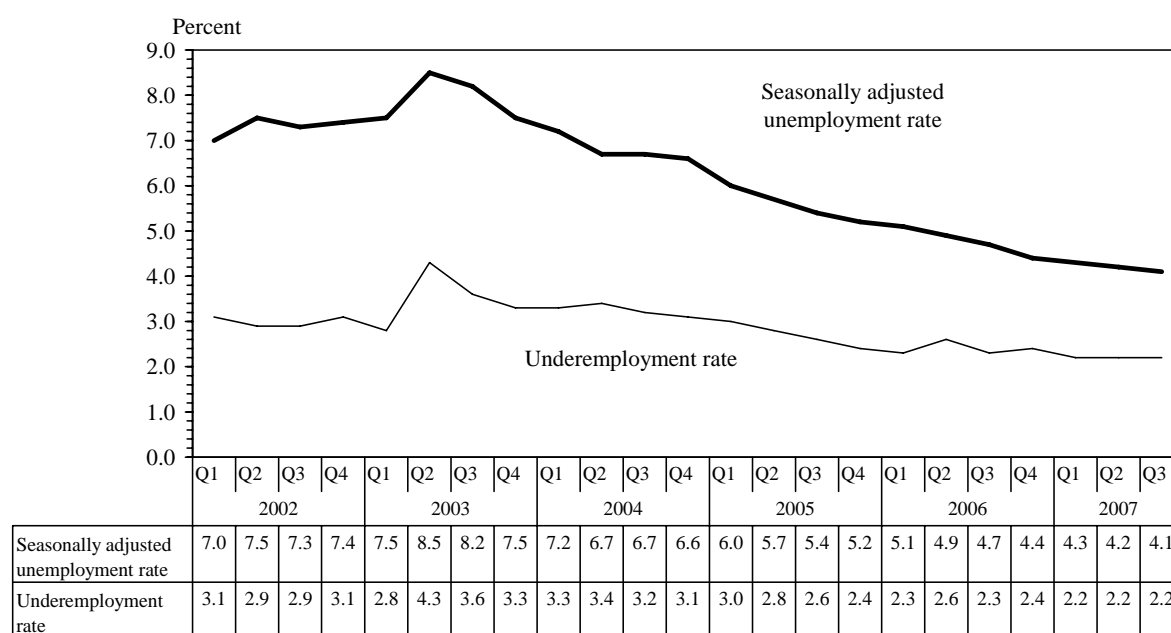
### *Summary*

- *Robust labour demand has been observed across many major economic sectors and occupations, thereby leading to an extensive improvement in Hong Kong's unemployment situation in the third quarter of 2007.*
- *Both the total labour force and total employment hit all-time highs of 3.67 million and 3.5 million respectively during the quarter. The seasonally adjusted unemployment rate fell further to 4.1%, the lowest level in more than nine years.*
- *Overall labour wages and earnings have continued to increase, though with considerable variation among different economic sectors and job categories.*

### **Overall labour market situation**

5.1 Comparing the second and third quarters of 2007, the number of first-time job seekers notably increased mainly from the entry of fresh graduates and school leavers into the labour market. The total labour force expanded to 3.66 million in the third quarter, after hitting an all-time high of 3.67 million in the three months ending August. On the back of a vibrant economy and robust labour demand, total employment climbed to above 3.5 million over the same period. As a result, the number of unemployed persons rose, but only modestly to 156 300. After discounting the seasonality, the *seasonally adjusted unemployment rate*<sup>(1)</sup> actually fell from 4.2% to 4.1%, the lowest level since early 1998. Meanwhile, the underemployment rate<sup>(2)</sup> held stable at 2.2%.

**Diagram 5.1 : Unemployment situation continued to improve amid the sustained economic upturn**



## Total employment and labour supply

5.2 Improvement in labour market conditions has remained largely demand-led. *Total employment*<sup>(3)</sup> exceeded the 3.5 million mark in the third quarter of 2007, marking a quarter-to-quarter increase of 0.5%. Broad gains in employment were observed in such service sectors as transport and storage, sanitary services, retail trade, and business services. Also worth noting was the appreciable increase in jobs in the construction sector. More employment opportunities were thus available at the lower segment of the market, especially individuals engaged as clerks and craft and related workers. Younger people aged 15-29 and older ones aged 50-59 were also able to benefit from the recent expansion. Moreover, the majority of new jobs generated during the third quarter were full-time in nature, further attesting to increased willingness on the part of local enterprises to recruit permanent staff in anticipation of continued business expansion. On a year-on-year comparison, total employment also attained a solid growth of 2.0%.

5.3 The *labour supply*<sup>(4)</sup> increased by 0.5% to 3.66 million in the third quarter over the preceding quarter. This was the combined outcome of a growth in population of working age and a rise in the rate of labour force participation from 61.4% to 61.6%. The influx of fresh graduates and school leavers during the summer months and of workers with upper secondary and matriculation education constituted the major sources of labour supply growth. The supply of female workers aged 50 and above also continued to increase,

conceivably induced by better job opportunities especially at the lower segment of the market. In sum, the total labour force hit an all-time high of 3 669 700 in June-August, before settled at 3 658 400 in July-September. Compared with a year earlier, the labour supply expanded by 1.3% in the third quarter of 2007.

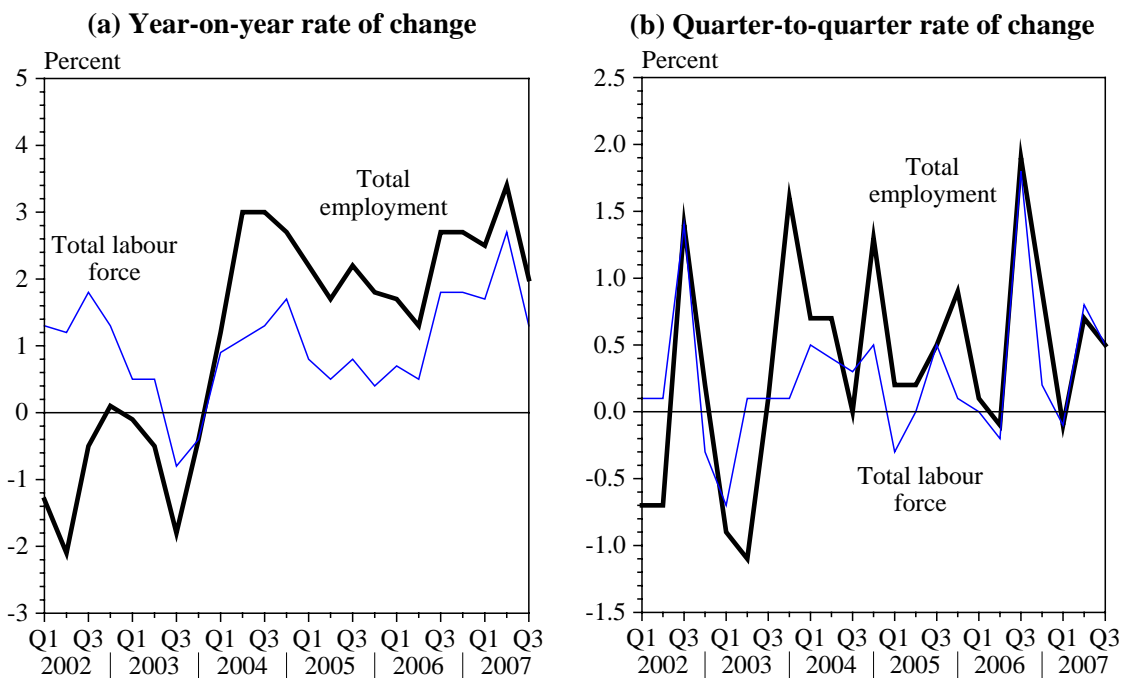
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

	<u>Labour force</u>		<u>Persons employed</u>		<u>Persons Unemployed</u> <sup>(a)</sup>	<u>Persons underemployed</u>
2006 Annual	3 581 400	(1.2)	3 410 200	(2.1)	171 200	86 200
Q1	3 552 400	(0.7)	3 374 900	(1.7)	177 500	80 100
Q2	3 546 100	(0.5)	3 369 900	(1.3)	176 200	93 000
Q3	3 610 600	(1.8)	3 433 100	(2.7)	177 500	84 000
Q4	3 616 500	(1.8)	3 462 900	(2.7)	153 600	87 500
2007 Q1	3 611 900	(1.7)	3 459 400	(2.5)	152 500	80 600
Q2	3 640 700	(2.7)	3 485 000	(3.4)	155 700	81 200
<i>Three months ending</i>						
Jul	3 652 200	(2.1)	3 494 200	(3.1)	157 900	83 500
Aug	3 669 700	(2.0)	3 503 400	(2.7)	166 400	83 800
Sep <sup>(b)</sup>	3 658 400	(1.3)	3 502 200	(2.0)	156 300	80 500
		<0.5>		<0.5>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 (b) Provisional figures.  
 ( ) Year-on-year % change.  
 < > % change between Q2 and Q3 (i.e. July-September).

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Growth in employment and labour force both moderated, yet with the former still outweighing the latter on a year-on-year basis**



## Profile of unemployment

5.4 The unemployment situation remained broadly stable between the second and third quarters of 2007, as manifested by a mild increase of 600 persons in the number of unemployed. However, this small change masked significant fluctuations within the three-month period. In particular, the numbers of unemployed persons went up to 166 400 in June – August but fell back to 156 300 in July – September. These erratic changes were largely attributable to the seasonal flow of fresh graduates and school leavers during the summer months. Also worth of note is the fact that the proportion of first-time job seekers within the total numbers of unemployed more than doubled from 7.8% in the second quarter to 15.9% in the third quarter. After discounting the seasonal effect, the seasonally adjusted unemployment rate actually fell further from 4.2% to 4.1%, the lowest level in more than nine years. Another significant development was the further reduction in long-term unemployment (i.e. duration of six months or longer). In the third quarter of 2007, this number fell to 34 700, representing a drop of more than 10 000 persons or 23.5% from a year earlier. This magnitude was even larger than the decline of 12.0% in the total number of unemployed over the same period, suggesting that the current economic upturn is also benefiting individuals confronted with greater difficulties in the job market. (For a more detailed analysis of long-term unemployment, refer to **Box 5.1**).

## Box 5.1

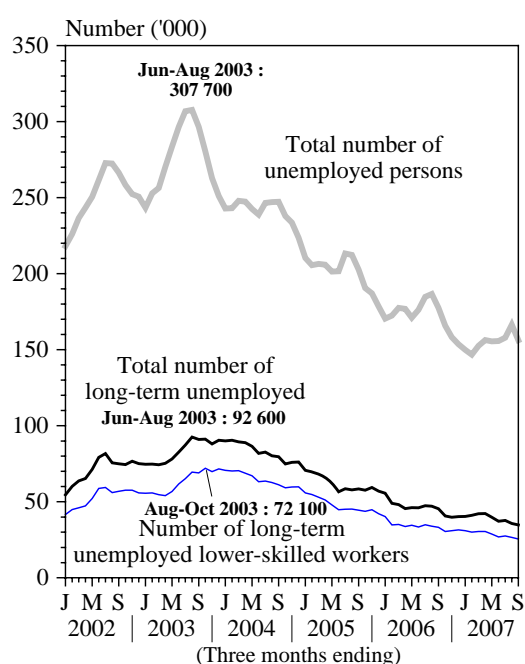
### Long-term Unemployment<sup>(1)</sup> Situation since 2003

#### Improved labour market conditions

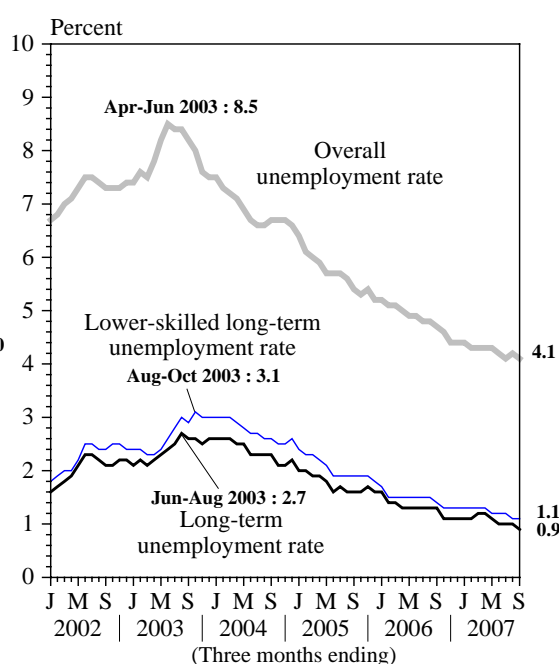
Labour market conditions have improved on a broad front since 2003, on the back of sustained economic growth. The unemployment rate has fallen by more than half, from a peak of 8.5% in mid-2003 to a nine-year low of 4.1% in Q3 2007. Concurrently, the number of unemployed persons fell from 307 700 to 156 300, while those of the long-term unemployed also dropped from 92 600 to 34 700. With the latter group registering a more noticeable decline, the long-term unemployment rate fell from a peak of 2.7% to 0.9% in Q3 2007, with the share of long-term unemployed in the total numbers unemployed shrinking from 30% to 22%. Meanwhile, the median duration of unemployment has also shortened from 88 days to 63 days.

#### Long-term unemployment eased considerably since mid-2003

(a) Numbers unemployed



(b) Unemployment rate



Reduction in long-term unemployment first occurred among workers with a shorter duration of unemployment. In particular, workers unemployed for less than one year as a proportion of the long-term unemployed fell from 46% in 2003 to 41% in 2006. Despite an absolute reduction, the proportion of the “hard-core unemployed”<sup>(2)</sup> increased from 32% to 39%. However since early 2007, workers who had been jobless for longer also began to enjoy substantial improvements in employment situation. In the first three quarters of 2007, the “hard-core unemployed” registered a year-on-year decline of 34.8%, which amounted to 35% of the total long-term unemployed.

#### Long-term unemployment was more prevalent among young and lower-skilled workers

The improvements noted above notwithstanding, some workers still faced difficulties in securing jobs. In terms of socio-economic attributes in Q3 2007, young workers aged 15-19 and older male workers aged 50-59 suffered the highest long-term unemployment rate (LTUR), at 2.8% and 1.6% respectively. Less-educated workers were also prone to relatively long duration of unemployment. Workers with primary or below education registered a LTUR of 1.6%, outpacing the overall rate of 0.9%. Meanwhile, lower-skilled workers also registered a LTUR above that of higher-skilled workers (1.1% vs. 0.5%).

(1) Refers to workers unemployed for six months or longer.

(2) Those unemployed for 18 months or longer.

### Box 5.1 (Cont'd)

Analysed by economic sector, manufacturing, construction and wholesale/retail trades experienced relatively high LTURs, at 1.9%, 1.6% and 1.3% respectively in Q3 2007. Long-term unemployment in these sectors also tended to take up a larger proportion out of the overall unemployment, at 37%, 22% and 28% respectively, at or above the overall average of 22%.

Mirroring such a sectoral profile, long term unemployment was more prevalent among craft and related workers (1.4%), workers engaged in elementary occupations (1.3%) and service workers and shop sales workers (1.2%) in Q3 2007. In terms of absolute number, these three occupations already accounted for 56% of the total long-term unemployment.

#### Occupation profile of long-term unemployment in Q3 2007

<u>Occupation</u>	<u>Number of long-term unemployed</u>	<u>LTUR</u>	<u>Share of long-term unemployed out of total</u>
1. Elementary occupations	9 100	1.3%	31%
2. Service workers and shop sales workers	6 500	1.2%	22%
3. Craft and related workers	4 000	1.4%	20%
<b>Overall</b>	<b>34 700</b>	<b>0.9%</b>	<b>22%</b>

#### Long-term unemployment trends

Under the current economic upturn, the decline in long-term unemployment has been broad-based. Though lower-skilled, less-educated and young workers faced higher long-term unemployment, the improvements have been substantial. Comparing the LTURs in Q3 2007 with their respective peaks in 2003, improvements were most significant among the following groups:

<b>Groups with most significant improvement in LTUR</b>	<b>Peak in 2003</b>	<b>Q3 2007</b>
(1) Craft and related workers, service workers and shop sales workers, and plant and machine operators and assemblers;	3.9%	1.1%
(2) Workers in restaurants and hotels, construction and manufacturing sectors;	5.1%; 5.1%; 3.9%	1.0%; 1.6%; 1.9%
(3) Young workers aged 15-19 and workers aged 50 or above; and	8.5%; 4.3%	2.8%; 1.4%
(4) Workers with lower secondary or below education.	4.4%	1.5%

For most groups, the recovery was driven by employment growth. However, the reduction in LTUR for craft and related workers and workers in the construction sector was mainly caused by shrinkage in the respective labour supplies. Further improvement in their long-term unemployment situation would likely benefit from a faster pace of job creation.

#### Conclusions

From 2003 to Q3 2007, the long-term unemployment situation, especially for workers at the lower-end, showed a significant improvement. As long-term unemployment was mainly seen among these workers, this turnaround was partly attributable to the relatively high base and partly to faster employment growth relative to labour supply.

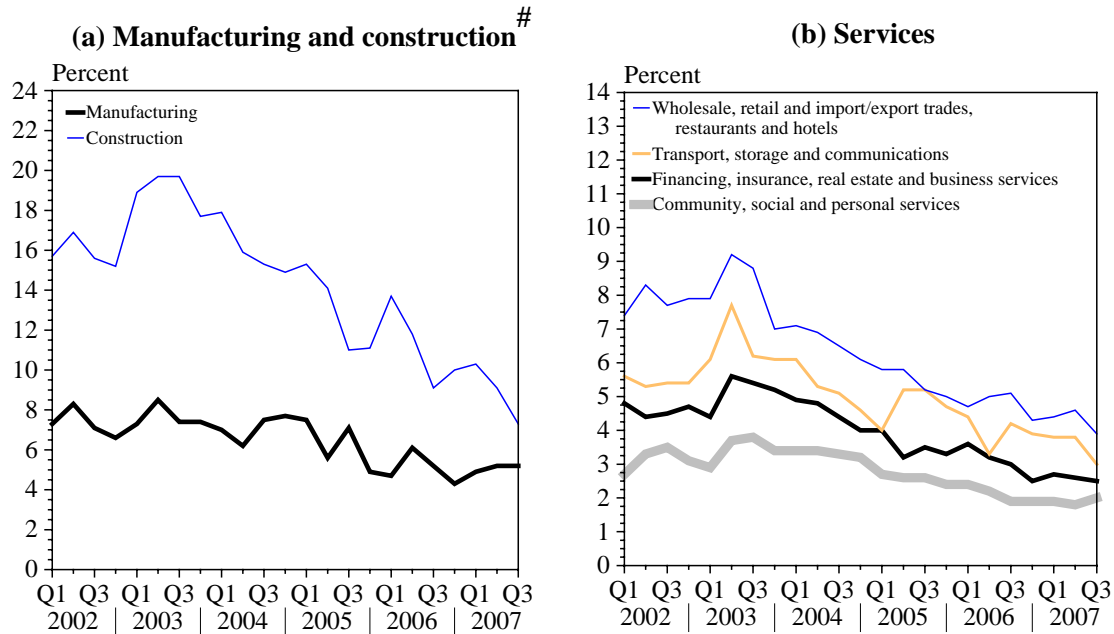
Since the hard-core unemployed still accounts for about one-third of the long-term unemployed, structural unemployment remains a challenge. The comprehensive expansion of the Employees Retraining Scheme set out in the 2007-08 Policy Address can be expected to raise employability of our labour force, and hence reduce difficulties in securing employment.



5.5 From a sectoral perspective, declines in unemployment rate were virtually across-the-board, with more notable improvements in the construction, transport and storage, wholesale and retail trades, and sanitary service sectors. The bar benders' industrial action which began in early August and lasted for about five weeks appeared not to have impacted negatively on the employment situation of construction workers. Though unemployment rates in insurance and import/export trades also fell, this outcome was primarily the result of shrinkage in the sectoral labour supply. Workers engaged in elementary occupations, persons of higher age and individuals with upper secondary education or below also enjoyed appreciable improvements in the unemployment situation.

5.6 While unemployment rate of younger people aged 15-24 increased notably in the third quarter over the preceding quarter, this mainly reflected the impact of the seasonal entry of fresh graduates into the market. The generally higher unemployment rate of this particular age group is actually in line with the experience of many other countries, where younger job-seekers are found to encounter difficulties in finding or securing employment due to limited working experience and high turnover. As a reflection of the Government's commitment to promote youth employment, there will be a comprehensive expansion of training schemes under the Employee Retraining Board. This includes a substantial increase in training places, more diversified and market gearing programmes, and a relaxation of age and education limits to include younger workers aged 15-29 and workers with higher education up to sub-degree level. Such initiatives can be expected to enhance the employability of Hong Kong's younger generation.

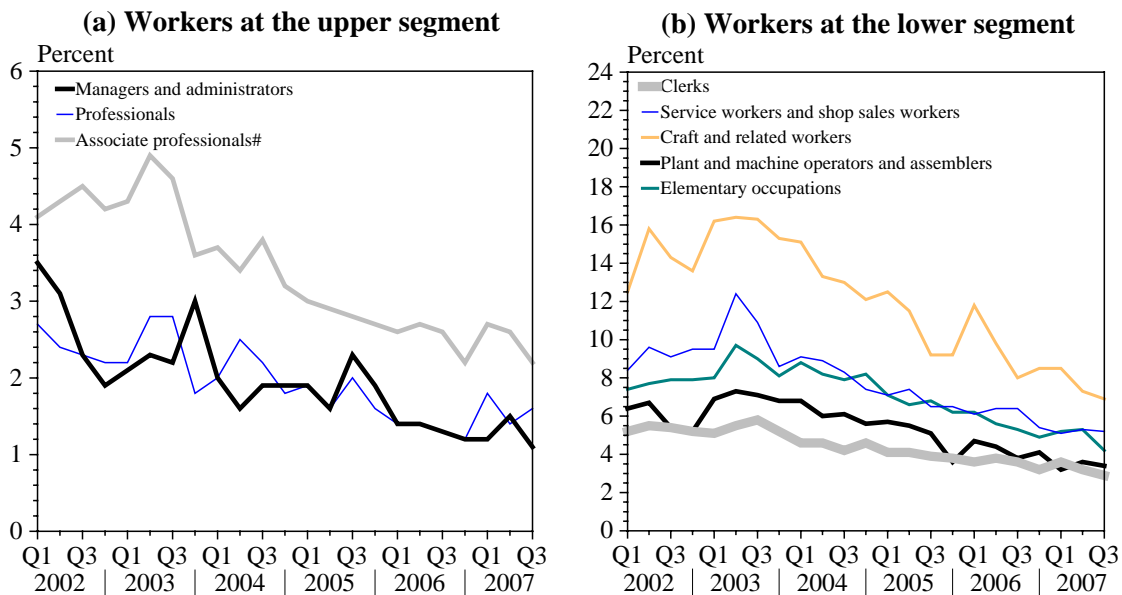
**Diagram 5.3 : Almost all the major economic sectors saw declines in unemployment rate\***



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.

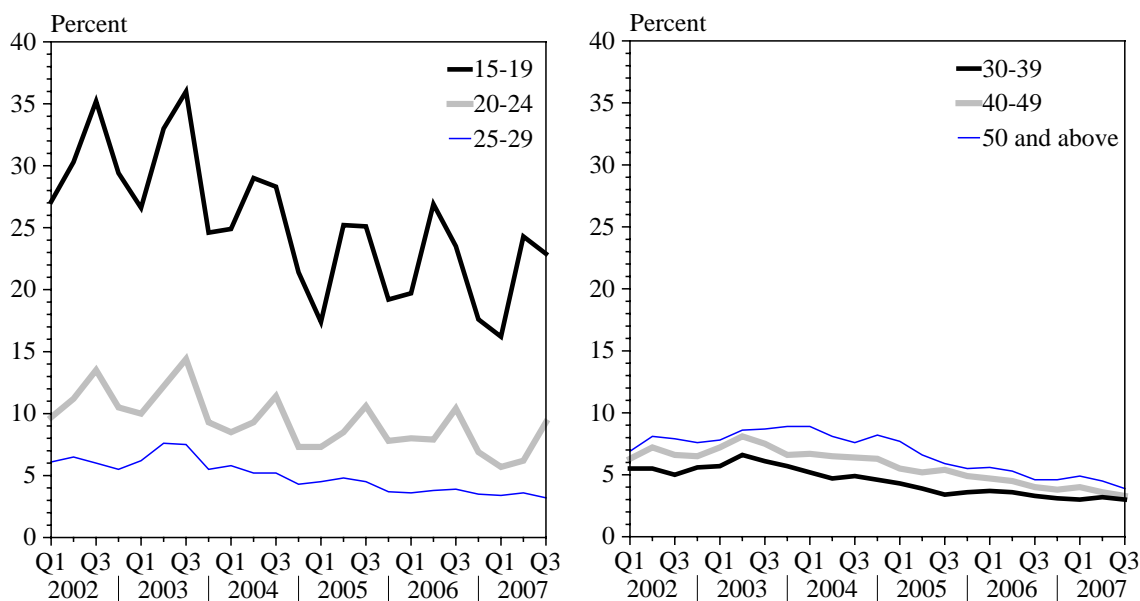
**Diagram 5.4 : Unemployment rate\* fell almost across-the-board, with particularly notable decline seen among workers engaged in elementary occupations**



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 rate\* of younger people, though considerably higher than those for other age groups, also displayed an improving trend on a year-on-year basis**



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

## Profile of underemployment

5.7 In the third quarter of 2007, the underemployment rate stood at 2.2%, same as the levels recorded in the preceding two quarters. The number of underemployed persons, having climbed to 83 800 in the three months ending August, settled back at 80 500 in the third quarter, which was only down by 700 from the level in the second quarter. Comparing the third quarter with the second quarter, declines in underemployment rate were mainly found among craft and related workers in the construction sector and service workers in the restaurants sector. These outcomes were more or less offset by higher underemployment among service workers and shop sales workers in retail trade, as well as plant and machine operators and assemblers in transport and storage. Analysed by age, people aged 40 and below generally experienced a rise in underemployment during the period, which was offset by falling underemployment among more mature workers.

## Profile of employment in establishments

5.8 Statistics on employment, vacancies and labour income in the private sector are available only up to mid-2007. Year-on-year, for June 2007, employment in *private sector establishments* increased by 2.6%. The service

sectors, in particular financing, insurance, real estate and business services; community, social and personal services; and restaurants and hotels constituted the major sources of employment growth, which more than offset job losses in manufacturing and at building and construction sites<sup>(5)</sup>. Continued expansion in services sector employment was underpinned by the strong and sustained economic growth and by structural transformation towards higher value-added service activities such as financial advisory, wealth management and various consumer-centric personal services. On the other hand, employment in the manufacturing sector and at building and construction sites registered further declines of 2.3% and 2.2% respectively. However, the latter figure already represented a marked improvement from the 8.3% dip in the preceding quarter, an effect which was conceivably driven by a moderate rebound in construction activity during the second quarter. Analysed by size of establishment, larger enterprises played a more prominent role in employment creation than small and medium-sized enterprises (SMEs)<sup>(6)</sup>, with the former contributing more than three-quarters of the total job gains over the past year.

5.9 Regarding the civil service, employment edged down further in June 2007 from a year earlier, though the decline had tapered to a marginal 0.5%. Judging from the phasing-out of the general open recruitment freeze as from 1 April and more vibrant recruitment for civil service posts recently, the prolonged downtrend of civil service employment can be expected to be arrested in the near future.

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

	<u>2006</u>					<u>2007</u>	
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Wholesale, import and export trades	583 400 (0.3)	581 200 (-0.3)	581 700 (0.4)	584 000 (-0.2)	586 600 (1.2)	587 500 (1.1)	588 200 (1.1)
Retail trade	228 300 (3.3)	225 900 (4.6)	229 300 (2.1)	228 600 (3.1)	229 400 (3.4)	229 100 (1.4)	232 600 (1.5)
Restaurants and hotels	226 400 (5.1)	221 800 (5.3)	225 800 (5.3)	226 200 (5.5)	231 800 (4.3)	231 700 (4.4)	232 500 (3.0)
Transport and storage	155 700 (1.6)	154 100 (1.8)	155 200 (1.0)	156 100 (1.8)	157 500 (1.9)	155 900 (1.2)	160 100 (3.1)
Communications	29 600 (-1.4)	30 000 (0.6)	29 300 (-5.9)	29 500 (-0.7)	29 400 (0.8)	30 300 (0.8)	30 100 (2.7)
Financing, insurance, real estate and business services	479 100 (5.0)	468 300 (4.6)	475 900 (4.1)	480 500 (5.5)	491 600 (5.8)	492 000 (5.1)	503 200 (5.7)
Community, social and personal services	454 800 (3.6)	451 300 (3.9)	451 700 (3.4)	455 200 (4.0)	460 800 (3.1)	464 200 (2.9)	467 900 (3.6)
Manufacturing	160 500 (-2.5)	161 500 (-1.0)	161 100 (-0.5)	160 200 (-3.7)	159 300 (-4.8)	158 700 (-1.7)	157 300 (-2.3)
Building and construction sites	52 900 (-10.8)	54 900 (-16.5)	52 300 (-12.9)	53 300 (-6.3)	51 000 (-6.3)	50 400 (-8.3)	51 100 (-2.2)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>2 378 700 (2.1)</i>	<i>2 357 200 (2.0)</i>	<i>2 370 400 (1.8)</i>	<i>2 381 800 (2.3)</i>	<i>2 405 300 (2.4)</i>	<i>2 407 800 (2.1)</i>	<i>2 430 900 (2.6)</i>
		<i>&lt;0.7&gt;</i>	<i>&lt;0.3&gt;</i>	<i>&lt;0.7&gt;</i>	<i>&lt;0.7&gt;</i>	<i>&lt;0.4&gt;</i>	<i>&lt;0.7&gt;</i>
<i>Civil service<sup>(b)</sup></i>	<i>154 300 (-1.3)</i>	<i>155 000 (-1.5)</i>	<i>154 500 (-1.5)</i>	<i>154 100 (-1.4)</i>	<i>153 800 (-1.1)</i>	<i>153 800 (-0.8)</i>	<i>153 700 (-0.5)</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. Judges, judicial officers, ICAC officers, locally engaged staff working in Hong Kong Economic and Trade Offices abroad, 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.

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

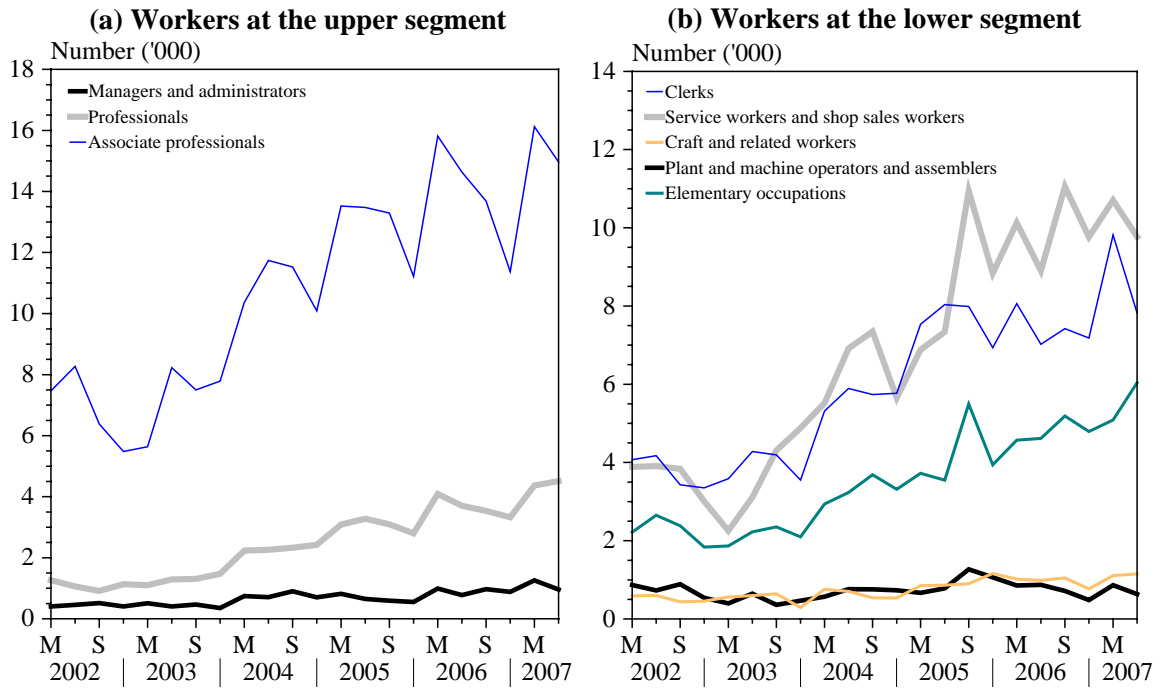
## Vacancies

5.10 In June 2007, vacancies in *private sector establishments* posted a significant increase of 10.5% over a year earlier to 45 900, the highest level recorded for the month of June since 1997. More than 95% of vacancies originated in the services sector, with more notable increases found in community, social and personal services; restaurants and hotels, as well as financing, insurance, real estate and business services. With unemployment figures introduced for further analysis, this gave a ratio of 29 job vacancies per 100 job-seekers in June 2007, up from 24 a year ago. The corresponding ratio for lower-skilled jobs especially increased from 17 to 22, while that for higher-skilled jobs rose from 70 to 76. The faster growth in vacancies at the lower end than at the upper end, by 13.5% as against 7.0%, suggested that the economic upturn was feeding through to benefit workers at the lower segment. Analysed by size of establishment, SMEs registered a significant vacancy growth of 16.2% in June 2007 over a year earlier, higher than the 5.2% increase for large establishments. Regarding the *civil service*, vacancies increased considerably by 27.0% in June 2007 from a year earlier, with the actual numbers involved at 3 200, the highest level since December 1999.

5.11 Statistics supplied by the Employment Services of the Labour Department provide an indication of the most recent changes in job vacancies. The figures showed that in the third quarter of 2007, the number of private sector job vacancies registered an appreciable increase of 19.4% to 157 033 over a year earlier. On average, more than 2 400 vacancies were received per working day. Meanwhile, the department achieved 36 004 placements in the third quarter, up by 15.1% over a year earlier.

5.12 The Administration will continue to adopt a multi-pronged approach to promote employment on all fronts. To cater for the needs of youngsters who often face greater difficulties in finding work, the Labour Department will open two Youth Employment Resource Centres before end-2007 to provide one-stop advisory and support services on employment and self-employment to young people aged 15-29. Meanwhile, as announced in the 2007-08 Policy Address, the Administration will further buttress employment support for young people by providing 3 000 three-year employment opportunities for this particular age group. Together with the ongoing Youth Pre-employment Training Programme and the Youth Work Experience and Training Scheme, these measures can be expected to enhance employability for Hong Kong's younger generation.

**Diagram 5.6 : Vacancies surged further and reached a post-1997 high for the month of June, led by the continued notable increases among lower-end jobs**



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

	<u>No. of vacancies</u>							<u>Vacancy rate in Jun 2007 (%)</u>	
	<u>Annual average</u>	<u>2006</u>					<u>2007</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>		
Wholesale, import and export trades	8 400 (-8.2)	10 600 (3.0)	8 300 (-10.8)	7 800 (-14.2)	6 800 (-12.9)	10 400 (-1.8)	9 000 (8.6)	1.5	
Retail trade	4 300 (16.2)	4 800 (58.7)	3 800 (17.4)	4 400 (-9.1)	4 200 (13.2)	5 100 (5.5)	4 200 (10.3)	1.8	
Restaurants and hotels	4 200 (22.6)	4 000 (63.4)	4 000 (45.3)	5 000 (17.6)	3 700 (-11.3)	4 300 (6.8)	4 500 (12.7)	1.9	
Transport and storage	2 000 (6.5)	2 000 (20.1)	2 200 (17.5)	1 800 (-19.6)	1 700 (17.5)	2 200 (7.1)	2 200 (-0.4)	1.4	
Communications	700 (0.8)	800 (93.0)	800 (52.6)	700 (-42.6)	700 (-15.4)	800 (3.0)	800 (-3.8)	2.5	
Financing, insurance, real estate and business services	12 300 (13.2)	13 600 (29.6)	12 300 (9.6)	12 800 (6.8)	10 500 (7.6)	14 600 (7.7)	13 700 (11.8)	2.7	
Community, social and personal services	8 600 (20.7)	7 900 (15.6)	8 100 (13.3)	9 200 (15.1)	9 300 (40.6)	9 600 (22.3)	9 500 (16.6)	2.0	
Manufacturing	1 900 (-6.4)	1 900 (-3.4)	2 000 (6.1)	1 900 (-3.7)	1 700 (-22.5)	2 400 (23.3)	2 000 (-1.6)	1.2	
Building and construction sites	# (-7.0)	# (66.7)	# (*)	# (*)	# (-23.8)	# (660.0)	# (77.8)	*	
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	42 300 (9.1)	45 500 (22.8)	41 500 (9.3)	43 600 (0.1)	38 600 (5.7)	49 300 (8.3)	45 900 (10.5)	1.9	
		<2.5>	<-4.4>	<2.1>	<5.8>	<4.6>	<-1.8>		
<i>Civil service<sup>(b)</sup></i>	2 500 (166.7)	2 600 (76.3)	2 500 (131.6)	2 900 (308.8)	2 100 (304.0)	1 200 (-55.0)	3 200 (27.0)	2.0	

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. A general open recruitment freeze to the civil service was imposed during the period from 1 April 2003 to 31 March 2007. The civil service vacancies during this period refer only to the number of vacant posts for which exemptions from open recruitment freeze have been granted.

( ) % change over a year earlier.

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

(#) Less than 50.

(\*) Less than 0.05%.

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



## Earnings and wages

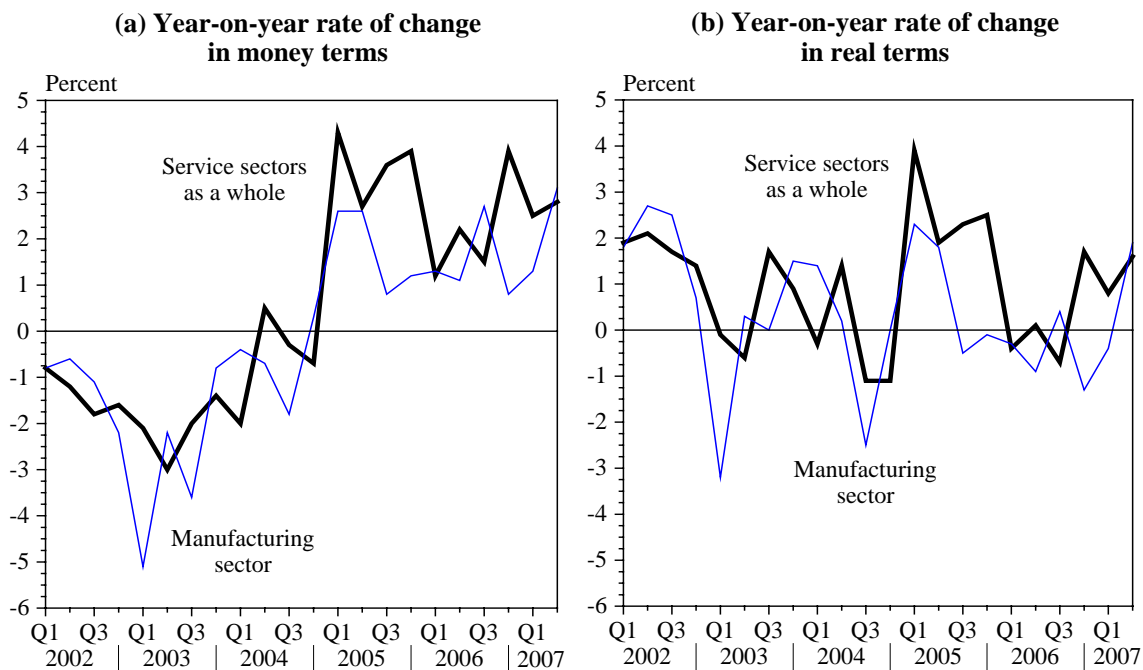
5.13 Employment income has remained on a steady uptrend since early 2005. *Labour earnings*<sup>(7)</sup>, as measured by payroll per person engaged in the private sector, increased by 2.9% in money terms in the second quarter of 2007 over a year earlier. After netting out the price change, labour earnings went up by 1.7% in real terms<sup>(8)</sup>.

5.14 In the second quarter of 2007, nominal pay rises were found across most major economic sectors. Consistent with the figures over the past two years, workers in financial institutions continued to enjoy a more notable increase in nominal payroll of 7.6% year-on-year, 2.6 times the overall average. This was mainly attributable to buoyant economic activity and hence tighter manpower resource requirements in this particular sector. Workers in other service sectors also experienced generally solid increases in earnings, with notable exceptions in the telecommunications sector and some community and social services like welfare institutions and education services. On the other hand, labour earnings in the manufacturing sector rose appreciably by 3.1%.

5.15 The Salary Indices for Managerial and Professional Employees pointed to a larger pay rise in the upper segment over the past year. Comparing June 2007 with a year earlier, the index increased by 4.9% in money terms or 3.0% in real terms<sup>(9)</sup> in respect of staff remaining in the same occupation and the same company during the period. When the newly recruited and promoted employees were also taken into account, the index increased by 3.4% in money terms, and 1.5% in real terms.

5.16 More up-to-date data from the General Household Survey indicated an appreciable increase in overall average monthly employment earnings (excluding foreign domestic helpers) in the third quarter of 2007, by 3.7% year-on-year in money terms. Anecdotal evidence generally suggests that an increasing number of enterprises have had to offer more attractive pay packages in order to maintain service levels and retain staff. Such development tends to especially benefit workers with higher education and skill levels.

**Diagram 5.7 : Nominal earnings registered a further moderate rise in the first half of 2007**



5.17 In comparison with labour earnings, *labour wages*, as a measure of regular payments to employees at the supervisory level or below recorded a smaller year-on-year increase of 2.6% in money terms in June 2007. After discounting the price change, however, wages showed a slightly larger rise of 1.8% in real terms than labour earnings, mainly as a result of the bigger relief of price pressures for lower to middle income groups following the Government's rates concession.

5.18 Analysed by economic sector, nominal wages moved higher across-the-board. Among the major economic sectors, personal services; and financing, insurance, real estate and business services were distinguished by larger wage increases, by 6.2% and 3.5% respectively over a year earlier. Meanwhile, manufacturing; wholesale, retail and import/export trades; and restaurants and hotels all recorded nominal wage increases of above 2%, while transport services experienced a relatively smaller wage rise of 1.6%. However, with modest inflation during the period, real wages increased in all these major sectors. In terms of occupation categories, supervisory and technical workers, together with service workers, enjoyed greater upward revisions in wages, by 3.4% and 3.0% respectively in money terms. Average wages received by miscellaneous non-production workers also rose by 1.9%. This was broadly comparable to the wage increases for clerical and secretarial workers and craftsmen, suggesting that workers at the lower end of the labour market have also been able to benefit from the current economic upturn.

## 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.

Figures enumerated from the General Household Survey have been revised to take into account the results of the 2006 Population By-census. Labour force figures compiled for the period from Q1 2001 to Q4 2006 have also been revised.

The revision has the effect of lowering the levels of total labour force, total employment, and the unemployed and underemployed by a modest margin. The effect on the unemployment and underemployment rates, being computed as ratios of the respective levels, is generally even smaller. Furthermore, the movements in the seasonally adjusted unemployment rate and the underemployment rate mostly showed little change.

- (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) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).

- (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) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually increased by 3.8% in the third quarter of 2007 over 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 professionals, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.

- (6) Manufacturing enterprise with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (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.
- (9) The Consumer Price Index (C) is used for compiling the Salary Indices for Managerial and Professional Employees in real terms.

## CHAPTER 6 : PRICES

### *Summary*

- *Headline consumer price inflation edged up to 1.6% in the third quarter of 2007. Taking away the effect of the Budget measure of rates concession, underlying consumer price inflation was 2.7%, which was still rather moderate considering the continued robust economic growth.*
- *The recent inflationary pressures from imported sources, most notably on food prices, were mainly attributable to the depreciation of the US dollar, the strengthening of the renminbi, and the worldwide phenomenon of food inflation. Yet the effects of these factors were partly mitigated by sustained labour productivity growth, which helped keep domestic cost pressures under control.*
- *Looking ahead, the headline inflation rate is expected to rise further in the fourth quarter upon the fading out of the effect of the rates concession. Also, apart from the exchange rate and food price factors, the recent resurgence of oil prices is another factor which may pose inflation risk in the near term. Nevertheless, the recent cut in public housing rentals and implementation of the Pre-Primary Education Voucher Scheme, together with further increase in labour productivity, will provide a partial offset.*

### **Consumer prices**

6.1 Headline consumer price inflation, as measured by the *Composite Consumer Price Index*<sup>(1)</sup> (CCPI), edged up to 1.6% in the third quarter of 2007, after easing back from 1.7% in the first quarter to 1.3% in the second quarter. The inflation figures for both the second and third quarters were lowered by 1.1 percentage points by the Budget measure of rates concession. Discounting the effect of this measure, underlying consumer price inflation crept up from 2.4% in the second quarter to 2.7% in the third quarter, which was still rather moderate when viewed against the continued brisk economic growth. On the external front, the depreciation of the US dollar and the strengthening of the renminbi continued to bring about some inflationary pressures from imported sources. Coupled with the worldwide phenomenon of food inflation, price increases were most visible on food items. However, the effects of these factors were cushioned by the mild cost pressures on the domestic front, thanks to the sustained labour productivity growth and solid business expansion which

helped keep the rising unit labour cost and unit rental cost under control. Thus, on the whole, overall consumer price inflation, though up slightly, remained moderate in the third quarter.

6.2 Looking ahead, higher food prices will continue to pose an upside risk to inflation. The recent increase in oil prices may also add some uncertainty to the inflation outlook. Moreover, the favourable effect of the rates concession will fade out after September, which will bring the headline inflation rate back to the underlying inflation rate. On the other hand, sustained labour productivity growth, the cut in public housing rentals from August and the implementation of the Pre-Primary Education Voucher Scheme from September will help keep the consumer price inflation for the rest of the year in check.

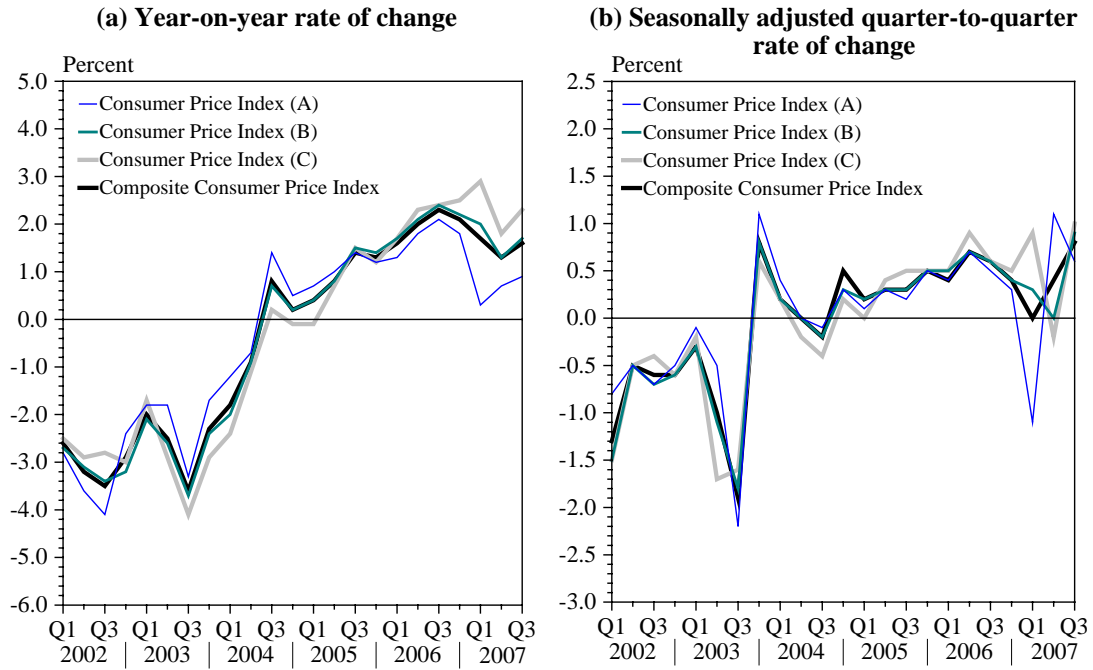
**Table 6.1 : Consumer Price Indices**  
(year-on-year rate of change (%))

		<u>Composite CPI</u>	<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
2006	Annual	2.0	1.7	2.1	2.2
	H1	1.8	1.6	1.9	2.0
	H2	2.2	1.9	2.3	2.4
	Q1	1.6 (0.4)	1.3 (0.4)	1.7 (0.5)	1.7 (0.5)
	Q2	2.0 (0.7)	1.8 (0.7)	2.1 (0.7)	2.3 (0.9)
	Q3	2.3 (0.6)	2.1 (0.5)	2.4 (0.6)	2.4 (0.6)
	Q4	2.1 (0.4)	1.8 (0.3)	2.2 (0.4)	2.5 (0.5)
2007	H1	1.5	0.5	1.7	2.3
	Q1	1.7 (*)	0.3 (-1.1)	2.0 (0.3)	2.9 (0.9)
	Q2	1.3 (0.4)	0.7 (1.1)	1.3 (*)	1.8 (-0.2)
	Q3	1.6 (0.8)	0.9 (0.6)	1.7 (0.9)	2.3 (1.0)

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

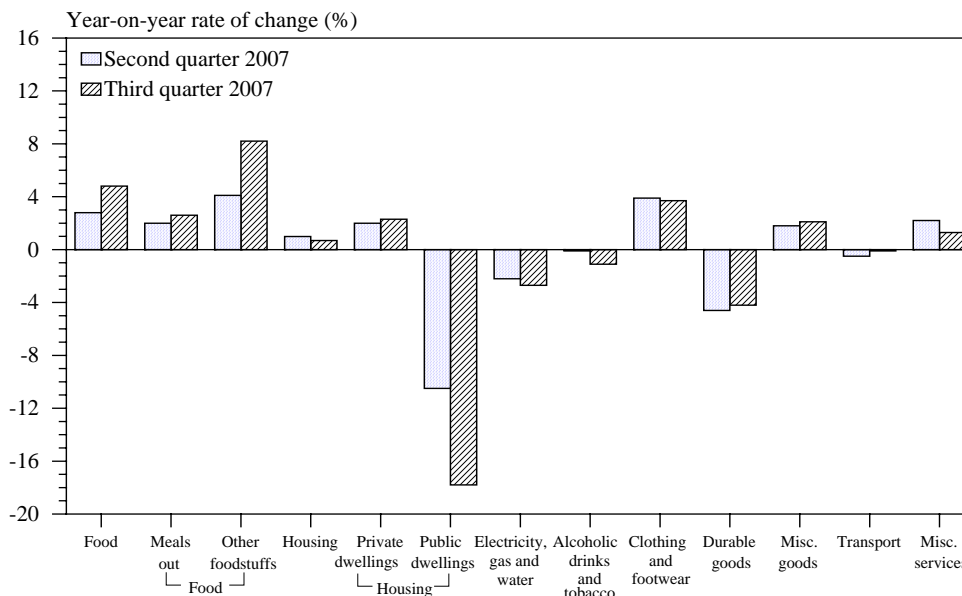
(\*) Change of less than 0.05%

**Diagram 6.1 : Consumer price inflation picked up in the third quarter, due to higher food prices**



6.3 Among the main components of CCPI, food prices contributed most to the CCPI inflation in the third quarter of 2007. This was followed by miscellaneous services, with the fees for outbound package tours rising quite notably due to the weakening of the Hong Kong dollar. The contribution from housing was milder, reflecting the favourable effects of the rates concession and the cut in public housing rentals. The prices of clothing and footwear; and miscellaneous goods rose modestly, reflecting higher imported prices and stronger pricing power of retailers. Meanwhile, price pressures for the other components – electricity, gas and water; alcoholic drinks and tobacco; durable goods; and transport – remained subdued.

**Diagram 6.2 : Food prices accelerated further, but partly offset by the cut in public housing rentals from August**



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

<u>Expenditure component</u>	<u>Weighting</u>	<u>2006</u>				<u>2007</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	26.94	0.9	1.7	2.1	2.2	2.9	2.8	4.8
<i>Meals bought     away from home</i>	16.86	1.0	1.3	1.5	1.5	1.8	2.0	2.6
<i>Other foodstuffs</i>	10.08	1.0	2.3	3.1	3.5	4.4	4.1	8.2
Housing <sup>(a)</sup>	29.17	4.2	4.9	4.8	4.8	2.2	1.0	0.7
<i>Private dwellings</i>	23.93	5.0	5.9	5.7	5.6	5.6	2.0	2.3
<i>Public dwellings</i>	2.49	0.1	0.1	0.1	0.1	-31.7	-10.5	-17.8
Electricity, gas and water	3.59	3.9	3.4	4.1	-2.8	-1.3	-2.2	-2.7
Alcoholic drinks and tobacco	0.87	-0.6	-5.9	-4.1	-4.3	-3.9	-0.1	-1.1
Clothing and footwear	3.91	-2.0	-0.7	1.7	5.0	7.2	3.9	3.7
Durable goods	5.50	-5.8	-6.6	-6.9	-6.3	-5.8	-4.6	-4.2
Miscellaneous goods	4.78	0.4	1.8	1.9	2.6	2.8	1.8	2.1
Transport	9.09	1.6	1.1	0.2	-0.1	-0.6	-0.5	-0.1
Miscellaneous services	16.15	1.2	1.9	2.5	2.1	2.2	2.2	1.3
All items	100.00	1.6	2.0	2.3	2.1	1.7 (2.5)	1.3 (2.4)	1.6 (2.7)

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.

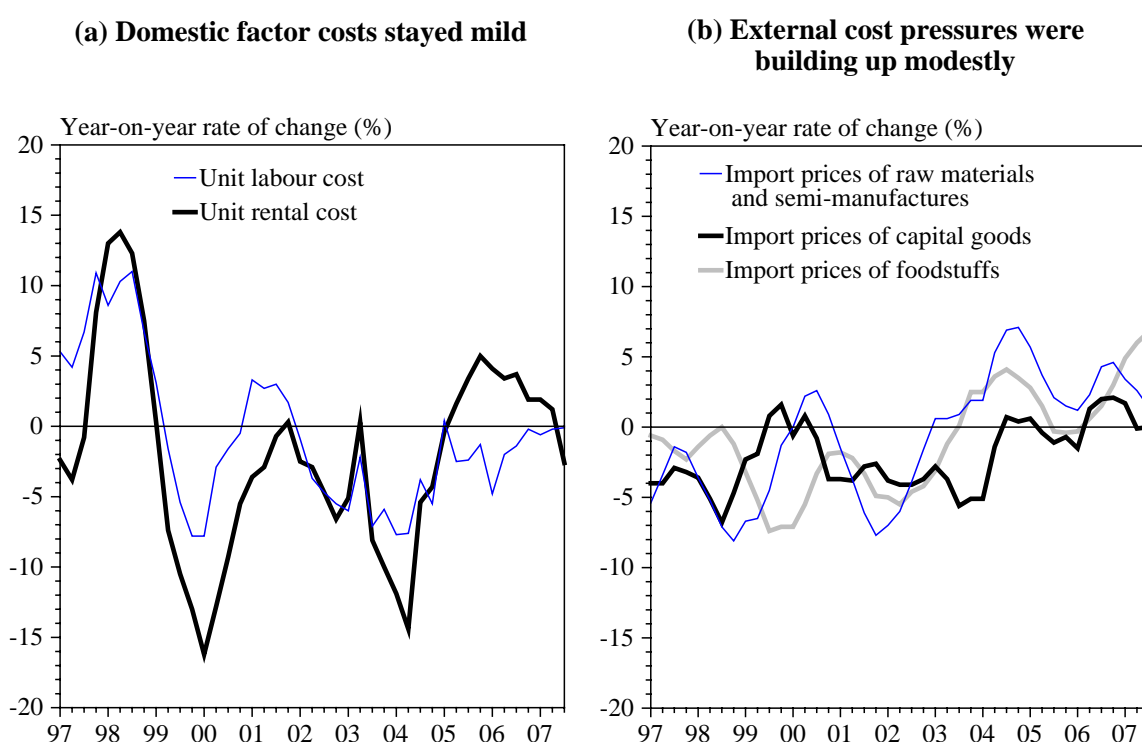
( ) Underlying inflation rate after taking out the effect of one-off measures, specifically, the public rental waiver in February and the rates concession in the second and third quarters.



## Costs of factor inputs

6.4 Domestic pressures on business costs were still largely in check in the third quarter of 2007 as *unit rental cost* fell slightly while *unit labour cost*<sup>(2)</sup> was broadly stable. Although wages saw a mild pick-up due to the improving labour market, this was largely matched by the concurrent sustained growth in labour productivity. Similarly, the increase in shop rentals was cushioned by solid expansion in business volume. Nevertheless, underpinned by the continued buoyant economic activities, the pace of increase in labour earnings and property prices and rentals may pick up further in the period ahead, thereby adding more cost pressures to the economy.

**Diagram 6.3 : Costs of factor inputs**



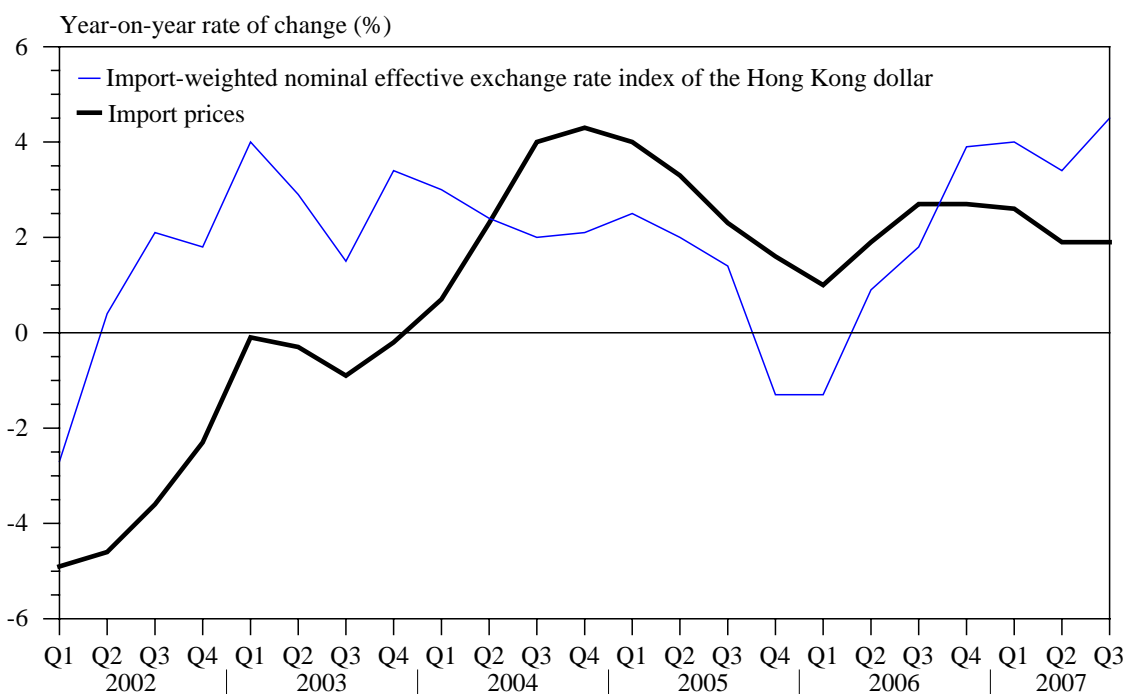
6.5 On the external front, foodstuffs continued to show the largest pick-up in import prices, because of the global inflation in food prices. Import prices of consumer goods increased moderately further as prices of consumer goods in the Mainland remained soft while the currency of Japan, another major import source of consumer goods for Hong Kong, stayed weak. Import prices of fuels went up notably due to the resurgence in international crude oil prices. Meanwhile, the increase in import prices of raw materials moderated further from the last quarter, while import prices of capital goods remained stable. Thus, although import prices which are more relevant in the context of consumer price inflation saw faster increases, overall import prices only went up modestly.

**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>
2006	Annual	1.2	0.5	3.2	16.6	1.1	2.1
	H1	0.2	0.3	1.8	27.5	*	1.5
	H2	2.3	0.7	4.4	7.6	2.1	2.7
	Q1	-0.3	0.5	1.2	32.4	-1.5	1.0
	Q2	0.6	0.1	2.3	23.7	1.3	1.9
	Q3	1.5	0.4	4.3	13.6	2.0	2.7
	Q4	3.0	1.1	4.6	2.0	2.1	2.7
2007	H1	5.4	2.8	3.0	0.3	0.7	2.2
	Q1	4.9	2.3	3.4	1.9	1.7	2.6
	Q2	6.0	3.2	2.6	-2.0	-0.1	1.9
	Q3	6.8	3.4	1.4	7.9	*	1.9

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

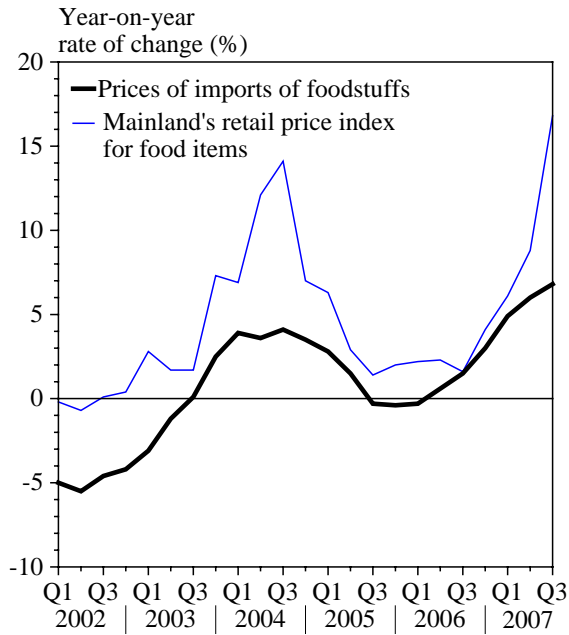
**Diagram 6.4 : Import prices continued to rise modestly in overall terms despite the further depreciation of the Hong Kong dollar**



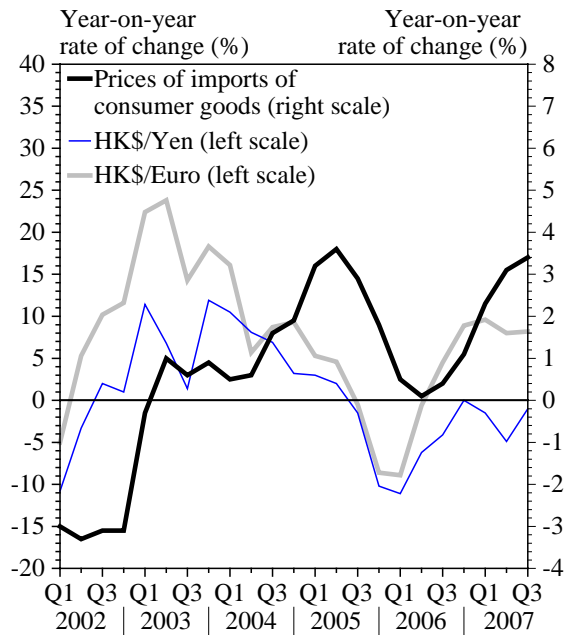
Note : The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

## Diagram 6.5 : Prices of imports by end-use category

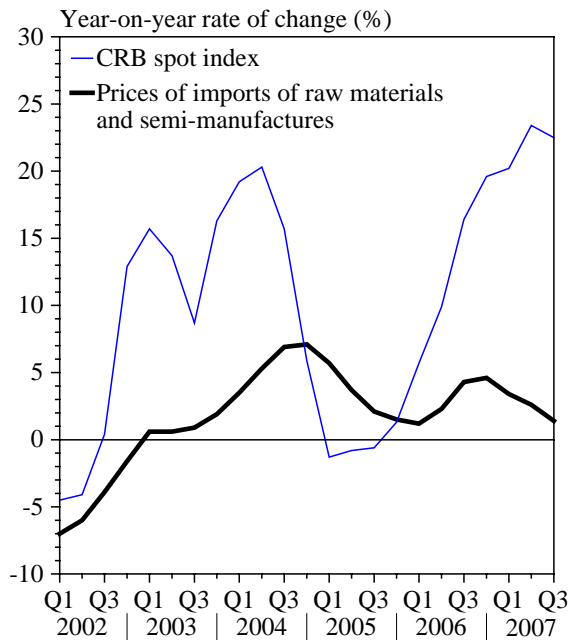
**(a) Import prices of foodstuffs picked up further**



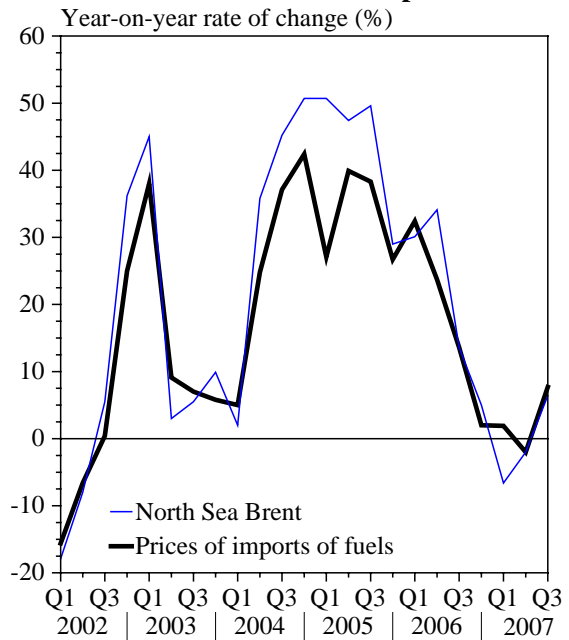
**(b) Import prices of consumer goods rose moderately**



**(c) Increase in import prices of raw materials further moderated**



**(d) Import prices of fuels rose back, mainly due to higher international crude oil prices**



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, showed a mixed performance across different sectors in the second quarter of 2007. Prices of local manufacturing output rose modestly, in line with the movement of prices of domestic exports. Among the service sectors, prices for hotels and boarding houses continued to show a distinct increase amidst the vibrant inbound tourism. In contrast, prices in telecommunications continued to fall as a result of technological advancement and competitive pressure. Output prices in other service sectors showed relatively mild movements.

**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>2006</u>				<u>2007</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2<sup>@</sup></u>
Manufacturing	2.3	2.0	2.4	2.6	2.0	2.5	2.6
Selected service sector <sup>(#)</sup>							
Hotels and boarding houses	10.3	10.1	9.2	9.2	12.5	8.4	9.2
Land transport	*	1.0	0.6	-0.2	-1.2	-0.8	-0.4
Maritime transport	-1.9	-3.6	-3.4	-1.8	1.1	1.8	-0.8
Air transport	-1.1	0.2	-0.5	-1.1	-3.0	0.8	1.4
Telecommunications	-6.1	-7.5	-6.3	-4.0	-6.7	-3.4	-3.8
Miscellaneous communications services	0.4	1.5	1.4	1.3	-2.6	-0.3	-0.7

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

(\*) Change of less than 0.05%

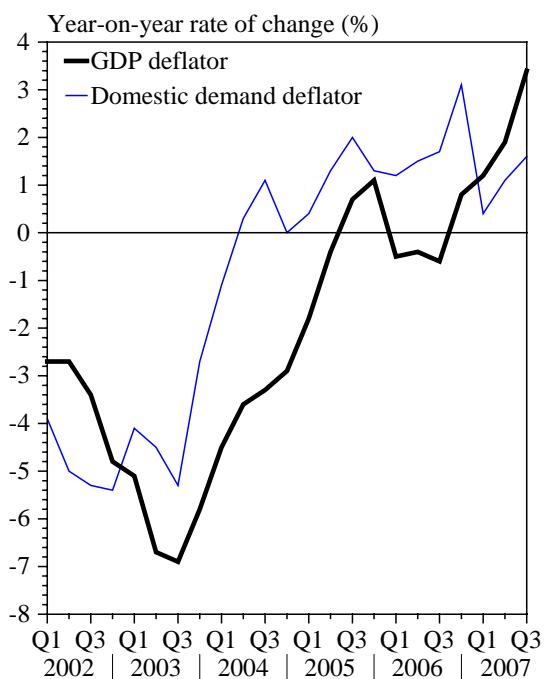
(<sup>@</sup>) Provisional figures

## GDP deflator

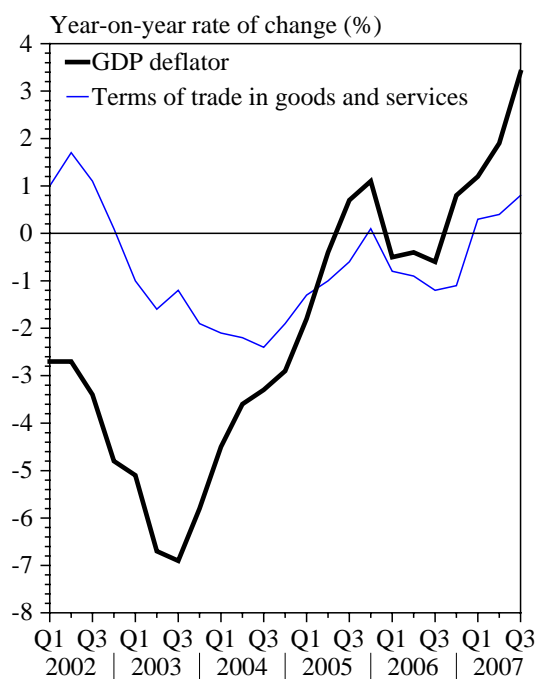
6.7 The *GDP deflator*<sup>(4)</sup>, a broad measure of the overall change in prices of the economy, picked up to a year-on-year increase of 3.4% in the third quarter of 2007, from the 1.9% rise in the second quarter. This was mainly attributable to the improvement in the *terms of trade*<sup>(5)</sup>, a dominant item in the GDP deflator given the vast trade volume of the Hong Kong economy (**Box 6.1**). Excluding the terms of trade effect, the *domestic demand deflator* rose slightly faster in the third quarter, in line with the edging up of consumer price inflation.

**Diagram 6.6**

(a) GDP deflator rose further



(b) ...due to the continued improvement in terms of trade



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

	<u>Annual</u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u> <sup>2006</sup>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u> <sup>2007</sup>	<u>Q3<sup>+</sup></u>
Private consumption expenditure	1.6	1.7	1.6	1.1	2.1	2.1	2.7	4.4
Government consumption expenditure	1.4	1.1	1.5	1.6	1.3	1.5	4.0	4.0
Gross domestic fixed capital formation	3.1	-0.3	2.0	5.0	5.5	-4.8	-5.3	-7.4
Total exports of goods	0.3	-1.2	0.1	0.6	1.2	2.3	1.7	1.7
Imports of goods	2.1	0.6	2.1	2.7	2.8	2.1	1.2	0.9
Exports of services	4.0	3.8	4.7	4.6	3.0	2.9	2.1	2.5
Imports of services	0.7	-0.3	0.5	1.0	1.5	2.3	2.4	2.8
<b>Gross Domestic Product</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-0.4</b>	<b>-0.6</b>	<b>0.8</b>	<b>1.2</b>	<b>1.9</b>	<b>3.4</b>
		<-0.6>	<0.1>	<0.2>	<1.0>	<*>	<0.7>	<1.7>
Total final demand	1.2	0.2	1.1	1.4	2.0	1.8	1.5	1.8
Domestic demand	1.9	1.2	1.5	1.7	3.1	0.4	1.1	1.6

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

(#) Revised figures

(+) Preliminary figures

<> Seasonally adjusted quarter-to-quarter % change

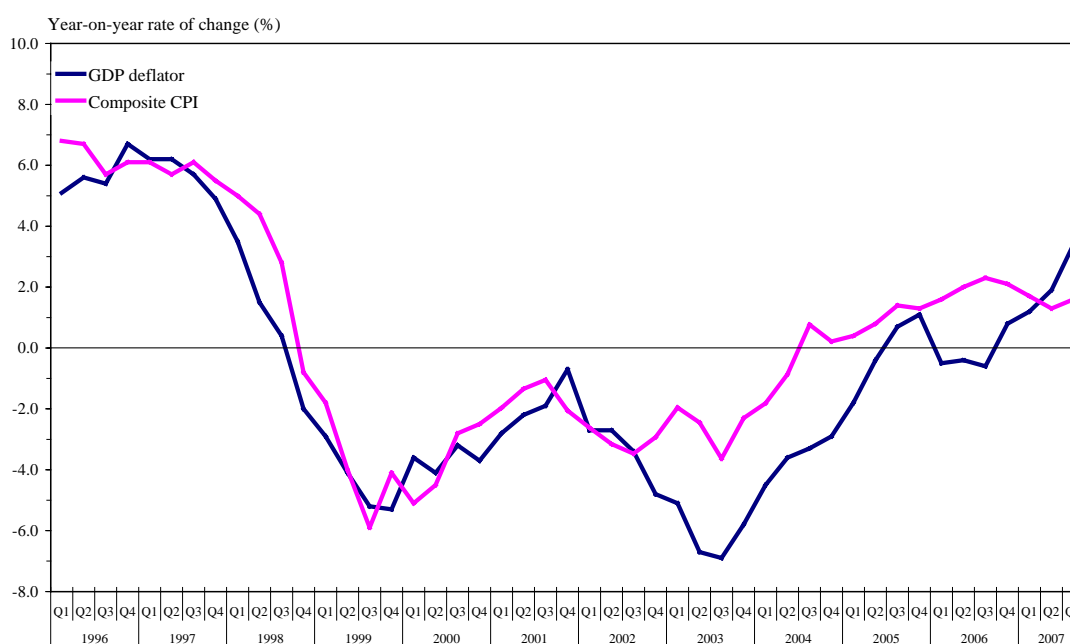
(\*) Change of less than 0.05%

## Box 6.1

### The GDP deflator and terms of trade

Two commonly used measures of inflation are the *CPI* and the *GDP deflator*. As shown in Chart 1, the two indicators in general exhibited similar year-on-year movements between 1996 and late 2002. Both of them saw year-on-year declines from late 1998 as Hong Kong entered into a period of deflation when the effects of the Asian financial turmoil set in. However, while the former returned to positive as consumer price deflation faded out in the second half of 2004, the latter, which is a broader measure of inflation, remained negative until the third quarter of 2006 except for a short while in the second half of 2005. The terms of trade is the major factor that accounts for the different movements of the GDP deflator and the CPI.

**Chart 1: Movements of GDP deflator and CPI showed large discrepancies between end 2002 and end 2006**



Note: The GDP deflator refers to the new series derived from the chained-dollar measures of GDP.

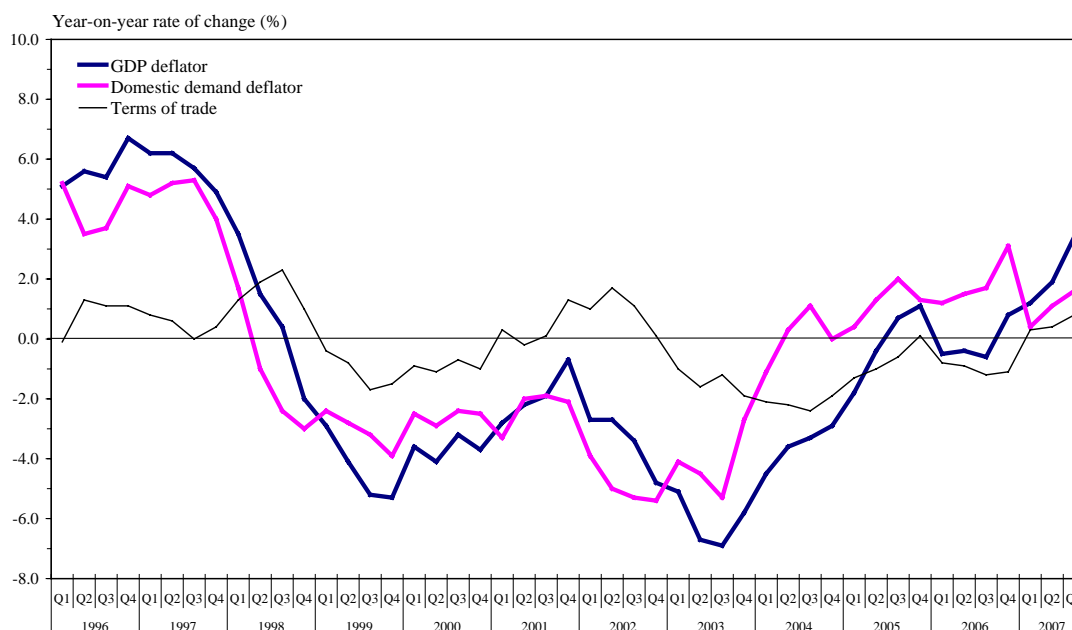
The GDP deflator is a measure of the overall change in prices of the economy. While the CPI reflects movements in the prices of consumer goods and services only, the GDP deflator covers also price changes related to government consumption, investment, and exports and imports of goods and services. Unlike the CPI which is constructed based on observed prices collected through a retail price survey, the GDP deflator and its expenditure components are not direct measures of price changes. They are *implicit* price deflators derived by dividing current-dollar values by the corresponding chained-dollar values (see Box 1.1 for explanation on the chained-dollar measures of GDP).

Among the GDP components, *private consumption expenditure* accounts for some 60% of the GDP. Hence, the movements of the GDP deflator are highly correlated to those of the CPI. Apart from consumer prices, another important factor which affects the GDP deflator is the terms of trade, which is the ratio of the price of exports to that of imports. Since it is only the *net exports of goods and services* (i.e. exports deducting imports) that enters into the final GDP figure, the prices of exports and imports have offsetting effects on the GDP deflator – the price of exports has a positive relationship while that of imports a negative relationship with the GDP deflator. Thus, the movements of the GDP deflator are affected by the *relative* movements of import and export prices.

## Box 6.1 (Cont'd)

The effect of the terms of trade may be illustrated by examining the difference between the movements of the GDP deflator and the *domestic demand deflator*, the latter derived by taking out the trade components of GDP (Chart 2). In general, it is observed that the GDP deflator has a larger rate of change than the domestic demand deflator when the terms of trade is improving (i.e. showing a year-on-year increase) and vice versa when the terms of trade is deteriorating (i.e. showing a year-on-year decrease).

**Chart 2: Difference in movements of GDP deflator and domestic demand deflator reflects the effects of terms of trade**



Note: The GDP deflator and domestic demand deflator refer to the new series derived from the chained-dollar measures of GDP.

The terms of trade is affected by a number of factors including movements in exchange rates, changes in the composition of traded goods and services, and changes in traders' profit margin. Since trade in goods has a much larger value than trade in services, the overall terms of trade tends to be more influenced by trade in goods than trade in services. The terms of trade in goods exhibits more volatile movements due to changes in the mix of goods imported and exported as well as changes in their prices.

During 2003 to 2006, i.e. the period when the GDP deflator registered a notably lower rate of change than the CPI, two components in particular imposed an unfavourable effect on the terms of trade in goods. The first component was fuel, which though only accounted for less than 5% of total import value (and a negligible share of total export value), contributed to the deterioration in the terms of trade due to the soaring import prices of oil. (Interested readers may refer to Box 6.1 of the *Third Quarter Economic Report 2006* for a more detailed analysis on this.) The second component was raw materials and semi-manufactures, which registered a faster rate of average annual increase in its import prices, at 3.3%, than its re-export prices, at 1.0% over the period concerned.

A turnaround in the terms of trade was observed in the first three quarters of 2007, partly benefiting from waning negative drag of high oil prices over the period (Table 6.3). In particular, the increase in import prices of fuel was 2.6% in 2007 Q1-Q3, much smaller than that of 16.6% in 2006. Also relevant was the moderation in the pace of increase in import prices of raw materials and semi-manufactures (2.4% in 2007 Q1-Q3 vs 3.2% in 2006). Looking forward, however, the recent resurgence in oil price and the continued weakening of the Hong Kong dollar are likely to push up overall import prices further, thereby possibly posing a renewed drag on the terms of trade in the coming quarters.



## Notes :

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

The expenditure ranges of the households covered in the 2004/05-based CPIs are shown below:

	<u>Approximate proportion of households covered</u>	<u>Average monthly expenditure range during Oct 2004 to Sep 2005</u>
	(%)	(\$)
CPI(A)	50	4,000 to 15,499
CPI(B)	30	15,500 to 27,499
CPI(C)	10	27,500 to 59,999

The weightings of the various components in the 2004/05-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	26.94	32.10	27.32	20.41
<i>Meals bought     away from home</i>	16.86	18.63	17.65	13.74
<i>Other foodstuffs</i>	10.08	13.47	9.67	6.67
Housing	29.17	30.54	27.70	29.66
<i>Private dwellings</i>	23.93	22.07	23.89	26.11
<i>Public dwellings</i>	2.49	6.18	1.25	--
<i>Maintenance costs     and other     housing charges</i>	2.75	2.29	2.56	3.55
Electricity, gas and water	3.59	4.84	3.37	2.45
Alcoholic drinks and tobacco	0.87	1.35	0.79	0.42
Clothing and footwear	3.91	2.81	4.28	4.67
Durable goods	5.50	4.01	5.67	6.99
Miscellaneous goods	4.78	4.68	4.76	4.91
Transport	9.09	8.07	9.05	10.35
Miscellaneous services	16.15	11.60	17.06	20.14
All items	100.00	100.00	100.00	100.00

- (2) Unit labour cost represents the labour cost per unit of output produced. It is distinct from the nominal wage index in that it will discount the effect of labour productivity growth in arriving at the labour cost measure. Technically, it refers to the product of the nominal index of payroll per person engaged and the total employment, divided by the real GDP.
- (3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.

- (4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

## Statistical Appendix

	<u>Table</u>	<u>Page</u>
1.	Gross Domestic Product by expenditure component (at current market prices)	94-95
2.	Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms)	96-97
3.	Gross Domestic Product by economic activity (at current prices)	98
4.	Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)	99
5.	Balance of payments account by major component (at current prices)	100
6.	Visible and invisible trade (at current market prices)	101
7.	Total exports of goods by market (in value terms)	102
8.	Imports of goods by source (in value terms)	103
9.	Retained imports of goods by end-use category (in value terms)	103
10.	Exports and imports of services by component (at current market prices)	104
11.	Incoming visitors by source	105
12.	Property market	106-107
13.	Property prices and rentals	108-109
14.	Monetary aggregates	110-111
15.	Rates of change in business receipts indices for service industries/domains	112
16.	Labour force characteristics	113
17.	Employment in selected major economic sectors	114
18.	Number of workers engaged at building and construction sites	115
19.	Average labour earnings by major economic sector	116
20.	Rates of change in wage indices by selected major economic sector	117
21.	Rates of change in prices	118-119
22.	Rates of change in Composite Consumer Price Index	120-121
23.	Rates of change in implicit price deflators of GDP and its main expenditure components	122-123

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	(\$Mn)					
Private consumption expenditure	833,825	795,948	765,248	777,141	782,984	748,402
Government consumption expenditure	112,751	116,550	119,993	120,172	128,866	131,291
Gross domestic fixed capital formation	451,891	388,731	325,328	347,375	333,044	286,025
<i>of which:</i>						
Building and construction	223,264	208,235	171,930	155,441	142,659	131,757
Machinery, equipment and computer software	190,760	165,177	141,349	180,204	180,011	144,832
Changes in inventories	12,313	-15,651	-10,612	14,399	-4,060	5,660
Total exports of goods	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987	1,562,121
Domestic exports	211,410	188,454	170,600	180,967	153,520	131,079
Re-exports	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467	1,431,041
Imports of goods	1,589,876	1,408,317	1,373,500	1,636,711	1,549,222	1,601,527
Exports of services	286,595	262,099	276,385	315,012	320,799	347,836
Imports of services	198,424	194,245	185,174	192,427	194,180	202,494
<b>GDP</b>	<b>1,365,024</b>	<b>1,292,764</b>	<b>1,266,668</b>	<b>1,317,650</b>	<b>1,299,218</b>	<b>1,277,314</b>
<i>Per capita GDP (\$)</i>	<i>210,350</i>	<i>197,559</i>	<i>191,731</i>	<i>197,697</i>	<i>193,500</i>	<i>189,397</i>
<b>GNP</b>	<b>1,363,409</b>	<b>1,317,362</b>	<b>1,291,436</b>	<b>1,326,404</b>	<b>1,327,761</b>	<b>1,282,966</b>
<i>Per capita GNP (\$)</i>	<i>210,101</i>	<i>201,318</i>	<i>195,480</i>	<i>199,010</i>	<i>197,751</i>	<i>190,235</i>
Total final demand	3,153,324	2,895,326	2,825,342	3,146,788	3,042,620	3,081,335
Total final demand excluding re-exports <sup>(a)</sup>	2,130,313	1,952,900	1,886,157	2,048,719	1,983,301	1,923,623
Domestic demand	1,410,780	1,285,578	1,199,957	1,259,087	1,240,834	1,171,378
Private	1,233,803	1,107,816	1,014,313	1,078,515	1,053,973	986,542
Public	176,977	177,762	185,644	180,572	186,861	184,836
External demand	1,742,544	1,609,748	1,625,385	1,887,701	1,801,786	1,909,957

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  
(at current market prices) (Cont'd)**

	(\$Mn)						
	2003	2004	2005 <sup>#</sup>	2006 <sup>#</sup>	Q1 <sup>#</sup>	2007 Q2 <sup>#</sup>	Q3 <sup>#</sup>
Private consumption expenditure	719,873	767,923	804,936	866,095	221,009	236,874	241,880
Government consumption expenditure	130,151	127,327	121,435	123,436	34,362	30,408	31,974
Gross domestic fixed capital formation	261,576	275,034	289,224	316,968	71,890	81,048	78,575
<i>of which:</i>							
Building and construction	116,628	107,692	105,965	98,797	25,630	26,724	25,615
Machinery, equipment and computer software	136,537	150,545	163,369	201,379	41,558	48,975	46,587
Changes in inventories	9,111	7,076	-4,761	-926	2,132	5,607	1,708
Total exports of goods	1,749,089	2,027,031	2,251,744	2,467,357	587,298	656,509	722,092
Domestic exports	122,126	126,386	136,324	138,759	23,524	30,021	30,965
Re-exports	1,626,964	1,900,645	2,115,419	2,328,598	563,774	626,487	691,127
Imports of goods	1,794,059	2,099,545	2,311,091	2,576,340	621,522	702,713	749,449
Exports of services	362,420	429,563	495,799	561,547	144,066	146,871	171,976
Imports of services	203,400	242,507	264,237	283,808	69,535	75,593	84,936
<b>GDP</b>	<b>1,234,761</b>	<b>1,291,902</b>	<b>1,383,049</b>	<b>1,474,329</b>	<b>369,700</b>	<b>379,011</b>	<b>413,820</b>
<i>Per capita GDP (\$)</i>	<i>183,449</i>	<i>190,448</i>	<i>202,996</i>	<i>215,008</i>	--	--	--
<b>GNP</b>	<b>1,263,252</b>	<b>1,315,312</b>	<b>1,384,697</b>	<b>1,479,443</b>	<b>397,121</b>	<b>385,068</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>187,682</i>	<i>193,899</i>	<i>203,237</i>	<i>215,753</i>	--	--	--
Total final demand	3,232,220	3,633,954	3,958,377	4,334,477	1,060,757	1,157,317	1,248,205
Total final demand excluding re-exports <sup>(a)</sup>	1,896,483	2,062,121	2,213,156	2,401,741	592,825	637,333	674,570
Domestic demand	1,120,711	1,177,360	1,210,834	1,305,573	329,393	353,937	354,137
Private	939,104	1,001,588	1,048,080	1,147,415	285,651	316,545	315,096
Public	181,607	175,772	162,754	158,158	43,742	37,392	39,041
External demand	2,111,509	2,456,594	2,747,543	3,028,904	731,364	803,380	894,068

Notes : Figures presented in this table have been revised due to regular updating of data sources and incorporation of latest benchmark data.

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

(#) Figures are subject to revision later on as more data become available.

(--) Not applicable.

N.A. Not available.

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

(%)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Private consumption expenditure	5.5	-5.5	1.2	5.1	1.8	-0.9
Government consumption expenditure	2.2	0.5	3.1	2.0	6.0	2.4
Gross domestic fixed capital formation	13.7	-7.6	-16.7	7.9	2.6	-4.7
<i>of which:</i>						
Building and construction	12.7	-1.6	-16.4	-7.9	-1.1	-1.3
Machinery, equipment and computer software	12.8	-7.5	-17.6	27.3	6.2	-7.6
Total exports of goods	6.0	-4.6	3.6	16.9	-3.3	8.6
Domestic exports	2.1	-7.8	-6.8	7.2	-10.2	-11.0
Re-exports	6.7	-4.0	5.3	18.3	-2.4	10.9
Imports of goods	7.3	-6.9	-0.1	18.4	-1.9	7.9
Exports of services	-0.8	-3.9	8.9	13.4	6.4	11.1
Imports of services	4.6	2.8	-3.4	2.2	2.0	3.9
<b>GDP</b>	<b>5.1</b>	<b>-6.0</b>	<b>2.6</b>	<b>8.0</b>	<b>0.5</b>	<b>1.8</b>
<b>Per capita GDP (\$)</b>	<b>4.2</b>	<b>-6.8</b>	<b>1.6</b>	<b>7.0</b>	<b>-0.2</b>	<b>1.4</b>
<b>GNP</b>	<b>5.9</b>	<b>-4.1</b>	<b>2.6</b>	<b>6.6</b>	<b>2.0</b>	<b>0.1</b>
<b>Per capita GNP (\$)</b>	<b>5.0</b>	<b>-4.9</b>	<b>1.6</b>	<b>5.6</b>	<b>1.3</b>	<b>-0.3</b>
Total final demand	6.2	-5.9	0.9	12.6	-0.7	5.0
Total final demand excluding re-exports <sup>(a)</sup>	5.9	-6.8	-1.3	9.8	0.3	2.0
Domestic demand	7.9	-7.7	-3.6	7.7	0.9	-0.7
Private	9.3	-8.4	-4.6	9.5	0.5	-1.0
Public	-1.1	-3.5	2.4	-2.1	3.3	1.1
External demand	4.9	-4.5	4.5	16.3	-1.7	9.0

Notes : Figures presented in this table have been revised based on the new data series of chain volume measures of GDP released in October 2007.

In calculating the chained (2005) dollar series, the current price value in the reference year of 2005 is extrapolated backwards and forwards using the corresponding chain volume index. Because the extrapolation process is carried out for the GDP and its components independently, the extrapolated values of the components do not, in general, aggregate exactly to the extrapolated value of GDP.

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

(#) Figures are subject to revision later on as more data become available.

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

	(%)									
	<u>2003</u>	<u>2004</u>	<u>2005<sup>#</sup></u>	<u>2006<sup>#</sup></u>	<u>2007</u>			Average annual rate of change:		
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 1996 to 2006 <sup>#</sup>	5 years 2001 to 2006 <sup>#</sup>	
Private consumption expenditure	-1.3	7.0	3.0	5.9	4.8	5.7	9.7	2.1	2.7	
Government consumption expenditure	1.8	0.7	-3.2	0.3	2.4	2.7	1.2	1.6	0.4	
Gross domestic fixed capital formation	0.9	2.5	4.1	6.3	2.8	10.0	2.0	0.6	1.8	
<i>of which:</i>										
Building and construction	-5.4	-10.7	-7.6	-7.4	-2.9	5.9	0.4	-4.9	-6.6	
Machinery, equipment and computer software	7.0	10.3	12.8	18.0	3.9	11.5	0.6	5.4	7.7	
Total exports of goods	14.0	14.9	10.4	9.3	6.6	10.1	6.4	7.3	11.4	
Domestic exports	-6.9	2.2	6.1	3.0	-34.6	-18.7	-22.9	-2.4	-1.5	
Re-exports	15.9	15.8	10.7	9.7	9.4	11.9	8.2	8.4	12.6	
Imports of goods	13.1	13.7	8.0	9.2	7.1	11.6	8.3	6.6	10.4	
Exports of services	7.6	17.9	11.7	8.9	9.0	11.6	12.3	7.9	11.4	
Imports of services	-2.2	14.6	7.8	6.6	4.5	8.0	8.9	3.8	6.0	
<b>GDP</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>	<b>6.8</b>	<b>5.6</b>	<b>6.6</b>	<b>6.2</b>	<b>3.6</b>	<b>5.4</b>	
<i>Per capita GDP (\$)</i>	<i>3.2</i>	<i>7.6</i>	<i>6.7</i>	<i>6.1</i>	--	--	--	<i>3.0</i>	<i>5.0</i>	
<b>GNP</b>	<b>4.9</b>	<b>7.9</b>	<b>5.3</b>	<b>7.0</b>	<b>10.8</b>	<b>10.7</b>	<b>N.A.</b>	3.8	5.0	
<i>Per capita GNP (\$)</i>	<i>5.1</i>	<i>7.0</i>	<i>4.9</i>	<i>6.3</i>	--	--	--	<i>3.1</i>	<i>4.6</i>	
Total final demand	7.9	11.8	7.7	8.2	6.4	9.7	7.6	5.2	8.1	
Total final demand excluding re-exports <sup>(a)</sup>	3.1	8.9	5.4	7.0	4.1	7.9	7.2	3.3	5.2	
Domestic demand	-0.2	5.0	1.6	5.8	5.0	8.2	8.2	1.5	2.3	
Private	-0.5	6.2	3.0	7.3	6.0	9.1	9.5	2.0	2.9	
Public	1.4	-1.2	-6.2	-4.0	-1.3	1.2	-0.7	-1.0	-1.8	
External demand	12.8	15.4	10.6	9.2	7.0	10.3	7.4	7.5	11.4	

Notes (cont'd) : (--) Not applicable.

N.A. Not available.

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

	<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005</u>		<u>2006<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,002	0.1	824	0.1	886	0.1	847	0.1	849	0.1
Mining and quarrying	136	*	116	*	72	*	100	*	93	*
Manufacturing	51,396	4.2	44,403	3.7	44,455	3.6	45,547	3.4	44,247	3.1
Electricity, gas and water	39,609	3.2	38,839	3.3	39,726	3.2	39,924	3.0	40,180	2.8
Construction	51,534	4.2	44,910	3.8	40,376	3.2	38,538	2.9	39,106	2.7
Services	1,079,476	88.3	1,062,714	89.2	1,119,283	89.9	1,208,278	90.6	1,300,286	91.3
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>310,500</i>	<i>25.4</i>	<i>308,872</i>	<i>25.9</i>	<i>345,092</i>	<i>27.7</i>	<i>386,726</i>	<i>29.0</i>	<i>399,179</i>	<i>28.0</i>
<i>Transport, storage and communications</i>	<i>121,766</i>	<i>10.0</i>	<i>117,420</i>	<i>9.9</i>	<i>126,820</i>	<i>10.2</i>	<i>135,119</i>	<i>10.1</i>	<i>137,081</i>	<i>9.6</i>
<i>Financing, insurance, real estate and business services</i>	<i>247,045</i>	<i>20.2</i>	<i>251,085</i>	<i>21.1</i>	<i>266,834</i>	<i>21.4</i>	<i>294,666</i>	<i>22.1</i>	<i>355,761</i>	<i>25.0</i>
<i>Community, social and personal services</i>	<i>259,893</i>	<i>21.2</i>	<i>256,134</i>	<i>21.5</i>	<i>257,630</i>	<i>20.7</i>	<i>253,312</i>	<i>19.0</i>	<i>255,722</i>	<i>17.9</i>
<i>Ownership of premises</i>	<i>140,273</i>	<i>11.5</i>	<i>129,203</i>	<i>10.8</i>	<i>122,906</i>	<i>9.9</i>	<i>138,455</i>	<i>10.4</i>	<i>152,544</i>	<i>10.7</i>
<b>GDP at factor cost</b>	<b>1,223,153</b>	<b>100.0</b>	<b>1,191,807</b>	<b>100.0</b>	<b>1,244,798</b>	<b>100.0</b>	<b>1,333,235</b>	<b>100.0</b>	<b>1,424,761</b>	<b>100.0</b>
Taxes on production and imports	43,325		48,057		58,729		62,891		71,270	
Statistical discrepancy (%)	0.8		-0.4		-0.9		-0.9		-1.5	
<b>GDP at current market prices</b>	<b>1,277,314</b>		<b>1,234,761</b>		<b>1,291,902</b>		<b>1,383,049</b>		<b>1,474,329</b>	

Notes : Figures presented in this table have been revised due to regular updating of data sources and incorporation of latest benchmark data.

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

(#) Figures are subject to revision later on as more data become available.

(\*) Less than 0.05%.



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

	(%)									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005<sup>#</sup></u>	<u>2006<sup>#</sup></u>	<u>2006</u>		<u>2007</u>	
							Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Agriculture and fishing	4.1	-1.1	-6.3	2.7	-1.0	-3.3	-2.4	-4.6	-8.6	-6.9
Mining and quarrying	-14.1	-11.3	2.3	-16.7	10.1	10.2	15.4	8.8	16.2	16.6
Manufacturing	-9.1	-10.0	-10.3	1.7	2.1	2.2	-0.6	-1.4	-1.5	-2.3
Electricity, gas and water	1.7	3.8	1.8	2.3	2.5	0.8	4.3	-4.0	1.4	2.7
Construction	-2.0	-1.9	-4.6	-9.3	-8.1	-8.3	-11.4	-4.3	-6.7	3.0
Services	1.7	2.7	4.3	9.9	7.6	7.7	7.5	8.2	7.2	7.4
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	0.3	4.4	8.9	15.1	14.1	9.4	10.3	9.7	8.2	8.8
<i>Transport, storage and communications</i>	1.9	6.4	0.6	13.9	7.4	7.9	7.1	8.3	3.9	4.5
<i>Financing, insurance, real estate and business services</i>	0.4	2.7	5.5	13.4	8.8	12.7	11.2	14.1	13.9	14.0
<i>Community, social and personal services</i>	4.0	-0.4	0.4	2.6	-0.1	1.9	1.9	2.6	1.5	1.1
<i>Ownership of premises</i>	3.4	1.8	2.8	1.5	2.9	2.6	2.5	2.3	2.2	2.0
Taxes on production and imports	-1.7	-0.2	2.6	12.3	0.8	7.2	3.6	19.4	11.9	10.6
<b>GDP in chained (2005) dollars</b>	<b>0.5</b>	<b>1.8</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>	<b>6.8</b>	<b>6.9</b>	<b>5.6</b>	<b>6.6</b>	<b>6.2</b>

Notes : Figures presented in this table have been revised based on the new data series of chain volume measures of GDP released in October 2007.

(#) Figures are subject to revision later on as more data become available.

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

(\$Mn)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006<sup>#</sup></u>	<u>2006</u>		<u>2007</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Current account	96,800	128,240	122,491	157,338	156,610	50,783	54,522	62,207	26,548
Goods	-39,406	-44,970	-72,514	-59,347	-108,983	-18,569	-25,243	-34,224	-46,204
Services	145,342	159,020	187,056	231,562	277,739	73,640	80,042	74,531	71,278
Income	5,652	28,491	23,410	1,648	5,114	238	4,446	27,421	6,057
Current transfers	-14,787	-14,301	-15,461	-16,524	-17,260	-4,526	-4,722	-5,521	-4,583
Capital and financial account	-151,179	-179,086	-184,640	-182,431	-201,722	-60,115	-66,028	-54,005	-40,224
Capital and financial non-reserve assets (net change)	-169,720	-171,497	-159,155	-171,752	-154,987	-46,962	-53,972	-41,633	-30,243
Capital transfers	-15,686	-8,292	-2,561	-4,939	-2,226	-1,729	-554	-1,196	3,730
Financial non-reserve assets (net change)	-154,033	-163,205	-156,594	-166,812	-152,761	-45,233	-53,418	-40,437	-33,973
<i>Direct investment</i>	-60,685	63,372	-91,038	49,996	-4,402	-15,817	13,967	1,299	23,778
<i>Portfolio investment</i>	-302,484	-264,619	-306,368	-245,017	-258,082	17,248	-231,005	5,840	-19,988
<i>Financial derivatives</i>	51,563	78,288	44,319	30,502	38,873	8,312	13,742	26,380	16,070
<i>Other investment</i>	157,573	-40,247	196,492	-2,294	70,850	-54,975	149,879	-73,957	-53,832
Reserve assets (net change) <sup>(a)</sup>	18,541	-7,589	-25,486	-10,679	-46,735	-13,153	-12,056	-12,372	-9,981
Net errors and omissions	54,379	50,846	62,149	25,093	45,112	9,332	11,505	-8,202	13,677
<b>Overall balance of payments</b>	<b>-18,541</b>	<b>7,589</b>	<b>25,486</b>	<b>10,679</b>	<b>46,735</b>	<b>13,153</b>	<b>12,056</b>	<b>12,372</b>	<b>9,981</b>

Notes : Figures presented in this table have been revised due to regular updating of data sources and incorporation of latest benchmark data.

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.

(#) Figures are subject to revision later on as more data become available.

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

	(\$Mn)								
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u> <sup>#</sup>	<u>2006</u> <sup>#</sup>	<u>2006</u>	<u>2007</u>		
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Total exports of goods	1,562,121	1,749,089	2,027,031	2,251,744	2,467,357	674,929	587,298	656,509	722,092
Imports of goods	1,601,527	1,794,059	2,099,545	2,311,091	2,576,340	700,172	621,522	702,713	749,449
<b>Visible trade balance</b>	<b>-39,406</b>	<b>-44,970</b>	<b>-72,514</b>	<b>-59,347</b>	<b>-108,983</b>	<b>-25,243</b>	<b>-34,224</b>	<b>-46,204</b>	<b>-27,357</b>
	<b>(-2.5)</b>	<b>(-2.5)</b>	<b>(-3.5)</b>	<b>(-2.6)</b>	<b>(-4.2)</b>	<b>(-3.6)</b>	<b>(-5.5)</b>	<b>(-6.6)</b>	<b>(-3.7)</b>
Exports of services	347,836	362,420	429,563	495,799	561,547	154,642	144,066	146,871	171,976
Imports of services	202,494	203,400	242,507	264,237	283,808	74,600	69,535	75,593	84,936
<b>Invisible trade balance</b>	<b>145,342</b>	<b>159,020</b>	<b>187,056</b>	<b>231,562</b>	<b>277,739</b>	<b>80,042</b>	<b>74,531</b>	<b>71,278</b>	<b>87,040</b>
	<b>(71.8)</b>	<b>(78.2)</b>	<b>(77.1)</b>	<b>(87.6)</b>	<b>(97.9)</b>	<b>(107.3)</b>	<b>(107.2)</b>	<b>(94.3)</b>	<b>(102.5)</b>
Exports of goods and services	1,909,957	2,111,509	2,456,594	2,747,543	3,028,904	829,571	731,364	803,380	894,068
Imports of goods and services	1,804,021	1,997,459	2,342,052	2,575,328	2,860,148	774,772	691,057	778,306	834,385
<b>Visible and invisible trade balance</b>	<b>105,936</b>	<b>114,050</b>	<b>114,542</b>	<b>172,215</b>	<b>168,756</b>	<b>54,799</b>	<b>40,307</b>	<b>25,074</b>	<b>59,683</b>
	<b>&lt;5.9&gt;</b>	<b>&lt;5.7&gt;</b>	<b>&lt;4.9&gt;</b>	<b>&lt;6.7&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;7.1&gt;</b>	<b>&lt;5.8&gt;</b>	<b>&lt;3.2&gt;</b>	<b>&lt;7.2&gt;</b>

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

Figures presented in this table have been revised due to regular updating of data sources and incorporation of latest benchmark data.

(#) Figures are subject to revision later on as more data become available.

( ) As a percentage of the total value of imports of goods/services.

< > As a percentage of the total value of imports of goods and services.

**Table 7 : Total exports of goods by market  
(in value terms)**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>2006</u>	<u>2007</u>		
	(% change)				(% change)	(\$Mn)	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
							(% change over a year earlier)			
<b>All markets</b>	<b>5.4</b>	<b>11.7</b>	<b>15.9</b>	<b>11.4</b>	<b>9.4</b>	<b>2,461,027</b>	<b>11.9</b>	<b>9.0</b>	<b>11.7</b>	<b>8.2</b>
Mainland of China	12.3	21.1	19.7	14.0	14.2	1,156,210	17.0	13.3	15.9	12.8
United States	1.0	-2.6	5.4	5.6	2.9	371,130	7.3	1.9	1.3	-2.4
Japan	-4.5	12.3	14.4	10.3	1.6	120,422	-2.2	1.5	3.1	-6.2
Germany	-5.3	15.1	11.9	15.6	4.0	75,663	3.6	-0.9	10.9	12.1
United Kingdom	-2.0	5.8	14.8	5.2	6.3	73,632	10.2	11.6	1.8	-5.3
Taiwan	-2.2	22.2	16.2	2.7	3.3	52,106	6.8	3.9	10.0	-3.8
Republic of Korea	17.2	16.9	24.0	9.5	7.5	51,873	-4.3	-5.5	5.0	1.6
Singapore	6.8	13.0	22.0	6.8	4.4	48,612	8.8	4.7	3.9	2.4
Rest of the world	3.5	7.1	17.3	13.3	8.5	511,380	11.7	10.4	14.6	13.2

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>2007</u>			
	(% change)				(% change)	(\$Mn)	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
							(% change over a year earlier)			
<b>All sources</b>	<b>3.3</b>	<b>11.5</b>	<b>16.9</b>	<b>10.3</b>	<b>11.6</b>	<b>2,599,804</b>	<b>14.0</b>	<b>9.0</b>	<b>12.6</b>	<b>9.1</b>
Mainland of China	5.1	9.6	16.9	14.3	13.7	1,192,952	16.6	10.3	16.5	8.7
Japan	3.4	17.2	19.7	0.1	4.5	268,140	9.7	8.2	9.3	5.6
Taiwan	7.4	8.0	22.8	9.4	15.9	194,917	7.0	0.4	4.8	7.0
Singapore	3.9	19.6	22.5	21.8	21.9	164,837	22.6	13.6	26.1	17.9
United States	-12.8	7.9	13.4	6.5	3.6	123,569	14.7	16.3	12.6	8.3
Republic of Korea	7.3	15.0	15.0	2.6	16.1	119,647	23.8	1.6	-2.9	7.5
Rest of the world	2.2	12.1	13.6	8.4	7.6	535,742	8.3	8.4	8.4	10.5

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>2007</u>			
	(% change)				(% change)	(\$Mn)	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
							(% change over a year earlier)			
<b>Overall</b>	<b>-9.0</b>	<b>2.6</b>	<b>14.8</b>	<b>7.3</b>	<b>14.3</b>	<b>668,809</b>	<b>8.2</b>	<b>1.5</b>	<b>10.3</b>	<b>6.6</b>
Foodstuffs	0.2	1.5	8.6	3.1	4.3	52,952	1.0	10.1	10.6	16.9
Consumer goods	-5.2	-1.8	7.4	5.5	3.1	131,832	-12.1	-4.1	8.8	20.7
Raw materials and semi-manufactures	-1.6	10.7	17.6	4.2	8.8	234,899	9.4	8.4	19.3	17.7
Fuels	3.9	12.9	37.5	23.5	22.8	69,944	20.4	7.9	20.8	6.1
Capital goods	-24.9	-6.6	13.3	10.8	33.2	179,339	24.9	-8.5	-4.9	-19.7

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005<sup>#</sup></u>	<u>2006<sup>#</sup></u>		<u>2006</u>	<u>2007</u>		
	(% change)			(% change)		(\$Mn)	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>8.4</b>	<b>4.2</b>	<b>18.5</b>	<b>15.4</b>	<b>13.3</b>	<b>561,547</b>	<b>12.0</b>	<b>12.2</b>	<b>13.9</b>	<b>15.0</b>
Transportation	10.8	3.8	25.5	16.9	9.6	173,103	9.5	4.1	6.9	8.7
Travel	25.4	-4.4	26.1	14.2	12.8	90,340	12.8	17.8	17.3	20.0
Trade-related	9.0	12.2	12.6	10.7	12.1	181,760	11.0	12.5	13.5	13.5
Other services	-5.9	-1.4	12.7	22.9	21.8	116,344	16.9	18.9	22.4	23.7
<b>Imports of services</b>	<b>4.3</b>	<b>0.4</b>	<b>19.2</b>	<b>9.0</b>	<b>7.4</b>	<b>283,808</b>	<b>9.1</b>	<b>6.9</b>	<b>10.6</b>	<b>12.0</b>
Transportation	-4.7	7.8	29.4	20.3	7.2	87,208	7.7	6.0	10.2	11.2
Travel	0.8	-8.0	15.9	0.1	5.4	109,088	9.0	4.4	6.8	9.6
Trade-related	24.2	9.2	3.2	12.8	2.9	19,159	1.2	3.3	4.5	4.3
Other services	20.0	8.2	19.7	10.5	12.5	68,353	13.8	13.1	19.1	19.2
<b>Net exports of services</b>	<b>14.8</b>	<b>9.4</b>	<b>17.6</b>	<b>23.8</b>	<b>19.9</b>	<b>277,739</b>	<b>14.8</b>	<b>17.5</b>	<b>17.5</b>	<b>18.2</b>

Notes : Figures presented in this table have been revised due to regular updating of data sources and incorporation of latest benchmark data.

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

(#) Figures are subject to revision later on as more data become available.

**Table 11 : Incoming visitors by source**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> <u>Q4</u>	<u>Q1</u>	<u>2007</u> <u>Q2</u>	<u>Q3</u>
<u>('000)</u>									
<b>All sources</b>	<b>16 566.4</b>	<b>15 536.8</b>	<b>21 810.6</b>	<b>23 359.4</b>	<b>25 251.1</b>	<b>6 679.1</b>	<b>6 615.8</b>	<b>6 413.6</b>	<b>7 334.4</b>
Mainland of China	6 825.2	8 467.2	12 245.9	12 541.4	13 591.3	3 392.6	3 778.2	3 321.5	4 212.4
South and Southeast Asia	1 905.2	1 359.6	2 077.7	2 413.0	2 659.7	818.6	566.3	749.1	649.4
Taiwan	2 428.8	1 852.4	2 074.8	2 130.6	2 177.2	538.4	525.7	540.4	608.1
Europe	1 083.9	780.8	1 142.7	1 398.0	1 548.2	472.1	413.8	419.5	413.4
Japan	1 395.0	867.2	1 126.3	1 210.8	1 311.1	348.4	337.3	305.2	333.5
United States	1 000.8	683.8	1 051.7	1 143.1	1 159.0	318.4	277.4	311.7	285.3
Others	1 927.4	1 525.8	2 091.7	2 522.6	2 804.5	790.6	716.9	766.0	832.3
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>20.7</b>	<b>-6.2</b>	<b>40.4</b>	<b>7.1</b>	<b>8.1</b>	<b>4.3</b>	<b>6.3</b>	<b>7.4</b>	<b>15.1</b>
Mainland of China	53.4	24.1	44.6	2.4	8.4	0.9	5.2	6.6	20.6
South and Southeast Asia	9.1	-28.6	52.8	16.1	10.2	8.9	4.2	7.7	7.9
Taiwan	0.4	-23.7	12.0	2.7	2.2	-0.5	-0.2	5.3	1.5
Europe	6.3	-28.0	46.3	22.3	10.7	13.8	17.7	15.1	14.8
Japan	4.4	-37.8	29.9	7.5	8.3	6.9	5.2	*	-1.0
United States	7.0	-31.7	53.8	8.7	1.4	1.4	5.1	3.8	3.2
Others	5.9	-20.8	37.1	20.6	11.2	13.9	14.2	13.0	17.5

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

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

**Table 12 : Property market**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</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)	18 202	22 278	35 322	25 790	26 262	31 052	26 397
Commercial property	705	945	634	160	208	304	417
<i>of which :</i>							
Office space	456	737	428	96	76	166	299
Other commercial premises <sup>(b)</sup>	249	208	206	64	132	138	118
Industrial property <sup>(c)</sup>	343	300	191	62	45	29	15
<i>of which :</i>							
Industrial-cum-office premises	72	145	40	37	14	0	15
Conventional flatted factory space	181	31	4	19	30	3	0
Storage premises <sup>(d)</sup>	90	124	147	6	0	27	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	16 046	14 267	26 733	40 944	47 590	20 154	13 948
Subsidized sales flats <sup>(e)</sup>	21 535	21 993	26 532	22 768	26 174	2 224	320
<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	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5	790.0	1 038.4
Commercial property	599.0	395.7	287.5	337.5	265.0	365.3	200.0
Industrial property <sup>(f)</sup>	461.6	69.5	84.9	129.2	45.7	107.1	0.8
Other properties	259.2	201.5	125.8	240.2	75.0	109.3	444.2
Total	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	172 711	85 616	77 087	65 340	69 667	72 974	71 576
Primary market	15 806	23 441	18 325	13 911	18 366	23 088	26 498
Secondary market	156 905	62 175	58 762	51 429	51 301	49 886	45 078
Selected types of non-residential properties <sup>(h)</sup>							
Office space	N.A.	N.A.	N.A.	1 724	1 774	1 639	1 817
Other commercial premises	N.A.	N.A.	N.A.	2 411	2 989	3 167	4 142
Flatted factory space	N.A.	N.A.	N.A.	N.A.	N.A.	3 756	3 813

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

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

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

- (b) These include retail premises and other premises designed or adapted for commercial use, with the exception of purpose-built offices. Car-parking space and commercial premises built by the Hong Kong Housing Authority and the Hong Kong Housing Society are excluded.
- (c) These include industrial-cum-office premises, but exclude specialised factory buildings which are developed mainly for own use.
- (d) These include storage premises at the container terminals and the airport.



**Table 12 : Property market (Cont'd)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> Q4	Q1	<u>2007</u> Q2	Q3
<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)	26 036	17 321	16 579	4 474	2 273	647	1 444
Commercial property	371	145	291	178	33	172	4
<i>of which :</i>							
Office space	280	34	108	43	10	161	0
Other commercial premises <sup>(b)</sup>	91	111	183	134	24	11	4
Industrial property <sup>(c)</sup>	1	17	27	2	0	0	2
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	1	0	0	0	0	0	2
Storage premises <sup>(d)</sup>	0	13	27	2	0	0	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	20 947	24 691	4 430	0	4 795	0	0
Subsidized sales flats <sup>(e)</sup>	0	0	0	0	1 200	0	810
<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	530.0	550.7	706.7	99.4	48.7	300.4	471.6
Commercial property	161.3	481.9	468.4	313.6	127.6	46.1	45.4
Industrial property <sup>(f)</sup>	16.4	35.1	23.9	1.2	11.0	70.2	18.0
Other properties	407.1	408.0	199.2	25.9	71.9	44.9	40.4
Total	1 114.8	1 475.8	1 398.2	440.0	259.1	461.6	575.3
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	100 630	103 362	82 472	20 696	23 328	30 293	29 421
Primary market	25 694	15 994	13 986	3 767	3 095	5 876	5 722
Secondary market	74 936	87 368	68 486	16 929	20 233	24 417	23 699
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 213	3 431	2 874	760	723	915	1 001
Other commercial premises	7 833	7 143	4 402	1 093	1 099	1 410	1 383
Flatted factory space	5 889	6 560	7 409	1 862	1 906	2 432	2 380

Notes (e) The Housing Authority's 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) These include multi-purpose industrial premises designed also for office use.

(g) The figures are derived from sale and purchase agreements of domestic units received for registration in the Land Registry for the relevant periods. They generally relate to transactions executed up to four weeks prior to their submission for registration. Sales of domestic units refer to sale and purchase agreements with payment of stamp duty. These statistics do not include sales of units under the Home Ownership Scheme, the Private Sector Participation Scheme and the Tenants Purchase Scheme except those after payment of premium. Primary sales generally refer to sales from developers. Secondary sales refer to sales from parties other than developers.

(h) Timing of the figures for non-residential properties is based on the date on which the S&P Agreement is signed, which may differ from the date on which the Agreement is received for registration in the Land Registry.

N.A. Not available.

**Table 13 : Property prices and rentals**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	163.1	117.1	100.0	89.6	78.7	69.9	61.6
Office space <sup>(b)</sup>	213.1	134.5	100.0	89.9	78.7	68.4	62.5
Shopping space	177.3	128.3	100.0	93.6	86.8	85.0	85.5
Flatted factory space	168.9	131.8	100.0	91.2	82.0	74.8	71.7
Property rental indices <sup>(c)</sup> :							
Residential flats	134.5	112.6	100.0	98.1	95.4	83.4	73.6
Office space <sup>(b)</sup>	156.8	135.9	100.0	98.5	101.0	85.4	74.6
Shopping space	123.5	111.2	100.0	101.3	99.4	92.9	86.4
Flatted factory space	132.5	118.1	100.0	95.4	90.3	82.7	74.9
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	39.5	-28.2	-14.6	-10.4	-12.2	-11.2	-11.9
Office space <sup>(b)</sup>	13.1	-36.9	-25.7	-10.1	-12.5	-13.1	-8.6
Shopping space	32.3	-27.6	-22.1	-6.4	-7.3	-2.1	0.6
Flatted factory space	-1.5	-22.0	-24.1	-8.8	-10.1	-8.8	-4.1
Property rental indices <sup>(c)</sup> :							
Residential flats	13.0	-16.3	-11.2	-1.9	-2.8	-12.6	-11.8
Office space <sup>(b)</sup>	3.0	-13.3	-26.4	-1.5	2.5	-15.4	-12.6
Shopping space	4.8	-10.0	-10.1	1.3	-1.9	-6.5	-7.0
Flatted factory space	0.1	-10.9	-15.3	-4.6	-5.3	-8.4	-9.4

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 recomputed 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 13 : Property prices and rentals (Cont'd)**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> Q4	Q1 <sup>#</sup>	<u>2007</u> Q2 <sup>+</sup>	Q3 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	78.0	92.0	92.7	93.3	96.6	100.3	103.1
Office space <sup>(b)</sup>	99.3	133.0	139.3	142.7	148.5	155.8	165.7
Shopping space	119.3	149.3	153.5	154.1	158.8	167.7	174.5
Flatted factory space	88.6	125.0	158.5	170.7	176.9	192.0	205.0
Property rental indices <sup>(c)</sup> :							
Residential flats	77.7	86.5	91.6	94.2	96.0	99.6	103.3
Office space <sup>(b)</sup>	78.1	96.4	117.4	121.6	125.8	129.7	135.8
Shopping space	92.8	100.5	104.3	106.9	108.1	110.0	114.1
Flatted factory space	77.3	82.6	91.0	94.7	96.7	99.0	101.9
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	26.6	17.9	0.8	3.6	5.6	7.6	11.2 <73.9> {-39.2}
Office space <sup>(b)</sup>	58.9	33.9	4.7	5.4	13.4	11.7	15.1 <180.8> {-26.4}
Shopping space	39.5	25.1	2.8	2.1	4.7	8.5	13.4 <115.4> {-9.8}
Flatted factory space	23.6	41.1	26.8	25.0	22.6	24.2	24.6 <192.9> {18.2}
Property rental indices <sup>(c)</sup> :							
Residential flats	5.6	11.3	5.9	4.8	7.5	9.6	12.0 <43.7> {-25.6}
Office space <sup>(b)</sup>	4.7	23.4	21.8	15.4	14.3	10.5	12.9 <89.4> {-14.6}
Shopping space	7.4	8.3	3.8	3.4	4.7	7.0	9.6 <35.7> {-8.4}
Flatted factory space	3.2	6.9	10.2	12.1	12.1	9.8	9.9 <41.1> {-23.8}

Notes (cont'd) : (#) Figures for non-residential property are provisional.

(+) Provisional figures.

< > % change from the trough in 2003.

{ } % change from the peak in 1997.

**Table 14 : Monetary aggregates**

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	188,135	178,260	205,339	203,966	229,841	259,411	354,752
M2 <sup>(a)</sup>	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049	2,107,269
M3 <sup>(a)</sup>	1,684,325	1,840,824	1,935,471	2,002,358	2,016,635	2,004,225	2,122,861
Total money supply (\$Mn)							
M1	208,093	197,666	225,156	243,847	258,056	295,650	413,423
M2	2,788,808	3,111,942	3,386,196	3,649,492	3,550,060	3,518,326	3,813,442
M3	2,871,425	3,168,199	3,434,467	3,692,753	3,594,130	3,561,852	3,858,044
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,551,555	1,699,726	1,773,169	1,851,177	1,854,651	1,824,911	1,930,790
Foreign currency	1,158,728	1,300,302	1,477,448	1,676,670	1,551,852	1,492,631	1,636,227
Total	2,710,282	3,000,027	3,250,617	3,527,847	3,406,502	3,317,542	3,567,018
Loans and advances (\$Mn)							
HK\$	1,742,481	1,695,027	1,607,126	1,652,191	1,647,684	1,615,667	1,573,079
Foreign currency	2,379,189	1,609,400	1,205,784	809,259	537,301	460,659	462,000
Total	4,121,670	3,304,427	2,812,910	2,461,450	2,184,986	2,076,325	2,035,079
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(c)(d)</sup>							
Trade-weighted	98.0	103.4	100.9	101.7	104.7	104.0	100.7
Import-weighted	97.9	105.5	101.4	101.5	105.1	104.7	101.6
Export-weighted	98.1	101.3	100.4	101.9	104.3	103.3	99.8
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	-5.1	-5.2	15.2	-0.7	12.7	12.9	36.8
M2 <sup>(a)</sup>	--	9.7	5.2	3.4	0.5	-0.7	6.2
M3 <sup>(a)</sup>	--	9.3	5.1	3.5	0.7	-0.6	5.9
Total money supply :							
M1	-4.3	-5.0	13.9	8.3	5.8	14.6	39.8
M2	--	11.6	8.8	7.8	-2.7	-0.9	8.4
M3	--	10.3	8.4	7.5	-2.7	-0.9	8.3
Deposit <sup>(b)</sup>							
HK\$	--	9.5	4.3	4.4	0.2	-1.6	5.8
Foreign currency	--	12.2	13.6	13.5	-7.4	-3.8	9.6
Total	--	10.7	8.4	8.5	-3.4	-2.6	7.5
Loans and advances							
HK\$	20.4	-2.7	-5.2	2.8	-0.3	-1.9	-2.6
Foreign currency	-3.6	-32.4	-25.1	-32.9	-33.6	-14.3	0.3
Total	5.3	-19.8	-14.9	-12.5	-11.2	-5.0	-2.0
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	4.3	5.5	-2.4	0.8	2.9	-0.7	-3.2
Import-weighted	5.3	7.8	-3.9	0.1	3.5	-0.4	-3.0
Export-weighted	3.2	3.3	-0.9	1.5	2.4	-1.0	-3.4

**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 at end-1997 cannot be compared with those at end-1996.

**Total Money Supply:**

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

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> Q4	Q1	<u>2007</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	412,629	348,248	387,918	387,918	418,842	504,970	483,484
M2 <sup>(a)</sup>	2,208,591	2,329,669	2,777,823	2,777,823	2,948,372	3,193,184	3,404,795
M3 <sup>(a)</sup>	2,219,557	2,345,838	2,795,688	2,795,688	2,966,455	3,211,318	3,424,319
Total money supply (\$Mn)							
M1	484,494	434,684	491,657	491,657	534,416	643,417	633,039
M2	4,166,706	4,379,057	5,054,475	5,054,475	5,271,752	5,593,867	5,944,734
M3	4,189,544	4,407,188	5,089,884	5,089,884	5,302,225	5,624,184	5,976,046
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	2,017,911	2,131,579	2,568,426	2,568,426	2,736,438	2,986,547	3,203,802
Foreign currency	1,848,145	1,936,322	2,188,993	2,188,993	2,236,227	2,342,046	2,490,305
Total	3,866,056	4,067,901	4,757,419	4,757,419	4,972,665	5,328,594	5,694,108
Loans and advances (\$Mn)							
HK\$	1,666,740	1,797,350	1,917,437	1,917,437	2,070,264	2,209,937	2,334,345
Foreign currency	488,964	514,637	550,392	550,392	601,228	648,896	707,994
Total	2,155,704	2,311,987	2,467,828	2,467,828	2,671,492	2,858,833	3,042,339
Nominal Effective Exchange Rate Indices (Jan 2000 =100) <sup>(c)(d)</sup>							
Trade-weighted	98.3	97.4	96.1	94.9	93.7	92.7	91.6
Import-weighted	99.2	98.1	96.8	95.6	94.3	93.5	92.2
Export-weighted	97.3	96.7	95.5	94.2	93.0	92.0	90.9
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	16.3	-15.6	11.4	11.4	17.4	42.9	31.7
M2 <sup>(a)</sup>	4.8	5.5	19.2	19.2	20.2	27.4	28.4
M3 <sup>(a)</sup>	4.6	5.7	19.2	19.2	20.1	27.3	28.3
Total money supply :							
M1	17.2	-10.3	13.1	13.1	21.7	43.8	34.6
M2	9.3	5.1	15.4	15.4	16.6	20.6	22.4
M3	8.6	5.2	15.5	15.5	16.5	20.5	22.3
Deposit <sup>(b)</sup>							
HK\$	4.5	5.6	20.5	20.5	21.7	29.8	31.2
Foreign currency	13.0	4.8	13.0	13.0	14.1	15.4	18.1
Total	8.4	5.2	17.0	17.0	18.2	23.1	25.1
Loans and advances							
HK\$	6.0	7.8	6.7	6.7	15.5	18.7	20.8
Foreign currency	5.8	5.3	6.9	6.9	12.2	16.8	25.0
Total	5.9	7.2	6.7	6.7	14.8	18.3	21.8
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	-2.4	-0.9	-1.3	-3.8	-4.0	-3.6	-4.4
Import-weighted	-2.4	-1.1	-1.3	-3.9	-4.0	-3.4	-4.5
Export-weighted	-2.5	-0.6	-1.2	-3.6	-4.1	-3.8	-4.4

- 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 at end-1997 cannot be compared with those at end-1996.
- (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 15 : Rates of change in business receipts indices for service industries/domains**

	(%)								
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>		<u>2007</u>	
						Q3	Q4	Q1	Q2
Wholesale trade	-10.7	-5.0	4.7	5.6	7.9	14.1	7.5	7.3	9.3
Retail trade	-4.1	-2.3	10.8	6.8	7.3	7.7	8.8	9.4	9.1
Import/export trade	-2.8	6.5	12.4	10.6	10.2	11.0	11.1	7.5	8.9
Restaurants	-5.4	-9.7	10.1	6.0	9.5	7.1	10.9	11.8	11.6
Hotels	-2.3	-19.7	39.4	22.1	13.8	14.4	11.4	15.9	12.5
Transport <sup>(a)</sup>	2.3	0.5	22.8	17.8	10.6	6.4	7.6	5.9	10.2
Storage	-19.6	-4.5	17.0	10.4	10.2	10.7	15.6	18.4	25.0
Communications	-2.6	-2.4	1.0	5.1	0.8	-0.4	-0.1	5.8	8.0
Banking	-0.8	*	4.4	10.9	19.5	11.5	24.1	27.3	32.4
Financing (other than banking)	-14.3	17.3	33.2	14.3	47.9	25.9	58.5	35.0	54.3
Insurance	10.3	19.1	22.3	16.0	21.3	14.1	16.0	16.0	21.8
Real estate	-2.5	6.2	13.5	16.0	-0.4	4.6	5.6	25.7	33.6
Business services	-5.8	0.5	8.3	4.9	19.6	22.9	18.3	14.8	12.1
Film entertainment	-9.1	2.3	3.7	5.0	1.7	5.8	1.1	4.5	4.6
Tourism, convention and exhibition services <sup>#</sup>	10.7	-7.3	26.5	12.9	14.0	14.5	12.6	14.4	15.5
Computer and information services	5.7	5.7	20.5	23.4	9.7	21.1	0.1	3.7	6.7

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

(#) Revised figures.

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

**Table 16 : Labour force characteristics<sup>#</sup>**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>		
						Q4	Q1	Q2	Q3
<u>(%)</u>									
Labour force participation rate	61.8	61.4	61.3	61.0	61.3	61.4	61.2	61.4	61.6
Seasonally adjusted unemployment rate	7.3	7.9	6.8	5.6	4.8	4.4	4.3	4.2	4.1
Underemployment rate	3.0	3.5	3.2	2.7	2.4	2.4	2.2	2.2	2.2
<u>('000)</u>									
Population of working age	5 620.7	5 652.4	5 733.1	5 801.4	5 845.9	5 885.6	5 899.0	5 928.6	5 935.6
Labour force	3 474.0	3 472.5	3 515.9	3 538.1	3 581.4	3 616.5	3 611.9	3 640.7	3 658.3
Persons employed	3 220.3	3 197.4	3 276.5	3 340.8	3 410.2	3 462.9	3 459.4	3 485.0	3 502.2
Persons unemployed	253.8	275.1	239.4	197.3	171.2	153.6	152.5	155.7	156.1
Persons underemployed	103.9	121.4	114.1	96.3	86.2	87.5	80.6	81.2	80.5
<u>(% change over a year earlier)</u>									
Population of working age	0.8	0.6	1.4	1.2	0.8	0.9	1.5	1.7	1.3
Labour force	1.4	*	1.3	0.6	1.2	1.8	1.7	2.7	1.3
Persons employed	-1.0	-0.7	2.5	2.0	2.1	2.7	2.5	3.4	2.0
Persons unemployed	45.3	8.4	-13.0	-17.6	-13.2	-13.9	-14.1	-11.7	-12.0
Persons underemployed	22.4	16.9	-6.0	-15.6	-10.5	0.7	0.6	-12.7	-4.1

Notes : (#) Figures enumerated from the General Household Survey have been revised to take into account the recent enhancements in the estimation method and the results of the 2006 Population By-census, which provide a benchmark for revising the population figures compiled since the 2001 Population Census.

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

**Table 17 : Employment in selected major economic sectors**

Major economic sector	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>				<u>2007</u>	No.
	(% change)					Sep	Dec	Mar	Jun	(% change over a year earlier)	
<b>Manufacturing</b>	<b>-9.0</b>	<b>-10.3</b>	<b>-3.0</b>	<b>-2.0</b>	<b>-2.5</b>	<b>-3.7</b>	<b>-4.8</b>	<b>-1.7</b>	<b>-2.3</b>	<b>157 274</b>	
<i>of which :</i>											
Printing, publishing and allied industries	-6.4	-5.2	-1.2	-3.1	2.0	1.7	3.7	2.3	1.6	37 468	
Food, manufacturing	0.9	-2.6	3.9	5.4	5.2	8.5	4.3	10.3	8.8	22 244	
Wearing apparel, except footwear	-19.3	-11.6	-0.8	-4.7	-10.5	-18.6	-19.0	-16.5	-17.6	16 976	
Textiles	-1.1	-16.8	-11.1	0.5	-4.4	-5.7	-7.0	1.8	-4.8	18 413	
Electronics	-13.1	-18.9	-2.3	-4.7	-12.9	-14.1	-16.1	-14.6	-7.1	11 957	
Transport equipment, manufacturing	-5.3	-0.4	-3.3	8.6	3.6	4.3	0.7	10.2	5.6	10 184	
<b>Wholesale, retail, import/export trades, restaurants and hotels</b>	<b>-2.3</b>	<b>-3.0</b>	<b>2.9</b>	<b>2.6</b>	<b>1.9</b>	<b>1.7</b>	<b>2.3</b>	<b>1.9</b>	<b>1.6</b>	<b>1 053 226</b>	
<i>of which :</i>											
Wholesale, retail and import/export trades	-1.6	-1.9	2.1	2.3	1.1	0.7	1.8	1.2	1.2	820 761	
Restaurants and hotels	-4.8	-7.3	6.0	3.6	5.1	5.5	4.3	4.4	3.0	232 465	
<b>Transport, storage and communications</b>	<b>-1.8</b>	<b>-4.4</b>	<b>3.7</b>	<b>2.6</b>	<b>1.1</b>	<b>1.4</b>	<b>1.7</b>	<b>1.1</b>	<b>3.1</b>	<b>190 212</b>	
<i>of which :</i>											
Land transport	-0.3	0.5	-2.2	-1.5	0.3	*	1.2	0.2	0.8	38 181	
Water transport	1.0	-3.6	0.1	-0.3	-4.4	-3.5	-2.1	-3.7	-0.2	26 243	
Air transport	0.7	-0.4	5.2	6.2	5.4	4.7	4.4	4.0	4.5	29 667	
Services incidental to transport	1.5	-4.0	11.3	8.0	3.1	3.8	2.8	2.8	5.7	60 062	
<b>Financing, insurance, real estate and business services</b>	<b>-1.3</b>	<b>-1.9</b>	<b>3.6</b>	<b>4.4</b>	<b>5.0</b>	<b>5.5</b>	<b>5.8</b>	<b>5.1</b>	<b>5.7</b>	<b>503 165</b>	
<i>of which :</i>											
Financial institutions	-5.6	-6.5	1.1	4.7	5.9	6.8	8.1	7.9	9.1	143 454	
Insurance	0.3	1.2	2.4	5.9	-1.2	-1.1	-1.0	-0.7	1.6	29 673	
Real estate	5.2	0.7	2.2	6.8	5.3	4.0	3.2	2.0	4.5	102 609	
Business services except machinery and equipment rental and leasing	-1.2	-0.2	6.0	2.9	5.3	6.4	6.7	5.5	4.7	226 560	
<b>Community, social and personal services</b>	<b>5.9</b>	<b>2.9</b>	<b>3.2</b>	<b>4.5</b>	<b>3.6</b>	<b>4.0</b>	<b>3.1</b>	<b>2.9</b>	<b>3.6</b>	<b>467 910</b>	
<i>of which :</i>											
Sanitary and similar services	13.8	6.0	1.5	2.4	2.5	0.4	3.7	3.1	7.0	61 734	
Education services	2.5	2.9	1.8	1.8	4.9	7.5	4.5	3.7	4.6	142 655	
Medical, dental and other health services	3.2	-0.3	2.5	1.6	4.0	4.5	4.5	5.9	5.5	83 722	
Welfare institutions	11.9	13.9	2.1	-0.4	1.5	-0.1	*	1.3	0.7	53 802	
<b>Civil Service<sup>(a)</sup></b>	<b>-3.7</b>	<b>-2.4</b>	<b>-3.8</b>	<b>-2.7</b>	<b>-1.3</b>	<b>-1.4</b>	<b>-1.1</b>	<b>-0.8</b>	<b>-0.5</b>	<b>153 726</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 within  $\pm 0.05\%$ .



**Table 18 : Number of workers engaged at building and construction sites**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> Sep	Dec	<u>2007</u> Mar	Jun
<u>(number)</u>									
Building sites									
Private sector	40 017	33 892	33 619	31 556	30 993	31 261	29 556	28 123	30 100
Public sector <sup>(a)</sup>	11 727	16 183	13 325	10 135	7 643	7 588	6 850	8 394	7 567
Sub-total	51 744	50 074	46 944	41 690	38 636	38 849	36 406	36 517	37 667
Civil engineering sites									
Private sector	2 869	2 755	2 564	2 198	1 569	1 540	1 434	1 674	1 766
Public sector <sup>(a)</sup>	18 611	17 466	16 772	15 378	12 661	12 897	13 164	12 175	11 665
Sub-total	21 480	20 221	19 336	17 576	14 230	14 437	14 598	13 849	13 431
<b>Total</b>	<b>73 223</b>	<b>70 295</b>	<b>66 280</b>	<b>59 266</b>	<b>52 865</b>	<b>53 286</b>	<b>51 004</b>	<b>50 366</b>	<b>51 098</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.3	-15.3	-0.8	-6.1	-1.8	1.9	-2.5	-12.5	-2.9
Public sector <sup>(a)</sup>	-31.8	38.0	-17.7	-23.9	-24.6	-28.2	-19.0	1.0	-3.3
Sub-total	-10.4	-3.2	-6.3	-11.2	-7.3	-5.8	-6.1	-9.8	-3.0
Civil engineering sites									
Private sector	9.0	-4.0	-6.9	-14.3	-28.6	-17.2	-8.1	5.0	3.5
Public sector <sup>(a)</sup>	-6.6	-6.2	-4.0	-8.3	-17.7	-6.1	-6.8	-5.1	-0.7
Sub-total	-4.8	-5.9	-4.4	-9.1	-19.0	-7.4	-6.9	-4.0	-0.2
<b>Total</b>	<b>-8.8</b>	<b>-4.0</b>	<b>-5.7</b>	<b>-10.6</b>	<b>-10.8</b>	<b>-6.3</b>	<b>-6.3</b>	<b>-8.3</b>	<b>-2.2</b>

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

**Table 19 : Average labour earnings by major economic sector**

(\$)

Major economic sector	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>		
						Q3	Q4	Q1	Q2
Wholesale, retail and import/export trades	12,500 (-1.6) <1.4>	12,300 (-1.5) <1.1>	12,400 (0.4) <0.9>	13,300 (7.3) <6.3>	13,800 (4.1) <2.0>	13,000 (5.3) <3.0>	14,100 (5.1) <2.9>	15,600 (0.3) <-1.4>	12,800 (2.5) <1.3>
Restaurants and hotels	8,700 (-4.2) <-1.2>	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,300 (1.9) <0.9>	8,500 (2.6) <0.6>	8,200 (2.9) <0.6>	8,700 (8.1) <5.8>	9,400 (4.1) <2.3>	8,400 (4.8) <3.5>
Transport, storage and communications	18,900 (-0.2) <2.9>	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	19,200 (5.0) <4.1>	19,600 (2.1) <0.1>	18,500 (2.1) <-0.2>	21,400 (5.8) <3.6>	20,600 (4.1) <2.4>	19,100 (1.9) <0.7>
Financing, insurance, real estate and business services	18,800 (-2.2) <0.8>	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	19,100 (2.8) <1.8>	20,100 (5.6) <3.6>	18,200 (5.6) <3.3>	21,200 (6.3) <4.1>	23,500 (5.9) <4.2>	19,800 (4.1) <2.9>
Community, social and personal services	19,800 (-1.3) <1.8>	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	18,000 (-2.2) <-3.1>	17,900 (-0.1) <-2.0>	18,200 (0.2) <-2.0>	18,100 (-0.1) <-2.2>	17,900 (0.7) <-1.0>	17,800 (-0.1) <-1.3>
Manufacturing	11,800 (-1.2) <1.9>	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	11,600 (1.8) <0.9>	11,700 (1.4) <-0.6>	10,900 (2.7) <0.4>	11,700 (0.8) <-1.3>	13,100 (1.3) <-0.4>	11,700 (3.1) <1.9>
<b>All sectors surveyed</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>15,400</b> <b>(3.5)</b> <b>&lt;2.6&gt;</b>	<b>15,800</b> <b>(2.4)</b> <b>&lt;0.4&gt;</b>	<b>14,900</b> <b>(2.2)</b> <b>&lt;-0.1&gt;</b>	<b>16,300</b> <b>(4.0)</b> <b>&lt;1.8&gt;</b>	<b>17,500</b> <b>(2.4)</b> <b>&lt;0.7&gt;</b>	<b>15,300</b> <b>(2.9)</b> <b>&lt;1.7&gt;</b>

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

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

The rates of change in real terms are derived from the Real Indices of Payroll per Person Engaged. As from 2006, the Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2004/2005-based Composite CPI. To facilitate comparison, Real Indices of Payroll per Person Engaged prior to 2006 have been re-scaled using the 2004/2005-based Composite CPI.

**Table 20 : Rates of change in wage indices by  
selected major economic sector**

(%)

Selected major economic sector	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>		<u>2007</u>	
						Sep	Dec	Mar	Jun
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	-0.6	-1.7	-1.6	1.6	1.1	1.6	1.6	1.7	2.2
Restaurants and hotels	-2.6	-4.1	-2.2	*	1.0	1.6	0.9	1.4	2.2
Transport services	0.6	-1.9	-1.0	1.0	-0.6	*	0.4	0.3	1.6
Financing, insurance, real estate and business services	-0.8	-0.1	-0.5	*	3.2	3.5	3.4	3.1	3.5
Personal services	-1.5	-3.1	1.3	-1.5	2.5	4.8	6.1	5.7	6.2
Manufacturing	-1.4	-2.7	-1.3	1.2	2.9	4.6	3.2	1.6	2.6
<b>All sectors surveyed</b>	<b>-1.0</b>	<b>-1.9</b>	<b>-1.1</b>	<b>0.8</b>	<b>1.5</b>	<b>2.2</b>	<b>2.0</b>	<b>2.0</b>	<b>2.6</b>
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	1.7	0.4	-1.7	0.4	-0.6	-0.2	-0.3	-0.5	1.4
Restaurants and hotels	-0.4	-2.1	-2.3	-1.3	-0.8	-0.2	-0.9	-0.7	1.4
Transport services	2.9	0.1	-1.0	-0.2	-2.3	-1.8	-1.5	-1.8	0.8
Financing, insurance, real estate and business services	1.5	2.0	-0.6	-1.2	1.5	1.7	1.5	0.9	2.7
Personal services	0.8	-1.1	1.3	-2.7	0.7	3.0	4.2	3.4	5.4
Manufacturing	0.8	-0.7	-1.4	-0.1	1.1	2.8	1.2	-0.5	1.8
<b>All sectors surveyed</b>	<b>1.3</b>	<b>0.2</b>	<b>-1.2</b>	<b>-0.4</b>	<b>-0.3</b>	<b>0.3</b>	<b>0.1</b>	<b>-0.2</b>	<b>1.8</b>

Notes : The rates of change in real terms are compiled from the Real Wage Indices. As from 2006, the Indices are derived by deflating the Nominal Wage Indices by the 2004/2005-based CPI(A). To facilitate comparison, Real Wage Indices prior to 2006 have been re-scaled using the 2004/2005-based CPI(A).

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

**Table 21 : Rates of change in prices**

(%)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
GDP deflator <sup>(^)</sup>	5.7	0.8	-4.5	-3.6	-1.9	-3.5	-6.2	-3.5
Domestic demand deflator <sup>(^)</sup>	4.8	-1.2	-3.1	-2.6	-2.3	-4.9	-4.2	0.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	5.8	2.8	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4
CPI(A)	5.7	2.6	-3.3	-3.0	-1.7	-3.2	-2.1	*
CPI(B)	5.8	2.8	-4.7	-3.9	-1.6	-3.1	-2.7	-0.5
CPI(C)	6.1	3.2	-3.7	-4.5	-1.5	-2.8	-2.9	-0.9
Unit Value Indices :								
Domestic exports	-2.4	-2.8	-2.4	-1.0	-4.7	-3.3	0.2	1.5
Re-exports	-1.5	-3.9	-2.8	-0.1	-2.0	-2.7	-1.5	1.1
Total exports of goods	-1.6	-3.8	-2.7	-0.2	-2.3	-2.7	-1.4	1.2
Imports of goods	-2.3	-4.9	-2.0	0.8	-3.1	-3.9	-0.4	2.9
Terms of Trade Index	0.7	1.2	-0.7	-1.0	0.9	1.2	-1.0	-1.7
Producer Price Index for all manufacturing industries	-0.3	-1.8	-1.6	0.2	-1.6	-2.7	-0.3	2.2
Construction Labour and Material Cost Index	9.3	7.5	1.4	1.8	0.3	-0.3	-1.0	-1.2
Tender Price Indices :								
Public sector building projects	17.6	9.1	-4.4	-13.1	-8.5	-11.7	-0.3	-1.5
Public housing projects	18.9	9.0	-3.3	-11.9	-15.1	-9.6	-10.0	3.5

Notes : (^) Figures have been revised due to regular updating of data sources and incorporation of latest benchmark data.

(a) From October 2005 onwards, the year-on-year rates of change in the Consumer Price Indices are derived from the 2004/05-based CPI series. For the earlier periods, the year-on-year rates of change are derived from the CPIs with old base period.

(#) Figures are subject to revision later on as more data become available.

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

N.A. Not available.

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

	(%)							
	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>			<u>Average annual rate of change:</u>	
			Q4	Q1	Q2	Q3	10 years 1996 to 2006	5 years 2001 to 2006
GDP deflator <sup>(^)</sup>	-0.1 #	-0.1 #	0.8 #	1.2 #	1.9 #	3.4 #	-1.7 #	-2.7 #
Domestic demand deflator <sup>(^)</sup>	1.2 #	1.9 #	3.1 #	0.4 #	1.1 #	1.6 #	-1.1 #	-1.2 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	1.0	2.0	2.1	1.7	1.3	1.6	-0.4	-0.6
CPI(A)	1.1	1.7	1.8	0.3	0.7	0.9	-0.2	-0.5
CPI(B)	1.0	2.1	2.2	2.0	1.3	1.7	-0.5	-0.7
CPI(C)	0.8	2.2	2.5	2.9	1.8	2.3	-0.4	-0.7
Unit Value Indices :								
Domestic exports	2.2	-2.1	-0.8	0.4	0.6	0.8	-1.5	-0.3
Re-exports	1.2	1.1	2.0	2.8	2.1	2.1	-1.1	-0.1
Total exports of goods	1.3	1.0	1.9	2.7	2.0	2.0	-1.1	-0.1
Imports of goods	2.7	2.1	2.7	2.6	1.9	1.9	-0.8	0.7
Terms of Trade Index	-1.4	-1.1	-0.9	0.1	0.1	0.2	-0.3	-0.8
Producer Price Index for all manufacturing industries	0.8	2.3	2.0	2.5	2.6	N.A.	-0.3	0.4
Construction Labour and Material Cost Index	-2.1	0.1	2.5	4.0	2.2	N.A.	1.5	-0.9
Tender Price Indices :								
Public sector building projects	1.4	5.0	13.2	15.0	17.7	N.A.	-1.1	-1.6
Public housing projects	7.7	11.2	17.9	21.9	18.4	N.A.	-0.6	0.2

**Table 22 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>All items</b>	<b>100.0</b>	<b>5.8</b>	<b>2.8</b>	<b>-4.0</b>	<b>-3.8</b>	<b>-1.6</b>	<b>-3.0</b>	<b>-2.6</b>
Food	26.94	3.6	1.9	-1.8	-2.2	-0.8	-2.1	-1.5
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>4.0</i>	<i>2.2</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>	<i>-1.5</i>	<i>-1.5</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>3.0</i>	<i>1.5</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>	<i>-3.1</i>	<i>-1.7</i>
Housing <sup>(a)</sup>	29.17	9.2	4.7	-5.1	-8.2	-3.1	-5.7	-4.8
<i>Private housing rent</i>	<i>(23.93)</i>	<i>9.1</i>	<i>5.5</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>	<i>-6.5</i>	<i>-6.3</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>13.5</i>	<i>-3.4</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>	<i>-2.7</i>	<i>9.1</i>
Electricity, gas and water	3.59	5.0	1.4	-0.4	3.6	-1.9	-7.0	1.4
Alcoholic drinks and tobacco	0.87	5.6	6.6	1.2	-0.9	3.3	2.4	0.1
Clothing and footwear	3.91	8.4	-0.8	-20.6	-10.1	-4.6	0.7	-2.7
Durable goods	5.50	2.2	0.2	-6.3	-4.6	-7.1	-6.3	-6.4
Miscellaneous goods	4.78	5.4	2.6	-0.7	0.9	1.3	1.7	2.3
Transport	9.09	4.0	3.9	0.5	1.0	0.4	-0.6	-0.4
Miscellaneous services	16.15	4.5	2.7	-1.3	-0.2	0.5	-2.3	-3.2

Notes : From October 2005 onwards, the year-on-year rates of change in the Composite Consumer Price Index are derived from the 2004/05-based CPI series. For the earlier periods, the year-on-year rates of change are derived from the CPIs with old base period. The weights quoted in this table correspond to that in the new series.

(a) Apart from "Private housing rent" and "Public housing rent", the "Housing" section also includes "Management fees and other housing charges" and "Materials for house maintenance".

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

N.A. Not available.

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

(%)										
	Weight	2004	2005	2006	2006				Average annual rate of change:	
					Q4	Q1	Q2	Q3	10 years 1996 to 2006	5 years 2001 to 2006
<b>All items</b>	<b>100.0</b>	<b>-0.4</b>	<b>1.0</b>	<b>2.0</b>	<b>2.1</b>	<b>1.7</b>	<b>1.3</b>	<b>1.6</b>	<b>-0.4</b>	<b>-0.6</b>
Food	26.94	1.0	1.8	1.7	2.2	2.9	2.8	4.8	0.1	0.2
<i>Meals bought away from</i>	<i>(16.86)</i>	<i>0.2</i>	<i>0.9</i>	<i>1.3</i>	<i>1.5</i>	<i>1.8</i>	<i>2.0</i>	<i>2.6</i>	<i>0.3</i>	<i>-0.1</i>
<i>Food, excluding meals bought</i> <i>away from home</i>	<i>(10.08)</i>	<i>2.5</i>	<i>3.2</i>	<i>2.5</i>	<i>3.5</i>	<i>4.4</i>	<i>4.1</i>	<i>8.2</i>	<i>-0.1</i>	<i>0.6</i>
Housing <sup>(a)</sup>	29.17	-5.2	0.1	4.7	4.8	2.2	1.0	0.7	-1.5	-2.3
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-6.6</i>	<i>-0.1</i>	<i>5.6</i>	<i>5.6</i>	<i>5.6</i>	<i>2.0</i>	<i>2.3</i>	<i>-2.0</i>	<i>-2.9</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>2.5</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>-31.7</i>	<i>-10.5</i>	<i>-17.8</i>	<i>N.A.</i>	<i>1.8</i>
Electricity, gas and water	3.59	11.4	4.1	2.1	-2.8	-1.3	-2.2	-2.7	1.9	2.2
Alcoholic drinks and tobacco	0.87	*	0.4	-3.7	-4.3	-3.9	-0.1	-1.1	1.5	-0.2
Clothing and footwear	3.91	6.4	2.0	1.0	5.0	7.2	3.9	3.7	-2.4	1.4
Durable goods	5.50	-2.2	-3.2	-6.4	-6.3	-5.8	-4.6	-4.2	-4.1	-4.9
Miscellaneous goods	4.78	3.6	1.5	1.7	2.6	2.8	1.8	2.1	2.0	2.2
Transport	9.09	0.4	1.4	0.7	-0.1	-0.6	-0.5	-0.1	1.1	0.3
Miscellaneous services	16.15	-0.2	1.0	1.9	2.1	2.2	2.2	1.3	0.3	-0.6

**Table 23 : Rates of change in implicit price deflators of GDP  
and its main expenditure components**

(%)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Private consumption expenditure	4.6	1.1	-5	-3.3	-1.1	-3.6	-2.5
Government consumption expenditure	6.5	2.9	-0.2	-1.8	1.1	-0.5	-2.6
Gross domestic fixed capital formation	5.0	-6.9	0.5	-1.0	-6.6	-9.9	-9.4
Total exports of goods	-1.8	-3.0	-3.4	-0.3	-2.6	-2.9	-1.8
Imports of goods	-1.9	-4.8	-2.4	0.7	-3.5	-4.2	-0.9
Exports of services	1.2	-4.8	-3.2	0.5	-4.3	-2.4	-3.1
Imports of services	0	-4.8	-1.3	1.7	-1.1	0.3	2.7
<b>Gross Domestic Product</b>	<b>5.7</b>	<b>0.8</b>	<b>-4.5</b>	<b>-3.6</b>	<b>-1.9</b>	<b>-3.5</b>	<b>-6.2</b>
Total final demand	1.4	-2.4	-3.3	-1.1	-2.7	-3.6	-2.8
Domestic demand	4.8	-1.2	-3.1	-2.6	-2.3	-4.9	-4.2

Notes : Figures presented in this table have been revised based on the new data series of chain volume measures of GDP released in October 2007.

(#) Figures are subject to revision later on as more data become available.

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



**Table 23 : Rates of change in implicit price deflators of GDP  
and its main expenditure components (Cont'd)**

	<u>2004</u>	<u>2005<sup>#</sup></u>	<u>2006<sup>#</sup></u>	<u>2006</u>	<u>2007</u>			Average annual <u>rate of change:</u>	
				Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 1996 to 2006 <sup>#</sup>	5 years 2001 to 2006 <sup>#</sup>
Private consumption expenditure	-0.3	1.8	1.6	2.1	2.1	2.7	4.4	-0.7	-0.6
Government consumption expenditure	-2.9	-1.4	1.4	1.3	1.5	4.0	4.0	0.2	-1.2
Gross domestic fixed capital formation	2.6	1.0	3.1	5.5	-4.8	-5.3	-7.4	-2.3	-2.7
Total exports of goods	0.9	0.6	0.3	1.2	2.3	1.7	1.7	-1.4	-0.6
Imports of goods	2.9	1.9	2.1	2.8	2.1	1.2	0.9	-1.1	0.3
Exports of services	0.5	3.3	4.0	3.0	2.9	2.1	2.5	-0.9	0.4
Imports of services	4.1	1.0	0.7	1.5	2.3	2.4	2.8	0.3	1.8
<b>Gross Domestic Product</b>	<b>-3.5</b>	<b>-0.1</b>	<b>-0.1</b>	<b>0.8</b>	<b>1.2</b>	<b>1.9</b>	<b>3.4</b>	<b>-1.7</b>	<b>-2.7</b>
Total final demand	0.6	1.2	1.2	2.0	1.8	1.5	1.8	-1.2	-0.7
Domestic demand	0.1	1.2	1.9	3.1	0.4	1.1	1.6	-1.1	-1.2

