



# 2009 Economic Background and 2010 Prospects

Government of the Hong Kong  
Special Administrative Region

***2009 ECONOMIC BACKGROUND  
AND  
2010 PROSPECTS***

ECONOMIC ANALYSIS DIVISION  
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HONG KONG SPECIAL ADMINISTRATIVE REGION

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2009

### *Summary*

- *The Hong Kong economy exhibited much resilience in countering the global financial tsunami and the ensuing global recession. Although the economy contracted severely in the first quarter of 2009 amid the global-wide plunge in trade, it quickly rebounded in the second quarter and continued to improve in the rest of the year, along with other Asian economies, particularly the Mainland, which took the lead in the global recovery process. The momentum picked up further in the fourth quarter, marked by a distinct acceleration in GDP growth on a quarter-to-quarter basis, leading to the return to positive year-on-year growth at 2.6%. For 2009 as a whole, the economy contracted by 2.7%, the first annual recession since 1998.*
- *Merchandise trade was the most severely hit segment and the key drag on the economy for most of the year, with improvement only emerging towards the year-end. Trade in services fared persistently better, particularly in the second half, thanks to the distinct bounce-back in financial market activities and inbound tourism.*
- *The local segment quickly stabilized after a weak start in 2009, thereby rendering the cushion against the setback in external trade through the year. In particular, consumer confidence progressively recovered after a dismal first quarter, and business sentiment likewise turned up distinctly in the latter half of the year following the rebound in economic activity and henceforth an improved outlook.*
- *The Government's strategy of "stabilizing the financial sector, supporting enterprises and preserving employment" has played an instrumental role in cushioning the economy from what would have been a more severe recession. Of particular note were the faster-than-expected improvements in the labour market. The seasonally adjusted unemployment rate, having deteriorated notably in early 2009 and peaked at 5.4% in the second quarter, came down gradually to 4.9% in the fourth quarter. Downward pressures on labour earnings also abated over the course of the year.*
- *The local stock market at the start of the year was much overshadowed by the onset of the deepest global downturn in recent history, but rebounded since March on first signs of green shoots in the global economy. The property market, after a period of heavy fall-off in late 2008, staged a strong rebound in 2009. There was an uninterrupted increase through the year, though prices turned slightly steadier in the fourth quarter following*

*the extended rally earlier on and upon the authorities' measures to stabilise the market. For 2009 as a whole, there was a cumulative rise of 27%.*

- *With the economic downturn and soft import prices, inflation came down successively and turned slightly negative from July to November. Then, as the local economic recovery gathered pace, consumer price inflation returned to slight positive in December.*

## **Overall situation**

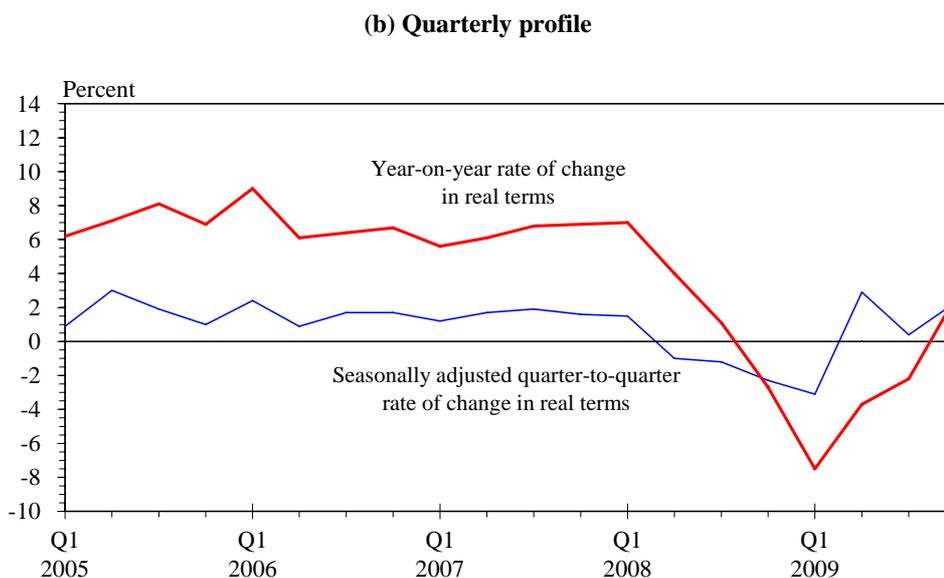
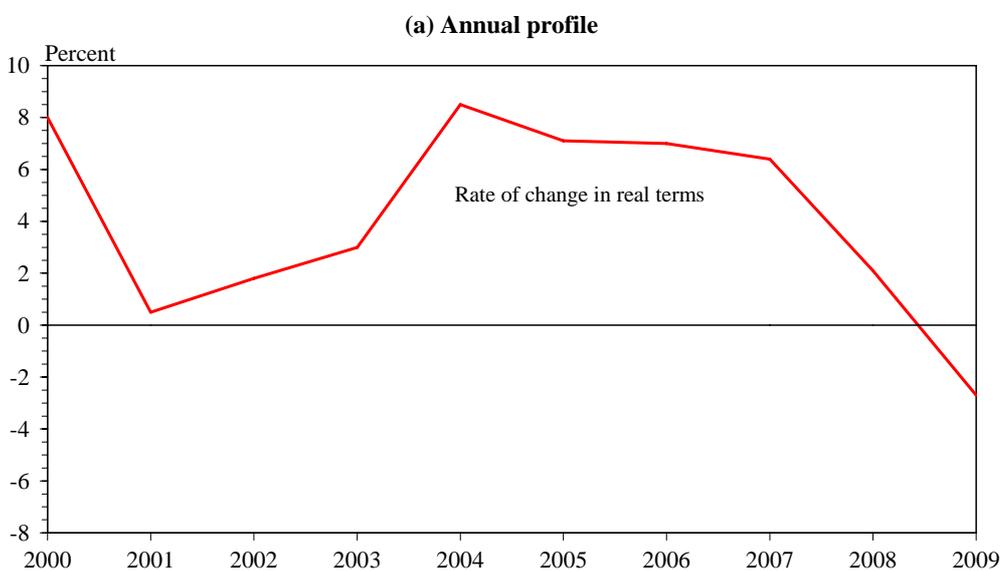
1.1 2009 was a year of exceptional gyrations for the Hong Kong economy. The economy suffered a heavy blow in the early part of the year as the global financial tsunami mutated into the most severe global recession since the Second World War. Then, with Mainland taking the lead in the economic recovery, Hong Kong also staged a notable rebound during the second quarter, and improved further in the rest of the year. But for most of the year, merchandise exports were on a significant decline under the drag of sluggish global trade flows, only reverting to growth towards the year-end. Exports of services, though also affected by the global recession, showed more resilience, thanks to the bounce-back in financial market activities and inbound tourism in the second half. Consumption demand was likewise held back by falling income and cautious sentiment in early 2009, but also saw progressive improvement during the year as the labour market stabilized, the Government's relief measures yielded results, and the asset markets rebounded. Business sentiment similarly recovered as outlook gradually improved (**Box 1.1**), leading to a distinct strengthening in investment demand later in the year. As the recovery continued in the year, unemployment rate came down successively after the mid-year, and the mild deflation that emerged after July finally gave way to slight inflation in December.

1.2 For 2009 as a whole, the *Gross Domestic Product (GDP)*<sup>(1)</sup> contracted by 2.7% in real terms, the first annual recession since 1998. This followed a 2.1% growth in 2008, and represented the second year of sub-par growth. Indicating the exceptional shocks from the global crisis in early 2009 and the subsequent recovery, GDP went sharply down by 3.1% in real terms in the first quarter on a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, rebounded notably by 2.9% in the second quarter, and grew further by 0.4% and 2.3% respectively in the third and fourth quarters. The progressive improvements were more visible from the year-on-year profile, with the rate of decline in GDP narrowing notably from 7.5% in the first quarter to 3.7% and 2.2% respectively in the second and third quarters, followed by the return to

positive growth at 2.6% in the fourth quarter.

1.3 Although the global financial crisis of 2008-2009 was of a much larger scale than the Asian financial crisis of 1997-1998, the recession experienced by Hong Kong had lasted for four quarters in the current crisis, one quarter less than that in the previous crisis. The labour market also showed more resilience this time, with significantly less job loss than during the Asian financial crisis. All these have much to do with the sounder fundamentals and hence greater resilience of the Hong Kong economy in countering external shocks.

**Diagram 1.1 : Economic recovery gathered pace since the second quarter of 2009**



## Box 1.1

### Impact of financial tsunami on small and medium-sized enterprises (An update)

To attain a better understanding on the impact of the financial tsunami on the business receipts, employment and credit access situations of the small and medium-sized enterprises (SMEs)<sup>(1)</sup>, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their relevant feedback information. This note provides an update of the results reported in Box 1.2 in the Third Quarter Economic Report 2009.

The results of the consultation exercise available up to January 2010 indicated that the overall situation in business receipts had been improving successively since July 2009, and markedly more towards the end of 2009 and early 2010. Analysed by sectors, SMEs in retail trade and restaurants saw some notable improvement in business receipts, supported by the strengthening of local consumer sentiment as well as inbound tourism, and so did the travel agents. Business receipts in real estate turned markedly better more recently after the pullback in October 2009, while those in insurance remained stable for some months before improving distinctly in January 2010 (*Chart 1a*). Business situation in financing institutions continued to improve notably in recent months, thanks to the increasing financial market activities. The decline in business receipts for SMEs in import/export trades narrowed substantially in tandem with the relative improvement in merchandise exports. Nevertheless, the decline in business receipts in the logistics sector remained substantial (*Chart 1b*). It should be noted that given the coverage and nature of the consultation exercise, the consultation findings should be interpreted with considerable caution. They nevertheless can serve as rough indicator to enable high frequency monitoring of SMEs' situation.

On the employment front, the results of the consultation indicated that SMEs' employment situation held stable in overall terms in recent months. Among the various sectors, employment in real estate and construction, financing institutions, travel agents and import/export trade reported more discernible improvements than the others.

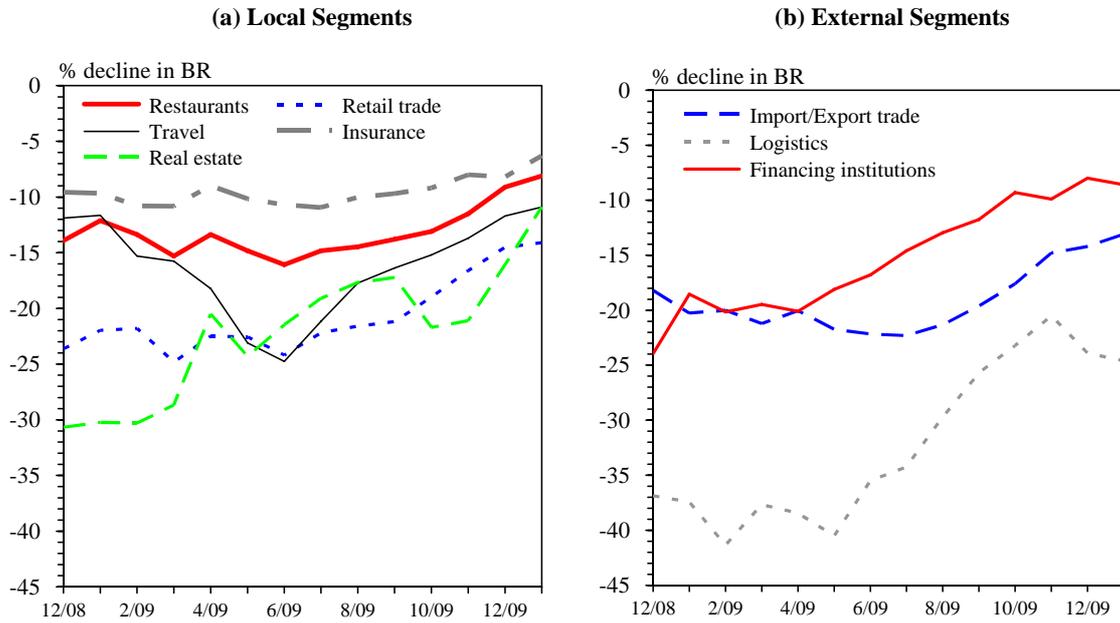
Credit access situation improved notably further in the recent months. The proportion of SMEs reporting tighter-than-normal credit access went down distinctly to only 5.2% in January 2010 from above 12% in late November 2008, also the lowest since the consultation exercise started (*Chart 2*). The supplementary information provided by SMEs surveyed indicated that credit pricing continued to hold broadly stable over the past few months, reflecting the improved financial conditions as well as the effectiveness of the Government's efforts to help to ease credit strains facing SMEs, especially those under the enhanced and special loan guarantee schemes. As at end-January, some 16 600 companies benefited under these schemes, involving approved loan amount of 72.4 billion. This also indirectly helped to secure the jobs for those employed by these companies, totaling over 280 000.

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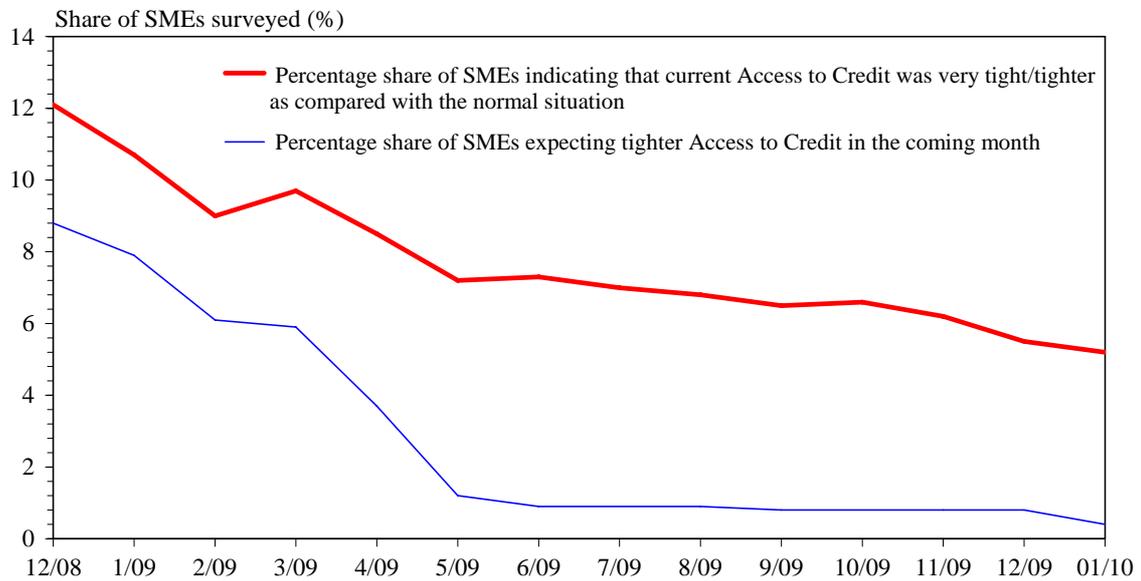
(1) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as SMEs in Hong Kong.

**Box 1.1 (Cont'd)**

**Chart 1: Impact of Financial Tsunami on SMEs' Business Receipts (BR)**



**Chart 2: Access to credit continued to improve**



## The external sector

1.4 The setback in merchandise exports during most of 2009 posed a significant drag to Hong Kong's economic growth. Merchandise exports suffered the steepest drop since 1954 in the first quarter of the year amidst the collapse in demand from the advanced economies and its knock-on effect on intraregional trade. Merchandise exports then saw improvement in the following quarters, initially on the recovery in the Asian region led by the return to rapid growth in the Mainland economy since the second quarter, then on the gradual bottoming out in demand from the advanced economies following the resumption of growth since the third quarter. The improvement was more notable towards the end of the year, with merchandise exports resuming year-on-year growth in November and December, reflecting some normalization of global trade after a period of exceptionally large fall-off. For 2009 as a whole, *total exports of goods* still fell significantly by 12.6% in real terms, following only modest growth at 1.9% in 2008. In 2009, many other Asian economies saw even larger declines in their exports.

1.5 In comparison, exports of services fared persistently better in 2009. Indeed, all the major categories of exports of services reverted to year-on-year growth in real terms by the fourth quarter of the year. Inbound tourism showed solid growth during most of the year, except for a brief setback around mid-2009 due to the concern about the spread of human swine flu. Exports of financial and other business services plummeted in the first half of the year in the aftermath of the global financial tsunami, but showed a visible turnaround in the rest of the year as financial market activities revived and business activities gradually recovered. Merchanting and other trade-related services (mainly offshore trade), and to some extent exports of transportation services, were sluggish during most of 2009, reflecting the plunge in global trade flows in early 2009 and their subsequent slow recovery. Overall, *exports of services* contracted by 0.7% in real terms in 2009, after the 5.0% growth in 2008.

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

	2008 <sup>#</sup>	2009 <sup>+</sup>	2008				2009			
			Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure	2.3	-0.3	8.7 (1.0)	4.0 (-1.4)	0.7 (-0.8)	-3.2 (-2.1)	-6.1 (-1.6)	-0.8 (3.8)	0.5 (0.6)	4.9 (2.1)
Government consumption expenditure	1.8	2.0	0.6 (0.1)	2.8 (1.0)	2.0 (-0.4)	2.1 (1.3)	1.6 (-0.3)	2.1 (1.4)	2.9 (0.6)	1.7 (-0.1)
Gross domestic fixed capital formation	0.8	-2.2	11.5	6.1	4.1	-16.7	-11.1	-12.3	2.6	14.7
<i>of which :</i>										
Building and construction	6.1	*	13.3	2.3	1.5	7.1	-5.6	-2.3	6.0	2.9
Machinery, equipment and computer software	-0.8	-3.6	4.3	7.7	10.3	-22.9	-5.8	-17.3	-3.5	16.2
Total exports of goods	1.9	-12.6	8.3 (4.3)	4.4 (-3.7)	1.3 (-0.8)	-4.9 (-5.3)	-22.7 (-12.7)	-12.4 (6.4)	-13.2 (-1.7)	-2.6 (7.5)
Imports of goods	1.8	-9.7	8.4 (2.2)	4.8 (-1.8)	2.0 (-1.7)	-6.4 (-5.9)	-21.4 (-11.0)	-12.7 (6.0)	-8.3 (2.6)	3.1 (7.0)
Exports of services	5.0	-0.7	9.2 (3.0)	7.7 (0.5)	4.0 (-0.9)	0.2 (-2.7)	-5.5 (-2.1)	-5.3 (1.0)	-0.5 (3.7)	7.7 (4.9)
Imports of services	6.3	-4.0	14.4 (6.0)	7.2 (-3.1)	5.1 (-0.7)	-0.6 (-2.7)	-9.5 (-3.4)	-5.5 (1.4)	-3.3 (1.5)	2.4 (2.9)
<b>Gross Domestic Product</b>	<b>2.1</b>	<b>-2.7</b>	<b>7.0</b> <b>(1.5)</b>	<b>4.0</b> <b>(-1.0)</b>	<b>1.1</b> <b>(-1.2)</b>	<b>-2.7</b> <b>(-2.3)</b>	<b>-7.5</b> <b>(-3.1)</b>	<b>-3.7</b> <b>(2.9)</b>	<b>-2.2</b> <b>(0.4)</b>	<b>2.6</b> <b>(2.3)</b>
<i>Change in the main price indicators (%)</i>										
<b>GDP deflator</b>	<b>1.5</b>	<b>0.2</b>	<b>2.7</b> <b>(-0.9)</b>	<b>2.2</b> <b>(*)</b>	<b>2.1</b> <b>(0.9)</b>	<b>-0.5</b> <b>(-0.5)</b>	<b>-0.1</b> <b>(-0.4)</b>	<b>0.6</b> <b>(0.6)</b>	<b>-0.1</b> <b>(0.1)</b>	<b>0.2</b> <b>(-0.1)</b>
<b>Composite CPI</b>										
<b>Headline</b>	<b>4.3</b>	<b>0.5</b>	<b>4.6</b> <b>(0.9)</b>	<b>5.7</b> <b>(1.5)</b>	<b>4.6</b> <b>(-0.2)</b>	<b>2.3</b> <b>(0.1)</b>	<b>1.7</b> <b>(0.3)</b>	<b>-0.1</b> <b>(-0.2)</b>	<b>-0.9</b> <b>(-1.1)</b>	<b>1.3</b> <b>(2.2)</b>
<b>Underlying<sup>^</sup></b>	<b>5.6</b>	<b>1.0</b>	<b>4.9</b> <b>(2.0)</b>	<b>5.7</b> <b>(1.5)</b>	<b>6.3</b> <b>(1.3)</b>	<b>5.4</b> <b>(0.4)</b>	<b>3.1</b> <b>(-0.2)</b>	<b>1.2</b> <b>(-0.3)</b>	<b>-0.3</b> <b>(-0.1)</b>	<b>-0.1</b> <b>(0.5)</b>
<b>Change in nominal GDP (%)</b>	<b>3.7</b>	<b>-2.5</b>	<b>9.8</b>	<b>6.3</b>	<b>3.2</b>	<b>-3.2</b>	<b>-7.6</b>	<b>-3.1</b>	<b>-2.3</b>	<b>2.8</b>

Notes : Figures are subject to revision later on as more data become available. Seasonally adjusted quarter-to-quarter rate of change is not applicable to gross domestic fixed capital formation, as no clear seasonal pattern is found for the category due to the presence of considerable short term fluctuations.

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

(^ ) After netting out effects of Government's one-off relief measures.

## The domestic sector

1.6 The Government's strategy of "stabilizing the financial sector, supporting enterprises and preserving employment" helped to cushion the economy from the aftershock of the financial tsunami and to maintain confidence. The stabilizing effect was particularly evident in the domestic sector. Apart from a more notable contraction in the first quarter, private consumption demand had actually strengthened notably since the second quarter, along with the improvement in labour market conditions and better economic outlook. For 2009 as a whole, *private consumption expenditure (PCE)* fell only modestly by 0.3% in real terms, after the 2.3% growth in 2008. *Government consumption expenditure* continued to play the role of automatic stabiliser, growing by 2.0% in real terms in 2009 following the 1.8% growth in 2008.

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

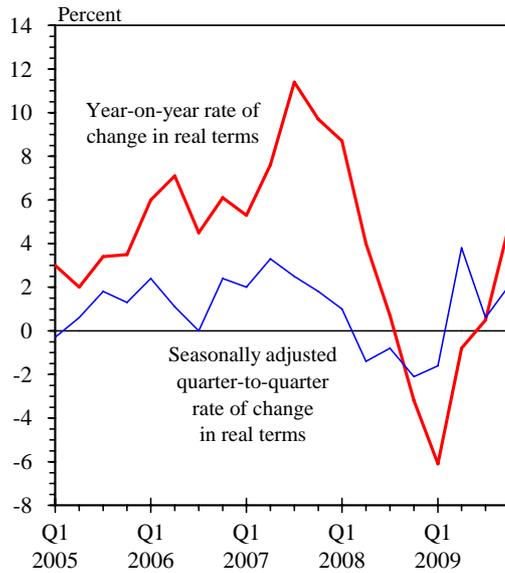
		<i>Of which :</i>							
		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2008	Annual	3.0	5.6	11.0	7.2	*	*	6.4	2.3
	H1	6.7	7.1	16.7	12.4	3.4	2.6	7.6	6.2
	H2	-0.5	4.1	6.2	2.6	-3.3	-2.5	5.3	-1.3
	Q1	8.3	8.5	19.1	14.0	5.0	11.2	7.5	8.7
	Q2	5.2	5.9	14.2	10.9	2.0	-5.5	7.9	4.0
	Q3	1.6	5.5	13.9	5.5	-2.3	-0.5	7.5	0.7
	Q4	-2.3	2.7	-0.8	0.1	-4.2	-4.6	3.3	-3.2
2009	Annual	0.4	-2.0	0.9	-0.1	1.0	1.6	8.0	-0.3
	H1	-2.7	-3.0	-6.6	-5.8	-1.1	1.5	6.8	-3.4
	H2	3.6	-1.0	7.8	5.6	3.1	1.7	9.0	2.7
	Q1	-4.0	-3.7	-5.5	-5.7	-3.3	-3.7	14.4	-6.1
	Q2	-1.5	-2.4	-7.9	-5.9	1.1	7.3	-1.5	-0.8
	Q3	0.8	-1.3	-2.3	-1.4	2.6	0.5	3.2	0.5
	Q4	6.2	-0.7	18.2	11.8	3.6	3.1	14.3	4.9

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

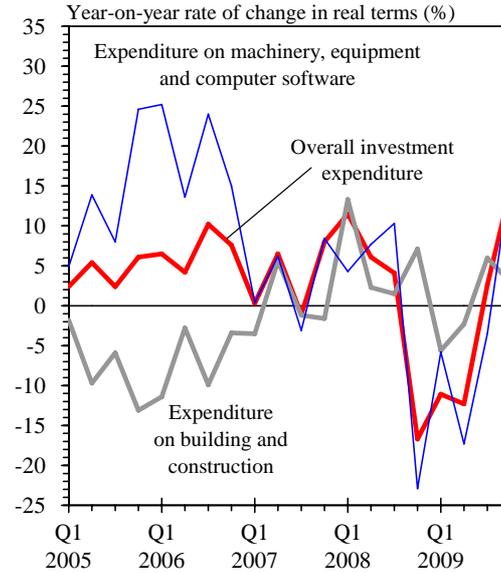
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

(\*) Change of less than 0.05%

**Diagram 1.2 : Private consumption accelerated further in the fourth quarter**



**Diagram 1.3 : Overall investment rebounded visibly in the second half of 2009**



1.7 Overall investment spending likewise showed a sharp improvement in the second half of 2009 after a dismal first half. Under the Government’s commitment to expedite public sector projects to counter the financial tsunami, public sector building and construction works accelerated markedly during the year, while public sector investment in machinery and equipment also grew solidly. With the return of business confidence, private sector expenditures on building and construction as well as machinery and equipment both showed relative improvement in the second half of the year. Indeed, according to the Quarterly Business Tendency Survey conducted by the Census and Statistics Department, a larger proportion of large business establishments surveyed turned more optimistic about the outlook over the course of the year. The latest Survey, conducted during early December 2009 to early January 2010, showed that the improvement in business sentiment was broad-based, evident across all major economic sectors. Reflecting the broad-based improvements in private investment, *gross domestic fixed capital formation* resumed positive growth in the third quarter and picked up significantly further in the fourth quarter, trimming the annual decline to 2.2% in real terms for 2009 as a whole.

## **The labour sector**

1.8 Local labour market showed much resilience during the global crisis. After a marked rise in the early part of 2009, the seasonally adjusted unemployment rate stabilized by around mid-year and came down successively to 4.9% in the fourth quarter. The total number of job loss was 43 000 at the worst time of the crisis, only one-third of the total job loss during the Asian financial crisis in 1997-1998. Towards the end of the year, there were signs that companies had turned more positive in hiring workers. Likewise, the downward pressure on labour earnings abated in the latter part of the year.

## **The asset markets**

1.9 Local stock market was under much selling pressure in early 2009, with the Hang Seng Index (HSI) reaching the post-tsunami low of 11 345 on 9 March. It then staged a strong rebound alongside other Asian markets, reaching a high of 22 944 in mid-November. The abundance in liquidity amid the substantial monetary easing by central banks around the world, coupled with the relatively brighter prospect of the Asian region, led to a strong influx of funds into Hong Kong and other Asian economies. HSI closed the year at 21 873, 52% higher than at end-2008. Activities in the local stock market also revived over the course of the year, with the average daily turnover averaging at \$62.3 billion in 2009 as compared to \$50.8 billion in the fourth quarter of 2008. Fund-raising activities also showed a strong comeback in the second half of the year. For 2009 as a whole, there were altogether 73 IPO listings, raising a total capital of \$248.2 billion, the largest among all stock exchanges in the world.

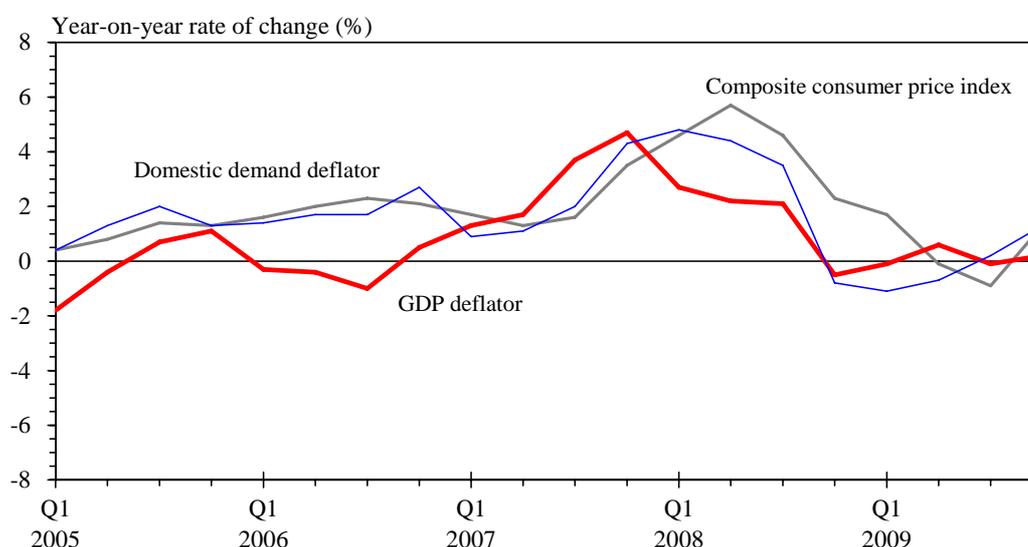
1.10 After a sharp correction immediately after the financial tsunami, the local property market likewise staged a notable rebound that began in early 2009. Trading activities picked up as buying interest re-emerged amid a more accommodative mortgage lending policy by local banks. With a view to maintaining banking stability and enhancing banks' risk management on mortgage lending, in October 2009 the HKMA advised banks to cap the loan-to-value ratio at 60% for residential properties valued at \$20 million or more and set the maximum loan amount at \$12 million for mortgages on properties valued at below \$20 million. The HKMA also reminded lenders to be prudent in valuating properties and calculating borrowers' debt servicing ratios. The Government also introduced guidelines for developers to follow, aiming to improve the transparency of the property market. Residential property prices, though turning slightly steadier in the fourth quarter, on average still rose by 27% during 2009, bringing the overall flat prices in December 2009 some 5% above their pre-crisis peak in mid-2008.

## Inflation

1.11 Inflationary pressures quickly subsided over the course of 2009 as the global recession led to spare capacity around the world. Underlying consumer price inflation, in terms of the year-on-year rate of change of the *underlying Composite Consumer Price Index*, came down steadily during the first half, turning slightly negative from July to November. Yet, with economic recovery gathering pace, inflation reverted back to a slight positive at 0.3% in December. For 2009 as a whole, the underlying Composite Consumer Price Index rose by an average of 1.0%, down markedly from 5.6% in 2008. Headline inflation continued to be lower than its underlying counterpart, thanks to further one-off relief measures introduced by the Government in 2009. The *headline Composite Consumer Price Index* rose by 0.5% in 2009, compared with the increase of 4.3% in 2008.

1.12 The *GDP deflator* rose by 0.2% in 2009, likewise down from that of 1.5% in 2008. The year-on-year rate of change similarly reversed into increase in the fourth quarter, as the deflationary pressure within the economy receded.

**Diagram 1.4 : Price pressures subsided during most of 2009, but picked up modestly towards year-end**



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

	<u>2008</u>					<u>2009</u>		
	<u>2008</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	-6.6	-4.4	-4.1	-6.7	-10.4	-12.2	-10.8	-8.3
Construction	8.8	15.6	5.5	4.1	9.5	-3.4	-1.0	8.1
Services <sup>(b)</sup>	2.5	7.1	3.9	1.9	-2.0	-7.1	-3.6	-2.1
Wholesale, retail and import and export trades, restaurants and hotels	6.2	10.9	9.3	6.6	-0.1	-15.5	-11.2	-8.8
Wholesale and retail trades	4.2	10.2	7.3	3.6	-2.4	-10.0	-7.9	-3.7
Import and export trade	7.2	11.8	10.6	7.9	0.7	-18.1	-12.3	-10.1
Restaurants and hotels	1.9	5.6	3.5	0.9	-2.0	-5.4	-7.7	-4.1
Transport, storage and communications	2.4	7.8	4.1	2.2	-4.0	-8.8	-8.8	-6.9
Transport and storage	2.1	8.5	4.0	1.8	-5.1	-10.8	-10.7	-8.7
Communications	3.4	4.3	4.5	4.2	0.7	0.3	-0.4	1.3
Financing, insurance, real estate and business services	-0.4	8.1	0.3	-2.7	-6.5	-6.4	0.3	4.3
Financing and insurance	-1.3	8.8	-0.8	-3.6	-8.6	-8.5	0.3	5.1
Real estate	0.9	11.3	0.6	-2.6	-5.2	-3.8	1.9	5.8
Business services	1.9	2.8	3.8	0.9	0.3	-0.3	-1.5	0.2
Community, social and personal services	2.2	2.1	2.6	2.8	1.5	0.6	1.5	1.0

Notes : Figures are subject to revision later on as more data become available.

(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.

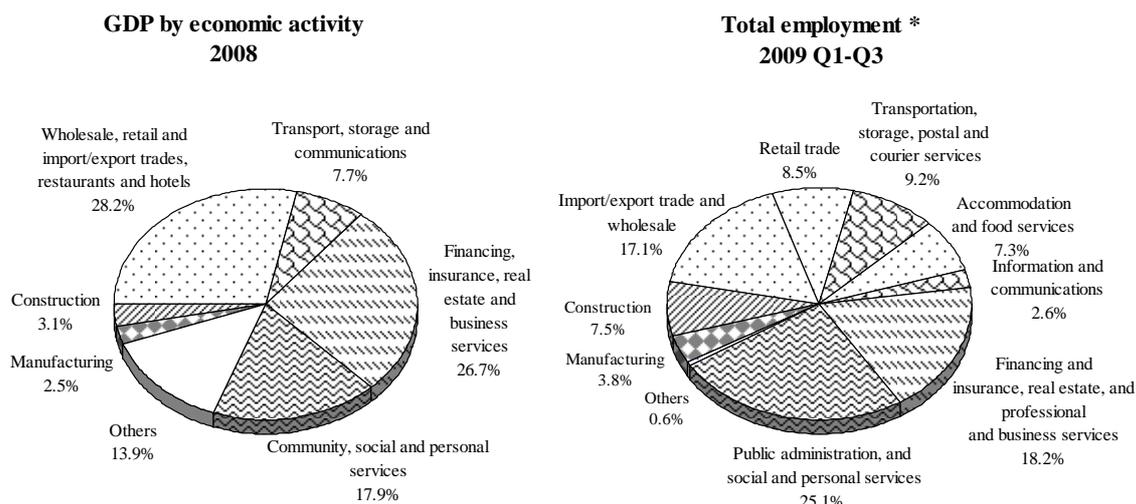
(b) In the context of value-added contribution to GDP, the service sectors include ownership of premises as well, which is analytically a service activity.

## **GDP by major economic sector**

1.13 Most of the service sectors also showed further relative improvement in the third quarter, reflecting the upturn in domestic sector as well as the relative improvement in external sector. With the revival in financial market activities and a more active property market, net output in financing and insurance as well as real estate saw faster year-on-year growth in the third quarter. Business services also reverted to a modest expansion. The rates of decline of wholesale and retail trades, as well as restaurants and hotels, both tapered notably in the third quarter as consumer sentiment revived further and inbound tourism rebounded on the back of a pick-up in Mainland visitors. Transport and storage as well as import and export trade also saw some relative improvement in net output in the third quarter, but still recorded notable declines as global trade flows were only recovering slowly. For the services sector as a whole, the year-on-year decline in net output narrowed distinctly further to 2.1% in the third quarter, from 7.1% and 3.6% respectively in the first and second quarters. As to the industrial sectors, the rate of decline in manufacturing tapered further, while net construction output rebounded notably in the third quarter upon the acceleration in public works.

1.14 Services sector activity continued to feature prominently in the Hong Kong economy, accounting for 92.0% of GDP in 2008 and having a share of 88.0% of total employment in the first three quarters of 2009. The service-oriented structure of the economy allows Hong Kong to realize its comparative advantage, thereby driving growth through meeting the rising demand for high quality services from the Mainland economy and other parts of the world. The transformation of Hong Kong into a high value-added, knowledge-based economy has been supported by the increased availability of skilled workers. The proportion of the workforce with tertiary education attainment rose from 27.8% in 2004 to 31.4% in 2009.

**Diagram 1.5 : Services sector continued to feature prominently**



Note : (\*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures for 2009 are averages for the first three quarters of the year. Starting from the first quarter of 2009, industrial classification of employment has adopted the Hong Kong Standard Industrial Classification Version 2.0 while that of GDP by economic activity is based on Version 1.1.

## Some highlights of economic policy

1.15 With the joint effort by the community, together with the Government's successive rounds of measures to stabilise the financial markets, ease credit conditions, support enterprises, accelerate public works, and create employment, the Hong Kong economy has weathered the aftershocks of the global financial tsunami and progressively emerged from the deep contraction in early 2009. The Government will continue with this strategy until economic recovery is on solid ground and employment resumes a visible improvement. To provide the favourable conditions for the economic recovery, the Government has decided to extend the loan guarantee schemes for another 6 months until June 2010. At the same time, public investment in infrastructure projects is expected to gather further momentum in 2010, and this should add impetus to Hong Kong's recovery process and provide a cushion against the expected weakness in the external sector.

1.16 The silver lining behind the current global crisis is that it has radically changed the landscape of the global economy. The Mainland has emerged as a prominent economic powerhouse. This, in turn, will present new opportunities for Hong Kong. The past year has seen a rapid expansion of the Reminbi (RMB) business in Hong Kong. Hong Kong became the first place outside the Mainland where cross-border trade may be settled using the RMB, and where the Central Government issued RMB bonds. Moreover, for the first time Mainland branches of Hong Kong banks are permitted to issue RMB bonds in Hong Kong. All these have strengthened Hong Kong's position as a global financial center, as well as its unique role in the internationalisation of the RMB.

1.17 The Supplement VI to the Closer Economic Partnership Arrangement, with effect from 1 October 2009, provides further liberalization measures covering a wide range of service sectors, further enhancement in financial co-operation and progress in mutual recognition of professional qualifications between the Mainland and Hong Kong. Also, as part of the regional co-operation, Hong Kong will participate in the development of Qianhai in Shenzhen, so as to promote and enhance Hong Kong's own service industries and to contribute to the development of service industries in the Mainland.

1.18 The Government is also making full use of opportunities generated by increasing integration between Hong Kong and the Pearl River Delta, a national strategy endorsed by the Central Government. Hong Kong and Guangdong are pushing ahead with co-operation on many fronts. In terms of hardware, construction of the Hong Kong-Zhuhai-Macao Bridge has just started and funding for the Hong Kong- Guangzhou Express Rail Link has just been approved. Both of these mega projects will enhance the efficient flow of people and goods and further deepen economic integration. Needless to say, Hong Kong has benefited and will continue to benefit significantly from the vibrant growth in Mainland in 2010 and in the years to come.

1.19 The significant improvement in cross-Strait relations in 2009, which has posed major challenges for Hong Kong in terms of reduced passenger and cargo traffic, has also brought new opportunities to develop deeper economic and cultural co-operation with Taiwan. The Government is working hard to enrich these links.

1.20 The global financial crisis also galvanised the Government's thinking on economic diversification. The Task Force on Economic Challenges has identified six promising industries where Hong Kong enjoys competitive advantages, including education services, medical services, testing and certification, environmental industries, innovation and technology, and cultural and creative industries. Taking the recommendations of the Task Force forward, the Government announced a series of measures in the 2009-10 Policy Address to promote the six new growth areas, including, among others, measures to release the potential of over 1000 old industrial buildings. The Government's role is to make flexible adjustments in response to market needs and remove the barriers so as to ensure the smooth running of the markets for the benefit of the public and society, under the principle of "Big Market, Small Government".

## **Box 1.2**

### **Economic contribution of the six industries**

#### **Background**

In response to the global financial tsunami, the Chief Executive established the Task Force on Economic Challenges (TFEC) in late 2008. With the experience and collective wisdom of its members from different sectors, the TFEC identified six industries where Hong Kong enjoys clear advantages for further development. The recommendation was made making reference to the findings of various studies and the views of the public and the industries, and considering factors such as whether the opportunities for co-operation with the Mainland and the Pearl River Delta region could be capitalised. The six industries are cultural and creative industries, testing and certification services, medical services, education services, environmental industries, and innovation and technology. The Government has accepted the TFEC recommendations and has been developing specific measures for promoting the six industries.

To track the performance of the six industries over time and to assess their impact on the economy, it will be useful to have statistics on their value added and employment size. Value added refers to the value of total output minus the value of goods and services used up in the course of production. The value added of an industry indicates how much it contributes to the Gross Domestic Product (GDP) while the employment size shows the employment opportunities created by the industry.

The six industries referred to in this article mainly cover the production activities of private corporations, including non-profit making or subsidised organisations.

The estimates given in this article only relate to the direct economic impact of the six industries. Their indirect economic impact, including spill-over effects on other industries (e.g. expansion in the cultural and creative industries may have a positive impact on tourism) as well as future benefits to Hong Kong (e.g. enhanced productivity and faster growth brought about by technological innovation activities and education services) are not taken into account.

#### **Crude estimates on value added and employment**

As the six industries are either relatively small at present, or not well defined industries in the current industrial classification, official statistics for these industries are not readily available. Moreover, some of the six industries such as innovation and technology are not exactly an industry in the traditional sense since innovation and technology activities can exist in any organisations and in any industries, but the term “industry” is still used to denote the aggregate of the economic activities concerned for the sake of simplicity and easy general understanding. This is similar to the use of the term “industry” for tourism and producer services which do not fall under the standard statistical classification of industries and hence are not industries in the traditional sense.

**Box 1.2 (Cont'd)**

There is also some overlapping of the coverage of activities in the six industries with the four traditional pillar industries (i.e. financial services, trading and logistics, tourism, and producer and professional services). For instance, advertising and software and computing are covered in both "cultural and creative industries" and "producer and professional services", and medical tourism is covered in both "medical services" and "tourism".

For a quick assessment on the economic contribution of the six industries, some ballpark figures had been worked out in 2009 by drawing reference to the best available information from various sources at that time. As released in the Chief Executive's Policy Address in October 2009, the private sector component of these six industries directly contributed around 7% to 8% of the GDP, and employed around 350 000 persons or about 10% of the total workforce. These ballpark figures had many limitations and were necessarily crude. Given these considerations, figures pertaining to individual industries were not released.

Effort has been made in the past few months to improve the data sources and the methodological framework for compiling estimates for the six industries. Some data gaps have been filled, industry coverage more specifically defined and some conceptual issues in the estimation process worked out. As a result, an updated set of crude estimates has been produced as refinements to the ballpark figures released earlier in the 2009-10 Policy Address. Moreover, though still subject to considerable limitations at this stage, estimates for each of the six industries are now made available, as given below.

Based on updated data and a better estimation framework, it is estimated that in 2008 the private sector component of the six industries contributed around 8% of the GDP and employed around 380 000 persons, accounting for some 11% of total employment.

## Box 1.2 (Cont'd)

### Direct contribution to GDP and employment in 2008

	<u>Value added</u> (HK\$Bn)	<u>Contribution</u> <u>to GDP</u>	<u>Number of</u> <u>persons engaged</u>	<u>Contribution to</u> <u>employment</u>
Cultural and creative industries	around 60	around 3.9%	around 176 000	around 5.0%
Medical services	around 25	around 1.6%	around 69 000	around 1.9%
Education services	around 21	around 1.3%	around 69 000	around 2.0%
Innovation and technology <sup>#</sup>	around 10	around 0.6%	around 22 000	around 0.6%
Testing and certification services	around 4-5	around 0.3%	around 13 000	around 0.4%
Environmental industries	around 3	around 0.2%	around 35 000	around 1.0%
<b>Total</b>	<b>around 120</b>	<b>around 8%</b>	<b>Around 380 000</b>	<b>around 11%</b>

Note: (#) For innovation and technology, persons engaged refer to the number of research and development personnel in full-time equivalent terms.

### Way forward

The estimates given above are compiled by the Economic Analysis and Business Facilitation Unit in collaboration with the Census and Statistics Department (C&SD) based on best available information and in consultation with relevant policy bureaux/departments.

C&SD is stepping up its existing data collection framework, with a view to compiling a set of official estimates on the employment size and value added for the six industries. Relevant economic surveys have been enhanced and sample sizes in respect of the targeted industries enlarged for collecting more comprehensive data. Relevant administrative data are also being collated to provide inputs to the estimation framework. Some basic figures for the testing and certification services will be available later this year from an ad hoc survey carried out from end 2009 to early 2010, while data for other industries are being collected. It is expected that the official estimates showing the situation of the six industries in 2009 will become available in early 2011.

## 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.

## CHAPTER 2 : ECONOMIC OUTLOOK FOR 2010 AND THE MEDIUM TERM

### *Summary*

- *The global recovery that began in mid-2009 should continue into 2010. But the pace of recovery is likely to be uneven and also vary across regions. Asian economies, particularly the Mainland and India, the two major emerging markets, are expected to take the lead in the recovery process. With the bounce-back in global production and trade, and with Asia more advanced in the recovery, Hong Kong's external sector looks set for a further rebound in 2010, continuing the momentum in late 2009.*
- *Locally, consumer and business sentiments have been strengthening since the latter half of last year, and with labour market conditions on the mend and the expected improvement in incomes, consumption is expected to gain further strength through the year. With much improved business sentiment after a dismal 2009, private investment should also stage some revival. Public sector works, underpinned by infrastructure construction, are expected to accelerate further and add strength to the recovery in domestic demand.*
- *Granting no major relapse in the global economy to the extent of disrupting the recovery process now in Asia, the Hong Kong economy is forecast to revert to positive annual growth of 4% to 5% in 2010. Growth is likely to be driven by both external trade and domestic demand initially, but the outlook is a bit more uncertain in the second half after the exceptional fiscal boosts in major advanced economies are phased out.*
- *The main issue clouding over the economic outlook this year is the fragile nature of the global recovery, especially with the economies in the United States and Europe merely driven by the extraordinary fiscal and monetary measures. Whether their private sector demand can take hold and fill the gap after the exceptionally large stimulus are withdrawn remains to be seen. The vulnerable fiscal positions of some European economies, the increasing risk of asset market bubbles in emerging market economies, increased volatility of the US dollar, and the rise of protectionism are also issues of concern. Being small and open, the Hong Kong economy will inevitably be affected if there are significant disruptions to the global recovery.*
- *With the economic recovery taking hold, some price pressures are likely to return. Yet given the slack in the global economy, inflationary pressures*

*should remain moderate in most of 2010. Underlying consumer price inflation is forecast at 1.5% in 2010. Headline consumer price inflation will be slightly higher, forecast at 2.3%. Several factors may pose some upside risks to inflation and need to be closely monitored. These include the timing of exit strategy pursued by the major economies, the risk of rising food and oil prices in the international markets, and the possible weakening of the US dollar.*

- *The medium-term prospects for the Hong Kong economy are bright. Hong Kong will continue to enhance its competitiveness and move towards a high value-added, knowledge-based economy. The strengthening economic relations with the Mainland will continue to uphold Hong Kong's status as an international financial centre and a regional business hub. New initiatives will also be taken to deepen the integration with the Pearl River Delta and co-operation with the rest of the Mainland. Policy measures will be in place to promote the six recently identified economic areas to facilitate diversification and to complement the development of the traditional pillar industries. The large-scale infrastructure projects will enter their peak construction period in the coming years, thereby providing the impetus to aggregate demand in the economy. When completed, they will also significantly raise the productivity and efficiency of the economy. The trend GDP growth rate in real terms is forecast at 4% per annum from 2011 to 2014, and the trend rate of underlying consumer price inflation at 3%.*

## **Major external factors**

2.1 The global economy is gradually recovering from the worst recession in more than 60 years as the exceptionally large fiscal and monetary stimulus measures by governments and central banks helped to shore up demand and pulled the global economy from the brink of another Great Depression. Financial market conditions have also improved significantly. The global recovery process is expected to continue in 2010. However, the pace of recovery is likely to be uneven and vary vastly across regions. In the advanced economies, particularly the US and EU, economic growth is still constrained by the deleveraging process in both the household and banking sectors, and the growth momentum of private sector demand is still insufficient. The risk of a relapse into recession in these economies cannot be ruled out for sure. In this context, the timing and tactics of implementing exit strategies in these economies have become all the more important (**Box 2.1**).

## Box 2.1

### Unconventional monetary policy and its exit strategy in the United States

After the outbreak of the sub-prime mortgage crisis in mid-2007 in the United States, the Federal Reserve (the Fed) had been easing its monetary policy aggressively, through successive cuts in the Fed Fund Target Rate. By the end of April 2008, the Target Rate was cut cumulatively by 325 basis points<sup>(1)</sup>. However, the abrupt escalation of the financial crisis in the latter part of 2008 prompted the Fed to step up its pursuit of unconventional monetary policy, on top of further cuts in the Fed Fund Target Rate to 0-0.25% by mid-December 2008.

Unconventional monetary policy refers to the means through which a central bank can provide additional monetary stimulus when its policy rates are close to the zero bound. Broadly speaking, the Fed carried out unconventional measures through four approaches. First, the Fed explicitly committed to keep short-term interest rates low in order to anchor market expectations, as enshrined in the statements by the Federal Open Market Committee (FOMC) since the latter part of 2008 and by the Fed officials on various public occasions. Second, the Fed provided extraordinary amounts of low-cost, short-term financing to financial institutions through existing or new facilities<sup>(2)</sup>. Third, the Fed purchased longer-term government securities such as the US Treasuries and government-sponsored enterprise (GSE) debt with a view to reduce long-term private borrowing rates. Fourth, the Fed provided liquidity direct to borrowers and investors in key credit markets that saw dislocations<sup>(3)</sup>. The latter three approaches share the common feature of making use of the asset side of the Fed's balance sheet (i.e. involve lending or purchase of securities).

By now, the Fed's extraordinary policy actions, many of which were unprecedented, have brought down the systemic risk in the financial markets significantly, and eased the liquidity risk through increased availability of short-term financing. However, the large expansion in the Fed's balance sheet has also led to concerns that the excess liquidity could transform into rapid credit growth and thus inflation.

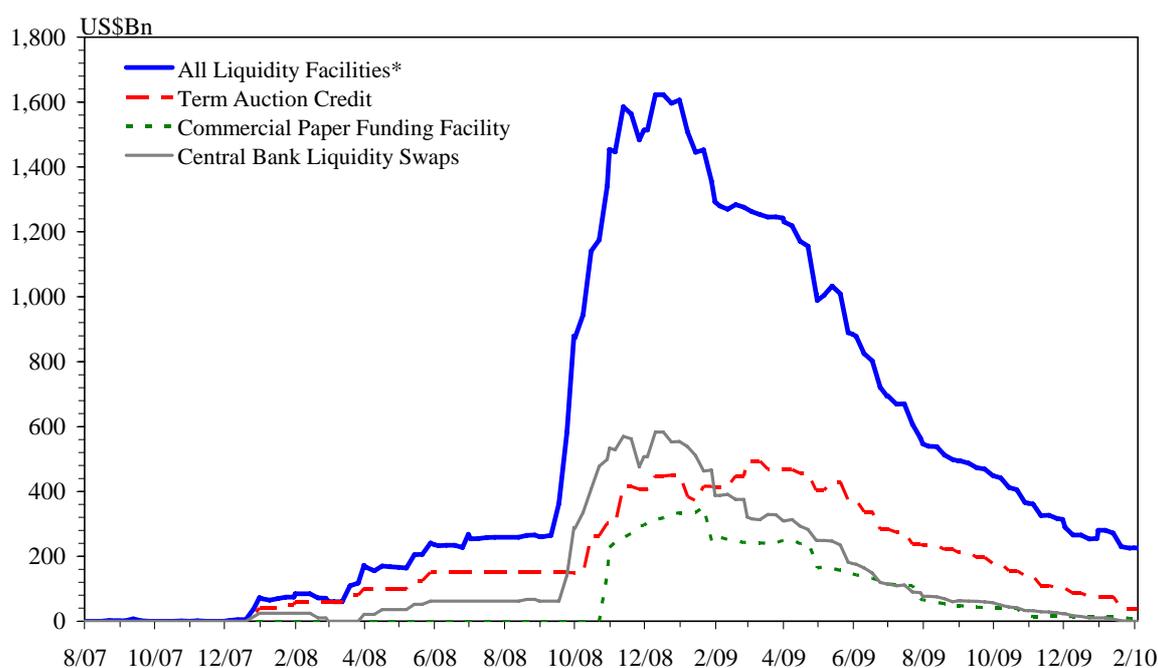
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- (1) Also, the spread between the primary discount window rate and the policy rate was cut to 25 basis points from the usual 100 basis points within this time period.
  - (2) For example, the term of the discount window loans was increased from overnight to 90 days; and new facilities such as Term Auction Facility, Term Securities Lending Facility, and Primary Dealer Credit Facility were created to allow the Fed to provide liquidity to financial institutions based on collaterals which saw sharp decline in liquidity during the crisis time.
  - (3) These included the Asset-backed Commercial Paper Money Market Mutual Fund Liquidity Facility, the Commercial Paper Funding Facility, the Money Market Investor Funding Facility, and the Term Asset-backed Securities Loan Facility.

## Box 2.1 (Cont'd)

To address the issue, Fed Chairman Bernanke acknowledged publicly at the relatively early stage of the financial tsunami that the Fed will have to unwind its various lending programs at some point to be consistent with the Fed's obligation to foster full employment and price stability<sup>(4)</sup>. On various occasions later last year, specific ways were outlined through which the Fed could actively drain liquidity in the markets when the economic outlook allows them to do so. They are as followed: 1) the Fed could arrange large-scale reverse repurchase agreements (reverse repos) with financial market participants, involving the sale by the Fed of securities from its portfolio with an agreement to buy the securities back at a slightly higher price at a later date. In fact, the Fed confirmed that it had been conducting tests of reverse repos as announced in mid-October last year; 2) the Treasury could sell bills and then deposit the proceeds with the Federal Reserve; 3) the Fed could pay interest on the balances held by banks at the Fed, using the authority delegated by the Congress in the fall of 2008. On 28 December 2009, the Fed issued a consultation paper for changing its rules to enable the Fed to offer interest-bearing term deposits to eligible institutions through an auction mechanism; 4) the Fed could reduce reserves by selling a portion of its holdings of long-term securities in the open market.

In fact, the size of the Fed's balance sheet can contract automatically, as improving financial conditions lead to reduced use of the Fed's liquidity facilities. As shown in **Chart 1**, most of the liquidity facilities by the Fed wound down significantly over 2009. Nevertheless, the size of the Fed's balance sheet stayed broadly steady in 2009 (see **Chart 2**). The winding down of the liquidity facilities was offset by the significant increase in the level of securities held by the Fed over the course of the year, principally reflecting purchases of Treasury, agency, and agency-guaranteed mortgage-backed securities under the large scale asset purchase program announced by the FOMC.

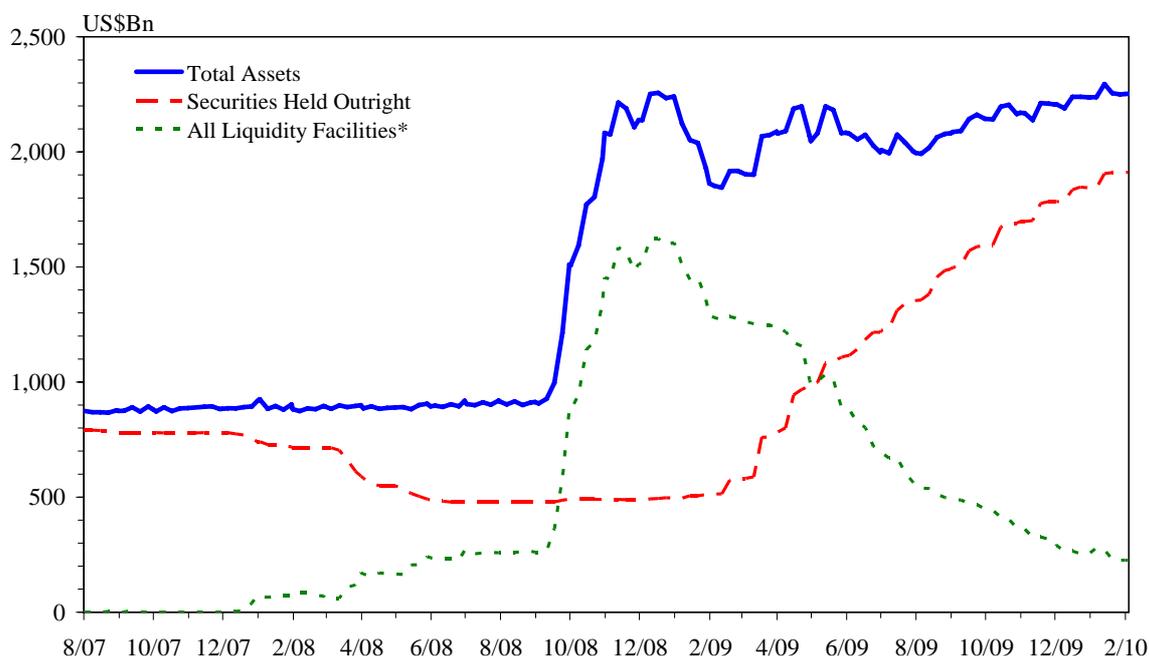
**Chart 1 The usage of liquidity facilities provided by the Fed saw decline over time as financial conditions improved**



(4) Fed Chairman Bernanke's speech at the London School of Economics on 13 January 2009. (<http://www.federalreserve.gov/newsevents/speech/bernanke20090113a.htm>)

## Box 2.1 (Cont'd)

**Chart 2 The composition of the balance sheet of the Federal Reserve changed as the situation in the financial markets evolved**



Note: (\*) All Liquidity Facilities include: Term Auction credit; primary credit; secondary credit; seasonal credit; Primary Dealer Credit Facility; Asset-Backed Commercial Paper Money Market Mutual Fund Liquidity Facility; Term Asset-Backed Securities Loan Facility; Commercial Paper Funding Facility; outstanding principal amount of loans to American International Group, Maiden Lane LLC, Maiden Lane II LLC, Maiden Lane III LLC, and TALF LLC; and central bank liquidity swaps.

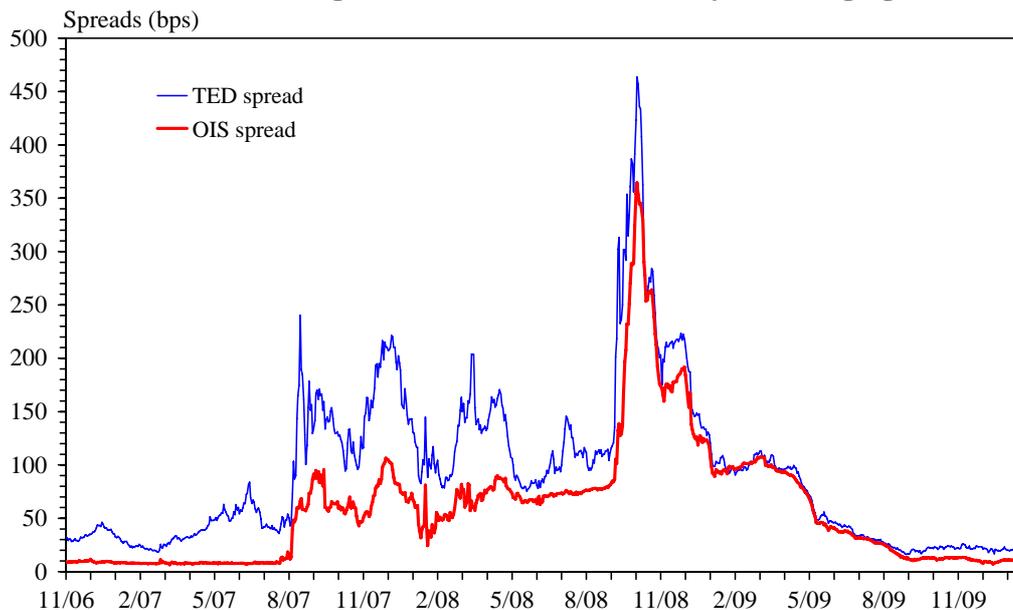
Summarized as “credit easing” policy approach, the Fed had adopted a varying mix of policy actions as the economic crisis evolved since mid-2007 or so. Similarly, the central banks of other major economies also adopted extraordinary policy actions, though the exact measures undertaken could be different depending on the institutional arrangements, to ease the monetary conditions in their economies. These measures made their mark in stabilising the overall economic situation as the global economy reversed to expansion since the latter half of 2009. While the recent situation of the US economy “are likely to warrant exceptionally low rates of an extended period”, as highlighted by the FOMC’s statement in late January this year, several of the Fed’s special liquidity facilities were already closed and most of the others would not be extended upon expiry in the coming months<sup>(5)</sup>. Later, in his testimony to the Congress in mid-February, Fed Chairman Bernanke outlined a possible sequencing of steps and combination of tools to be deployed by the Fed in its exit strategy<sup>(6)</sup>. The timing and the pace that the Fed is going to unwind its unconventional measures will bear important implication to the global economy in the period ahead. A premature withdrawal could risk a relapse to recession, while delayed action could inflict high inflation. The development in the Fed’s exit strategy has to be closely watched over as one of the key determinants of the global economic performance this year, and hence the performance of the Hong Kong economy, given its high degree of external orientation.

(5) FOMC’s statement on 27 January 2010.  
(<http://www.federalreserve.gov/newsevents/press/monetary/20100127a.htm>)

(6) Bernanke’s testimony on the Fed’s exit strategy before the US House of Representatives.  
(<http://www.federalreserve.gov/newsevents/testimony/bernanke20100210a.htm>)

2.2 Emerging market economies in Asia, particularly the Mainland and India, are expected to take the lead in the recovery process. The rapid return to robust growth in the Mainland has benefited Hong Kong substantially and acted as an important anchor to the entire region during the crisis. Hong Kong, given its close economic ties with the Mainland and other Asian economies, should continue to benefit from the vibrant growth in Mainland and also the further recovery in Asia.

**Diagram 2.1 : Global financial conditions have improved notably but credit growth remains constrained by deleveraging**



### *Global economic outlook*

2.3 The US economy, the epicentre of the financial tsunami, has resumed growth in the latter half of last year, helped in a large part by the enormous fiscal and monetary stimulus measures. Retail sales have been expanding at a moderate pace, while import demand also tends to bottom out. However, the fundamentals of the recovery remain weak. Specifically, business investment is still lacklustre, unemployment is severe, job creation has yet to come, credit supply continues to be tight, and a visible turnaround in the property market remains to be seen. The on-going deleveraging process among US households and financial institutions as they rebuild their balance sheet strength will continue to contain the pace of recovery. Whether economic growth in the US will sustain, upon the withdrawal of fiscal and monetary stimulus measures, remains an issue of considerable concern to the entire world.

2.4 The EU economy actually suffered a deeper contraction than the US in the synchronised recession triggered by the global financial tsunami. While

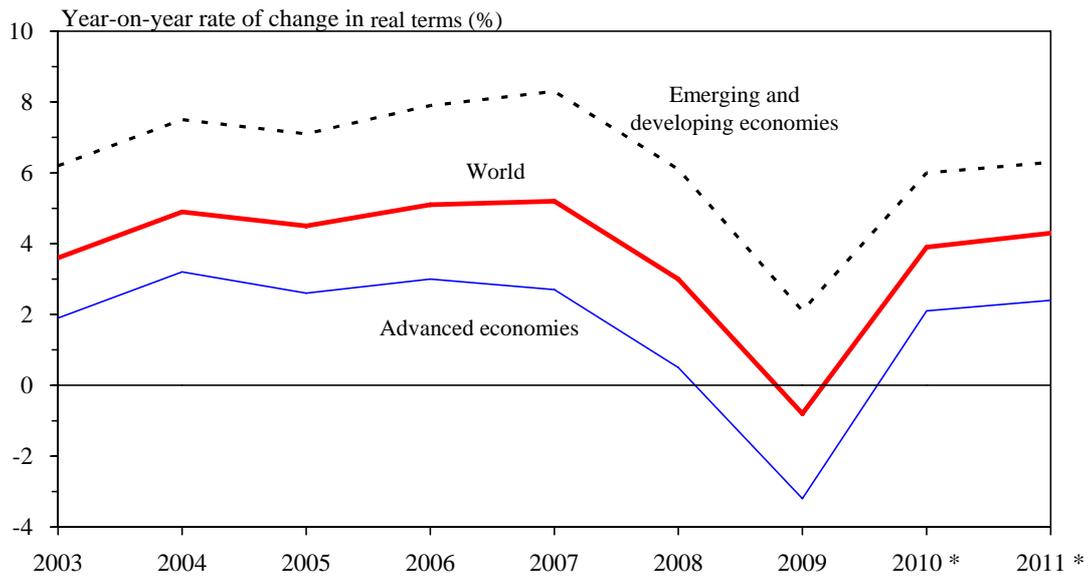
the EU economy likewise resumed growth in the latter part of 2009 under the support of public sector policy, the pace of rebound is even slower than the US, and the tone of the recovery still very sluggish under severe credit restraint and rising unemployment. In addition, the fragile fiscal conditions in certain EU economies, such as Greece, Spain and Portugal, have added to the woes. These can be an additional source of risk to the economic outlook for the EU and even to the stability of the global financial markets.

2.5 Japan's recovery from its worst recession in the post-war era is also likely to remain anaemic for some time to come. Business sentiment and private sector demand in general, while showing relative improvement of late, are still lacklustre. The possibility of a prolonged deflation is an additional issue for the Japanese economy. The fact that the Japanese government announced another round of stimulus measures in December last year in addition to the four rounds of measures announced between August 2008 and April 2009 underlines the prevailing weak status of the Japanese economy.

2.6 In sum, the current recovery in the advanced economies is mainly led by public sector policy stimulus, while a more notable revival in private sector demand has yet to be seen. The recovery is expected to be slow by past standards and could be uneven and bumpy in 2010. The real challenge will emerge in the latter part of the year when the support from stimulus measures begins to wane. In late January this year, the International Monetary Fund (IMF) forecast GDP growth in advanced economies at 2.1%, following a sharp contraction of 3.2% estimated for 2009.

2.7 In contrast, emerging economies in Asia have embarked on a firmer recovery path. Being heavily export-dependent, these economies inevitably took a heavy blow during the worst time of the crisis in the early part of 2009. Nevertheless, the firmer footing of these economies as compared to the Asian Financial Crisis in 1997-98, coupled with timely and appropriate policy actions, led to a faster recovery across the region. The swift return to a faster growth path in the Mainland economy since the second quarter of last year has contributed significantly to the stabilisation in the Asian region as a whole, providing a cushion against the shocks from the advanced economies. Granting no significant relapse in the US and European economies, the growth momentum in emerging Asia is likely to sustain and pick up further in 2010. According to the IMF, developing economies in Asia are forecast to grow by 8.4% in 2010, distinctly up from that of 6.5% growth in 2009. China and India will be the two major growth engines with growth forecast at 10.0% and 7.7% respectively.

**Diagram 2.2 : Developing and emerging market economies will take the lead in the recovery process**



Source: IMF World Economic Outlook Update January 2010.

(\*) Forecast from the IMF.

2.8 For the Mainland economy in particular, growth momentum is expected to pick up distinctly further in 2010, benefiting on one hand from the normalisation of global trade, and on the other hand the structural economic transformation, shifting the sources of growth from investment to consumption. Since the end of last year, the Central Government has been taking steps to fine-tune the economy to redress the overcapacity sectors, rein in asset bubbles and contain inflation expectations. These will be conducive to the macroeconomic stability of the Mainland economy, thereby beneficial to Hong Kong's economic performance in the period ahead.

**Table 2.1 : Growth forecasts for major economies in 2010**

	<b>2010</b>		
	<b>2009*</b> (%)	<b>IMF*</b> (%)	<b>Private sector forecast ^</b> (%)
World	-0.8	3.9	-
Advanced economies	-3.2	2.1	-
US	-2.4 <sup>#</sup>	2.7	3.1
Euro area	-3.9	1.0	1.3
Japan	-5.3	1.7	1.5
Emerging market and developing economies	2.1	6.0	-
Developing Asia	6.5	8.4	-
Mainland China	8.7 <sup>#</sup>	10.0	9.8
India	5.6	7.7	8.0
Middle East	2.2	4.5	-

Notes : (\*) World Economic Outlook Update, IMF, January 2010.

(^) Average forecast as in February 2010.

(-) Not available.

(#) Actual figures.

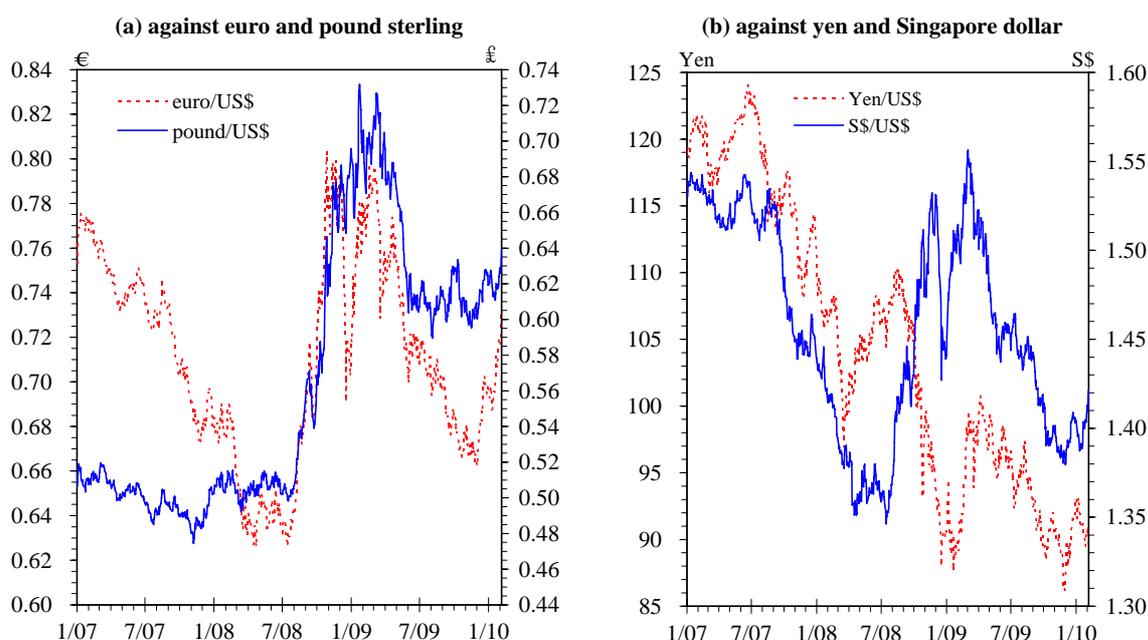
### *Exchange rates and price competitiveness*

2.9 The US dollar had a rough ride in 2009, appreciating against most of the other major currencies during the first few months of the year on heightened investor risk aversion, followed by a reversal in the remaining part of the year amidst improved global economic outlook and the return of risk appetite in the financial markets. Following closely the movements of the US dollar, the Hong Kong dollar also weakened against a basket of currencies, by around 4.8% in January 2010 over the high in March 2009, and by 3.2% over a year earlier. A weaker US dollar, and hence a weaker Hong Kong dollar under the linked exchange rate system, should usefully aid Hong Kong's export competitiveness and hence export outlook, at a time when external demand has yet to return to normal.

2.10 Currency movements, which are difficult to predict even in normal times, are susceptible to an exceptionally large pool of influences possibly working in different directions in 2010. *First*, there are considerable uncertainties about the strength and uneven pace of the global rebound. For example, the US dollar has surprisingly strengthened against the euro and yen in the more recent months as data releases generally confirmed a stronger recovery

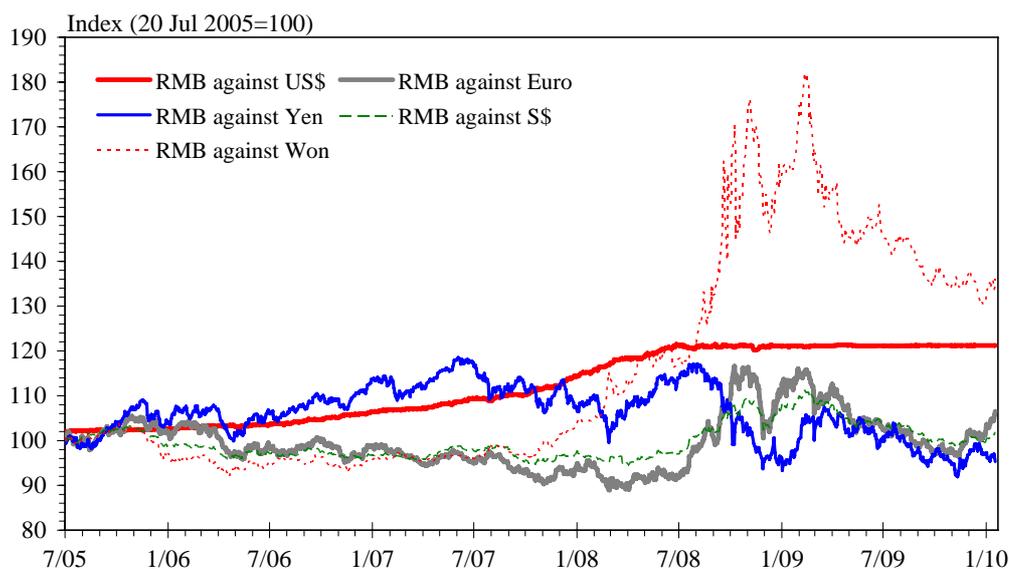
in the United States than in Europe and Japan. But market sentiment may also easily swing back if incoming data releases disappoint the markets about the strength of the recovery going forward. *Secondly*, further complicating the situation are the additional uncertainties about the timing of exit strategies and possibly the differentiated pace in the unwinding of stimulus. A dilemma here is that a premature exit could stifle recovery and stir up renewed volatility to the financial markets, while delayed actions could add concern about inflation hikes. *Thirdly*, rising concern about worsening fiscal position and mounting public debt is another potential source of instability to the global exchange rate and financial markets. Thus, while the prevailing market view tends to see further weakness and downside to the US dollar, the currency developments in the period ahead are far from certain. Indeed, it is not unlikely that 2010 may see considerable fluctuations in the foreign exchange markets as the balance of different factors shifts through the year.

**Diagram 2.3 : Exchange rate volatility likely to remain high in 2010**



2.11 Given Hong Kong's close economic relationships with the Mainland, the value of the Renminbi is also a key factor affecting the performance of Hong Kong's external sector, including both trade in goods and services. The Renminbi had stayed more or less stable against the US dollar throughout 2009, despite foreign pressure from time to time on the Renminbi to appreciate. A stable Renminbi can help to reduce the exchange rate uncertainty facing Hong Kong companies given our integrated supply chain with the Mainland and our close ties on other fronts.

**Diagram 2.4 : A stable renminbi will help to reduce the uncertainty facing Hong Kong's traders**



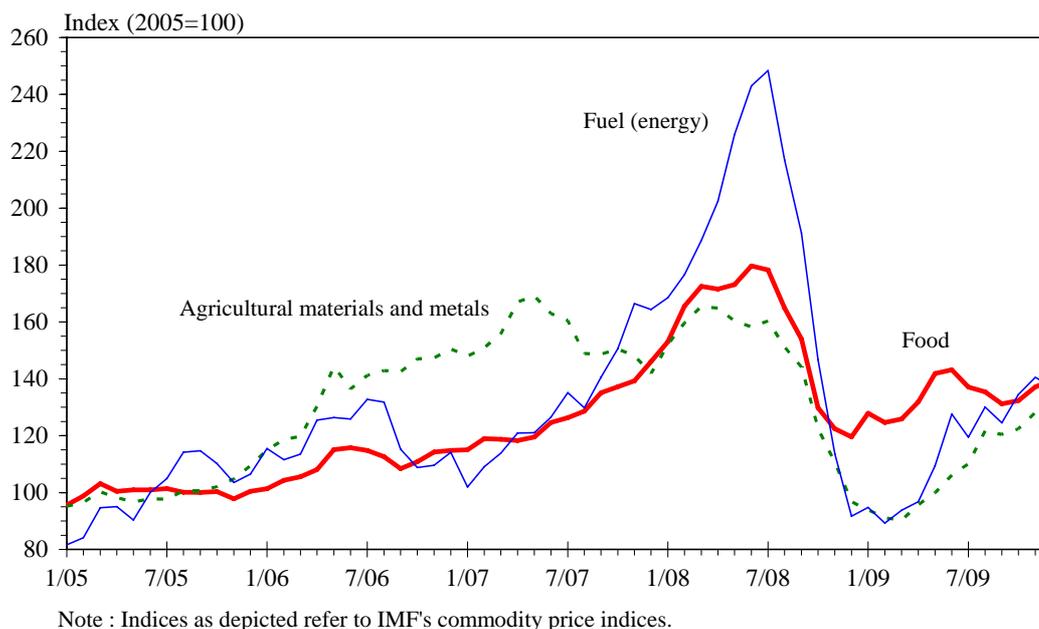
Note : An increase in the index represents an appreciation of renminbi against the currency concerned.

### ***World inflation and global commodity prices***

2.12 Inflationary pressures subsided on a world-wide basis in 2009 amid the global recession. Some economies even saw deflation as aggregate demand fell short of supply by a sizable margin. With the global economy likely to recover further in 2010, it is reasonable to see the return of some inflationary pressures in many economies around the world. But the extent of inflation should be contained so long as the recovery in demand of many economies is only filling up part of the spare capacity left during the severe recession in 2009. It is also important that central banks and governments of the major economies should uphold the transparency of their exit strategies to ensure inflation expectations be well-anchored.

2.13 However, the movements of the world commodity prices, particularly food and oil prices, could add uncertainty to the inflation outlook around the world. After the significant retreat during the latter half of 2008, food and oil prices have re-established their uptrend since early 2009, fuelled partly by better global economic outlook and partly by a weaker US dollar. Between February and December 2009, the United Nations Food and Agriculture Organization's World Food Price Index rose by a cumulative 24%, and the Brent crude oil price by 74%, though their levels were still notably lower than the corresponding highs in 2008. The potential volatility in the prices of food, crude oil and other commodities could be a challenge to governments and central banks around the world in promoting price stability, and will also pose some upside risks to Hong Kong's imported inflation.

**Diagram 2.5 : Higher food and oil prices could pose upside risks to global inflation**



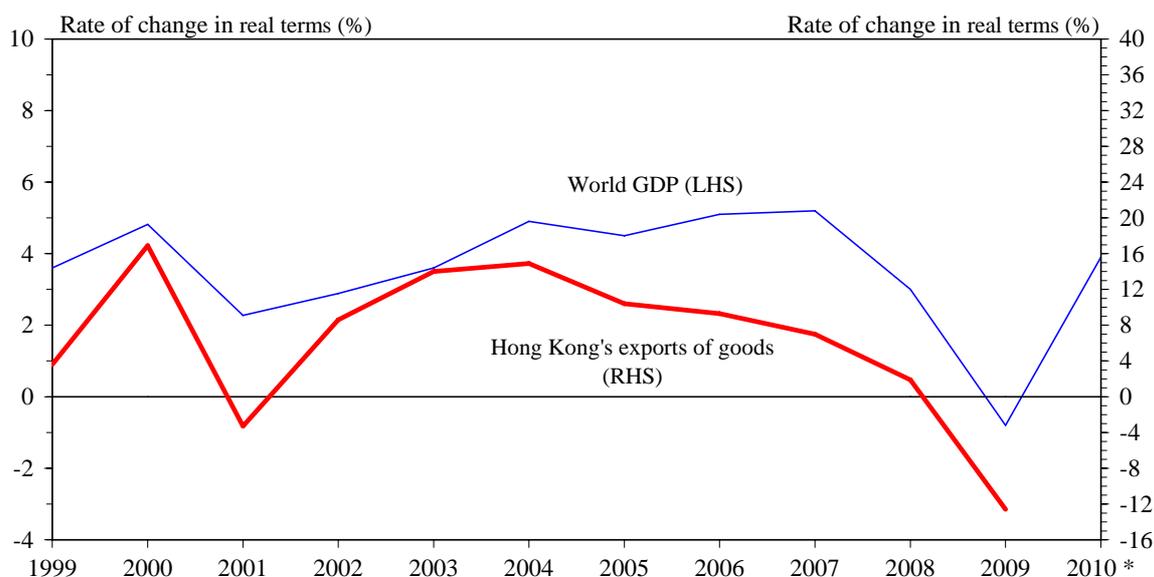
### *Major sources of risks*

2.14 While the recovery is underway and recessionary forces have by now receded significantly, downside risks to the global economic outlook remain a concern. *First*, there is considerable concern about the shaky fundamentals of the advanced economies, which casts doubt on whether private demand can take up the role in driving the recovery when the exceptional fiscal stimulus is removed. *Secondly*, the timing and pace of the implementation of exit strategies by governments and central banks, and potential disruptions they may cause to fund flows across the region, are another major source of uncertainty for the financial and asset markets, as already pointed out in Paragraph 2.10. *Thirdly*, equally worrying are the headwinds from rising protectionist sentiments in the United States and Europe, where unemployment is still severe. This could pose a major and perhaps on-going threat to the trade-dependent Asia, including Hong Kong. *Fourthly*, while financial market conditions have generally improved, the Dubai World incident and the rating actions on several debt-laden European economies are timely reminders that the financial crisis may not be fully over as yet. There is risk, no matter how remote it looks at present, that the debt crisis could escalate into a sovereign credit confidence crisis, and their potential disruptions to the global financial markets cannot be taken lightly. *Fifthly*, for emerging economies in Asia, the flush of liquidity into these economies, driven by better economic prospect in the region and the prevailing highly accommodative monetary environment, could be sowing seeds for other problems and sources of macroeconomic vulnerabilities in the region that may disrupt the ongoing recovery process.

## Outlook for the Hong Kong economy in 2010

2.15 Against the global scene of a gradually improving environment and having already experienced the sharply slower growth in 2008 followed by the recession last year, the outlook for Hong Kong this year is a return to positive growth more in line with the past trend growth. Continuing the momentum in the latter part of 2009, the economy should start off with a strong, broad-based growth in both domestic and external sectors. Growth in the first quarter is likely to be particularly strong on a year-on-year basis, though partly boosted by the distinct low base in early 2009. And, granting no significant adverse developments from the global economic and financial fronts to the extent of the derailing the current improving trend, the revival in the Hong Kong economy should hopefully stay on track in the rest of the year. But the strength of the growth momentum may not be very steady through the four quarters, for the various uncertainties and pitfalls as discussed earlier (paragraphs 2.10 and 2.14). Apart from possible gyrations in the asset markets during the year, there is risk that external trade may lose steam again after the effects of the earlier strong policy stimulus in the advanced economies fade in the latter part of the year. How the situation will evolve is still somewhat uncertain at this juncture, and will depend very much on the timing and tactics to be adopted by governments and central banks of the major economies.

**Diagram 2.6 : Hong Kong's exports of goods poised for a notable rebound this year**

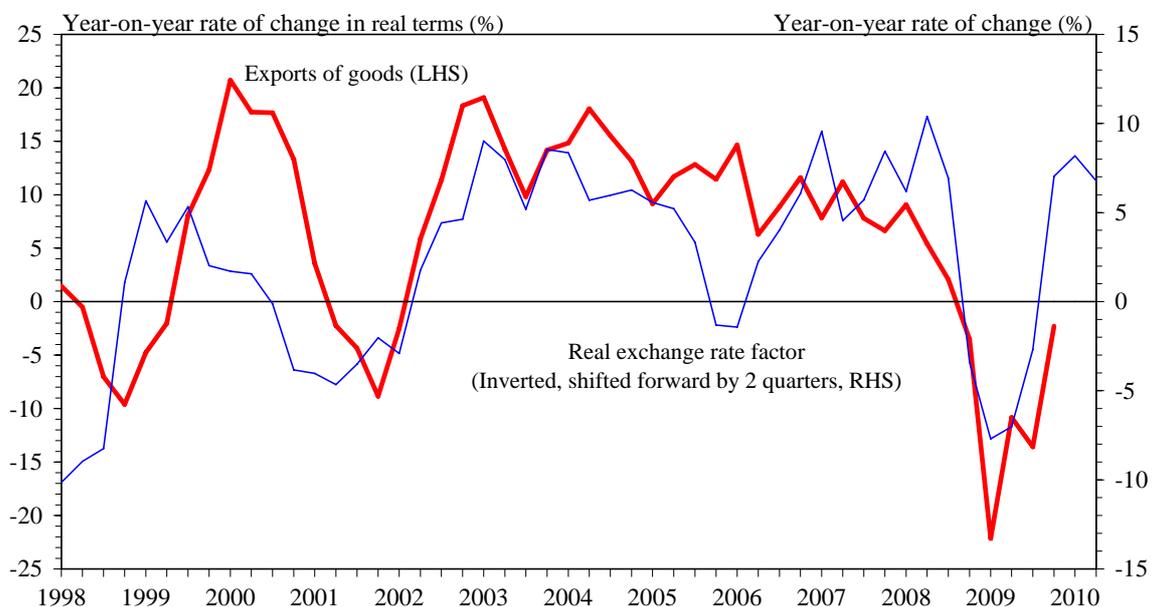


Source: (\*) Forecast from the IMF World Economic Outlook Update January 2010.

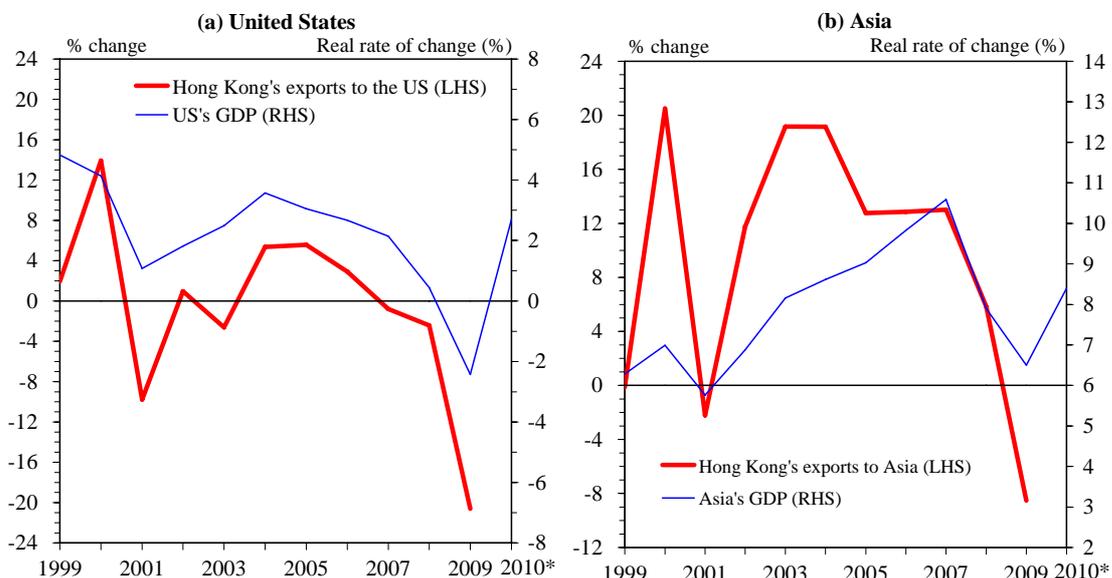
2.16 With the austere external environment in 2009 turning progressively better, and even with a weaker-than-usual global recovery in 2010, Hong Kong's *exports of goods* are still poised for a notable rebound this year, having experienced the marked contraction at the juncture of late 2008 and early 2009.

Even so, the expected sluggishness in the advanced economies is likely to hold back the export recovery in Hong Kong, and as such, for 2010 as a whole, the rebound is unlikely to be significant enough for overall exports to return to their pre-crisis level in 2008. In particular, exports to the advanced economies, though poised to regain some of the lost grounds, are likely to lag behind and would probably expand only at a slow pace. Yet exports to Asia, the Mainland in particular, should grow quite strongly in 2010 in tandem with the expected further recovery in Asia and vibrant growth in the Mainland, thereby rendering the key driver of export growth in 2010. This will mirror the divergence in the paces of economic recovery across regions, as discussed in Paragraphs 2.3 to 2.8.

**Diagram 2.7 : Exchange rate factor also favourable to further export recovery in the first half of 2010**



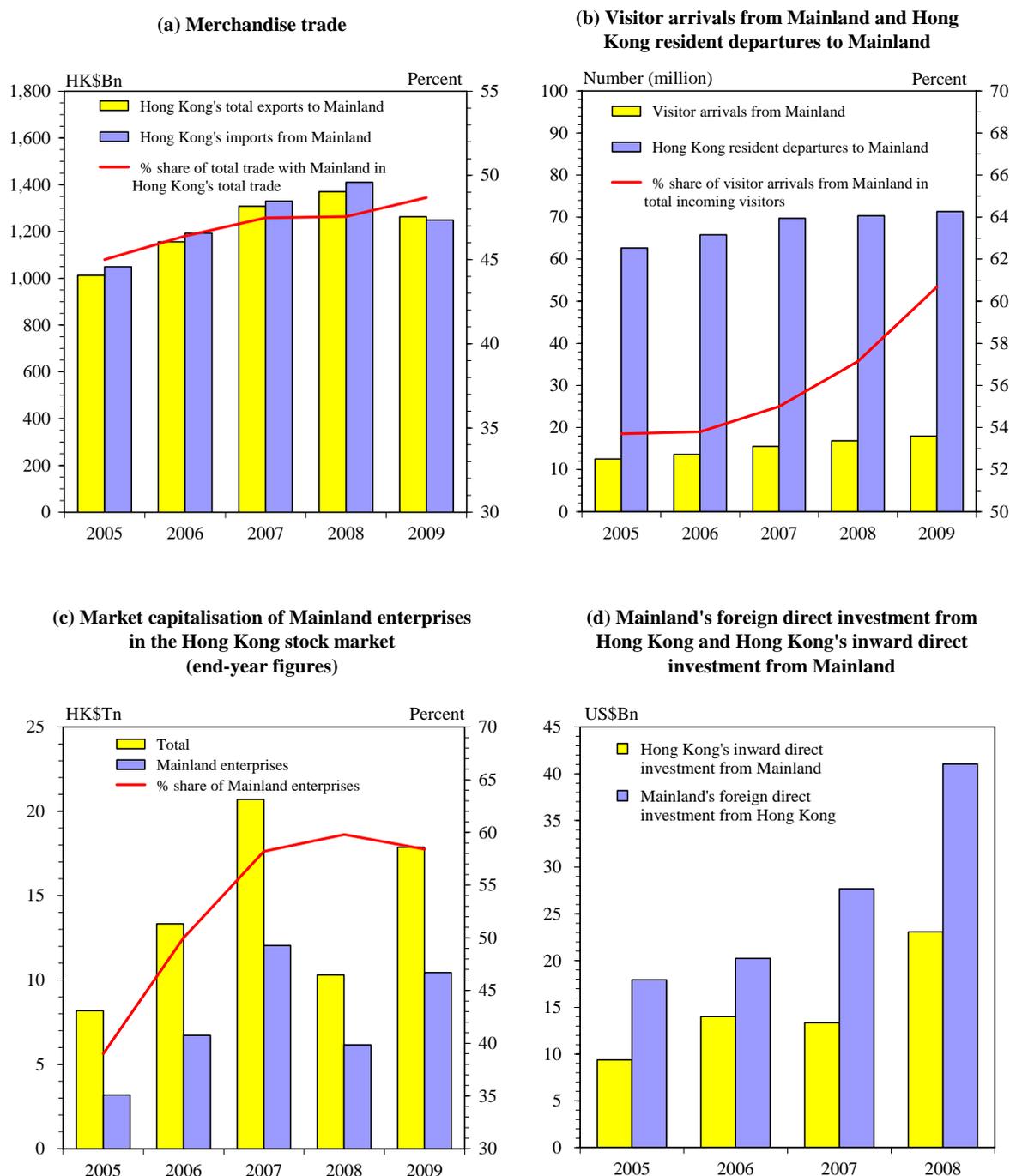
**Diagram 2.8 : Exports to Asia should grow quite strongly in 2010, but those to advanced economies might lag behind**



Source: (\*) Forecast from the IMF World Economic Outlook Update January 2010.

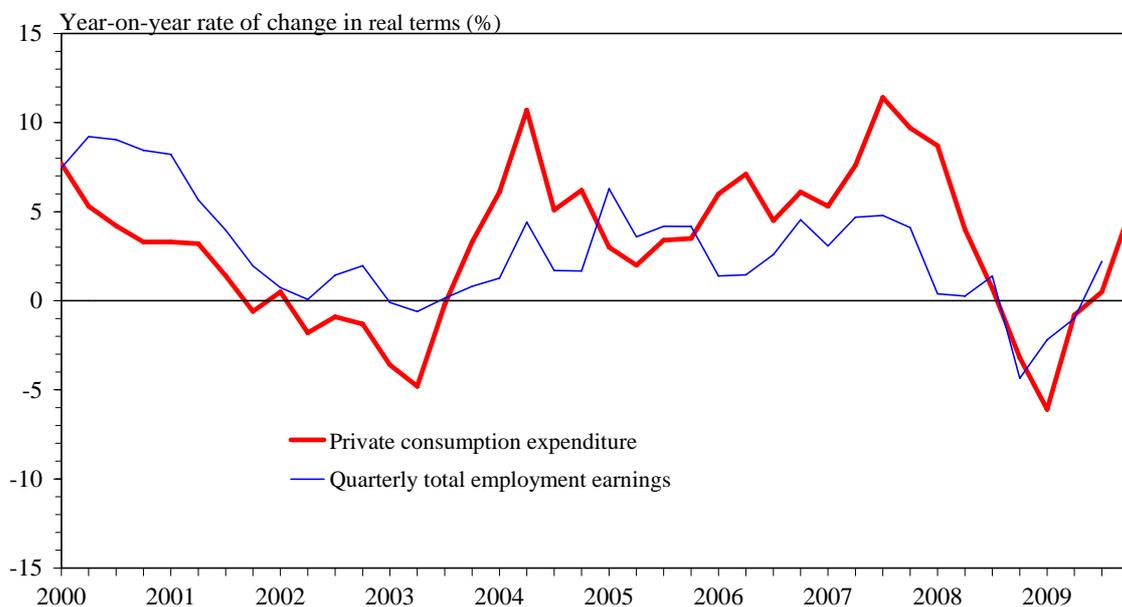
2.17 In comparison, the outlook for *exports of services* is even more encouraging. Exports of finance, business and other services have already shown a marked revival since the latter part of 2009, benefiting from the increase of Mainland-related IPO activities and the return of business in tandem with the regional recovery. This trend will hopefully gather further momentum in 2010. Inbound tourism, which was relatively resilient all through 2009, is likely to stay vibrant and provide a stable growth source for exports of services. Offshore trade and other services related to merchandise trade will likewise benefit from the rebound in global and regional trade flows.

**Diagram 2.9 : Robust growth in the Mainland economy will continue to benefit Hong Kong**

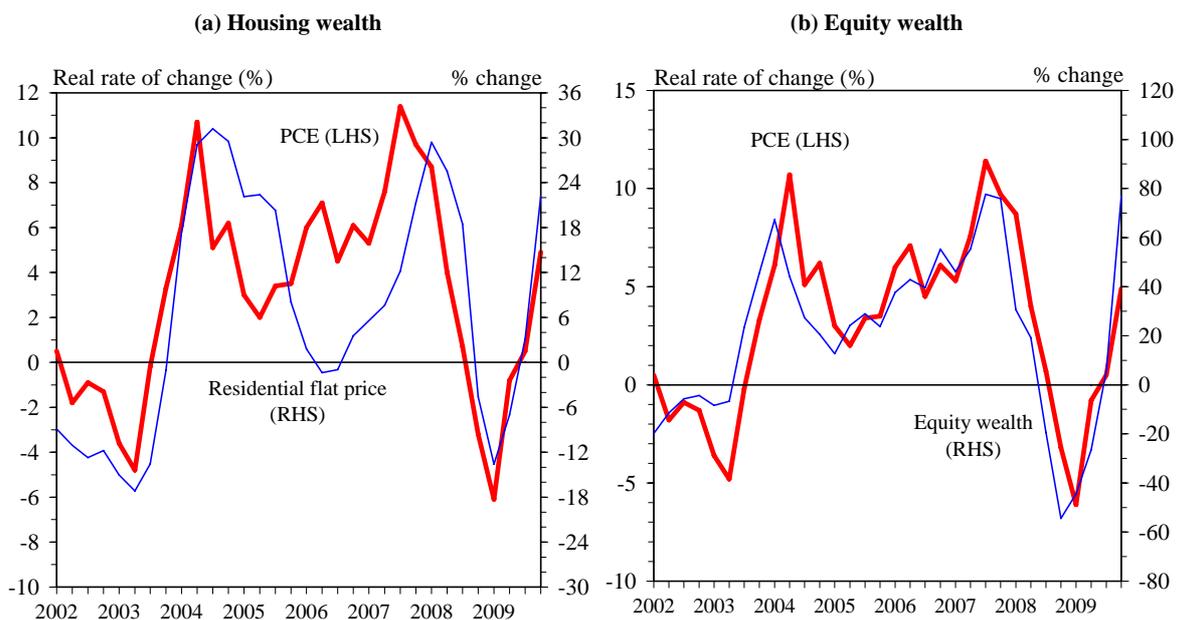


2.18 On the *domestic* front, local consumption has regained much strength in the second half of 2009, and judging from the current sentiment, consumption looks set for a further solid growth in 2010. The key driver of consumption growth this year will come from the expected improvements in labour market conditions in tandem with the economic recovery. The latest package of measures in the latest 2010/11 Budget, coupled with the relief measures announced in 2009, will give a further boost to consumption spending this year. Yet the uncertainty in the timing of exit strategies, the on-going concern over the fiscal situation in some of the European economies, and their repercussions on the global and local asset markets in 2010 are areas to watch out.

**Diagram 2.10 : Local consumer sentiment has been strengthening along with improvement in labour market**

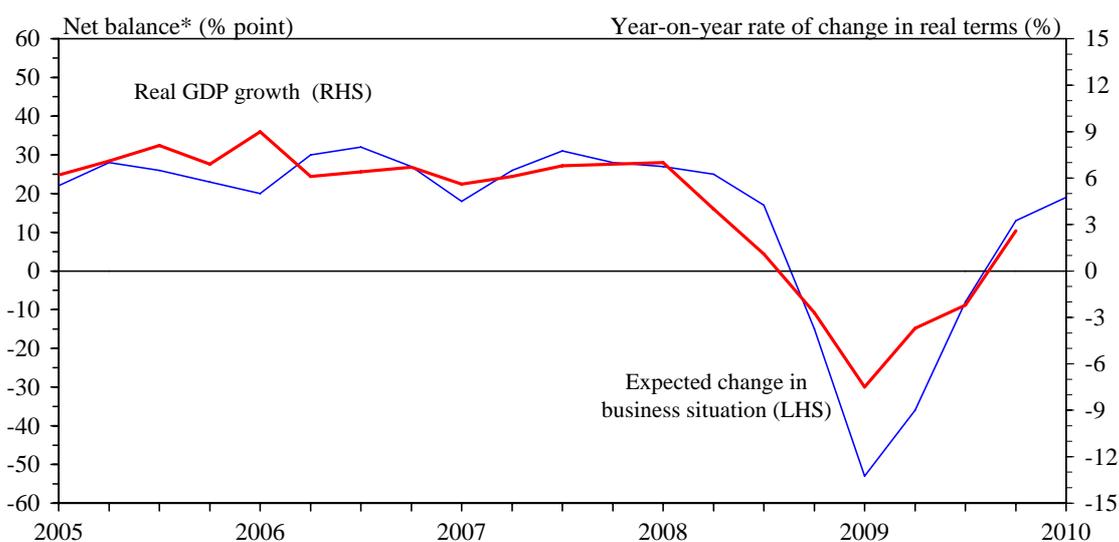


**Diagram 2.11 : Asset market volatility could dent consumer sentiment**



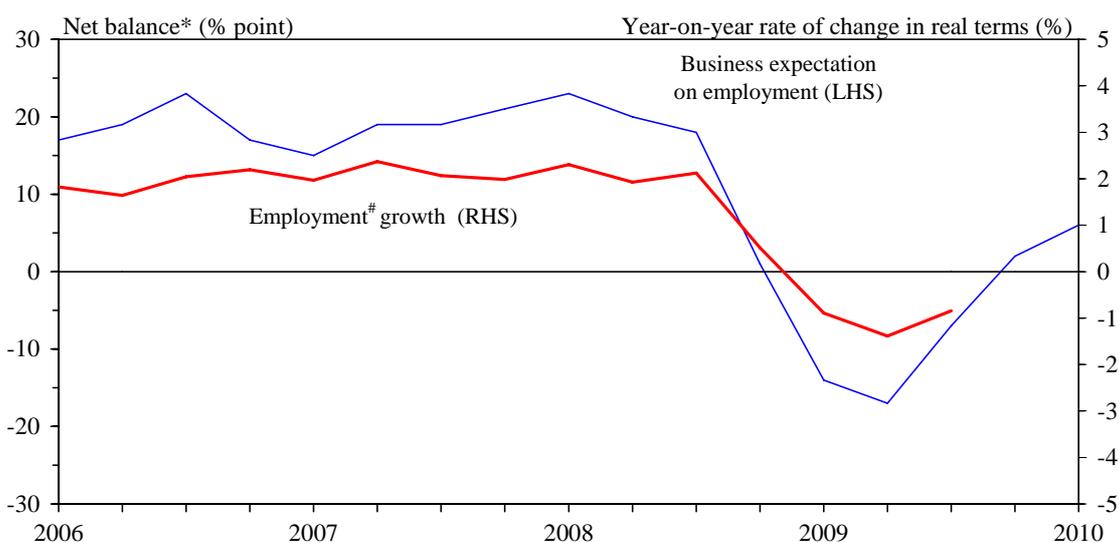
2.19 Overall investment will similarly recover, with business confidence now much improved upon the better economic prospects. Indeed, the results of the latest Business Tendency Survey conducted by the Census and Statistics Department indicate an across-the-board uptick in business sentiments towards the year-end. Adding to the strength of overall investment is the expected pick-up in infrastructure construction, which should provide further impetus to Hong Kong's recovery process and render a cushion against the possible renewed weakening in the external sector in the latter part of the year.

**Diagram 2.12 : Business sentiment turned up distinctly since the latter part of 2009**



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

**Diagram 2.13 : Business expectation on employment also turned more positive**

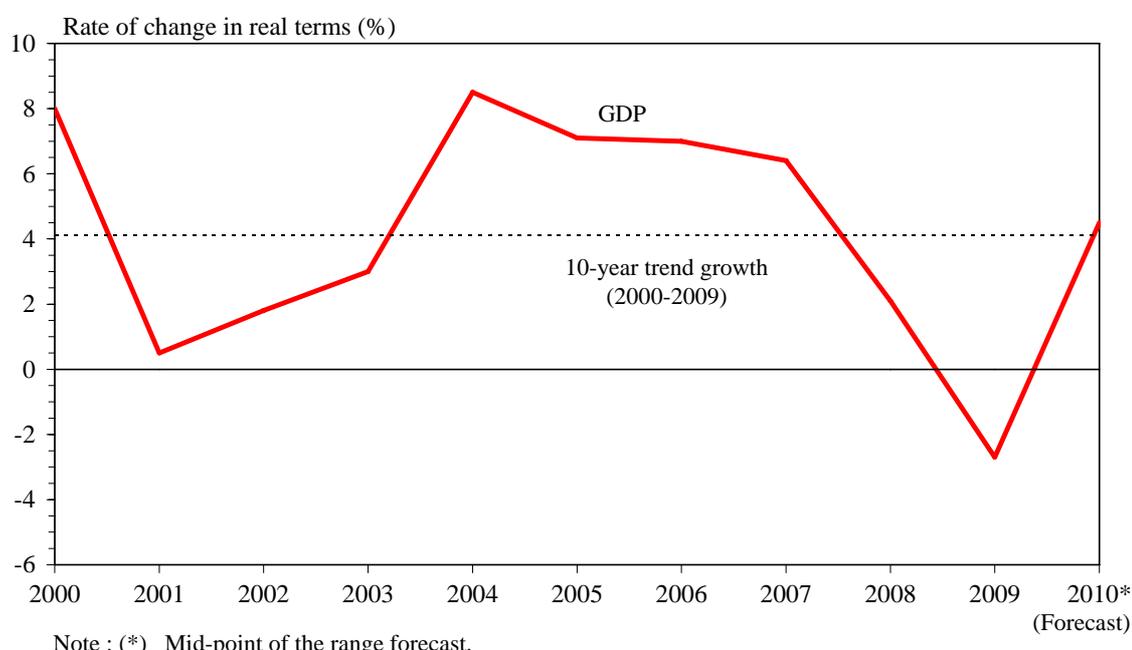


Notes : (\*) Net balance indicates the direction of expected change in number of persons engaged versus preceding quarter. It refers to the difference in percentage points between the proportion of establishments choosing "up" over that choosing "down". A positive sign indicates a likely upward trend while a negative sign, a likely downward trend.

(#) Employment in private sector.

2.20 Taking all these factors into account, and granting no major relapse in the global economy to the extent of disrupting the recovery process now in Asia, the Hong Kong economy is poised to return to positive annual growth in 2010, by 4% to 5%. This will be largely on par with the 10-year average annual growth rate of 4.7% just before the global crisis hit Hong Kong, and is also broadly in line with the prevailing forecasts by private sector analysts, which mostly fall within the range of 3% to 6%. As discussed in Paragraphs 2.1 and 2.14, the economic outlook this year is still subject to a host of uncertainties stemming mainly from the concern about the fragile nature of the global recovery, and the uncertainties regarding the timing and pace of unwinding of the extraordinary fiscal and monetary stimulus and their potential shocks to the global and local asset markets. The Government will stay alert to these risks and challenges, and will stick to the strategy of “stabilising the financial system, supporting enterprises and preserving employment” until employment resumes growth and unemployment comes down visibly. Indeed, the Government’s decision to extend the loan guarantee schemes for another six months until June 2010 and the package of measures in the 2010-11 Budget are precisely aimed at providing the supportive conditions for the economy’s further recovery against the background of a still uncertain external environment.

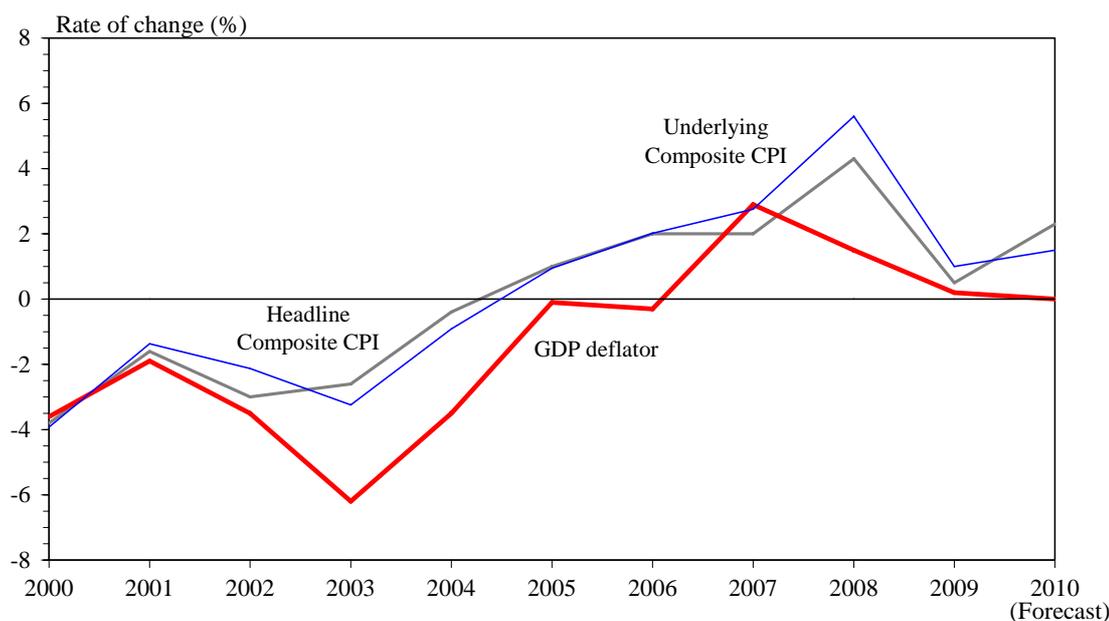
**Diagram 2.14 : Economy poised for further recovery in 2010**



2.21 Both local and external price pressures were virtually absent during most of 2009 in the midst of the economic downturn and global-wide recession. After experiencing a brief period of mild deflation, downward pressures on consumer prices abated notably near the end of 2009. As the recovery gathers

pace going forward, some modest price pressures are likely to return, and as such, consumer price inflation is expected to climb back gradually over the course of 2010. Nevertheless, inflationary pressures should still be rather modest in most of 2010, as it takes time for the economy to reduce the spare capacity caused by two years of economic slack, and as imported inflation may remain modest in the near term given the weak global recovery. Against this backdrop, the *underlying Composite CPI* is forecast to increase by 1.5% in 2010 as a whole. The *headline Composite CPI* is forecast to be slightly higher in 2010, at 2.3%. The *GDP deflator* is forecast to be flat, taking into account the modest inflationary pressures at the aggregate economy level as well as the relative price change in the external sector. There may be some upside risks to the above forecasts, if rentals continue to rise back, food prices edge further higher, and if international oil prices stay at a high level. A weaker US dollar may also add to imported inflation and hence overall inflation.

**Diagram 2.15 : Some price pressures will return as economic recovery takes hold**



## Forecast rate of change in 2010 (%)

### Gross Domestic Product (GDP)

<i>Real GDP</i>	<b>4 to 5</b>
<i>Nominal GDP</i>	4 to 5
<i>Per capita GDP, in real terms</i>	3.1 to 4.1
<i>Per capita GDP at current market prices</i>	HK\$240,500-242,800 (US\$30,800-31,100)

### Composite Consumer Price Index

<i>Headline</i>	<b>2.3</b>
<i>Underlying</i>	<b>1.5</b>

**GDP Deflator** **0**

### Forecast on Hong Kong's GDP growth in 2010 recently made by other selected parties

	(%)
International Monetary Fund	5
The University of Hong Kong	4 to 5
The Hong Kong University of Science and Technology	6.8
Average forecast by private sector analysts <sup>#</sup>	4.8

Note: (#) Forecast GDP growth by private sector analysts mostly falls between 3% and 6%.

## Medium-term outlook for the Hong Kong economy

2.22 The medium-term outlook for the Hong Kong economy is bright, although there is a need to stay alert to risks and challenges posed by the constant changes in the global economic environment, particularly as the global economy has just emerged from the “Great Recession” of 2008-2009 and the risk of a relapse in the advanced economies into recession cannot be ruled out for sure. The financial crisis has radically changed the landscape of the global economy. The Mainland and, to some extent, all the other emerging Asian economies taken together, have emerged as a prominent economic powerhouse. The balance of the global economic landscape has tilted gradually towards the East. This, in turn, will present new opportunities for Hong Kong in the years to come.

2.23 Amid the keen competition in the global and regional arenas, it is important for Hong Kong to continue to enhance its competitiveness to uphold

its status as an international financial centre and a regional business hub. Being a relatively mature economy, Hong Kong will not compete in terms of low labour and land costs, but in terms of quality, during its on-going transformation into a high value-added, knowledge-based economy.

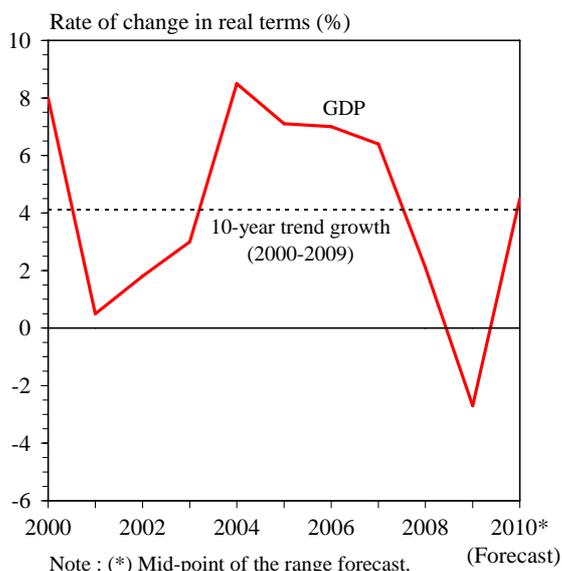
2.24 The strategy of integrating with the Mainland economy has served the Hong Kong economy well. Hong Kong will continue to make full use of the opportunities generated by its increasing integration with the Pearl River Delta, a national strategy endorsed by the Central Government. Hong Kong and Guangdong as well as other parts of the Mainland will also push ahead with co-operation on many fronts. In terms of hardware, the construction of major cross-boundary infrastructure projects, including the Hong Kong-Zhuhai-Macao Bridge and the Hong Kong-Guangzhou Express Rail Link, will enhance the efficient flow of people and goods and further deepen economic ties between Hong Kong and the Mainland. As to other major infrastructure projects, the construction will also add momentum to economic growth over the medium term. When completed, they will raise the quality of life as well as productivity in Hong Kong in a significant way.

2.25 The global financial crisis has also revealed the need for economic diversification. The Government has identified six promising industries where Hong Kong enjoys competitive advantages, including education services, medical services, testing and certification, environmental industries, innovation and technology, and cultural and creative industries. It will take time for these industries to mature and flourish, and the Government will offer facilitating measures to create the conditions for them to get off the ground and gather momentum. These six industries, while diversifying the economic structure of Hong Kong, will also supplement and enhance the strength of the traditional pillar industries.

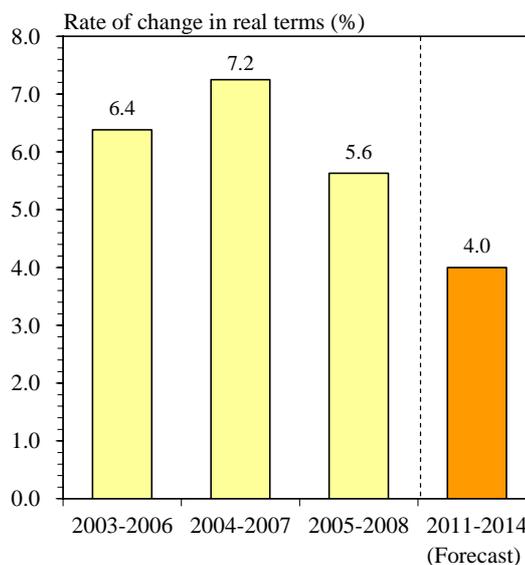
2.26 Against this background, the trend GDP growth rate in real terms is forecast at 4% per annum from 2011 to 2014. This would still be slightly below the 10-year average annual growth rate of 4.7% that Hong Kong has attained just before the global crisis. With the economy going back to faster growth over the medium term, some inflationary pressures should likewise return. Granting that major central banks will pursue their exit strategies in an orderly manner, thereby anchoring global inflation expectations, the trend rate of change in the underlying Composite CPI in Hong Kong over the medium term is forecast at 3% per annum.

**Diagram 2.16 : Economic prospects are bright over the medium term**

(a) Economic recovery to take hold in 2010



(b) Trend economic growth over the medium term still below the trend growth just before the global crisis



2.27 Beyond the short-term, there are various challenges facing the global and local economy over the medium term. The financial tsunami should lead to reforms in the global financial framework if the world is to avoid the recurrence of major financial crises in future, and Hong Kong will have to adjust and adapt quickly to these reforms. The exceptionally large fiscal and monetary stimulus measures implemented by the major advanced economies have weakened their longer term fiscal positions, which could eventually lead to higher volatility in the financial and exchange rate markets. Also, the political implications of higher unemployment in the advanced economies, coupled with the lingering global trade imbalances, could result in stronger protectionist sentiment from the US and EU against Mainland products, increasing the risk to Hong Kong's trade. Domestically, the structural shift of the Hong Kong economy to high value-added and knowledge-based activities would lead to greater variability in income and wealth distribution. The training and re-training needs of Hong Kong's workforce are bound to increase over time if it is to reduce the extent of mismatch between jobs and skills. Also, the ageing population will have profound implications on our health care and social welfare systems, as well as on public finance, over the medium and longer run. In view of these possible challenges, it is important to stick to a prudent fiscal policy.

## CHAPTER 3 : THE EXTERNAL SECTOR

### *Summary*

- *Hong Kong's external sector was hard hit in the first quarter of 2009 by the worst global economic recession in more than sixty years, as the freefall in economic activity in the advanced economies led to a plunge in world trade. Nevertheless, with the Mainland economy regaining strength since the second quarter, followed by the rebound in the advanced economies from the third quarter, Hong Kong's external sector, particularly trade in services, recovered progressively in the latter part of the year.*
- *Merchandise exports, having declined drastically in the first quarter, improved gradually over the course of 2009, and reverted to positive year-on-year growth towards the year-end. For the year as a whole, merchandise exports still recorded the largest annual decline on record. While the EU and US markets remained weak throughout the year, Asian markets fared relatively better, with a more distinct recovery towards the end of the year. The double-digit decline in merchandise exports that Hong Kong experienced in 2009 was part of a regional phenomenon. Many other Asian economies reported even larger declines.*
- *Exports of services displayed greater resilience, with all the major components reverting to year-on-year growth in the fourth quarter of 2009. Exports of financial services turned up distinctly in the second half of the year alongside the rebounds in global stock markets and the return of IPO activity. Exports of travel services were supported by the strong rebound in visitor arrivals in the second half of 2009. Exports of transportation services and trade-related services plummeted during most of 2009 under the drag of the much slackened trade flows, yet also resumed growth in the final quarter.*
- *The Government continued to strengthen economic cooperation with the Mainland, enabling Hong Kong service providers to get greater access to the Mainland markets. The supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) signed in May 2009 extended the coverage of service areas to 42. The pilot program for the usage of the renminbi for cross-border trade settlement in Hong Kong and five other Mainland cities, implemented in July, also allowed Hong Kong traders greater flexibility. Meanwhile, the construction work of the Hong Kong-Zhuhai-Macau Bridge commenced in December.*

## Visible trade

### *Total exports of goods*

3.1 Merchandise exports suffered a severe blow from the slump in global demand and world trade in the aftermath of the financial tsunami, especially in late 2008 and early 2009. In 2009, *total exports of goods* (comprising re-exports and domestic exports) plunged by 12.0% in real terms<sup>(1)</sup>, as compared to the increase of 2.9% in 2008. The decline in exports in the first quarter of 2009 was particularly notable, by 22.2% in real terms over a year earlier, which was the largest decline since 1954. This was nevertheless followed by smaller year-on-year declines of 10.8% and 13.6% respectively in the second and third quarters. The rate of decline tapered to 2.3% in the fourth quarter (growth actually resumed in November and December), thanks to the further pick-up in Mainland demand and also the revival in intra-regional trade in Asia.

3.2 The global financial crisis evolved into the most severe global economic recession since World War II. Nevertheless, thanks to the massive fiscal stimulus and monetary easing policies implemented by governments and central banks, the global financial markets stabilised and the global economy also bottomed out in around mid-2009. The global recovery was however uneven across regions, with the emerging Asian economies, particularly the Mainland, taking the lead in the process. Although the US and EU economies resumed growth<sup>(2)</sup> since the third quarter of 2009, their recovery was not yet solidly in place. Against this background, exports of Asian economies generally fell markedly during most of 2009, only improving more visibly in the latter part of the year. As unemployment in the US and EU remained severe, the rise of protectionist sentiments in these markets remained a threat to the global trading environment.

3.3 *Re-exports*<sup>(3)</sup> were the backbone of Hong Kong's merchandise exports in 2009, accounting for 97.7% of the latter's total value. For the year as a whole, re-exports fell significantly by 11.3% in real terms, after an increase of 4.0% in 2008. *Domestic exports*, which only constitute a small share of total exports, plunged by 34.6% in 2009, having contracted by 22.0% in the previous year.

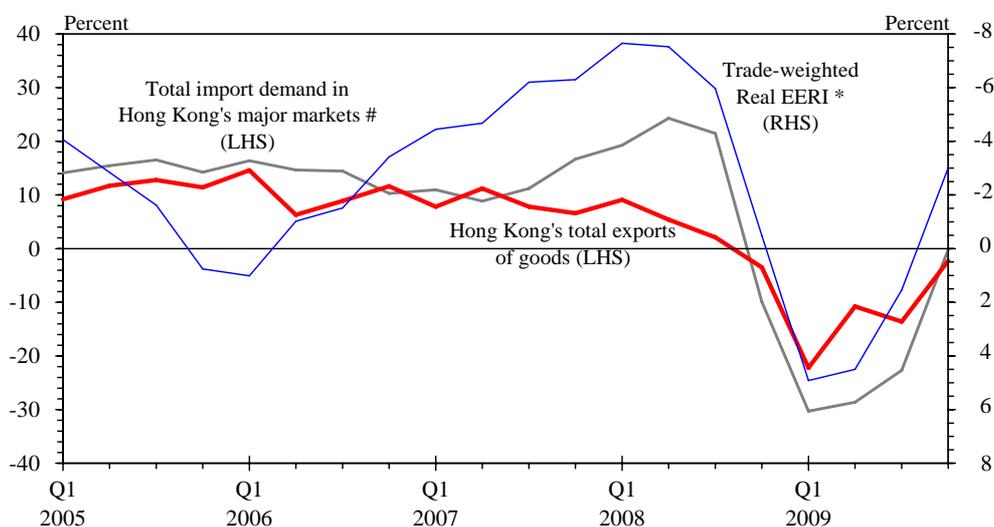
**Table 3.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

	<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>			
2008 Annual	5.1	2.9	3.8	6.0	4.0	3.8	-16.8	-22.0	5.1			
Q1	10.5	9.1	(4.6)	2.6	10.9	9.6	(5.0)	2.6	0.3	-5.0	(-4.4)	3.3
Q2	7.8	5.4	(-3.6)	3.9	8.8	6.6	(-3.4)	3.9	-14.3	-20.0	(-10.9)	5.0
Q3	5.5	2.1	(-0.5)	4.8	6.5	3.3	(-0.1)	4.7	-17.8	-26.1	(-11.6)	6.4
Q4	-2.1	-3.5	(-4.7)	4.1	-0.9	-2.3	(-4.4)	4.0	-31.1	-32.8	(-12.1)	6.2
2009 Annual	-12.6	-12.0	1.1	-11.8	-11.3	1.2	-36.4	-34.6	-0.2			
Q1	-21.9	-22.2	(-13.1)	2.5	-21.1	-21.4	(-13.0)	2.5	-44.3	-43.3	(-15.8)	2.5
Q2	-12.9	-10.8	(7.7)	0.8	-12.0	-9.9	(8.0)	0.8	-39.6	-37.0	(-4.0)	*
Q3	-14.3	-13.6	(-3.6)	0.2	-13.5	-12.9	(-3.5)	0.3	-38.7	-35.1	(-8.2)	-2.2
Q4	-2.0	-2.3	(9.1)	0.8	-1.4	-1.8	(9.1)	0.9	-21.2	-21.6	(7.1)	-1.2

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

(\*) Change of less than 0.05%.

**Diagram 3.1 : Merchandise exports declined sharply in 2009  
amid the slump in global demand and world trade  
(year-on-year rate of change)**

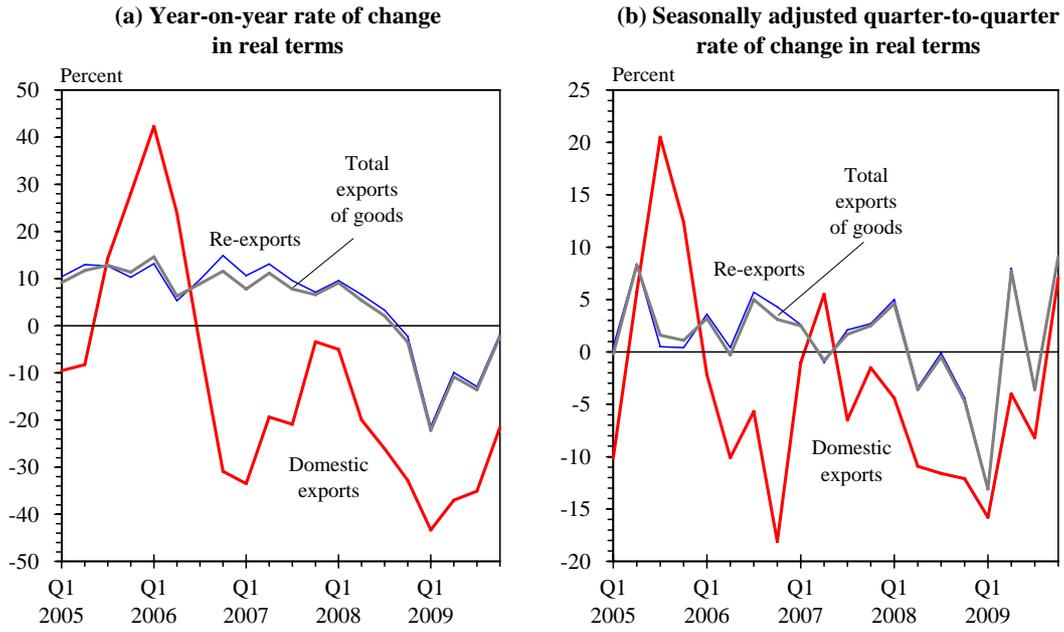


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

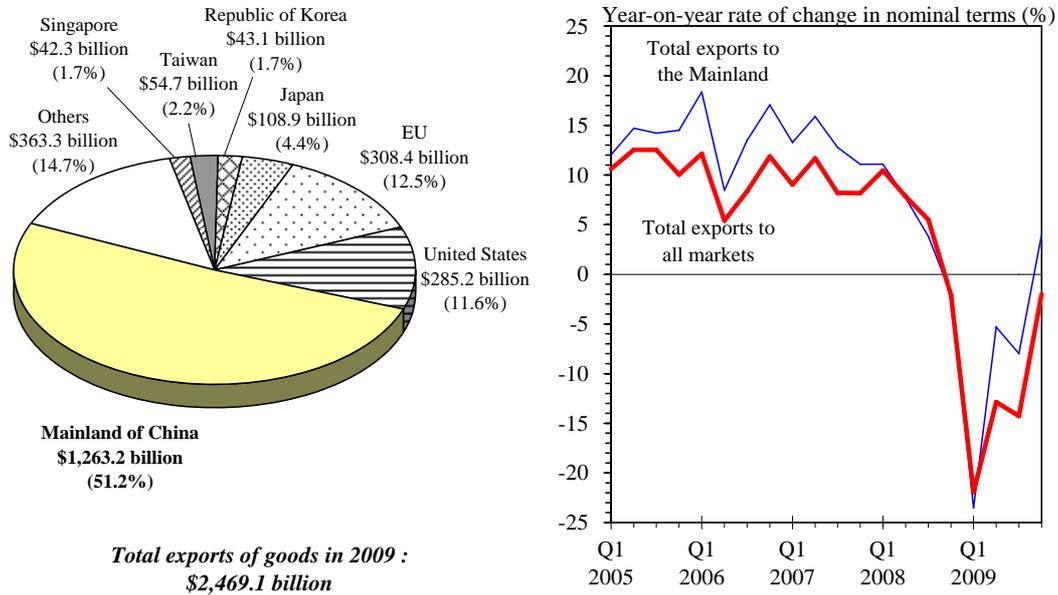
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the fourth quarter of 2009 is based on statistics for October and November 2009.

**Diagram 3.2 : Both re-exports and domestic exports fell markedly in 2009**



**Diagram 3.3 : Exports to the Mainland, Hong Kong's largest market, revived in the latter part of 2009**

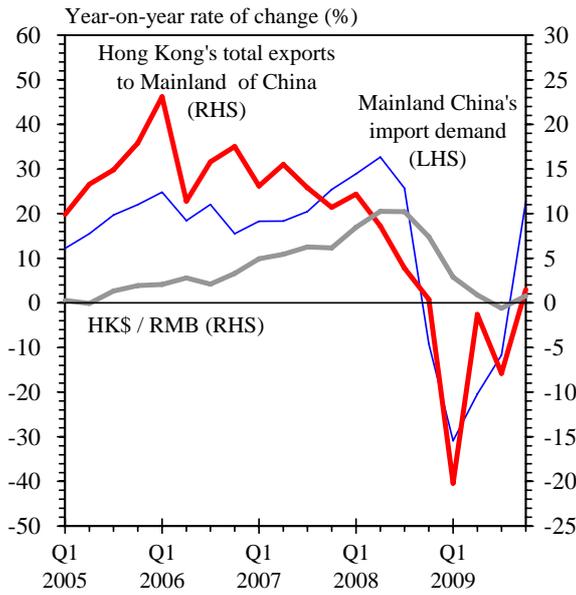


**Table 3.2 : Total exports of goods by major market  
(year-on-year rate of change in real terms (%))**

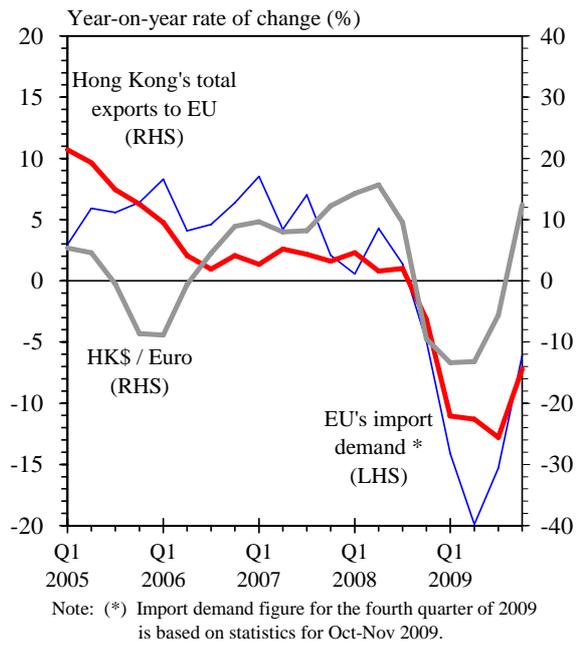
		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2008	Annual	5.9	-8.5	0.2	-2.4	-8.2	-1.6	6.2
	Q1	12.2	-5.8	4.6	-3.2	2.8	-0.2	21.6
	Q2	8.6	-7.4	1.6	-4.1	-5.7	2.6	13.8
	Q3	3.9	-7.1	2.0	-1.2	-5.7	-2.5	-0.5
	Q4	0.4	-13.0	-6.3	-1.0	-23.2	-5.9	-7.2
2009	Annual	-6.6	-20.5	-21.2	-11.8	-14.3	-3.8	-25.0
	Q1	-20.2	-24.6	-22.1	-17.8	-31.9	-27.4	-37.0
	Q2	-1.3	-21.6	-22.6	-19.6	-20.8	-9.6	-27.9
	Q3	-7.9	-22.5	-25.6	-8.2	-11.5	-0.8	-20.2
	Q4	1.5	-13.4	-14.4	-2.2	11.2	21.6	-13.1

3.4 Analysed by markets, Hong Kong's merchandise exports to the EU and US markets, where recovery had been very weak by past standards, posted double-digit declines in all four quarters of 2009, reflecting the sluggishness in their domestic demand. The return of the Mainland to faster economic growth since the second quarter of 2009 provided an important stabilising force in Asia and helped to revive the intra-regional trade. As a result, Hong Kong's exports to many Asian economies improved visibly in the latter part of the year. While exports to the Mainland, South Korea, Taiwan, in particular, rebounded to show year-on-year increases in the fourth quarter, those to Japan saw a much tapered year-on-year decline in the same quarter. However, exports to Singapore still fell at double-digit rates.

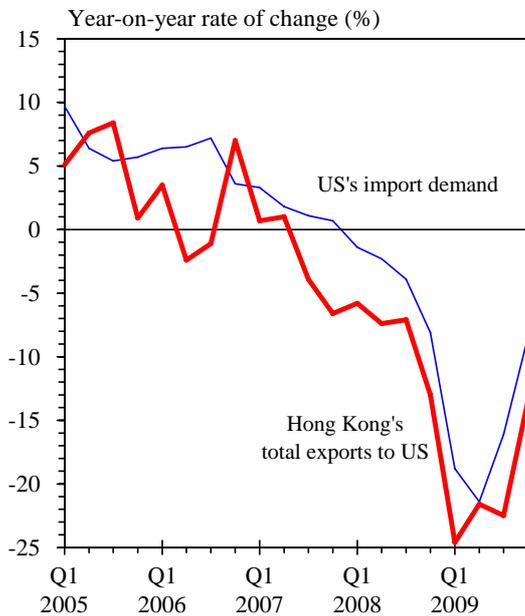
**Diagram 3.4 : Exports to the Mainland resumed growth towards the end of 2009**



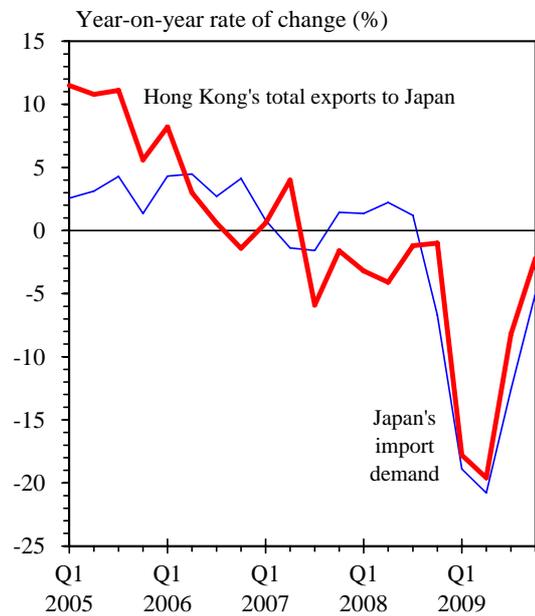
**Diagram 3.5 : Exports to EU fell distinctly throughout 2009**



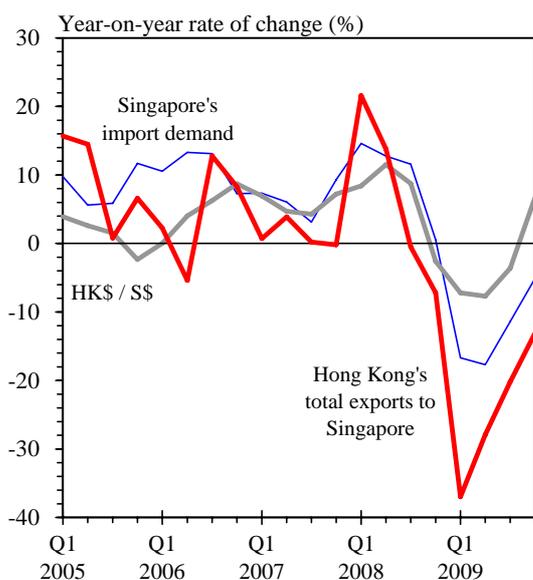
**Diagram 3.6 : Exports to US likewise fell markedly all through 2009**



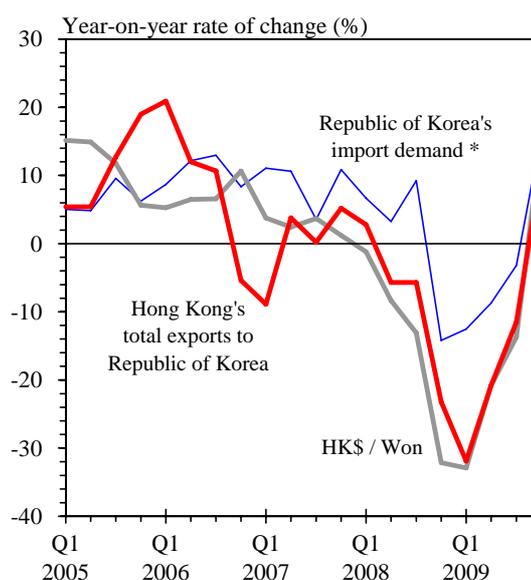
**Diagram 3.7 : Exports to Japan showed relative improvement in the second half of 2009**



**Diagram 3.8 : Exports to Singapore were sharply down in 2009**



**Diagram 3.9 : Exports to Republic of Korea resumed growth in the final quarter of 2009**



Note: (\*) Import demand figure for the fourth quarter of 2009 is based on statistics for Oct-Nov 2009.

### *Imports of goods*

3.5 *Imports of goods* recorded a decline of 9.4% in real terms in 2009, after an increase of 2.6% in 2008. *Retained imports*, referring to the imports for domestic uses, were also down, by 3.8% in real terms in 2009, having fallen by 1.4% in 2008. The fall-off was concentrated in the first half of 2009, as the severe global recession led to a global wide plunge in production and import demand, which in turn prompted local producers to also pull back in placing orders in view of the highly uncertain environment. But as the recessionary forces progressively receded later in the year, the inventory cycle began to turn along with some normalisation of global trade and the strengthening of domestic demand, leading to the distinct increases in retained imports in the latter part of the year. Analysed by end-use, retained imports of raw materials and semi-manufactures reverted to a marked increase in the second half of 2009, having plunged in the first half. Retained imports of consumer goods and capital goods both fell in 2009 as a whole, yet reverted to year-on-year increases in the latter part of 2009. The growth in intake of consumer goods towards the year-end was particularly sharp, consistent with the upturn in local consumer spending. Retained imports of foodstuffs likewise showed faster growth in the second half of 2009, while those of fuels increased notably throughout the year.

**Table 3.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

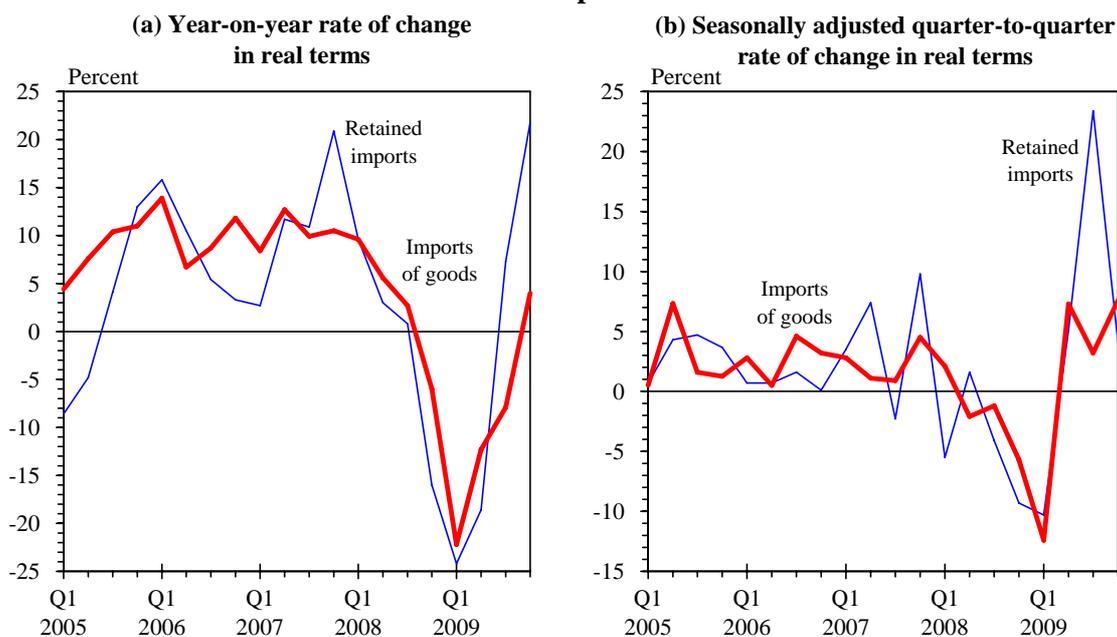
		<u>Imports of goods</u>			<u>Retained imports</u> <sup>(a)</sup>				
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		
2008	Annual	5.5	2.6	4.4	5.3	-1.4	7.6		
	Q1	11.6	9.6	(2.1)	3.6	15.1	9.6	(-5.5)	7.9
	Q2	9.1	5.6	(-2.1)	4.9	11.4	3.0	(1.6)	8.9
	Q3	7.0	2.7	(-1.2)	5.6	10.0	0.8	(-4.1)	9.9
	Q4	-4.2	-6.0	(-5.7)	3.6	-12.5	-16.0	(-9.3)	3.7
2009	Annual	-11.0	-9.4	-0.1	-8.7	-3.8	-3.6		
	Q1	-22.8	-22.2	(-12.4)	1.0	-27.4	-24.2	(-10.3)	-3.5
	Q2	-14.9	-12.3	(7.3)	-0.8	-22.7	-18.6	(5.1)	-5.1
	Q3	-10.4	-7.9	(3.2)	-1.5	-1.3	7.3	(23.4)	-6.3
	Q4	3.4	4.0	(7.6)	0.6	18.9	21.8	(4.1)	*

Notes : (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.

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

(\*) Change of less than 0.05%.

**Diagram 3.10 : Retained imports showed a smaller decline than total imports in 2009**



**Table 3.4 : Retained imports by end-use category  
(year-on-year rate of change in real terms (%))**

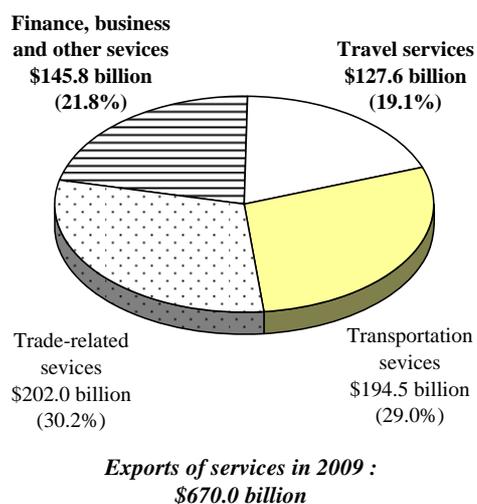
		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2008	Annual	12.4	13.3	7.5	-29.9	-3.9
	Q1	30.3	12.7	14.5	-11.7	-11.3
	Q2	16.2	19.0	11.2	-20.8	-7.0
	Q3	9.8	9.0	20.0	-35.4	0.9
	Q4	-3.3	12.6	-11.1	-47.9	1.9
2009	Annual	-8.8	7.0	-4.4	-9.7	23.2
	Q1	-30.7	-3.4	-8.1	-69.5	30.8
	Q2	-22.4	6.3	-13.4	-47.4	17.4
	Q3	0.1	11.1	-3.7	41.1	24.1
	Q4	20.8	13.4	7.6	68.2	21.1

## **Invisible trade**

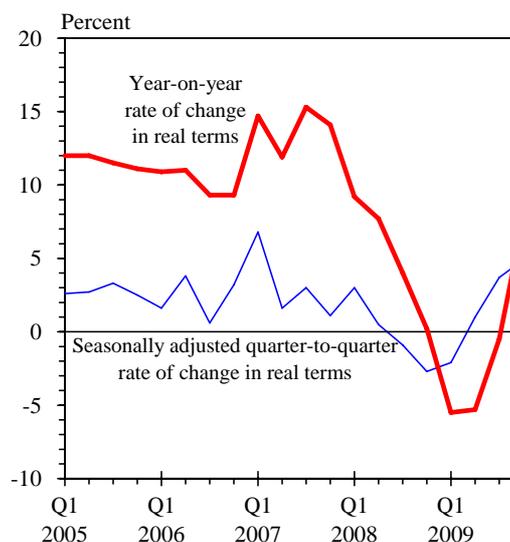
### *Exports of services*

3.6 Compared to merchandise exports, *exports of services* fared persistently better over the course of 2009, particularly during the second half of the year where there was a notable rebound. For the year as a whole, exports of services fell by only 0.7% in real terms, following an increase of 5.0% in 2008. As IPO and other financial market activities started to bottom out in the second quarter after the dismal first quarter, followed by a distinct upturn in the second half, exports of finance, business and other services registered a moderate increase in 2009 as a whole. Thanks to the rebound in the number of visitor arrivals in the second half of the year, exports of travel services held up rather well. However, exports of transportation services and trade-related services (mainly offshore trade) were still down in 2009 due to the large shrinkage in global trade flows in most parts of the year. Yet, both reverted to year-on-year increases by the fourth quarter of the year, in tandem with the global recovery.

**Diagram 3.11 : Travel and finance, business and other services accounting for over 40% of service exports**



**Diagram 3.12 : Exports of services displayed more resilience than merchandise exports**



**Table 3.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))**

*Of which :*

		Exports of services				Finance, business and other services
		Exports of services	Trade-related services <sup>(a)</sup>	Transportation services	Travel services <sup>(b)</sup>	Exports of services
2008	Annual	5.0	4.4	3.1	6.4	7.4
	Q1	9.2	(3.0)	8.2	7.5	15.1
	Q2	7.7	(0.5)	8.4	7.9	11.7
	Q3	4.0	(-0.9)	4.7	7.5	3.8
	Q4	0.2	(-2.7)	-1.0	3.3	-0.7
2009	Annual	-0.7	-7.4	-2.1	8.0	3.4
	Q1	-5.5	(-2.1)	-15.0	14.4	-6.7
	Q2	-5.3	(1.0)	-12.2	-1.5	-2.2
	Q3	-0.5	(3.7)	-9.0	3.2	9.1
	Q4	7.7	(4.9)	3.4	14.3	15.3

Notes : (a) Comprising mainly offshore trade.

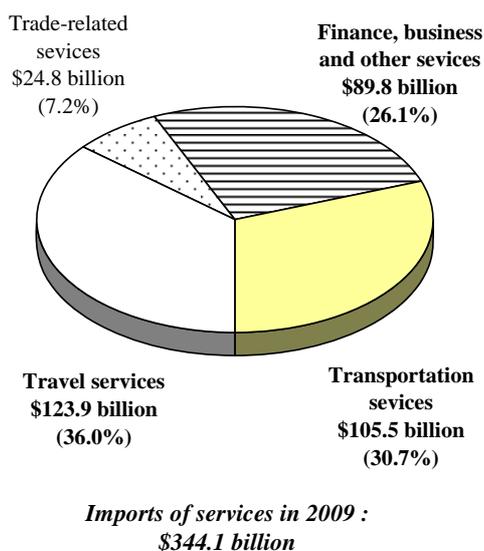
(b) Comprising mainly inbound tourism receipts.

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

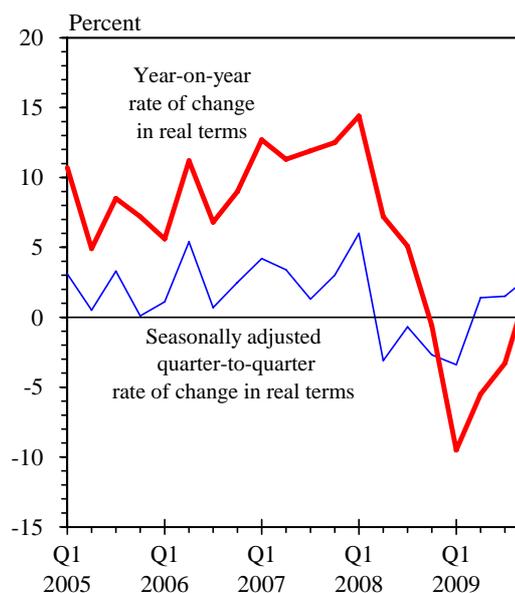
## Imports of services

3.7 *Imports of services* contracted by 4.0% in real terms in 2009, in contrast to the 6.3% growth in 2008. Imports of finance, business and other services decreased in 2009, but held up rather well in the second half of 2009 as financial and commercial activities revived. Imports of travel services, after contracting in the first quarter, resumed growth in the remaining three quarters, along with a strengthening of local consumer sentiment, resulting in a modest increase in 2009 as a whole. Meanwhile, imports of trade-related services recovered to positive growth in the fourth quarter amid a revival in intra-regional trade, while imports of transportation services fell throughout the year.

**Diagram 3.13 : Travel services, transportation services, and services involving finance and business were the main components in imports of services**



**Diagram 3.14 : Imports of services recovered in the latter part of 2009**



**Table 3.6 : Imports of services by major service group  
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>					
		<u>Imports of services</u>	<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services</u>	
2008	Annual	6.3	2.4	9.2	8.2	7.4	
	Q1	14.4	(6.0)	13.8	12.2	11.8	
	Q2	7.2	(-3.1)	-0.9	12.4	9.2	
	Q3	5.1	(-0.7)	1.0	8.5	5.6	
	Q4	-0.6	(-2.7)	-3.3	2.6	3.2	
2009	Annual	-4.0	1.9	-11.3	-7.7	-1.2	
	Q1	-9.5	(-3.4)	-4.1	-15.4	-8.0	
	Q2	-5.5	(1.4)	5.4	-12.6	-8.2	
	Q3	-3.3	(1.5)	2.0	-9.4	2.3	
	Q4	2.4	(2.9)	4.9	2.9	9.0	

Notes : (+) Comprising mainly outbound travel spending.

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

### **Visible and invisible trade balance**

3.8 With the surplus in the invisible trade account more than offsetting the deficit in the merchandise trade account, a sizable surplus of \$117.7 billion was recorded in the combined visible and invisible trade balance in 2009, equivalent to 3.9% of the total value of imports of goods and services. This compared with the corresponding figures of \$170.7 billion and 5.0% in 2008. The still sizable trade surplus was one of the strong economic fundamentals that Hong Kong possessed in meeting the challenges posed by the global financial crisis.

**Table 3.7 : Visible and invisible trade balance  
(\$ billion at current market prices)**

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2008	Annual	2,844	717	3,024	366	-180	351	171	5.0
	Q1	651	174	697	92	-46	82	36	4.5
	Q2	709	167	771	90	-62	77	15	1.8
	Q3	764	192	806	97	-41	95	54	5.9
	Q4	720	184	751	88	-31	97	66	7.9
2009	Annual	2,495	670	2,703	344	-208	326	118	3.9
	Q1	512	152	547	78	-35	73	39	6.2
	Q2	619	145	658	80	-39	65	26	3.5
	Q3	657	178	723	91	-66	87	21	2.6
	Q4	706	196	775	95	-68	101	33	3.8

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

## Other developments

3.9 The Supplement VI to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)<sup>(4)</sup> was signed on 9 May 2009. The new supplement contains further liberalization measures for Hong Kong's service providers to enter the Mainland market. Both sides also agreed to enhance financial cooperation and take forward the work on mutual recognition of professional qualifications, signifying a closer economic integration between Hong Kong and the Mainland.

3.10 The Government continued to strengthen infrastructure links with the Mainland. Specifically, the construction of the Hong Kong-Zhuhai-Macau Bridge has commenced on 15 December 2009. Upon completion of the Bridge, it will further the economic development of Hong Kong, Macao and the Western Pearl River Delta region by facilitating greater flows of goods and people among the three places.

3.11 In July 2009, the pilot program for the usage of the renminbi for cross-border trade settlements in Hong Kong and five other Mainland cities came into operation. The program will allow Hong Kong trading enterprises to enjoy greater flexibility in their operation and managing their exchange rate risks. The scheme will also expand the scope of renminbi business for Hong Kong banks, enhance the diversity of renminbi assets in the banking system, and increase the local capital liquidity of renminbi. This will bolster Hong Kong's role as the renminbi clearing platform, and facilitate the trade and

economic developments in the region.

3.12 Hong Kong, Guangdong and Macau are working together to expedite the implementation of the “Outline of the Plan for the Reform and Development of the Pearl River Delta” released by the National Development and Reform Commission in early January 2009. Cooperation efforts have been targeted at such key areas as finance, service industry, tourism, infrastructure, transport and town planning, innovation and technology, environmental protection, restructure and upgrading of enterprises, as well as education and training.

3.13 The Government will also continue to strengthen Hong Kong-Taiwan exchanges proactively, and support the full implementation of the “Three Direct Links” across the Taiwan Strait. In response to the latest development in cross-Strait relations, the Government will establish a cooperation framework and foster bilateral economic cooperation with Taiwan, and also play an active role in financial, economic and trade, tourism and other exchanges between the Mainland, Taiwan and Hong Kong.

3.14 In November, the Chief Executive and New Zealand Prime Minister jointly announced in Singapore the conclusion of negotiations on a Closer Economic Partnership Agreement between Hong Kong and New Zealand, which would be Hong Kong’s first free trade agreement with a foreign economy. The Agreement would provide Hong Kong exporters with enhanced market access to the New Zealand market, promote bi-lateral investment flows, and bring about multiple benefits to both economies.

## Notes :

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. 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. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) In the third quarter of 2009, many advanced economies finally resumed growth. Specifically, the US economy grew at an annualised quarter-to-quarter rate of 2.2%, and the corresponding annualised growth rates in the euro area and Japan were 1.6% and 1.3% respectively. In January 2010, the International Monetary Fund (IMF) revised upwards its global growth forecast for 2010 from 3.1% to 3.9%. Nevertheless, labour market conditions in the advanced economies are still severe (unemployment rates in both the US and euro area were 10.0% in December 2009), and they are also confronted by impaired financial systems and an on-going adjustment process to deleverage and rebuild savings.
- (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) The Supplement VI contains 29 liberalisation measures covering 20 service sectors came into effect from 1 October 2009. This also brings the total number of service sectors covered to 42, and signifies a closer economic integration between Hong Kong and the Mainland.

## CHAPTER 4 : DEVELOPMENTS IN SELECTED SECTORS

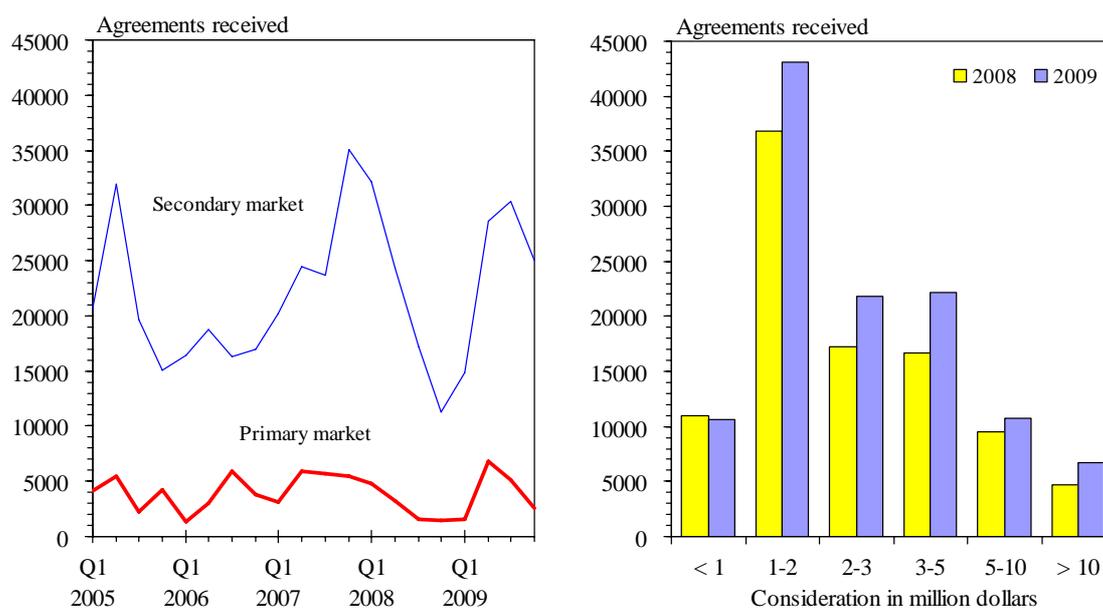
### *Summary*

- *The residential property market put up a strong performance through 2009, underpinned by the gradually improved economic situation and low interest rate environment. Both property prices and transactions surged in the year, though this largely represented a rebound from the sharp correction witnessed in the second half of 2008. The market was essentially end-user led, with the overall performance generally in line with the economic fundamentals.*
- *The tourism industry remained resilient in 2009 notwithstanding the challenging environment. Supported by the growing Mainland market and a steadily recovering global economy, visitor arrivals for the year were maintained at about the same level as in 2008. A number of new initiatives have been put in place in 2009 to support further development of the sector.*
- *The logistics sector also showed signs of stabilisation in the latter part of the year, as the global economy progressively emerged from the doldrums.*

### **Property**

4.1 Following the sharp correction in the second half of 2008 amid the severe shocks of the global financial crisis, the *residential property market* staged a strong rebound in 2009. The gradual improvement of the economy through the year has lent support to market demand, while strong inflow of funds and the consequential low interest rates have helped create an accommodative environment. For 2009 as a whole, the number of sale and purchase agreements for residential property received by the Land Registry jumped by 20% to 115 092, though this was partly due to a low base of comparison and the release of pent-up demand. Total consideration for the agreements rose by a slightly larger extent of 24%, to \$425.8 billion. Analysed by market segment, the number of primary sales jumped by 46% while secondary sales experienced a less rapid increase of 17%. Transactions rose across all consideration ranges except for flats priced at below \$1 million.

**Diagram 4.1 : Trading volume in the residential property market generally rebounded in 2009**



4.2 Flat prices rose sharply by 27% over a year earlier in December 2009. There was an uninterrupted increase through the year, though prices turned slightly steadier in the fourth quarter following the extended rally earlier on and upon the authorities' measures to stabilise the market. Yet the surge largely represented a bounce-back from the 17% drop in the second half of 2008 when the market was hard hit by the global financial crisis, and prices in December 2009 were only 5% higher when compared with the peak in 2008. Analysed by flat size, average prices of large flats in December 2009 rose by 29% over a year earlier, faster than the 27% gain for small/medium-sized flats.

4.3 Notwithstanding the active trading and lofty prices fetched by certain luxury flats, the property market remained largely end-user led. As an indication, nearly 90% of the secondary market transactions in 2009 involved flats smaller than 70 square metres, while units valued at over \$10 million accounted for less than 6% of transactions in the period. Furthermore, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing), at around 38% in the fourth quarter, was still much lower than the average of 53% over the past 20 years. While the figure was to some extent held down by the exceptionally low mortgage rates, it suggested that the market was still largely in line with the economic fundamentals. Nevertheless, the Government is mindful of the possible effect of sharp fluctuations in property prices on macroeconomic and social stability, and will ensure that the market adjusts and regulates by itself according to market forces. In this connection, the Government will continue to closely monitor the development and changes,

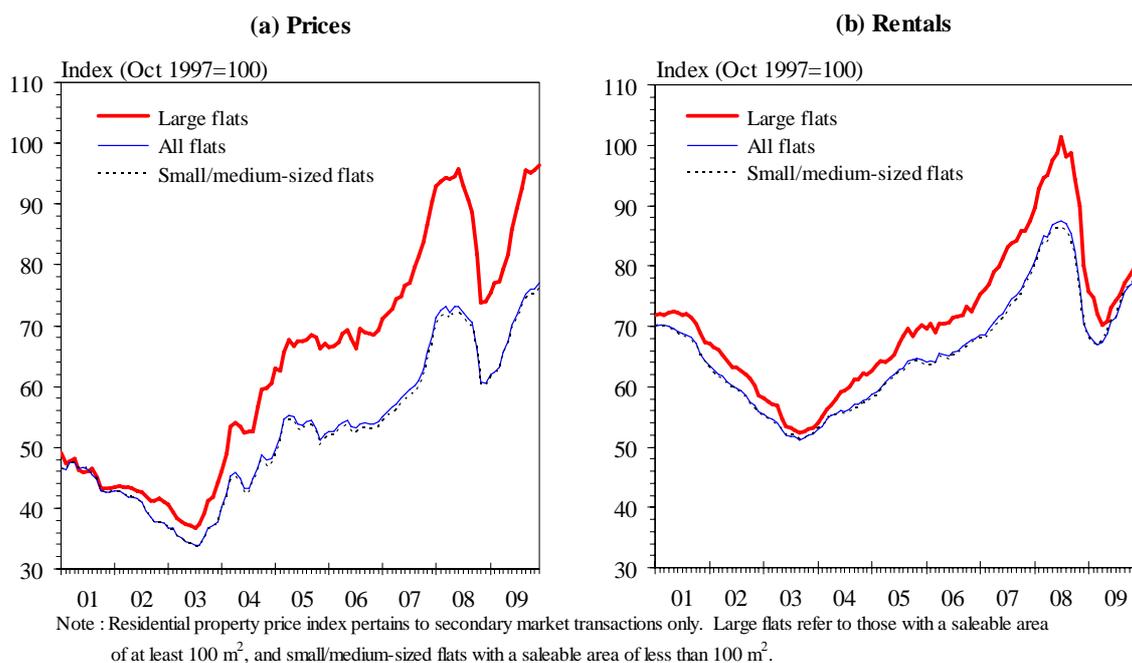
including supply and demand, in the private property market, and take appropriate and prudent measures to stabilise the market when necessary.

4.4 Banks have been offering increasingly favourable terms for mortgage loans since early 2009, driven by the ample liquidity in the local financial system. In addition to enlarging the discount from the Best Lending Rate in setting the interest rates for conventional mortgage loans, banks also offered loans priced with reference to HIBOR. The share of this type of loans in newly approved mortgage loans jumped from below one-fifth in December 2008 to 61.6% in December 2009 as customers took advantage of the prevailing low interbank interest rates.

4.5 With a view to maintaining banking stability, in October 2009 the HKMA advised banks to cap the loan-to-value ratio at 60% for residential properties valued at \$20 million or more and set the maximum loan amount at \$12 million for mortgages on properties valued at below \$20 million. The HKMA also reminded lenders to be prudent in conducting valuation of properties and calculating borrowers' debt servicing ratios.

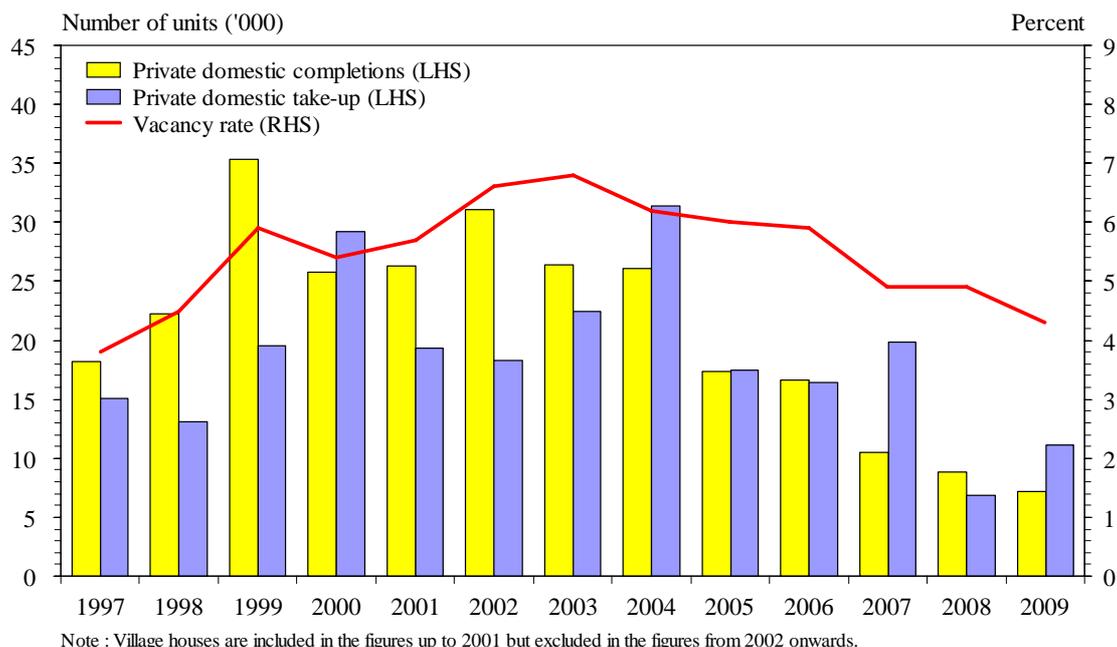
4.6 In the leasing market, flat rentals started to rebound in April 2009 after eight consecutive months of decline. Comparing December 2009 with December 2008, rentals posted an overall increase of 12%. Yet they were still 10% lower than the 2008 high recorded before the onset of the global financial crisis. With prices showing larger gains than rentals, the average rental yield for residential flats fell from 4.1% in December 2008 to 3.6% in December 2009.

**Diagram 4.2 : Overall flat prices showed larger gains than rentals**



4.7 Take-up of private residential flats rebounded sharply by 61% from the record low in 2008 to 11 090 units in 2009, while completions fell further by 18% to 7 160 units over the same period<sup>(1)</sup>. Consequently, the vacancy rate declined from 4.9% at end-2008 to 4.3% at end-2009. Looking forward, completions in the near term are expected to remain below the annual average of 19 100 units in the past ten years. As to the potential supply of new private residential flats, it is projected that the number of unsold completed flats and flats already under construction but not yet sold, together with the number of flats on disposed sites where construction has yet to commence, would be around 53 000 units in the next few years.

**Diagram 4.3 : Completions would remain low in the near term**

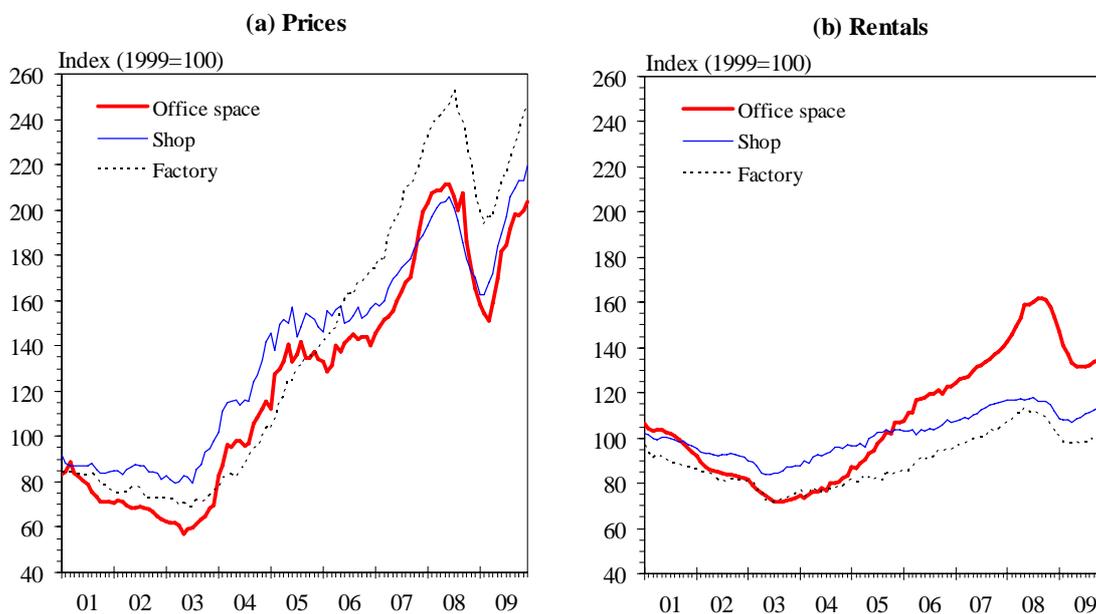


4.8 Regarding *commercial and industrial properties*, the revival in economic activities through the year has lent support to both the sale and rental markets. For *office space*, overall sale prices switched back from decline to increase starting from the second quarter, though the momentum tapered somewhat towards the end of the year. Comparing December 2009 with December 2008, prices gained by 23%, but it remained 4% lower than the high in 2008. Analysed by type of office space, prices of Grade A, B and C offices in December 2009 were respectively 24%, 17% and 26% higher than a year earlier. Office rentals also trended up gradually after bottoming out in May 2009, but for the year as a whole there was still a decline of 9%. Rentals for Grade A, B and C offices in December 2009 dropped by 12%, 7% and 2% respectively from a year earlier. Consequently, the average rental yield for Grade A, B and C offices eased visibly from 5.1%, 5.2% and 5.3% to 3.5%, 4.0% and 4.1% respectively. Notwithstanding a more stable market, the vacancy rate for office space rose from 8.4% at end-2008 to 10.3% at end-2009.

4.9 The market for *retail shop space* also staged a strong recovery, with sale prices jumping by 29% between December 2008 and December 2009. Nevertheless, prices in December 2009 were only 7% higher than the peak in 2008. By contrast, rentals in December 2009 recorded a much more modest gain of 5% over a year earlier, and remained 1% lower than the 2008 peak. As the rise in prices outpaced that in rentals, the average rental yield fell from 4.7% in December 2008 to 3.8% in December 2009. Meanwhile, the vacancy rate, at 8.7% at end-2009, was unchanged from a year earlier.

4.10 For *flatted factory space*, while prices surged by 20% between December 2008 and December 2009, they have yet to fully recover from the 19% decline between July and December 2008. Meanwhile, rentals in December 2009 edged up by 1% from a year earlier and were still 9% below the high in 2008. As a result, the average rental yield declined from 6.2% in December 2008 to 5.2% in December 2009. Despite the rebound in both sale prices and rentals, the vacancy rate for flatted factory space increased from 6.5% to 8.0% between end-2008 and end-2009.

**Diagram 4.4 : Prices rallied in the non-residential property market, outpacing the rebound in rentals**



## Land

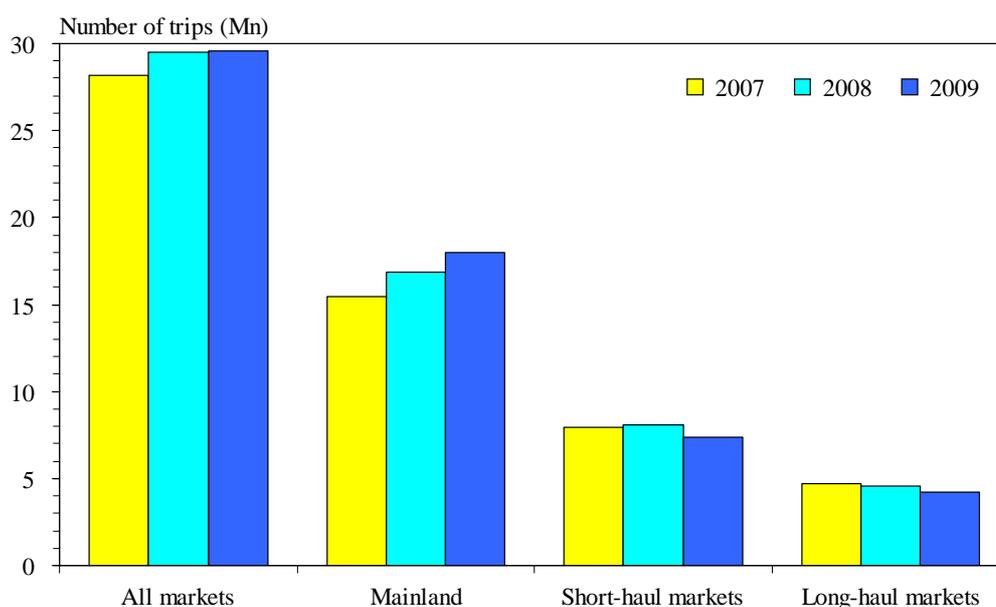
4.11 While the property market was generally buoyant in 2009, land acquisition was rather subdued until the end of the year. A total of eight land sites were sold in the year, with three of them triggered from the *Application List* for auction and five sold through public tender. While these eight plots of land together involved a total land area of 4.6 hectares and fetched \$11.1 billion of land premium, a dominant portion was attributable to the two residential sites in Tai Po auctioned in late December.

4.12 Regarding exchange of land in the private sector domain, eight sites totalling 12.5 hectares were approved in the period, as compared to the corresponding figures of 15 sites and 7.8 hectares in 2008. Among the approved cases, four sites totalling 9.8 hectares were designated for private residential property development, and four sites totalling 2.6 hectares for non-residential property development. As to lease modifications on the existing developed and developable land, 90 sites were approved in 2009, of which 54 sites were for residential use and 36 for non-residential use.

## Tourism

4.13 Inbound tourism went through a difficult time in the first seven months of 2009, but recovered gradually thereafter as the global economic situation improved and the impact of the human swine flu subsided. For the year as a whole, the number of *incoming visitor arrivals* edged up by 0.3% to 29.6 million. Mainland visitors remained the engine of growth, increasing by 6.5%. Growth in visitors under the Individual Visit Scheme (IVS), at 10.1%, outpaced that of non-IVS visitors, at 1.7%. By contrast, arrivals from the long-haul and short-haul markets recorded decreases of 6.5% and 8.8% in 2009, though their performance improved notably towards the end of the year<sup>(2)</sup>. Analysed by length of stay, the number of same-day visitors went up by another 3.9% in 2009 while the number of overnight visitors declined by 2.3%. As a result, the share of same-day visitors in total arrivals rose from 41.3% in 2008 to 42.8% in 2009, while that for overnight visitors was down from 58.7% to 57.2%.

**Diagram 4.5 : The Mainland market continued to be the main support to the tourism sector**



4.14 Reflecting the combined effects of increased hotel room supply and reduced number of overnight visitors, average hotel room occupancy rate fell from 85% in 2008 to 78% in 2009. The average achieved hotel room rate also dropped visibly by 16.3% to \$1,023<sup>(3)</sup>.

4.15 A number of facilitation measures were introduced in 2009 to enhance the convenience for visitors. With effect from 1 April 2009, Shenzhen permanent residents could apply for multiple-entry IVS endorsements to visit Hong Kong. Up to end-2009, 1.47 million Shenzhen residents have visited Hong Kong under this new scheme. In addition, under Supplement VI to CEPA signed in May 2009, Mainland group tours to Taiwan are allowed to stop over in Hong Kong. Moreover, since 15 December, eligible non-Guangdong residents ordinarily residing in Shenzhen could apply for IVS endorsements in Shenzhen for travelling to Hong Kong. Furthermore, the visa-free arrangement for Russian visitors was implemented on 1 July. Immigration facilitation measures for Macao and Taiwan residents were also put in place in the past year.

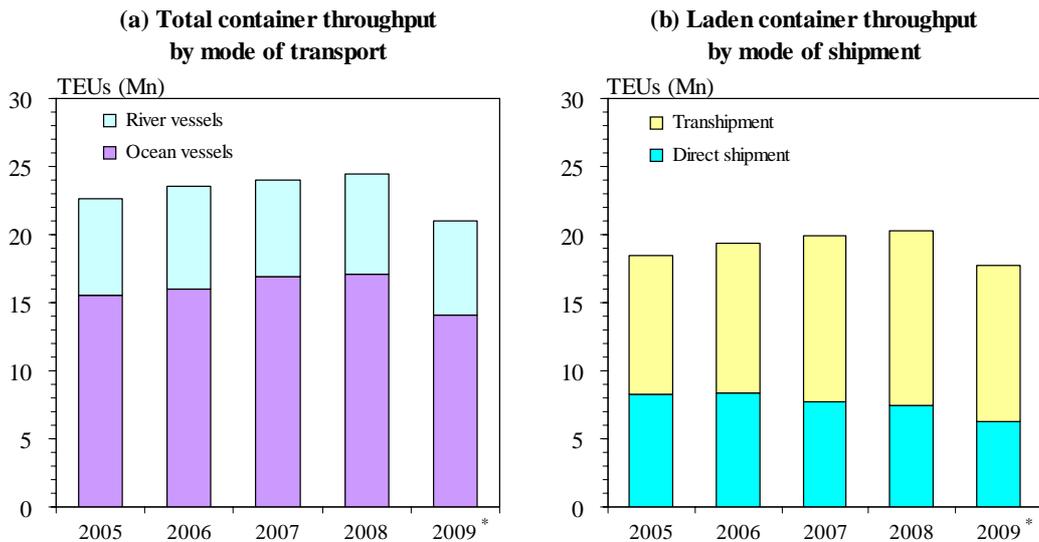
4.16 In the Financial Secretary's 2009-10 Budget, \$100 million was earmarked for assisting local non-profit-making organisations to host more attractive arts, cultural and sports events over the next three years. The objective is to reinforce Hong Kong's position as the events capital of Asia. The Mega Events Fund was subsequently established in May. Among the first-round applications, a total of \$25.2 million would be granted from the Fund to support six mega events.

4.17 Regarding tourism-related infrastructure, new attractions including the Noah's Ark, Hong Kong National Geopark and 1881 Heritage (formerly the Marine Police Headquarters) were opened in 2009. Two new attractions of Ocean Park's redevelopment plan were unveiled during the year as well. Also, the construction works of the Kai Tak Cruise Terminal and expansion of Hong Kong Disneyland both commenced in December 2009. The first berth of the new cruise terminal will come into service by mid-2013. And upon completion of Disneyland's expansion in 2014, the number of attractions in the theme park will grow to over 100.

## **Logistics**

4.18 The logistics sector showed signs of stabilisation towards the end of 2009. While *total container throughput* declined by 14.3% to 21.0 million TEUs for the year as a whole, the rate of decline narrowed through the period, particularly in the fourth quarter. Within the total, both transshipment and direct shipment cargo movements registered decreases in the year, at 11.1% and 15.5% respectively. The value of trade handled at the Hong Kong Port dropped by 17.2% in 2009, and its share in Hong Kong's total trade fell in tandem to 28.7%.

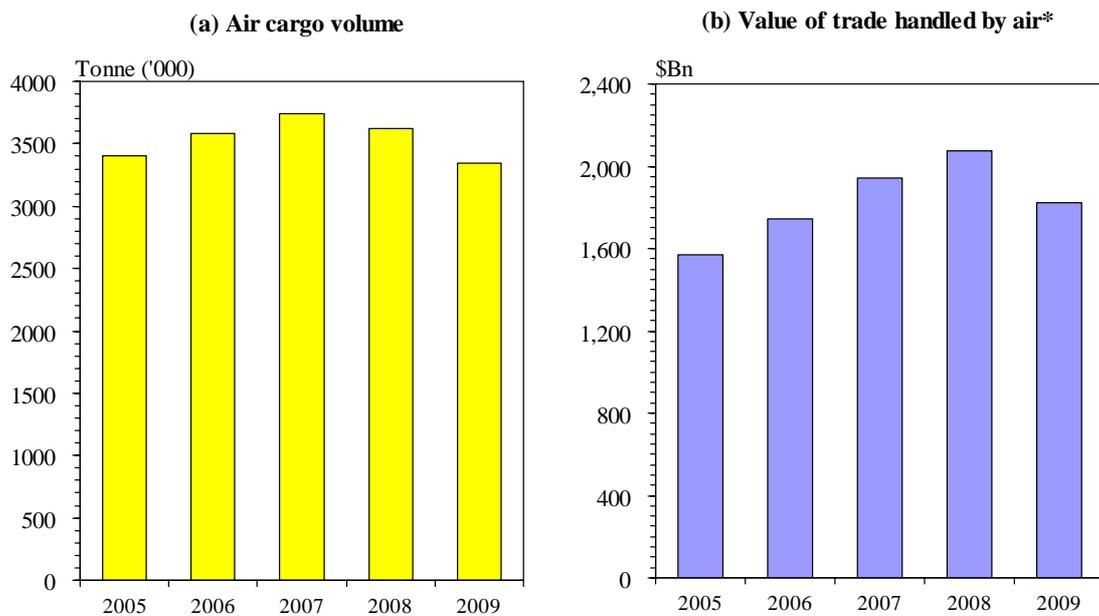
**Diagram 4.6 : Port container throughput recorded a sharp fall in 2009, with declines observed in both transshipment and direct shipment**



Note : (\*) Total container throughput for 2009 is the preliminary estimate by Hong Kong Port Development Council. Its breakdowns by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2009.

4.19 *Air freight throughput* likewise shrank by 7.6% to 3.3 million tonnes in 2009. Yet again notable improvement was observed through the year, with the volume reverting to growth in the fourth quarter partly due to a low base of comparison. While the total value of trade by air witnessed a fall of 12.2% in 2009, its share in overall trade value remained high at 35.3%.

**Diagram 4.7 : Both air cargo volume and value of trade handled by air fell**



Note : (\*) Not including transshipment cargoes

## Transport

4.20 Air passenger traffic declined for the first time since 2003, by 5.0% to 46.1 million in 2009, largely due to the global economic recession and concerns about human swine flu in the first half of the year. Likewise, the number of water-borne passenger trips fell by 10.5% to 23.8 million. Nevertheless, traffic volume has shown signs of improvement towards the end of the year.

4.21 Land-based cross-boundary traffic movements were relatively less perturbed, with land-based passenger trips showing a modest growth of 2.5% to 465 300 per day in 2009. While cross-boundary vehicular movements decreased by 5.6% to 40 700 per day for the year as a whole, traffic volume regained momentum in the fourth quarter.

4.22 The State Council approved the Feasibility Study report of the Hong Kong-Zhuhai-Macao Bridge (HZMB) Project in October 2009. The construction of the HZMB Main Bridge commenced subsequently in December. The Government is pressing ahead with the necessary statutory procedures for the HZMB Hong Kong Link Road and the Hong Kong Boundary Crossing Facilities to enable their synchronised completion with that of the Main Bridge. The HZMB is of strategic significance to the further economic development of Hong Kong, Macao and the Western Pearl River Delta region (Western PRD), by markedly reducing transportation costs and time for travellers and goods on the road between Hong Kong and the Western PRD.

4.23 Notable progress has been achieved on the proposed Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL), another major cross-boundary transportation project. The Legislative Council's Finance Committee has endorsed the funding for the project in January 2010, and construction works are expected to be completed by 2015. Upon its completion, the Hong Kong Section of XRL will become part of the national high-speed rail network.

4.24 On the domestic front, the railway scheme for the Kwun Tong Line Extension was gazetted in November. The proposed railway line would be an extension from the Yau Ma Tei Station, with two new stations in Ho Man Tin and Whampoa. Passengers can interchange at the proposed Ho Man Tin Station for the future Sha Tin to Central Link. Subject to the authorisation of the scheme by the Executive Council, the construction works are expected to be completed by 2015.

## **Creativity and innovation**

4.25 Significant headways have been made in cross-boundary technology co-operation between Hong Kong and the Mainland in 2009. At the third meeting of the Steering Group on Shenzhen/Hong Kong Co-operation in Innovation and Technology held in March 2009, an action plan for the “Shenzhen/Hong Kong Innovation Circle” for the coming three years was formulated. At the fourth meeting of the Mainland/Hong Kong Science and Technology Co-operation Committee held in September, the Central Government and SAR Government agreed to set up the “Working Group on Pilot Implementation for Guangdong-Hong Kong Technology Co-operation” to study and formulate measures for pilot implementation in Guangdong. Furthermore, the Hong Kong, Guangdong and Shenzhen governments have agreed to jointly provide funding under the “2009 Guangdong-Hong Kong Technology Co-operation Funding Scheme” for 12 applied research and development (R&D) projects, involving intelligent industry robots, high precision manufacturing equipment, data-mining and decision-making technologies, medical biotechnology, R&D of novel medical devices, materials technologies for photovoltaics, core technology for multimedia signal processing and productisation, design and applications of high precision analog-to-digital converter integrated circuits, and platform technologies for integrated circuits.

4.26 The Office of the Telecommunications Authority (OFTA) conducted two radio spectrum auctions in 2009. The first auction was held in January to assign radio spectrum in the 2.3 GHz and 2.5/2.6 GHz frequency bands for the provision of the next generation high-speed mobile broadband services using Broadband Wireless Access (BWA) or other advanced wireless technologies. The second auction was held in June to assign spare radio spectrum in the 1 800 MHz frequency band for the existing mobile service operators to expand their services. The OFTA also plans to auction one frequency multiplex in the UHF frequency band in 2010 for the provision of broadcast-type mobile TV services. In addition, the OFTA has conducted public consultation on the proposed auction of the available frequency spectrum in the 850 MHz, 900 MHz and 2 GHz frequency bands from November 2009 to January 2010 and is formulating the auction plan. These auctions would help meet the need of service providers for capacity expansion, thereby facilitating the deployment of advanced technology and innovative telecommunication services in Hong Kong.

4.27 The Government started to implement digital terrestrial television (DTT) broadcasting in December 2007, and the progress has been smooth to date. The take-up rate of DTT reached 46% in December 2009, representing approximately 1.06 million television households territory-wide. This compared with the take-up rate of 32% a year earlier. With the completion of five more fill-in transmitting stations in December, the coverage of DTT broadcasting in Hong Kong was extended from 75% of the population to about 85%, allowing an additional 700 000 people to enjoy the service.

## **Energy**

4.28 In September 2009, the Government gave approvals for CLP Power Hong Kong Limited (CLP Power) to extend the contract for the supply of nuclear electricity from Daya Bay Nuclear Power Station for another term of 20 years from 7 May 2014 onwards. At present, power generated by Daya Bay accounts for one-third of CLP Power's supply to its local customers. The continued contracting of electricity supply from Daya Bay provides an assurance of electricity supply at reasonable and affordable prices.

4.29 The Government continued to put efforts in encouraging energy saving practices among consumers and businesses. The initial phase of Mandatory Energy Efficiency Labelling Scheme had been fully implemented since 9 November 2009. Room air-conditioners, refrigerating appliances and compact fluorescent lamps were required to carry energy labels before they were supplied to the local market. It was estimated that annual electricity saving of 150 million kilowatt-hours could be achieved under the initial phase of the scheme. In addition, the Buildings Energy Efficiency Bill for mandatory implementation of the Building Energy Codes was gazetted on 4 December and introduced into the Legislative Council on 9 December. Implementation of the proposal could result in energy saving of 2.8 billion kilowatt-hours for new buildings in the first decade.

4.30 Promoting the use of electric vehicles (EVs) was identified as one of the key measures to promote green economy in the 2009-10 Budget, and subsequently a steering committee was set up under the leadership of the Financial Secretary to make recommendations on strategy and specific measures to promote the use of EVs. The Government has been co-operating with manufacturers to conduct trials on EVs and plug-in hybrid vehicles in Hong Kong. Moreover, the two local power companies have launched their first batch of charging stations for EV users in 2009 and plan to launch a total of 28 charging stations in the first half of 2010. Encouraging the use of EVs will not only improve roadside air quality, but will also create business opportunities for the related industries in Hong Kong.

**Notes :**

- (1) Take-up figures represent the net increase in the number of units occupied for domestic premises. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers.
- (2) Long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific; Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland.
- (3) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

## CHAPTER 5 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *Hong Kong's financial sector has tided over the global financial crisis well. With its sound fundamentals, the sector witnessed a strong revival starting the second quarter of 2009 amid the gradually improved economic backdrop.*
- *Thanks to the substantial inflow of funds and the normalisation in interbank money market, Hong Kong dollar interbank interest rates remained low throughout 2009. Following the sharp contraction in the early part of the year, lending activities recovered thereafter in tandem with the improvement in both the global and local economies.*
- *Under the linked exchange rate system, the Hong Kong dollar Effective Exchange Rate Indices generally softened alongside the weakening of the US dollar during most part of the year, before showing some signs of stabilisation towards the year end. Meanwhile, the strong demand for Hong Kong dollar assets prompted the HKMA to passively sell Hong Kong dollars against the US dollars to banks, leading to a high level of liquidity in the banking sector.*
- *Benefiting from the brighter economic outlook and abundant liquidity, both stock prices and market turnover posted a sharp rebound as from the second quarter of 2009. Fund raising activities also turned very buoyant, with Hong Kong gaining the leading position as the world's largest centre for IPO fund raising in 2009.*
- *Significant progress has been made during the past year in such areas as expanding the renminbi banking business, broadening the eligible entities for renminbi-denominated bond issuance and exploring opportunities for further financial co-operation with the Mainland. These developments should help enhance Hong Kong's role as a world class financial centre, an offshore renminbi centre outside the Mainland and a premier wealth management centre.*

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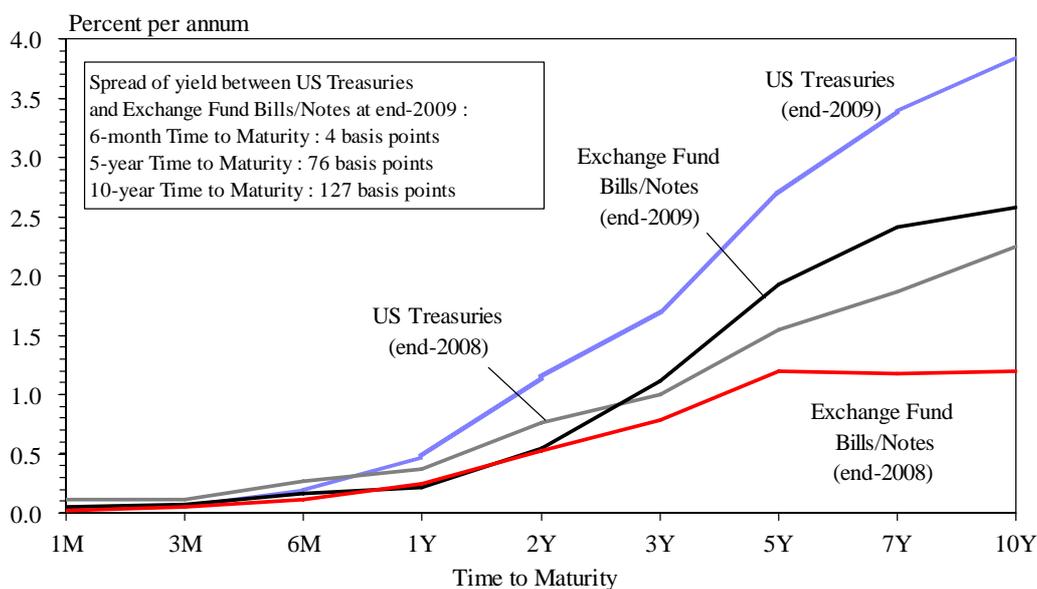
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.

## Interest rates and exchange rates

5.1 Short-term interest rates remained benign in 2009. The *Base Rate* under the Discount Window operated by the HKMA stood at 0.5% throughout the year, as the US Federal Funds Target Rate was held unchanged at 0-0.25%<sup>(1)</sup>. Amid continued inflow of funds, the *Hong Kong dollar interbank interest rates* stayed at extremely low levels. Broadly tracking their US dollar counterparts, the overnight HIBOR hovered around 0.1% during most part of the year, while the three-month HIBOR declined from 0.89% at end-2008 to 0.13% at end-2009.

5.2 The spreads between Hong Kong dollar and US dollar interest rates remained negative through the year, though the discount of the three-month HIBOR to the corresponding Euro-dollar deposit rate tightened from 53 basis points at end-2008 to 35 basis points at end-2009. Meanwhile, the *Hong Kong dollar yield curve* steepened notably but continued to stay below the US Treasury yield curve. Reflecting strong demand for high-quality, liquid money-market instruments, the implied yield of 7-day Exchange Fund Bills dipped below zero at times. At the longer-end, the yield of 10-year Exchange Fund Notes went up 139 basis points during the year to 2.58%, but this was still smaller than the increase of 160 basis points for the corresponding US Treasury yield. As a result, their yield spread widened from 106 basis points at end-2008 to 127 basis points at end-2009.

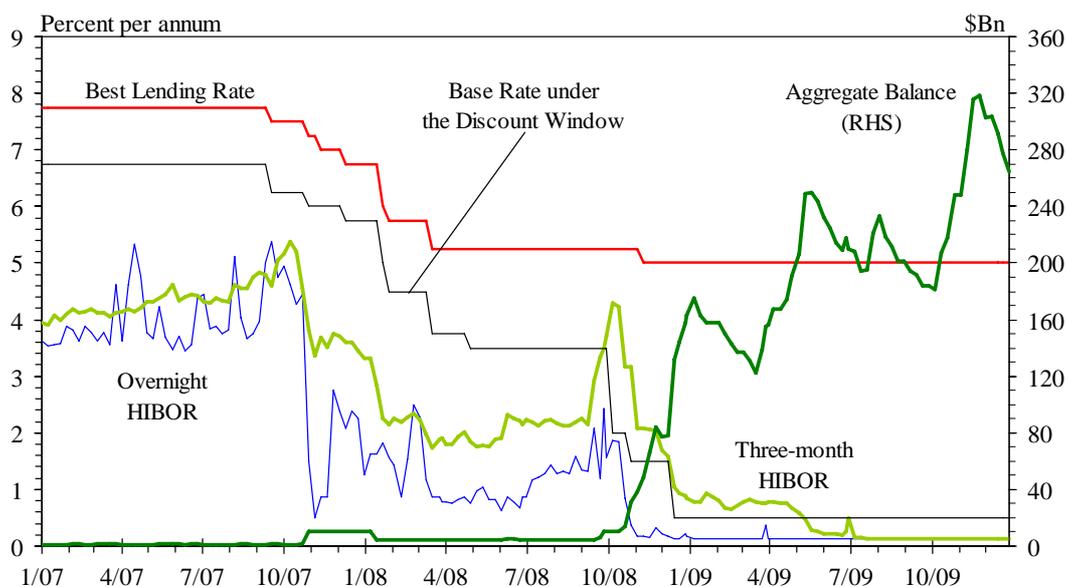
**Diagram 5.1 : The Hong Kong dollar yield curve steepened notably, though still by a smaller degree than its US dollar counterpart**



5.3 At the retail level, banks kept their Best Lending Rates (BLRs) unchanged at 5.00% and 5.25% during 2009. Deposit interest rates also remained stable at exceptionally low levels, with the average savings deposit rate and one-month time deposit rate quoted by major banks both staying at around 0.01% through the year. The composite interest rate, which indicates the average cost of funds for banks, dropped to 0.11% at end-2009 from 0.68% a year earlier<sup>(2)</sup>. As regards mortgage rates, the proportion of newly approved mortgage loans priced with reference to HIBOR climbed from below one-fifth in December 2008 to a record high of 61.6% in December 2009, as borrowers took advantage of the prevailing low interbank interest rates.

5.4 Partly due to the buoyant stock market, demand for the Hong Kong dollar was strong in 2009. The strong-side Convertibility Undertaking (CU) was repeatedly triggered, prompting the HKMA to passively sell Hong Kong dollars against US dollars to banks. As a result, the Aggregate Balance soared from \$158.0 billion at end-2008 to a high of \$320.0 billion on 24 November 2009. The Aggregate Balance eventually eased back to \$264.6 billion at end-2009, upon HKMA's continued issuance of additional Exchange Fund Bills in the latter part of the year to meet the increased demand by banks for liquidity management purposes.

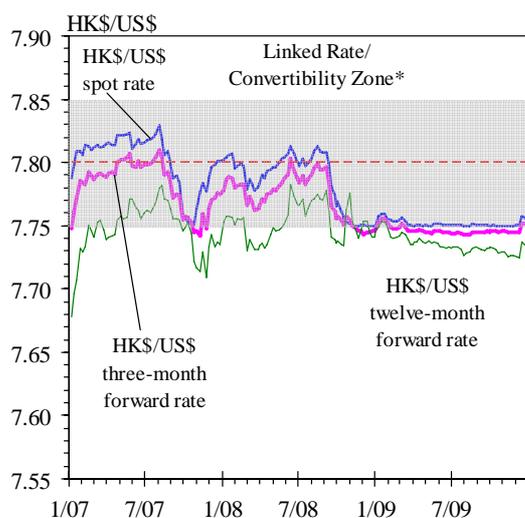
**Diagram 5.2 : Hong Kong dollar interbank interest rates remained low throughout the year amid ample liquidity (end for the week)**



5.5 As a result of the strong inflow of funds, the Hong Kong dollar spot exchange rate stayed close to 7.75 per US dollar during most of 2009. The discount of the 3-month Hong Kong dollar forward rate to the spot rate widened slightly from 45 pips (each pip equivalent to HK\$0.0001) to 48 pips between end-2008 and end-2009, while the corresponding discount of the 12-month forward rate expanded by a much larger extent from 95 pips to 193 pips.

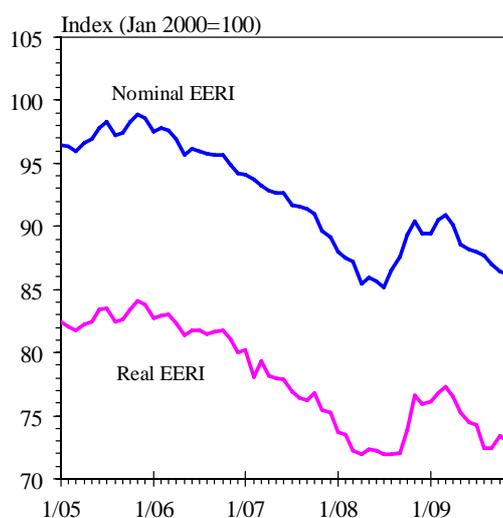
5.6 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar depreciated against other major currencies in the past year, the trade-weighted Hong Kong dollar Nominal and Real Effective Exchange Rate Indices in December 2009 softened by 3.4% and 3.6% from a year earlier, though the indices have turned more stable towards the end of the year<sup>(3)</sup>.

**Diagram 5.3 : Forward spreads widened through the year (end for the week)**



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.

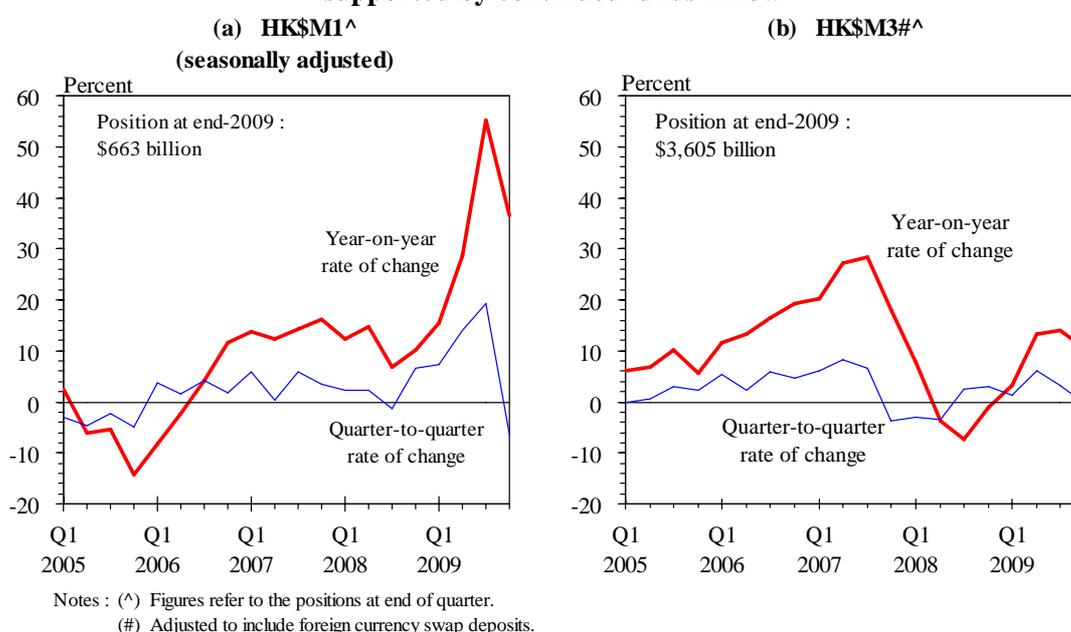
**Diagram 5.4 : Trade-weighted EERIs generally weakened alongside the US dollar (average for the month)**



## Money supply and banking sector

5.7 Hong Kong dollar broad *money supply* (HK\$M3) expanded by 10.5% during 2009, having contracted by 1.2% during the preceding year<sup>(4)</sup>. The seasonally adjusted narrow money supply (HK\$M1) posted an even sharper growth of 36.5% during the year, partly because depositors were increasingly willing to hold demand deposits in a low interest rate environment. *Total deposits* with authorised institutions (AIs) also rose during the year, by 5.3% to \$6,381 billion at end-2009<sup>(5)</sup>. Analysed by currency, Hong Kong dollar deposits rose solidly by 11.2% to \$3,374 billion while foreign currency deposits edged down by 0.6% to \$3,007 billion.

**Diagram 5.5 : Money supply expanded solidly during most of the year, supported by continued funds inflow**



5.8 Following the decline in the first four months of 2009, *total loans and advances* trended upward thereafter alongside the gradual recovery in the local economy and a more stable external trading environment. For the year as a whole, total loans outstanding edged up by 0.1% to \$3,289 billion at end-2009 (comprising Hong Kong dollar loans of \$2,401 billion and foreign currency loans of \$887 billion). Among the total, loans for use in Hong Kong bounced back from the earlier lows, though the outstanding balance at end-2009 was still 1.3% lower than a year earlier. Analysed by economic use, residential mortgage loans expanded sturdily, by 7.4% during the year, amid the buoyant housing market and accommodative mortgage interest rates. Loans to stockbrokers jumped by 18.0% albeit with sharp fluctuation over the course of year. On the other hand, trade finance outstanding at end-2009 remained 6.1% lower than a year earlier notwithstanding the rebound as from the second

quarter on the back of gradually reviving trade flows. Meanwhile, lending to financial concerns contracted visibly by 31.6% during the year. Due to the concurrent strong expansion in deposit base, the Hong Kong dollar loan-to-deposit ratio fell noticeably from 77.6% to 71.2% during 2009.

**Table 5.1 : Loans and advances**

All loans and advances for use in Hong Kong											
		Loans to :									
		Trade	Manu-	Wholesale	Building,	Purchase	Financial	Stock-	All loans		Total
		finance	facturing	and	construction,	of	concerns	brokers	and advances	for use	loans
				retail	and	residential			outside	Hong Kong <sup>(c)</sup>	and
				trade	investment	property <sup>(a)</sup>					advances
%											
change											
during											
the											
quarter											
2008	Q1	8.4	16.1	16.6	6.2	2.4	7.2	-4.2	6.3	10.4	7.0
	Q2	15.2	4.9	15.5	4.6	2.7	1.4	-19.0	4.7	10.1	5.6
	Q3	-2.9	4.5	*	4.4	0.7	8.1	-20.6	2.7	0.6	2.3
	Q4	-16.2	-5.3	-3.3	1.9	-1.4	-5.4	-10.4	-3.5	-6.7	-4.1
2009	Q1	-15.1	-1.5	-5.5	-1.0	-0.3	-14.5	-10.3	-3.8	-2.8	-3.6
	Q2	3.3	-5.8	1.9	-0.5	2.0	-9.0	443.6	1.6	-1.0	1.2
	Q3	2.3	1.9	3.8	-2.3	3.5	2.1	-17.2	1.6	5.6	2.3
	Q4	4.6	-2.5	2.2	3.2	2.0	-13.9	-70.8	-0.7	5.0	0.3
Total amount at end-2009 (\$Bn)		175	135	155	683	698	194	12	2,675	614	3,289
% change over a year earlier		-6.1	-7.8	2.2	-0.6	7.4	-31.6	18.0	-1.3	6.7	0.1

Notes : Some loans have been reclassified. As such, the figures are not strictly comparable with those of previous quarters.

- (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.
- (c) Also include loans where the place of use is not known.
- (\*) Change of less than 0.05%.

5.9 On 23 October 2009 the HKMA issued a circular to banks in Hong Kong, capping the loan-to-value ratios for residential mortgages on properties valued at \$20 million or more at 60% (instead of 70% originally) and setting a maximum loan amount of \$12 million for properties valued at below \$20 million. The circular also reminded banks to be prudent in conducting valuation of properties and in calculating borrowers' debt servicing ratios, with particular consideration to the effect on borrowers' ability to service mortgage payments when interest rates return to more normal levels. These prudential measures are designed in the interest of maintaining banking stability and enhancing banks' risk management on mortgage lending to high-end residential properties.

5.10 Despite the recent global financial crisis, Hong Kong's banking system remained resilient. Capital positions of the Hong Kong incorporated AIs continued to be strong. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II"), the capital adequacy ratio (CAR) of these institutions stayed high at an average of 16.6% at end-September 2009. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

5.11 To address the issues revealed by the recent global financial crisis, the Basel Committee issued a final package of proposals in July 2009 for enhancements of the Basel II capital framework. The HKMA is supportive of the Committee's initiative and is taking steps to implement the enhanced international standards on 1 January 2011 in accordance with the timetable of the Committee. Moreover, in December 2009 the Committee issued two consultative documents setting out proposals to strengthen global capital and liquidity requirements with the goal of promoting a more resilient international banking system. The Committee will conduct a comprehensive impact assessment of its proposals in the first half of 2010 in order to determine the appropriate calibration of the final set of standards. The finalised standards will be phased in when financial conditions improve and economic recovery is assured, with the aim of implementation by end-2012. As a member of the Basel Committee, the HKMA has participated in the development of the proposed reforms, and supports the underlying objective of the proposed standards. The HKMA will continue to be involved in the process of refining and finalising the proposals at the Committee.

5.12 Asset quality of the local banking sector remained sound. After rising from 1.24% to 1.51% between end-2008 and end-June 2009, the ratio of classified loans eased back to 1.42% at end-September. Arrears for over three months in credit card repayment followed a similar pattern, increasing slightly from 0.34% to 0.50% during the first half of 2009 but moderating to 0.46% at end-September. Meanwhile, the delinquency ratio for residential mortgage loans edged down to 0.03% at end-2009 from 0.05% a year earlier.

**Table 5.2 : Asset quality of retail banks\***  
(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2008	Q1	97.72	1.47	0.81
	Q2	97.75	1.38	0.88
	Q3	97.61	1.43	0.96
	Q4	96.55	2.20	1.24
2009	Q1	96.09	2.44	1.47
	Q2	96.14	2.35	1.51
	Q3	96.47	2.12	1.42

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

(\*) 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”.

5.13 Regarding renminbi banking business in Hong Kong, the scope of services has expanded further with the implementation of the pilot scheme in July to allow eligible Mainland enterprises to use renminbi to settle trade transactions with their trade counterparts in selected areas (including ASEAN countries) outside the Mainland. The pilot scheme has been operating smoothly. The establishment of this clearing platform for handling renminbi-related transactions will further strengthen Hong Kong’s status as an international financial centre.

5.14 After contracting to RMB53.0 billion at end-April, the amount of renminbi deposits outstanding rebounded to RMB62.7 billion at end-2009, representing a year-on-year increase of 11.9%. Apart from the pilot scheme for renminbi trade settlement, demand associated with the issuance of renminbi-denominated bonds in Hong Kong has also helped bolster interests in renminbi deposits.

**Table 5.3 : Renminbi deposits in Hong Kong**

<u>As at end of period</u>		Demand and savings deposits (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Interest rates on</u> <sup>(a)</sup>		Number of authorised institutions engaged in RMB business
					<u>Savings deposits</u> <sup>(b)</sup> (%)	<u>Three-month time deposits</u> <sup>(b)</sup> (%)	
2008	Q1	39,364	18,221	57,585	0.46	0.65	40
	Q2	51,242	26,398	77,640	0.46	0.65	40
	Q3	47,508	22,443	69,951	0.46	0.65	40
	Q4	38,119	17,942	56,061	0.46	0.64	39
2009	Q1	35,166	17,944	53,110	0.46	0.64	39
	Q2	35,924	18,457	54,381	0.46	0.64	40
	Q3	40,559	17,616	58,174	0.46	0.66	44
	Q4	40,662	22,056	62,718	0.46	0.67	60
% change over a year earlier		6.7	22.9	11.9	N.A.	N.A.	N.A.

Notes : (a) The interest rates are based on a survey conducted by the HKMA.

(b) Period average figures.

N.A. Not available.

## The debt market

5.15 The Hong Kong dollar *debt market* expanded considerably in 2009, against the backdrop of increased supply of short-dated Exchange Fund papers by the HKMA to meet the demand by banks for the purposes of liquidity management. Total gross issuance of Hong Kong dollar debt securities surged by 192.7% to \$1,242.1 billion in 2009, with issuance of Exchange Fund Bills and Notes accounting for 84.4% of all new debt issuance in the year. Hong Kong dollar debt issued by AIs, local corporations and overseas borrowers excluding the multilateral development banks also rose remarkably by 31.2% to \$145.8 billion, reflecting a pick-up in demand for private sector papers. As a result, the total outstanding balance of Hong Kong dollar debt stood at a record level of \$1,111.3 billion at end-2009, 55.1% higher than a year earlier<sup>(6)</sup>. This was equivalent to 30.8% of HK\$M3 or 25.3% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>.

5.16 With a view to promoting the sustainable development of the local bond market, the Financial Secretary in the 2009-10 Budget announced to implement a Government Bond Programme, under which Government Bonds will be issued in a systematic and consistent manner. The Government Bond Programme is divided into two parts, namely, the Institutional Bond Issuance Programme and the Retail Bond Issuance Programme. The inaugural issue of Government bonds under the Institutional Bond Issuance Programme, a two-year bond with an issue size of \$3.5 billion, was tendered on 2 September 2009 while the second issue under the Institutional Bond Issuance Programme, a five-year bond with an issue size of \$2.0 billion, was tendered on 2 November. Both issues were well-received by investors. The HKMA, as the representative of the Government to assist in the implementation of the Programme, will continue to maintain close dialogues with market players and consider measures to encourage primary market participation, promote secondary market liquidity, and broaden investor base. Regarding the Retail Bond Issuance Programme, the Government will take into account the advice of the co-arrangers and prevailing market conditions in determining the timing of issue. The Programme is expected to increase the depth, breadth and liquidity of the local bond market, thereby further enhancing Hong Kong's status as an international financial centre.

**Table 5.4 : New issuance and outstanding value of Hong Kong dollar debt securities (\$Bn)**

		Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New issuance</b>											
2008	Annual	285.9	24.3	-	310.2	45.2	14.3	51.6	111.2	3.0	424.4
	Q1	62.8	5.5	-	68.2	8.6	1.2	6.1	15.9	-	84.1
	Q2	77.2	8.7	-	85.9	15.4	8.4	22.3	46.2	-	132.1
	Q3	67.3	3.5	-	70.8	14.7	4.1	15.8	34.6	-	105.3
	Q4	78.6	6.7	-	85.3	6.5	0.6	7.5	14.5	3.0	102.8
2009	Annual	1,047.7	29.9	5.5	1,083.1	43.9	19.5	82.4	145.8	13.1	1,242.1
	Q1	130.7	8.6	-	139.4	5.6	2.8	29.6	38.0	5.8	183.1
	Q2	191.1	10.6	-	201.8	15.0	4.8	21.2	41.0	6.2	248.9
	Q3	333.8	9.4	3.5	346.7	11.6*	5.2	17.6	34.4*	0.4	381.5*
	Q4	392.1	1.2	2.0	395.2	11.7	6.7	14.1	32.5	0.8	428.5
	% change in 2009 Q4 over 2008 Q4	398.9	-82.4	N.A.	363.4	80.1	1,090.2	88.6	123.4	-75.0	316.7
	% change in 2009 over 2008	266.5	22.8	N.A.	249.2	-3.0	36.7	59.6	31.2	338.2	192.7
<b>Outstanding (as at end of period)</b>											
2008	Q1	143.3	60.3	7.7	211.3	121.4	60.8	320.7	502.9	12.5	726.7
	Q2	144.3	64.5	7.7	216.5	106.5	68.4	318.6	493.5	12.5	722.4
	Q3	145.0	62.7	5.0	212.7	103.8	67.5	320.2	491.6	12.4	716.6
	Q4	157.7	64.6	5.0	227.3	95.1	67.0	313.0	475.1	14.3	716.6
2009	Q1	218.9	63.5	5.0	287.4	86.2	67.7	325.2	479.1	19.3	785.8
	Q2	288.4	68.1	5.0	361.5	80.9	72.0	322.9	475.8	25.5	862.9
	Q3	413.0	74.4	5.0	492.5	82.8*	73.7	319.8	476.3*	23.9	992.7*
	Q4	534.1	69.7	7.0	610.8	84.7	79.5	312.1	476.2	24.3	1,111.3
	% change over a year earlier	238.8	7.9	40.0	168.7	-10.9	18.6	-0.3	0.2	70.8	55.1

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

(\*) Revised figures.

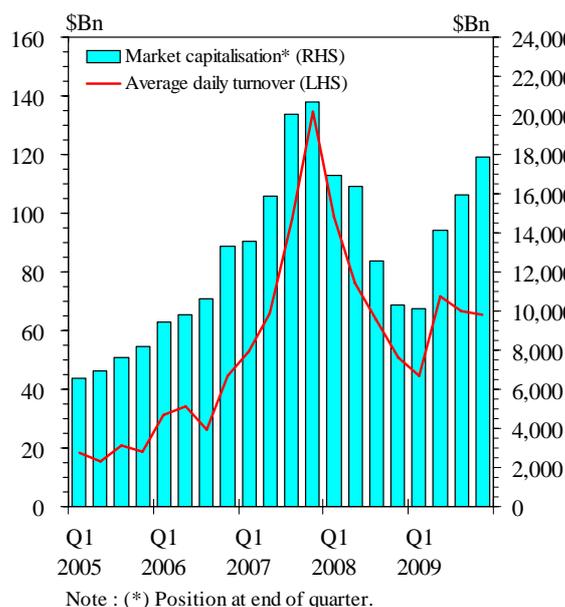
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## The stock and derivatives markets

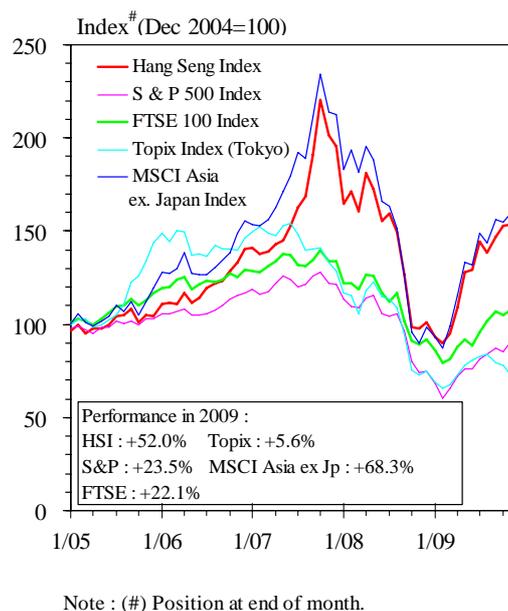
5.17 After a weak start in early 2009, the *local stock market* rebounded visibly in the second quarter and remained on a general uptrend through the rest of the year amid the improved economic outlook and abundant liquidity. The *Hang Seng Index (HSI)* fell to a closing low of 11 345 on 9 March 2009 under mounting concerns about poor financial results from the listed companies, but then bounced back to close the year at 21 873, representing a jump of 52.0% over a year earlier. This was largely comparable to the performance of other markets in the region, as indicated by the 68.3% gain in the MSCI Asia excluding Japan index. The *daily turnover* averaged at \$62.3 billion in 2009. While this was 13.5% lower than in 2008, it represented a notable rebound from the benign levels recorded in late 2008 and early 2009 at the height of the global financial crisis.

5.18 Alongside the surge in stock prices, the *market capitalisation* also soared, by 73.6% over a year earlier to \$17.9 trillion at end-2009. According to the *World Federation of Exchanges*, the local bourse continued to be the seventh largest in the world and the third largest in Asia<sup>(8)</sup>. Supported by revived investor confidence and sanguine business prospects in the region, fund raising activities turned more buoyant in the second half of 2009. Equity capital raised through new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) jumped by 50.3% to a record \$642.1 billion for the year as a whole, though this was partly attributable to an enormous rights issue by a major bank<sup>(9)</sup>. Among the total, funds raised from IPOs surged by 276.2% to \$248.2 billion in 2009, putting the Hong Kong stock exchange as the world's largest centre for IPO fund raising in the year.

**Diagram 5.6 : Stock prices and trading activities in the local market recovered markedly from earlier lows**



**Diagram 5.7 : Market performance in Hong Kong was largely in line with regional peers**



5.19 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-2009, there were 524 Mainland enterprises (including 156 H-share companies, 97 “Red Chips” companies and 271 private enterprises) listed on the market, accounting for 40% of the total number of listed companies and 58% of the total market capitalisation. In 2009, Mainland-related stocks accounted for 72% of equity turnover in the Hong Kong stock exchange. While their share in total equity capital raised fell to 55% due to an enormous rights issue by a major non-Mainland bank, Mainland enterprises remained the main source of new listings, accounting for 83% of IPO funds raised in the year.

5.20 In line with the decline in overall turnover in the stock market, trading in *derivatives market* also dwindled. The average daily trading volume of futures and options contracts fell by 7.9% in 2009<sup>(10)</sup>. Among these contracts, turnover of HSI futures, stock options and H-shares index futures declined by 6.3%, 14.8% and 15.7% respectively, more than offsetting the 37.9% increase in turnover of HSI options. Meanwhile, the average daily trading value for securitised derivatives shrank by a larger extent of 26.7% in 2009, though it has stabilised since the second quarter. The fall was entirely attributable to the 52.6% plunge in trading of derivative warrants, whereas the transaction value for callable bull/bear contracts actually surged by 58.6%.

**Table 5.5 : Average daily turnover of derivative products  
of the Hong Kong market**

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock options <u>options</u>	Total futures and options traded <sup>*</sup>	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn) <sup>^</sup>
2008	Annual	89 368	15 723	59 428	225 074	432 126	14,015	4,243	18,258
	Q1	89 686	15 072	61 088	266 199	472 052	26,851	1,395	28,247
	Q2	78 668	13 890	50 653	212 191	388 939	15,715	2,886	18,601
	Q3	95 335	18 381	58 217	220 110	435 527	8,964	6,394	15,359
	Q4	93 607	15 476	67 742	202 782	432 561	4,972	6,183	11,155
2009	Annual	83 750	21 686	50 077	191 676	398 134	6,646	6,731	13,377
	Q1	80 094	17 167	54 785	194 279	389 778	5,240	5,856	11,096
	Q2	95 356	21 465	55 346	217 696	449 160	6,770	7,720	14,490
	Q3	84 197	21 857	47 683	168 876	373 514	7,458	6,681	14,139
	Q4	75 403	26 100	42 828	187 277	381 632	7,027	6,660	13,687
	% change in 2009 Q4 over 2008 Q4	-19.4	68.7	-36.8	-7.6	-11.8	41.3	7.7	22.7
	% change in 2009 over 2008	-6.3	37.9	-15.7	-14.8	-7.9	-52.6	58.6	-26.7

Notes : (\*) Turnover figures for individual futures and options are in number of contracts, and may not add up to the total futures and options traded as some products are not included.

(^) Comprising derivative warrants and callable bull/bear contracts.

5.21 The product offerings in the Exchange Traded Fund (ETF) market continued to expand. In May 2009 the Securities and Futures Commission (SFC) and the Taiwan Financial Supervisory Commission signed a Side Letter to a bilateral Memorandum of Understanding to facilitate cross listing of ETFs in the two markets, and subsequently in August the first Taiwan ETF was listed on the Hong Kong stock exchange. In November, four Mainland A-share industry sector ETFs commenced trading on the local bourse, making Hong Kong the first exchange with Mainland A-share industry sector ETFs.

5.22 In December, the SFC, jointly with Hong Kong Exchanges and Clearing Limited and the Federation of Share Registrars, issued a consultation paper on the proposed operational model for implementing a scripless securities market in Hong Kong. The paper puts forward an operational model in building market rapport in pressing ahead an important initiative to modernise our financial infrastructure, enhance corporate governance and investor protection as well as align with international trends.

### **Fund management and investment funds**

5.23 Fund management and investment fund business have staged a steady recovery since the second quarter of 2009 amid the more upbeat investor sentiment. Although the gross retail sales of *mutual funds* fell by 16.5% to US\$15.0 billion for 2009 as a whole, it has gradually trended up over the year<sup>(11)</sup>. Meanwhile, the aggregate net asset value of the approved constituent funds under the *MPF schemes* rose to \$309 billion at end-2009, 47.4% higher than a year earlier<sup>(12)</sup>. Retail hedge funds business also picked up after a weak start in the early part of the year<sup>(13)</sup>.

### **Insurance sector**

5.24 Gross premium income from long-term business for the *insurance sector* reverted to a year-on-year increase of 10.5% in the third quarter of 2009<sup>(14)</sup>. Specifically, premium for non-linked insurance plans surged by 62.7%. While premium for investment-linked products continued to decline by 34.1% on a year-on-year basis, there has been significant improvement when compared with the low levels in late 2008 and early 2009. Regarding general business, gross premium in the period increased by 5.2% over a year earlier.

**Table 5.6 : Insurance business in Hong Kong\* (\$Mn)**

		General business			Premium for long-term business <sup>^</sup>					
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	Gross premium from long-term business and general business
2008	Annual	27,019	19,158	1,510	24,054	36,107	256	218	60,635	87,654
	Q1	7,640	5,478	638	8,212	13,308	64	49	21,633	29,273
	Q2	6,618	4,773	188	6,089	13,345	67	58	19,559	26,177
	Q3	6,676	4,723	-12	5,937	6,949	63	73	13,022	19,698
	Q4	6,085	4,184	696	3,816	2,505	62	38	6,421	12,506
2009	Q1	7,940	5,647	694	6,223	2,198	54	69	8,544	16,484
	Q2	6,568	4,853	600	7,040	3,827	69	37	10,973	17,541
	Q3	7,026	5,122	670	9,658	4,582	72	73	14,385	21,411
	% change over a year earlier	5.2	8.4	N.A.	62.7	-34.1	14.3	0.0	10.5	8.7

Notes : (\*) Figures are based on provisional statistics of the Hong Kong insurance industry.

(^) Figures refer to new business only. Retirement scheme business is excluded.

N.A. Not available.

### Some highlights of market developments

5.25 To further strengthen investors' confidence in the local financial markets, the Government has reviewed the regulatory framework for the financial sector following the outbreak of the global financial crisis. The various regulatory authorities, including the HKMA and SFC, have come up with a number of recommendations, some of which like improving the way investment products are sold, enhancing the business conduct of intermediaries and enhancing investor education have already been implemented.

5.26 In 2009, the range of issuers for renminbi-denominated bonds was extended from Mainland financial institutions to include the Mainland subsidiaries of Hong Kong banks. Also, the Ministry of Finance of the Central Government issued renminbi bonds in Hong Kong for the first time during the year. This was also the first renminbi sovereign bond issuance outside the Mainland.

5.27 With effect from 1 October 2009, Hong Kong banks, through their branches or wholly owned subsidiaries in the Mainland, can apply for establishing “cross-location” sub-branches within the Guangdong Province with reference to the relevant rules in the Mainland under Supplement VI to CEPA signed in May 2009. This measure exempts Hong Kong banks operating in the Guangdong Province from the Mainland’s general requirement that a bank having a branch in one city can open sub-branches in the same city only. This will lower the costs for Hong Kong banks to expand their networks in Guangdong as the minimum operating capital requirement for sub-branches is substantially lower than that for branches.

5.28 In November, the SFC and the Securities Commission of Malaysia signed the Declaration on Mutual Co-operation on Development of Islamic Capital Market and Islamic Collective Investment Schemes, which provides for the mutual recognition of Islamic collective investment schemes (CISs) between the two jurisdictions. The Declaration also promotes sharing of information on Islamic CISs between the two authorities, as well as the exchange of regulatory experience relating to Shariah principles governing these schemes. These co-operation measures will help foster the further development of Islamic fund management in Hong Kong and facilitate the cross-border offering of these schemes to investors in the two markets.

5.29 Notable headways have been made in strengthening the links between the financial sectors of the Mainland and Hong Kong. In November, the Expert Group on Hong Kong/Guangdong Financial Co-operation held its first meeting to exchange views on the strengthening of co-operation in areas including the securities, banking, renminbi and insurance businesses. The two sides also discussed proposals for more policies and measures that would be mutually beneficial to the development of financial industries in Hong Kong and Guangdong, by leveraging on CEPA, the model of early and pilot implementation and other channels.

5.30 In January 2010, the Financial Services and the Treasury Bureau and the Shanghai Municipal Government Financial Services Office signed the Memorandum of Understanding Concerning Advancing Hong Kong-Shanghai Financial Co-operation (MOU). According to the MOU, the two cities would strengthen financial co-operation under the framework of the Hong Kong/Shanghai Economic and Trade Co-operation Conference and with the advice and support of national financial authorities. In addition, the MOU set out priority areas for co-operation between the two places, including the development of financial markets, mutual establishment of financial institutions and training and exchange of financial talent.

5.31 As regards co-operation in the Asia-Pacific region, in December 2009 the HKMA together with the Finance Ministers and Central Bank Governors of the Central Government, ASEAN Member States, Japan and Korea signed the Chiang Mai Initiative Multilateralisation (CMIM) Agreement. The CMIM, with a total size of US\$120 billion, will supplement the existing international financial arrangements and provide financial support through currency swap transactions to the CMIM participants facing balance-of-payments and short-term liquidity difficulties. The initiative should help maintain economic and financial stability within the region.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) 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 cost of funds for 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.
- (3) 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.

- (4) 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.

- (5) Authorised institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-2009, there were 145 licensed banks, 26 restricted licence banks and 28 deposit-taking companies in Hong Kong. Altogether, 199 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (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 deposit (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) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 52 securities exchanges (as of 25 January 2010), covering almost all globally recognised stock exchanges.
- (9) At end-2009, there were 1 145 and 174 companies listed on the Main Board and GEM respectively.
- (10) At end-2009, there were 51 classes of stock options contracts and 38 classes of stock futures contracts.
- (11) These figures are obtained 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. At end-2009, the survey covered a total of 1 255 active authorised funds.
- (12) At end-2009, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 369 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 238 000 employers, 2.21 million employees and 263 000 self-employed persons have participated in MPF schemes.
- (13) At end-2009, there were 12 SFC-authorised retail hedge funds with combined net asset size of US\$679 million. The amount of net assets under management was 11.8% lower than the end-2008 level, but it was 4.8% higher than the figure at end-March 2009 and more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (14) At end-2009, there were 171 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 106 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

## CHAPTER 6 : THE LABOUR SECTOR

### *Summary*

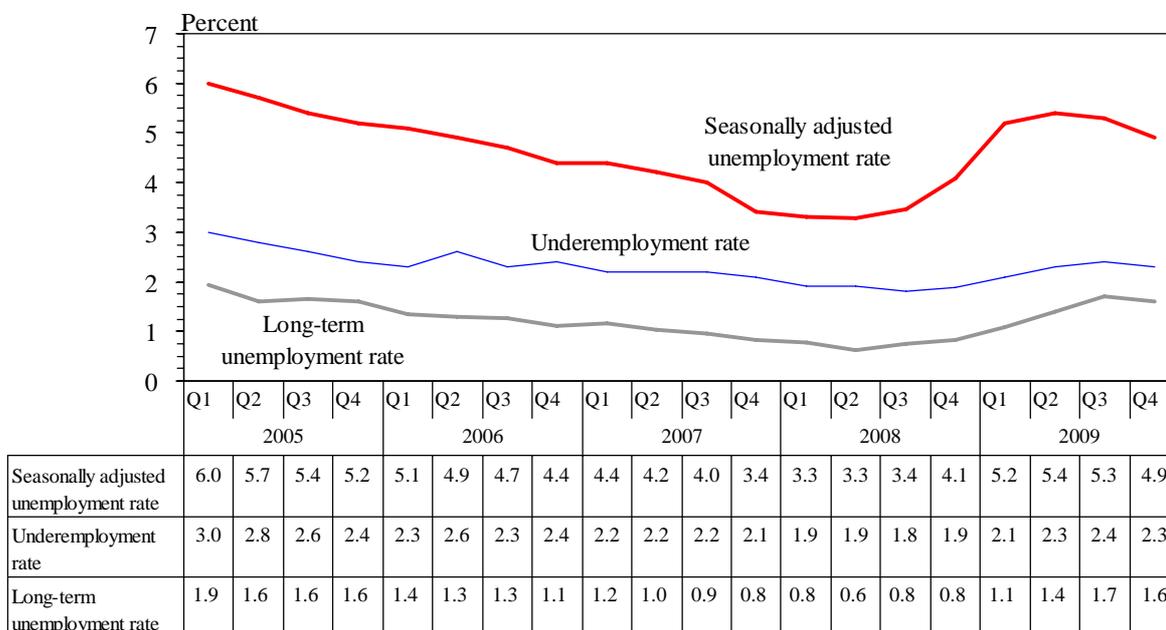
- *In 2009, the labour market was characterised by continued weakness in the first half, followed by a progressive turnaround in the second half. The unemployment rate, having surged to a high of 5.4% in mid-2009, came down successively in the rest of the year in tandem with the economic recovery.*
- *Total employment shrank for the first time since 2003, reflecting the severe shock of the global crisis on the Hong Kong economy. But the scale of job loss was markedly less in the current recession than that experienced in the 1997/98 Asian financial crisis, reflecting greater resilience and adaptability of the labour market.*
- *Apart from the cutback in jobs in the aftermath of the global recession, the distinct worsening in manpower resource balance, as manifested in the rise in unemployment rate from 3.6% in 2008 to 5.2% in 2009, was exacerbated further by an accelerated growth in the labour supply, particularly in the first half of the year when the dire economic situation prompted some homemakers to come out to seek work.*
- *In the midst of such a difficult economic climate, wages came under downward pressure, with a decline of 1.5% in money terms or 1.4% in real terms in the first three quarters of 2009 over a year earlier. By comparison, payroll fared distinctly better, registering increases of 0.4% and 0.1% respectively, though boosted in part by the payment of discretionary bonuses and allowances in some economic sectors alongside the upturn in business activity in the third quarter.*

### **Overall labour market situation**

6.1 The labour market slackened markedly during the first half of 2009, as the economy was severely battered by the global financial crisis and the ensuing global recession. With the corporate sector cutting back on jobs in the midst of the most severe recession since 1998 but with more people entering the labour force to search for jobs, the seasonally adjusted unemployment rate<sup>(1)</sup> posted a sharp jump, reaching a high of 5.4% in mid-2009. This was 1.3 percentage points above the level of 4.1% at end-2008. Then as the economy hit bottom and progressively regained strength, the unemployment situation exhibited a steady improvement, falling back to 4.9% at year-end, below the 5%

mark for the first time since early 2009. Meanwhile, the underemployment rate<sup>(2)</sup> held broadly steady, ending at 2.3% in 2009 as against 1.9% in 2008.

**Diagram 6.1 : The unemployment rate has reverted to a declining trend since mid-2009**



## The labour supply and total employment

6.2 The *labour force*<sup>(3)</sup> expanded at a faster pace in 2009 than in 2008, at 1.3% as against 0.5%. The expansion in the first half of 2009 clearly exceeded the trend growth rate. Analysed by gender, the female labour force grew by 2.2% in 2009, which continued to outpace the 0.5% increase in the male labour force (see Box 6.1 for more details). The unusual surge in total labour force was in line with the rise in the labour force participation rate (LFPR). While the LFPR for females started to pick up faster towards the end of 2008, the LFPR for males also reverted to an increase in early 2009, which contrasted sharply with the general downward trend observed over the past few years. This was conceivably due to an increased entry of middle-aged persons especially homemakers into the labour market triggered by the downturn in economic activity. Thus as the economy staged a revival in the latter part of the year, the labour force resumed a slower, normal growth path. As a result, for the year as a whole, the overall LFPR edged back to a more normal level, at 61.0% in 2009, broadly similar to 60.9% in 2008.

6.3 On the labour demand side, total employment<sup>(4)</sup> was largely on the decline in 2009, which went in tandem with the economic downturn and hence the more cautious attitude adopted by employers towards staffing, especially in the trade-related sectors such as the import/export trades, manufacturing and

transportation. For 2009 as a whole, total employment fell by 0.5%, the first decline since 2003 and in stark contrast to the 1.0% increase in 2008.

6.4 Whereas employment growth stayed in the negative territory throughout 2009, the decrease saw some moderation towards the end of the year. Moreover, the reduction in employment did not occur uniformly across the board. As a matter of fact, some economic sectors did record modest employment gains including in particular construction, tourism and financing in the fourth quarter of 2009 over a year earlier. It was the trade-related sectors that bore the brunt of the job losses, consistent with the distinct setback in external trade during most of the year (paragraphs 1.1 and 2.1).

6.5 Analysed by occupation category, the lower-skilled workers generally benefited from the turnaround in employment conditions towards the end of 2009, as borne out by the respective employment gain of 0.5% in the fourth quarter of 2009 over a year earlier. This also tallied with the developments on the sectoral front, as construction and tourism were the sectors where most of the lower-skilled jobs could be found. As for the higher-skilled workers, while there was still a job loss of 2.7% in the fourth quarter of 2009, it represented a relative improvement from the 3.5% drop in the preceding quarter.

6.6 Comparing the final quarter of 2009 with June - August 2008, i.e. the period just before the outbreak of the global financial turmoil, the higher-skilled segment had a cumulative job loss of 3.7% (48 300 jobs), whereas the lower-skilled segment posted a gain of 0.6% (14 400 jobs). Yet taking these two groups together, total employment still recorded a net reduction of 1.0% (33 900 jobs). This job loss was likewise concentrated in the externally-oriented sectors including trading (-39 400 or -6.6%) and logistics (-10 800 or -4.6%), which were hard hit by the global financial turmoil.

6.7 When the growth profiles of the labour force and total employment are brought together for comparison, this indicates that although the labour force growth surpassed the employment growth by a considerable margin in all the four quarters of 2009, the differential between them began to narrow since mid-year, leading to an improving trend in unemployment in the latter part of 2009.

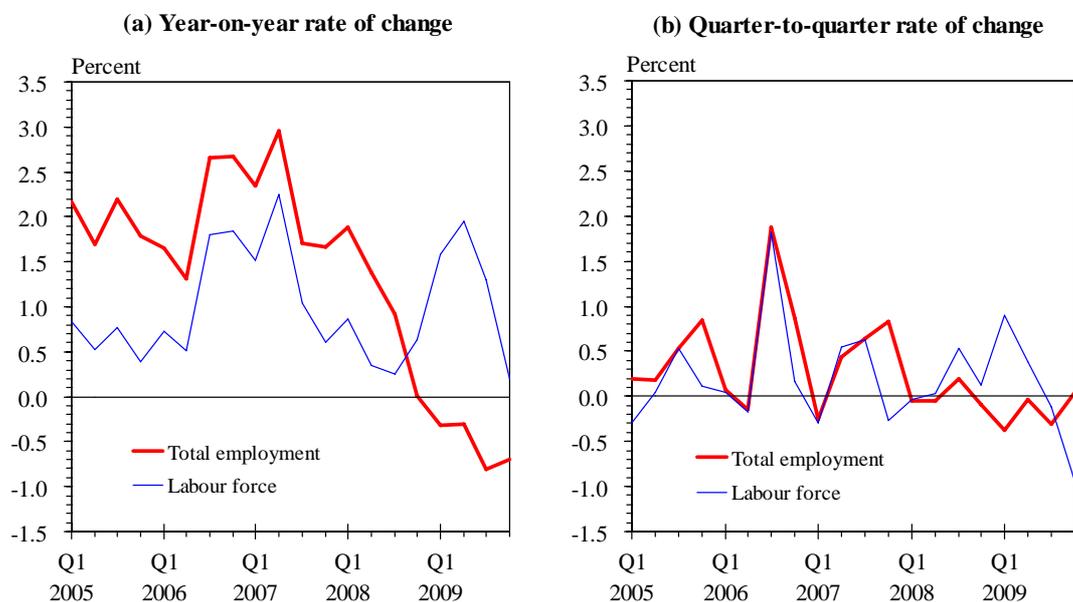
**Table 6.1 : The labour force, and persons employed, unemployed and underemployed**

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2008	Annual	3 648 900 (0.5)	3 518 800 (1.0)	130 100	69 000
	Q1	3 637 100 (0.9)	3 519 000 (1.9)	118 200	69 900
	Q2	3 638 200 (0.3)	3 517 100 (1.4)	121 100	67 900
	Q3	3 657 400 (0.2)	3 523 700 (0.9)	133 600	66 300
	Q4	3 661 900 (0.6)	3 520 700 (#)	141 200	69 000
2009	Annual	3 694 700 (1.3)	3 501 600 (-0.5)	193 000	84 600
	Q1	3 694 900 (1.6)	3 507 600 (-0.3)	187 200	79 200
	Q2	3 709 200 (2.0)	3 506 200 (-0.3)	203 000	84 900
	Q3	3 704 700 (1.3)	3 495 500 (-0.8)	209 100	89 900
	Q4	3 669 900 (0.2)	3 497 100 (-0.7)	172 800	84 500
		<-0.9>	<#>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) Year-on-year % change.  
 <> % change between the third quarter and fourth quarter of 2009.  
 (#) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 6.2 : The manpower resource balance showed signs of improvement in the latter part of 2009**



**Table 6.2 : Labour force participation rates by sex (%)**

		<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
2008	Q1	69.7	53.2	60.9
	Q2	69.5	53.1	60.7
	Q3	69.8	53.2	60.9
	Q4	69.5	53.3	60.9
2009	Q1	69.7	54.0	61.3
	Q2	69.9	53.8	61.3
	Q3	69.9	53.3	61.0
	Q4	68.9	52.9	60.3

Source: General Household Survey, Census and Statistics Department.

**Table 6.3 : Labour force participation rates by sex and by age group (%)**

<u>Male</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009#</u>
15-19	16.5	15.8	14.3	14.8	13.0	12.5
20-24	71.0	69.5	69.0	67.6	65.8	65.1
25-29	95.6	95.3	95.6	95.0	94.3	94.7
30-39	97.1	96.8	96.7	97.1	96.5	96.4
40-49	95.8	95.4	95.2	95.5	95.1	95.2
50-59	83.8	83.7	83.3	83.3	84.0	84.6
60 or above	18.2	18.3	19.3	19.6	20.0	21.2
Overall	71.6	71.1	70.9	70.5	69.7	69.6
<u>Female</u>						
15-19	14.7	13.3	13.1	13.5	12.4	11.5
20-24	72.8	72.6	71.1	71.7	69.5	66.7
25-29	86.3	86.2	87.2	87.4	87.3	87.5
30-39	74.0	75.1	75.5	76.2	76.8	77.6
40-49	63.2	63.7	65.1	66.6	66.7	69.2
50-59	45.1	44.3	45.7	46.7	48.5	48.7
60 or above	4.0	4.2	4.5	5.2	5.7	6.7
Overall	51.9	51.8	52.6	53.1	53.1	53.5
<u>Both sexes combined</u>						
15-19	15.6	14.5	13.7	14.2	12.7	12.0
20-24	71.9	71.2	70.1	69.8	67.7	65.9
25-29	90.6	90.3	90.9	90.7	90.3	90.6
30-39	84.0	84.5	84.6	85.1	85.1	85.5
40-49	78.9	78.8	79.3	80.1	79.8	81.0
50-59	64.7	64.1	64.5	64.9	66.1	66.5
60 or above	10.8	11.0	11.7	12.1	12.6	13.7
Overall	61.3	60.9	61.2	61.2	60.9	61.0
Note: (#)	Provisional figures					

Source: General Household Survey, Census and Statistics Department.

## **Profile of unemployment**

6.8 That the unemployment situation deteriorated in 2009 alongside the economic downturn came as little surprise, but the extent of deterioration was actually markedly smaller by past standards. This was due in part to the timely implementation of the package of measures by the Government to stabilise the financial system, to support enterprises, and to preserve and create jobs. Also partly contributed was the resilience of the local segment during the course of 2009.

6.9 For the whole year of 2009, the local unemployment rate averaged at 5.2%, distinctly above that of 3.6% in 2008. It was also the highest level recorded since 2005, though still below the 7.9% in 2003. A close examination of the monthly profile revealed that the unemployment rate moved visibly higher in the early part of 2009, reinforcing the uptrend seen in late 2008 immediately after the onset of the financial crisis. But the unemployment situation stabilised and progressively changed for the better since the middle of the year. For the fourth quarter in particular, the numbers unemployed fell notably by 36 300 quarter-to-quarter to 172 800, while the seasonally adjusted unemployment rate dropped by 0.4 percentage point to 4.9%. Workers in the lower segment tended to benefit more than those at the upper level, as the new jobs were created mostly in such sectors as construction and tourism which were major providers of lower-skilled work. Consequently, the unemployment rate (not seasonally adjusted) of lower-skilled workers declined visibly to 4.9% at the year-end, from a high of 6.1% in the second quarter. The unemployment rate of higher-skilled workers also decreased, albeit more moderately, to 2.8% from 3.1%. Despite these latest improvements, compared to the situation just before the outbreak of global financial crisis (June - August 2008), the unemployment rate for lower-skilled workers was still up by 1.2 percentage points and that for higher-skilled workers up by 1.4 percentage points.

6.10 Analysed by economic sector, the unemployment rate, whilst up over the year, came down on a broad front during the fourth quarter. The fall was particularly profound in the construction sector, thanks to the substantial increase in construction projects by the Government and also the notable rebound in property market activities during the course of 2009. Other sectors in which unemployment also fell noticeably were the retail trade, accommodation and food services, receiving support primarily from the revival in domestic consumer spending. Whereas similar improvements were seen in the import/export trades, manufacturing and transportation, this was largely due to a slowdown in the respective labour supply, conceivably partly reflecting the shift of workers to other sectors. In terms of other socio-economic attributes,

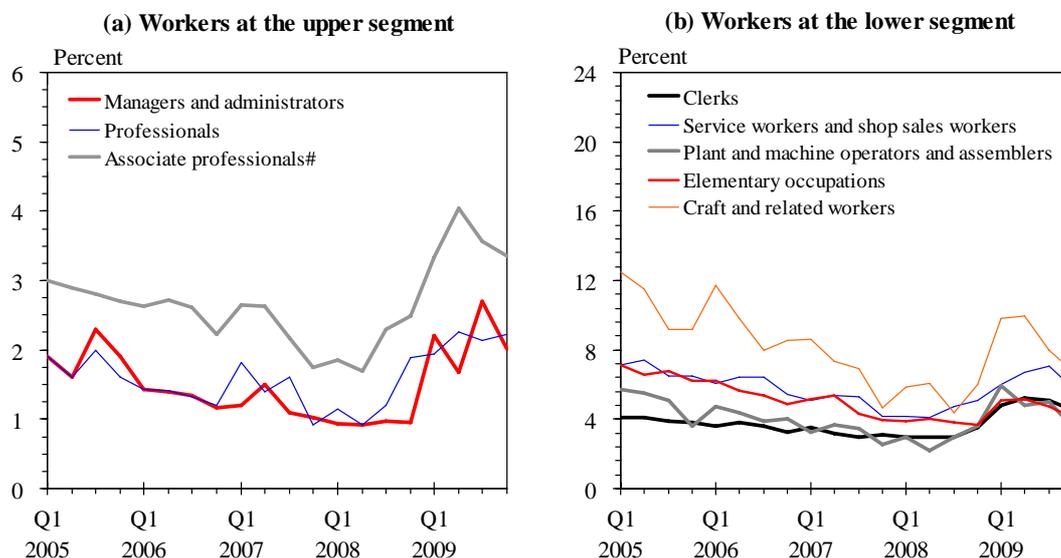
the reduction in unemployment was most apparent among persons engaged as plant and machine operators and assemblers, as well as those aged 15-24 and with lower secondary education.

**Table 6.4 : Unemployment rate by major economic sector**

	2008				2009			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Import/export trade and wholesale	2.4	2.4	2.5	3.3	4.6	4.9	4.9	4.0
Retail	4.0	4.4	4.6	5.4	6.0	6.5	6.7	5.7
Accommodation and food services	5.2	4.6	5.6	6.2	7.3	8.2	8.3	7.0
Transportation, storage, postal and courier services	3.3	2.8	2.9	3.9	5.8	4.9	4.4	3.9
Information and communications	1.9	2.4	2.1	3.3	4.6	4.8	4.3	5.3
Financing and insurance, real estate, professional and business services	2.5	2.3	2.6	2.3	3.6	4.0	3.8	3.8
Public administration, social and personal services	1.3	1.1	1.6	1.4	1.8	2.0	2.3	1.9
Manufacturing	4.0	4.3	4.6	5.0	6.2	6.8	6.2	5.1
Construction	7.5	7.6	5.5	6.1	11.2	11.8	9.4	7.4
Overall (seasonally adjusted)	3.3	3.3	3.4	4.1	5.2	5.4	5.3	4.9

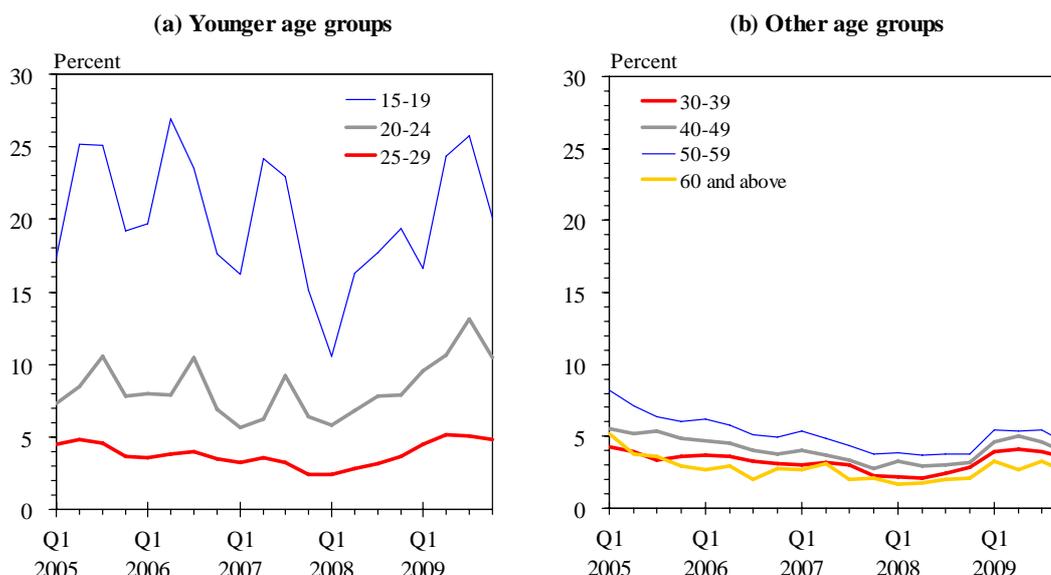
Source : General Household Survey, Census and Statistics Department.

**Diagram 6.3 : A widespread decline in unemployment rate\* occurred in most occupation categories in the fourth quarter of 2009**



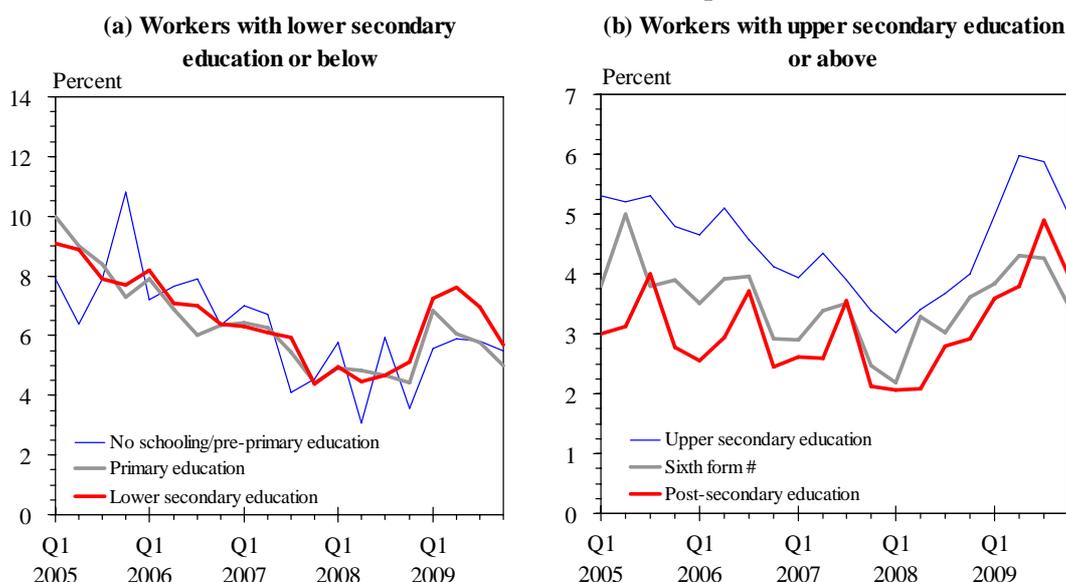
Notes : (\*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.  
 (#) Including technicians and supervisors.

**Diagram 6.4 : Unemployment rate\* fell across all age groups, including in particular those aged 15-29, in the fourth quarter**



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

**Diagram 6.5 : Unemployment rate\* likewise went down across all educational attainment levels in the fourth quarter**



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

(#) Including craft courses.

6.11 Amid the economic downturn and weak employment conditions, long-term unemployment (i.e. six months or longer) correspondingly surged from 27 200 in 2008 to 52 900 in 2009 in absolute terms, as well as from 0.7% to 1.4% in proportionate terms. Yet as the overall economic conditions turned around, the long-term unemployment situation also showed signs of improvement in late 2009. Reflecting this, the number of long-term unemployed persons and the relevant share in total labour force both went down from 61 600 and 1.7% in the third quarter to 57 800 and 1.6% respectively in the fourth quarter. Furthermore, among the total numbers unemployed in the fourth quarter, 62.4% were found to have been dismissed or laid off, down from the proportion of 68.5% in the preceding period. All these suggested that the

unemployment problem was steadily on the mend in the latter part of 2009.

### **Profile of underemployment**

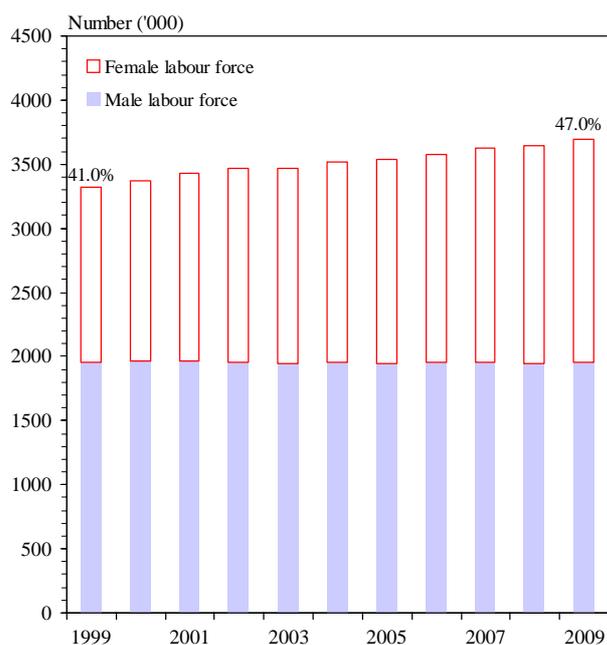
6.12 The figures on underemployment exhibited a relatively higher degree of stability in 2009. During the year, the underemployment rate was static or else showed a modest rise. At 2.3% in the fourth quarter, the underemployment rate was only slightly up from 2.1% in the first quarter. For 2009 as a whole, the rate averaged at 2.3%, compared to 1.9% in 2008. Between these two years, underemployment rose more visibly in construction, transportation and food services, which were the sectors where most of the part-time and casual jobs could usually be found. Past experience indicated that during the early phase of an economic upturn, employers generally had greater tendency to create jobs of temporary nature to meet with the upsurge in business activity. Thus it was hardly surprising that the number of part-time jobs (with working hours less than 35 a week) showed an accelerated increase during the nascent recovery in 2009, from 3.7% year-on-year in the first quarter to 4.7% in the fourth quarter, while the proportion of part-time employees also moved up from 5.9% to 6.1%. As a result, underemployment which formed part of the part-time employment rose in tandem.

## Box 6.1

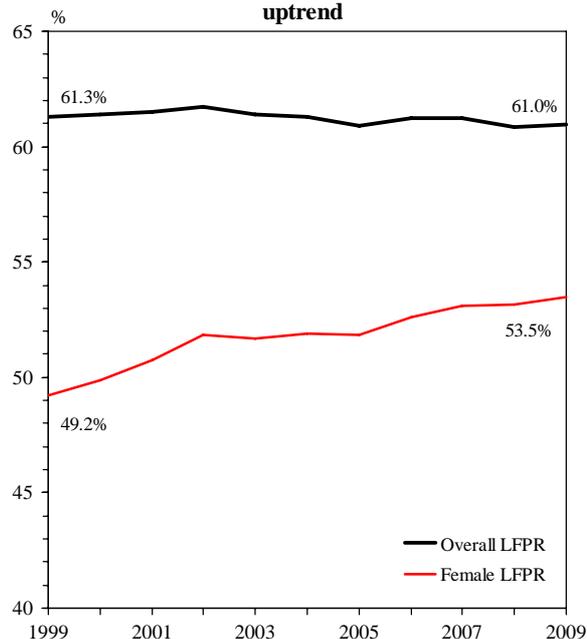
### Recent trends of development in the female workforce

Within the labour force and total employment, female workers have kept on growing notably over the past ten years, even during periods of economic downturn. From 1999 to 2009, the number of female workers grew from 1 362 500 to 1 736 300 (*Chart 1*), representing an average annual increase of 2.5%. This more than doubled the growth rate of 1.1% for total labour force. Concurrently, the labour force participation rate (LFPR) for females also saw a distinct rise from 49.2% to 53.5%, which contrasted markedly with the declining trend observed for overall LFPR (*Chart 2*).

**Chart 1: Female workers within the labour force kept on increasing both in numbers and percentage share**



**Chart 2: The labour force participation rate (LFPR) for females also followed an uptrend**



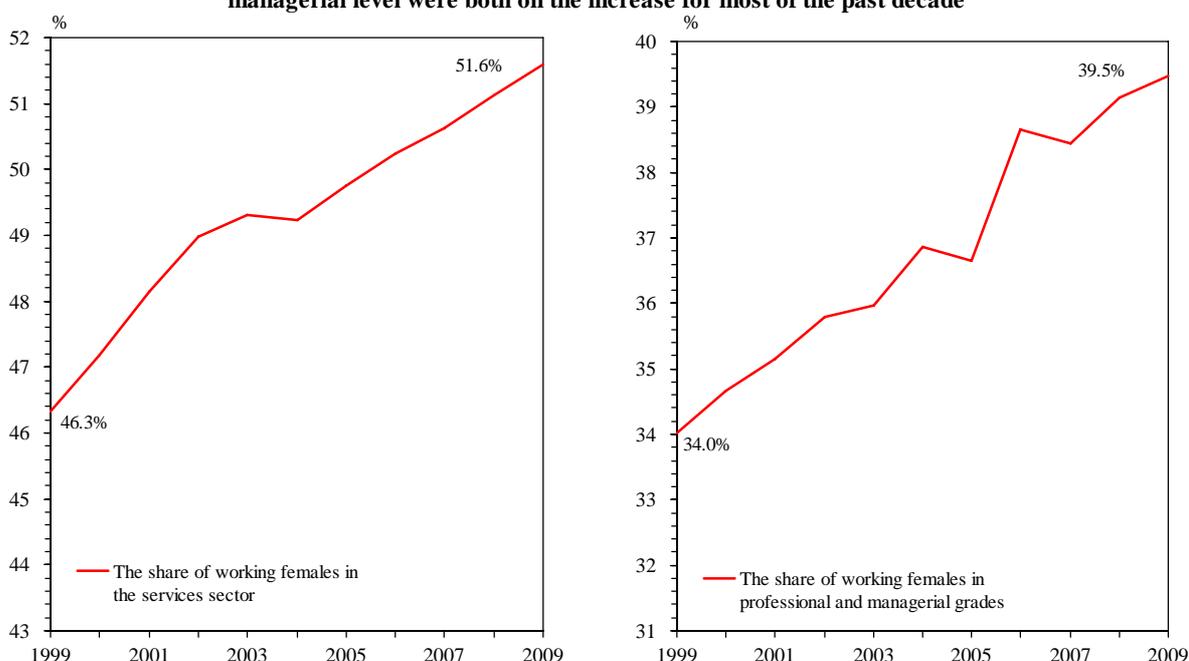
According to the projections by the Census and Statistics Department, the proportion of female workers within the labour force will increase further to 55.4% in 2026, from 45.4% in 2006. Even excluding foreign domestic helpers, the female workforce is expected to outnumber the male counterpart in 2023. As regards the proportion of female workers in total employment, at present the figure is 47.4%, and it is envisaged to reach 50% or above in the near future.

The rising trend of female employment went well with the changing composition of manpower demand amid Hong Kong's progressive restructuring towards knowledge-based activities, especially those in the service sectors such as financing and information technology, etc. with greater emphasis on educational qualifications and application of knowledge, rather than on physical strength as in the case of manual jobs in the construction sector. Currently, the services sector as a whole constitutes as much as 92.0% of Hong Kong's GDP. Moreover, many females with excellent interpersonal skills and communication with clients can work effectively in personal-based sectors such as the retail trade and tourism. In fact, the proportion of female workers in the services sector has already surpassed the male counterpart, albeit only modestly, since 2006 (*Chart 3*). For public administration, social and personal services in particular, the corresponding share in 2009 now even reaches nearly 70% (specifically, 69%). Over the years, there has also been a distinct improvement in educational attainment for female workers, as borne out by the upsurge in the proportion of females with post-secondary education from 25% in 1999 to 32% in 2009. Among them, those having taken part-time and distance learning courses have grown substantially by nearly

### Box 6.1 (Cont'd)

5 times from 15 553 in 1991 to 90 861 in 2006, far exceeding the 2.5 times increase recorded for males. Benefiting from their improved educational qualifications and sex discrimination regulations, females now face a level playing field, same as males do, in respect of both job opportunities and employment conditions. From a macro perspective, the progressive upgrading of knowledge and skills among females has also been conducive to the improvement of overall labour productivity and economic growth in Hong Kong.

**Chart 3 & Chart 4: The shares of female workers in the services sector and at the professional and managerial level were both on the increase for most of the past decade**



Another major factor contributing to the growing participation of females in the labour market is the changing demographic structure and public perceptions of a family. Despite the Government's promotion efforts in the past several years, the fertility rate in Hong Kong is still way below many other economies in the world. Meanwhile, the median age at first marriage and that at first childbirth have kept on increasing over the past decades (*Table 1*). Conceivably, this is due in part to the changing family perception among females amid the evolving economic and social conditions, which has led them to become more independent for work and less keen on getting married or starting a family.

**Table 1: Median childbearing age of women by order of live births and first marriage age**

Year	1 <sup>st</sup> order live births	2 <sup>nd</sup> order live births	3 <sup>rd</sup> order live births	3 <sup>rd</sup> and higher order live births	All order live births	First Marriage
1998	29.2	32.0	33.8	35.3	30.7	26.9
2003	29.4	32.2	34.1	35.0	30.9	27.8
2008	29.8	32.8	34.1	35.6	31.6	28.4

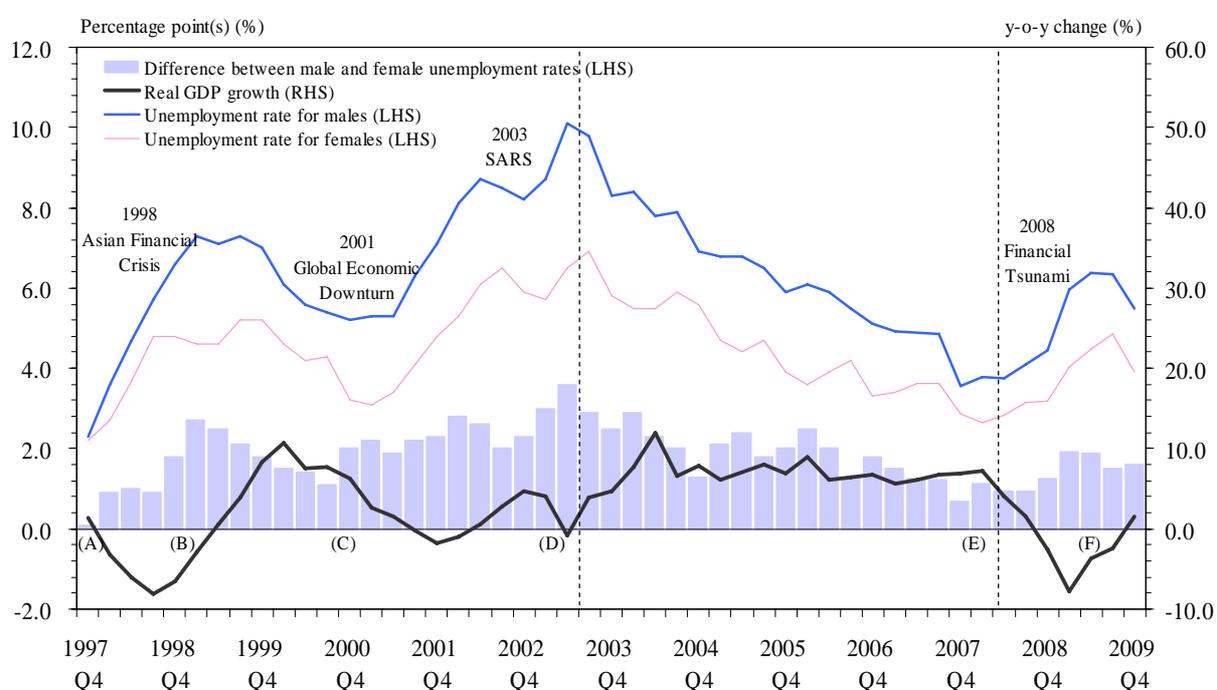
The rising female LFPR, coupled with their improving educational attainment and work skills, has enabled more and more women to climb up the career ladder to the upper echelons of society. In 2009, about 40% of professionals, managers and administrators were females (*Chart 4*), which reaffirms the common perception of females assuming an increasingly important role at the upper level. In regard to the civil service, the number of female directorate

### Box 6.1 (Cont'd)

officers has likewise jumped from 35 in 1981 to 368 in 2008, representing a sharp rise of more than 10-fold. Consequently, the proportion of females in the directorate grade has surged to 30%. Even for those jobs involving more manual labour such as non-civilian police officers and fire officers, there has also been an increasing trend of female participation over the past decade.

Another development worth noting is that the unemployment rate for females has been at a lower level than that for males over the years. Past experience indicates that during an economic downturn, the difference between the male and the female unemployment rates usually widens, and the gap will become larger when overall unemployment approaches its peak. On the other hand, the difference between these two unemployment rates tends to narrow during the course of an economic recovery (*Chart 5 & Table 2*). As Table 2 shows, these movements mainly reflect the higher degree of volatility in the male unemployment rate, whereas the female unemployment rate has shown relatively smaller fluctuations under different economic conditions.

**Chart 5 : Trend movements of the male and female unemployment rates**



**Table 2: Changes of male and female unemployment rates at different stages of the economic cycle**

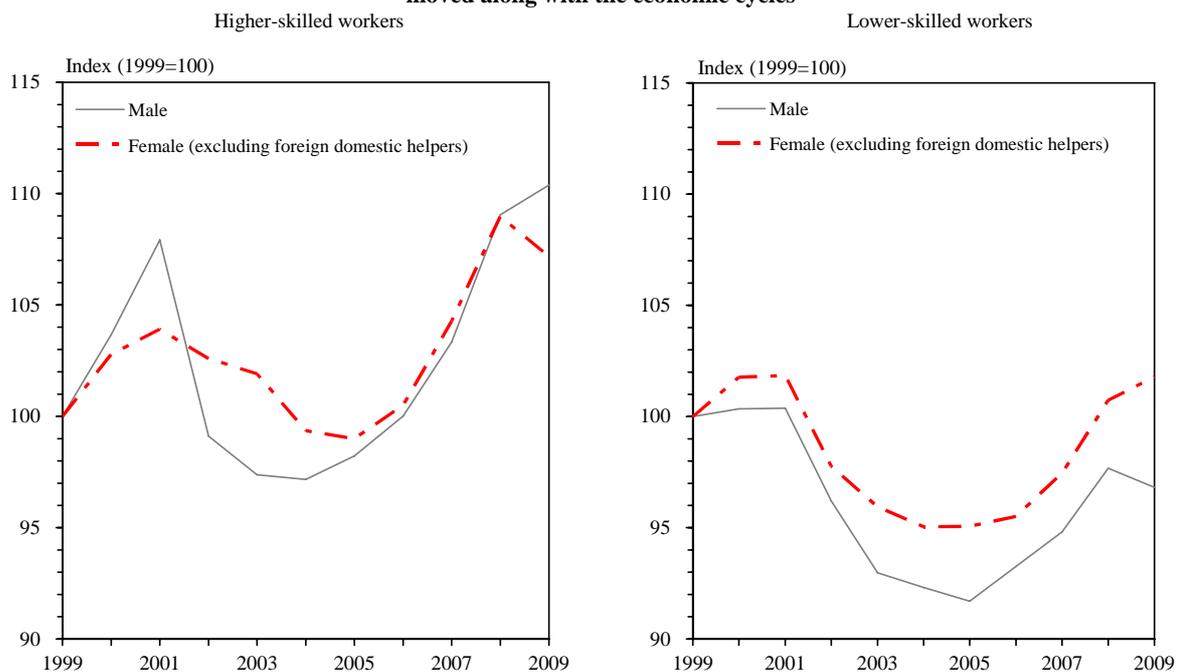
Quarter	Unemployment rate				Real GDP growth (4-quarter moving average)
	Overall (after seasonal adjustment)	Of which:		Difference (percentage point(s))	
		Male	Female		
1997 Q4	2.2%	2.3%	2.2%	0.1% (A)	5.1%
1999 Q1	6.3%	7.3%	4.6%	2.7% (B)	-6.0%
2000 Q3	4.8%	5.4%	4.3%	1.1% (C)	8.5%
2003 Q2	8.5%	10.1%	6.5%	3.6% (D)	2.7%
2008 Q2	3.3%	3.8%	2.8%	1.0% (E)	6.3%
2009 Q2	5.4%	6.4%	4.5%	1.9% (F)	-3.1%

### Box 6.1 (Cont'd)

As for employment income, the earnings of female workers, both higher-skilled and lower-skilled, likewise moved along with the economic cycles (*Chart 6 & Chart 7*). In 2009, the average monthly employment income for female workers (excluding foreign domestic helpers) amounted to \$14,600, representing an increase of around 12% over a decade ago. This growth pace is broadly similar to that for male workers. After discounting the effect of consumer price deflation prevalent for a considerable part of the period, there was in fact a larger improvement in real terms. Furthermore, consequential to more females entering the upper segment of the occupational hierarchy, the share of female employees with monthly income of \$40,000 or above has risen notably from 25% to 32% over the past decade. These females have thus emerged as a major consumer group supporting domestic demand in the economy.

Even so, it is noted that the proportion of females engaged in higher-skilled or full-time jobs continues to be smaller than that for males (the corresponding figures in respect of higher-skilled jobs are about 30% versus 41%; and those in respect of full-time jobs about 91% versus 94%). In view of these figures, there should still be room for female workers to expand further in the labour market in the years to come.

**Chart 6 & Chart 7: The average income for female workers, both higher-skilled and lower-skilled, moved along with the economic cycles**



## **Profile of employment in establishments**

6.13 The statistics compiled from the Quarterly Survey of Employment and Vacancies are available only up to September 2009, and therefore cannot reflect the relatively better job market situation in the fourth quarter.

6.14 The survey data indicated that comparing September 2009 with a year earlier, total employment in private sector establishments contracted by 1.0%, following similar decreases of 1.0% in March and 1.5% in June. Growth however varied among different sectors. Business establishments in social and personal services and in financing, insurance, real estate and business services recorded employment gains of 3.0% and 0.3% in September, improved from the 2.6% increase and 0.2% decrease seen in March. As for business establishments in manufacturing and in the import/export trade and wholesale, job losses of reduced magnitude were noted, at 5.0% and 4.1% in September as against 7.0% and 4.5% in March. Analysed by establishment size, employment in small and medium-sized enterprises (SMEs)<sup>(5)</sup> was 4.1% fewer in September 2009 than a year earlier, likewise representing a relative improvement from the 5.7% drop in March. Headcounts in large enterprises were up all through the year, by 2.1% in September and by an average of 2.0% for the first nine months as a whole, only slightly slower than the average growth of 3.0% in 2008. As to the civil service, the number of employees grew steadily by 1.1% year-on-year in September, same as those in March and June, reflecting sustained recruitment drive on the part of the Government in the wake of the global financial turmoil.

6.15 In addition to its regular employment and placement services, the Labour Department (LD) has organised job fairs of different scales and at various locations to respond speedily to the demands of both employers and job seekers. In 2009, 22 large-scale job fairs and 224 mini-job fairs were organised. Concurrently, the Employees Retraining Board has also responded proactively to the training needs of the community by adjusting its allocation of training places. For the financial year 2009-10, the Board plans to provide a total of 123 000 training places, with additional resources reserved for another 20 000 places should the need arise.

6.16 In a separate move to encourage employment among youths, the Government has also enhanced its employment programmes via the “Internship Programme for University Graduates” launched in August 2009. By end-2009, some 1 300 graduates had secured employment through the Programme and close to 200 graduates had firmed up internships in different Mainland cities. The participating tertiary institutions and LD have joined hands in providing job-matching services to assist the graduates to secure internship positions.

**Table 6.5 : Employment by major economic sector**

	2008					2009		
	Annual average	Mar	Jun	Sep	Dec	Mar	Jun	Sep
Import/export trade and wholesale	582 500 (-0.6)	586 200 (0.1)	585 400 (-0.1)	582 000 (-0.5)	576 600 (-1.8)	559 800 (-4.5)	554 200 (-5.3)	558 300 (-4.1)
Retail	236 000 (2.8)	233 400 (3.3)	236 100 (2.8)	237 800 (3.6)	236 900 (1.5)	232 000 (-0.6)	232 600 (-1.5)	236 800 (-0.4)
Accommodation and food services	241 500 (2.0)	238 200 (1.8)	241 900 (3.7)	245 100 (2.5)	240 700 (*)	238 200 (*)	238 800 (-1.3)	240 200 (-2.0)
Transportation, storage, postal and courier services <sup>(a)</sup>	156 300 (3.5)	155 500 (5.1)	157 000 (3.1)	156 900 (3.8)	155 800 (1.8)	158 000 (1.6)	156 900 (-0.1)	157 700 (0.5)
Information and communications	88 600 (3.6)	86 900 (2.2)	89 800 (5.3)	89 900 (5.2)	87 700 (1.7)	86 100 (-0.9)	86 900 (-3.3)	87 900 (-2.2)
Financing and insurance, real estate, professional and business services <sup>(a)</sup>	577 100 (3.4)	573 700 (5.2)	578 600 (3.8)	581 800 (3.7)	574 400 (1.1)	572 700 (-0.2)	577 500 (-0.2)	583 700 (0.3)
Social and personal services <sup>(a)</sup>	401 600 (3.6)	396 600 (3.3)	399 000 (2.9)	405 000 (4.5)	406 000 (3.8)	407 100 (2.6)	411 600 (3.2)	417 100 (3.0)
Manufacturing	132 500 (-3.5)	135 200 (-2.9)	133 000 (-3.7)	131 300 (-3.7)	130 600 (-3.8)	125 700 (-7.0)	124 700 (-6.2)	124 700 (-5.0)
Construction sites (manual workers only)	49 400 (-1.5)	50 500 (0.3)	49 600 (-3.0)	48 100 (-2.1)	49 400 (-1.3)	51 900 (2.8)	48 900 (-1.2)	48 000 (-0.4)
All establishments surveyed in the private sector <sup>(a)(b)</sup>	2 476 400 (1.8)	2 467 200 (2.5)	2 480 800 (2.1)	2 488 900 (2.2)	2 468 900 (0.5)	2 442 200 (-1.0)	2 442 600 (-1.5)	2 464 900 (-1.0)
		<0.9>	<0.4>	<0.2>	<-0.9>	<-0.7>	<-0.1>	<0.8>
Civil service <sup>(c)</sup>	154 000 (0.1)	153 500 (-0.2)	153 700 (*)	154 300 (0.4)	154 300 (0.3)	155 100 (1.1)	155 400 (1.1)	156 000 (1.1)

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) Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and social and personal services.

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

(c) 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 outside Hong Kong, 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.

(\*) 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.

## Vacancies

6.17 Job vacancies in private sector establishments, whilst generally following a downward trend, showed distinct relative improvement over the course of 2009. Specifically, private sector vacancies fell by 18.8% year-on-year in September 2009, narrowed markedly from the decreases of 50.6% in March and 38.9% in June. Such an improvement, whilst occurring extensively in many sectors, was most visible in accommodation and food services (with a 31.0% surge in September as against a 4.2% fall in March), followed by financing, insurance, real estate and business services (-15.3% as against -58.4%), and manufacturing (-19.2% as against -67.1%).

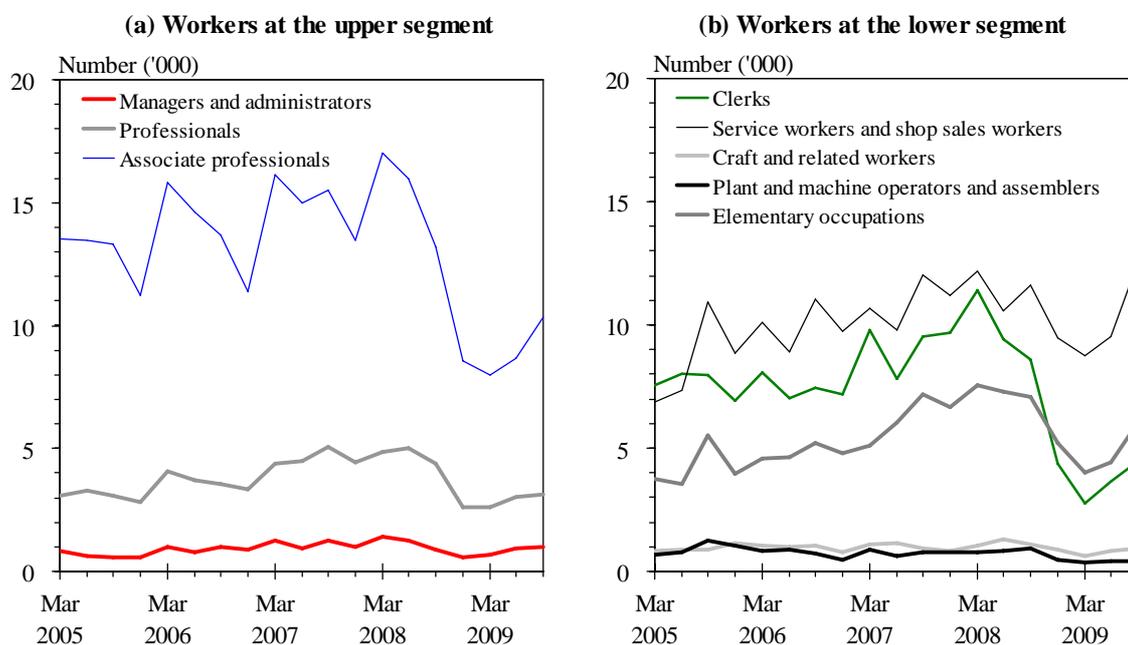
6.18 The declining trend observed for job vacancies in most occupation categories likewise tapered off. For higher-skilled jobs, vacancies were reduced by 21.9% year-on-year in September 2009, much smaller than the 51.6% drop in March. A similar pattern of movement was seen for lower-skilled jobs, with decreases of 16.8% as against 49.9%. Yet, considerable differences in performance still existed among major occupation categories. For instance, vacancies for managers and administrators, and service workers and shop sales workers posted increases at 10.7% and 8.0% respectively in September, whereas those in most other occupations faced moderate decreases of varying degrees. By comparison, plant and machine operators and assemblers fared worse, with a noticeable reduction of 54.1%. As to the ratio of job vacancies per 100 job seekers, the figure went up from 15 in March to 19 in September, mainly due to increased job openings over the period. A more detailed breakdown showed that the corresponding ratio for lower-skilled jobs improved from 12 to 18, as did that for higher-skilled jobs from 31 to 37. Analysed by establishment size, vacancies at SMEs were 15.7% fewer in September 2009 than a year earlier and those at large enterprises were 21.7% less. Despite this, they still represented a considerable improvement from the situation in March when significant losses of 54.7% and 46.9% were recorded for SMEs and large enterprises respectively.

6.19 In proportionate terms, the vacancy rate in the private sector followed a steady uptrend, rising from 1.1% in March to 1.3% in June and further to 1.5% in September. The increase was more apparent in food and beverage services (from 2.3% in March to 3.0% in September), financing and insurance (from 1.0% to 2.1%), and manufacturing (from 0.5% to 1.0%).

6.20 As for the civil service, the total number of vacancies stood at 5 000 in September 2009, down somewhat from 5 500 a year ago. This partly exhibited the Government's continuing effort to expedite its recruitment process,

as vacancies were progressively filled and translated into increased civil service employment (paragraph 6.14).

**Diagram 6.6 : Vacancies in most occupations continued to rebound in the third quarter**



6.21 The vacancy registration data compiled by the Labour Department (LD), notwithstanding its smaller sample size, may provide some clue to the latest trends in the job market. The data revealed that in December 2009, there were some 55 000 private sector vacancies registered with LD, 28.6% more than a year earlier. Variations in performance were however noted for different economic sectors. Among them, hotels and boarding houses and restaurants were the sectors with the largest increases, at 144.2% and 84.0% respectively. Yet these impressive growth figures were partly affected by the low base of comparison a year earlier. On a quarter-to-quarter comparison, the registered vacancies also went up notably by 5.1%.

**Table 6.6 : Vacancies by major economic sector**

	<u>Number of vacancies</u>								Vacancy rate in Sep 2009 (%)
	<u>2008</u>					<u>2009</u>			
	<u>Annual Average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Import/export trade and wholesale	7 600 (-17.1)	9 900 (-4.2)	9 000 (-0.6)	7 200 (-18.0)	4 100 (-50.1)	3 300 (-67.1)	4 300 (-51.9)	4 500 (-37.6)	0.8
Retail	5 000 (7.6)	5 700 (14.7)	5 200 (25.5)	5 500 (9.8)	3 500 (-19.7)	2 900 (-49.6)	3 700 (-29.4)	4 200 (-22.8)	1.7
Accommodation and food services	5 500 (5.0)	5 400 (24.6)	5 600 (21.7)	5 400 (-19.4)	5 700 (5.6)	5 200 (-4.2)	4 500 (-19.2)	7 100 (31.0)	2.9
Transportation, storage, postal and courier services <sup>(a)</sup>	1 700 (-12.0)	2 300 (28.4)	1 900 (0.3)	1 600 (-24.9)	900 (-50.8)	1 000 (-58.2)	1 000 (-49.1)	1 100 (-28.7)	0.7
Information and communications	1 900 (-9.7)	2 100 (-5.0)	2 400 (26.1)	2 200 (-6.2)	800 (-55.5)	900 (-57.8)	1 500 (-36.7)	1 400 (-37.1)	1.5
Financing and insurance, real estate, and professional and business services <sup>(a)</sup>	13 100 (-9.6)	16 300 (10.1)	14 300 (2.9)	13 100 (-14.0)	8 600 (-38.2)	6 800 (-58.4)	7 400 (-48.2)	11 100 (-15.3)	1.9
Social and personal services <sup>(a)</sup>	10 500 (9.9)	12 400 (41.5)	11 100 (30.2)	11 200 (8.7)	7 300 (-31.2)	7 100 (-42.6)	8 400 (-24.2)	8 100 (-27.5)	1.9
Manufacturing	1 600 (-9.2)	2 000 (0.1)	2 000 (12.4)	1 500 (-16.2)	1 100 (-36.2)	700 (-67.1)	700 (-67.2)	1 200 (-19.2)	1.0
Construction sites (manual workers only)	# (26.3)	# (*)	# (87.5)	# (57.7)	# (-26.7)	# (-92.1)	# (-86.7)	# (-56.1)	*
All establishments surveyed in the private sector <sup>(a)(b)</sup>	46 900 (-4.0)	56 200 (14.0)	51 600 (12.5)	47 800 (-8.7)	32 200 (-33.1)	27 800 (-50.6)	31 500 (-38.9)	38 800 (-18.8)	1.5
		<-1.8>	<-2.9>	<-13.7>	<-18.8>	<-27.2>	<19.8>	<14.6>	
Civil service <sup>(c)</sup>	5 800 (127.7)	5 500 (366.2)	6 200 (94.4)	5 500 (81.6)	5 800 (114.8)	5 300 (-3.8)	5 200 (-15.8)	5 000 (-9.7)	3.1

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

(a) Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and social and personal services.

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

(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

( ) % 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.

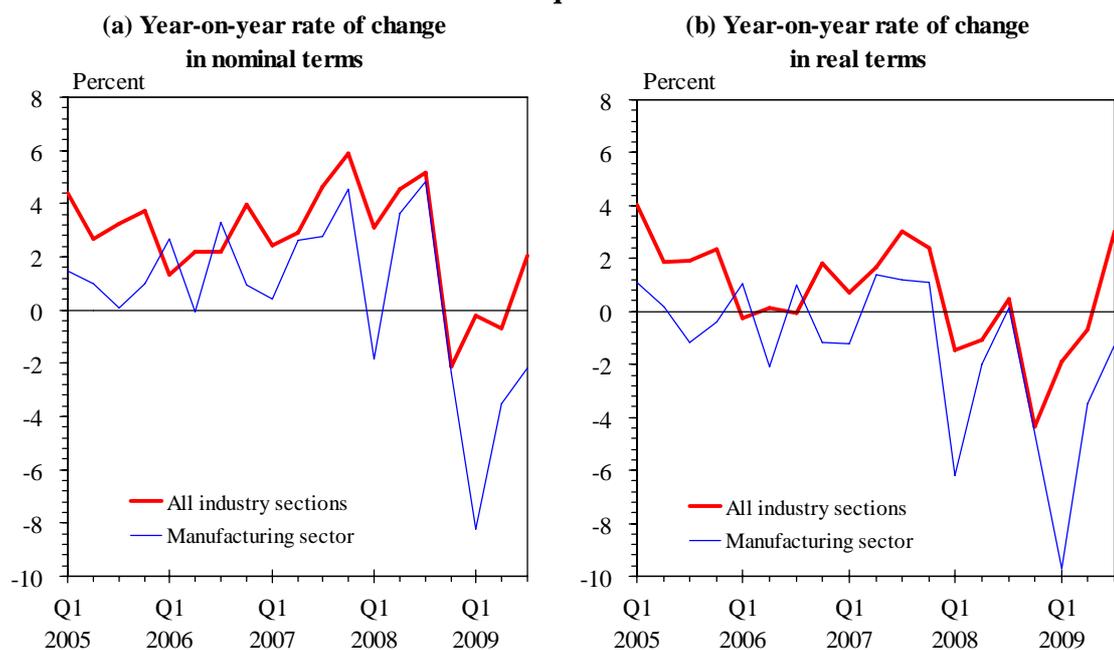
## Earnings and wages

6.22 Labour wages, as a measure of regular payment to employees at the supervisory level or below, were 1.8% lower in September 2009 than a year earlier, broadly similar to the 1.9% fall in June. After adjusting for the change in consumer prices, labour wages were down by 2.6% in real terms<sup>(6)</sup>. Taking the first nine months of 2009 together, labour wages declined by 1.5% in money terms or 1.4% in real terms over a year earlier.

6.23 Analysed by occupation category, nominal wages for clerical and secretarial workers and for operatives had year-on-year decreases of 2.6% and 4.6% respectively in September 2009, whereas those for supervisory and technical workers with better skills had a lesser decline of 1.6%. Analysed by economic sector, wage cuts also took place extensively across many sectors. Among them, finance and insurance, and personal services were the sectors with larger reductions in wages at 2.5% and 3.4% respectively, while the import/export, wholesale and retail trades, and real estate leasing and maintenance management showed smaller decreases at 1.8% and 1.0%. On the other hand, professional and business services even recorded a marginal gain of 0.1% over the same period.

6.24 Labour earnings<sup>(7)</sup>, as measured by payroll per person engaged in private sector, exhibited a different growth profile. As an employment income indicator more sensitive to economic conditions, labour earnings witnessed a rise of 2.1% in money terms in the third quarter of 2009 over a year earlier, reversing the downtrend established since late 2008. This was attributable mainly to the payment of extra bonuses to workers at the upper level in certain sectors alongside the revival of business activities. After adjusting for consumer price changes, the gain was 3.0% in real terms. On a seasonally adjusted basis, the rebound in labour earnings was even more noticeable, with increases of 5.1% in nominal terms and 6.1% in real terms over the second quarter. Taking the first three quarters together, the year-on-year increases recorded were rather modest at 0.4% in nominal terms and 0.1% in real terms.

**Diagram 6.7 : Payroll rebounded both in nominal and real terms  
in the third quarter of 2009**



6.25 The improvement in labour earnings occurred more visibly among professional and managerial staff than lower-skilled workers, as the former group tended to benefit more from the system of discretionary bonuses and incentive allowances. Among the various economic sectors, labour earnings in real estate enjoyed a distinct hike of 4.5% in the third quarter of 2009 over a year earlier, while those in finance and insurance rose by 0.6%. These compared favourably to the pay cuts seen earlier in the year. In stark contrast, labour earnings in the externally-oriented sectors such as manufacturing and the import/export and wholesale trades stayed soft, registering decreases of 2.2% and 0.2% respectively. The same was observed for some other sectors like the retail trade and social and personal services, in which labour earnings were down by 4.7% and 1.5% respectively.

6.26 The latest statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, revealed that the average earnings<sup>(8)</sup> of employed persons (excluding foreign domestic helpers) decreased modestly by 1.2% in the fourth quarter of 2009 over a year earlier, after an increase of 3.5% in the third quarter. Earnings of higher-skilled workers fell slightly by 0.4%, following a 7.5% rise. As to lower-skilled workers, there was a decrease of 1.0%, only marginally improved from the 1.1% decline in the preceding period.

## 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.

Starting from May 2008, the seasonally adjusted unemployment rate is compiled by the X-12 ARIMA method to replace the previous X-11 ARIMA method. The seasonally adjusted unemployment rates since November 2006 – January 2007 have also been revised using the new method. The X-12 ARIMA method, being an update to the X11-ARIMA method, has now been a standard method used by statistical offices for performing seasonal adjustment of statistical series in many countries/territories. Since the two seasonal adjustment methods are indeed very similar, the revision made to the seasonally adjusted unemployment rate series due to the use of the new method is insignificant.

- (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) Labour force and employment statistics compiled from the General Household Survey for the period from Q1 2008 to Q4 2008 have been revised to take into account the results of the revised population of 2008.

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.

- (4) 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).
- (5) Manufacturing enterprises 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.

- (6) 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 in occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (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) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

## CHAPTER 7 : PRICES

### *Summary*

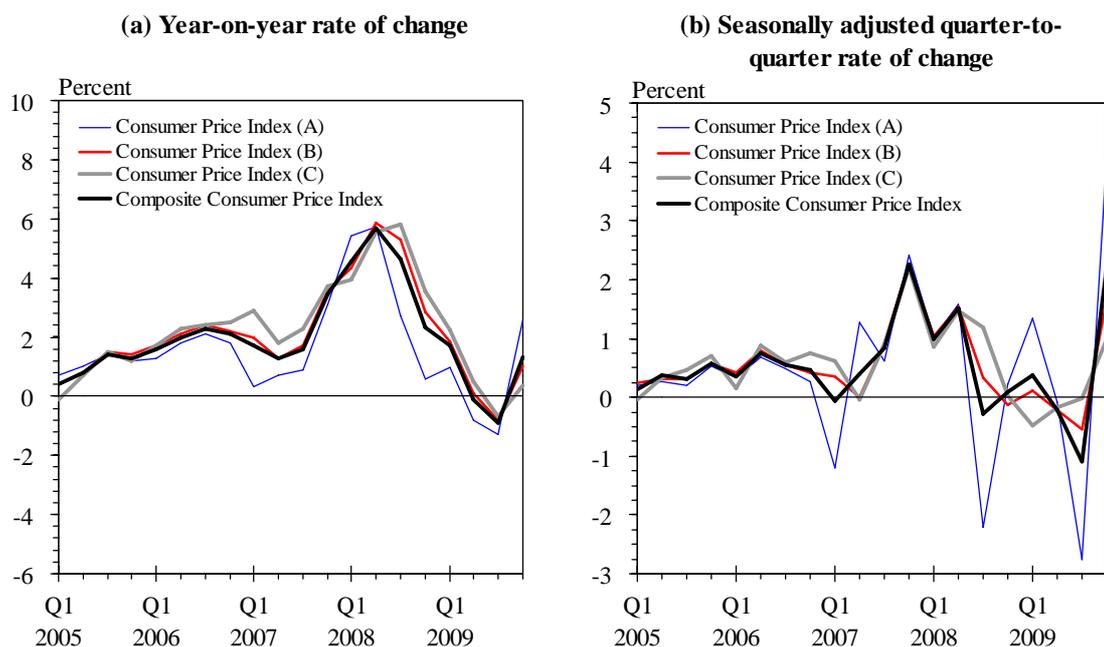
- *Global inflationary pressures largely subsided in 2009 as most advanced economies around the world were mired in recession, particularly in the first half of 2009 amidst the global financial tsunami. Yet with the enormous rescue packages and concerted stimulus efforts by governments and central banks, the advanced economies began to bottom out in the third quarter, and deflationary pressures had receded towards the end of the year. During 2009, price pressures in Hong Kong largely followed the ebb and flow of the global inflationary forces.*
- *Consumer price inflation came down distinctly in the first half of 2009, dipping to the negative region for several months, before reverting to slight positive at year-end. For 2009 as a whole, the increase in the Composite Consumer Price Index <sup>(1)</sup> was only 0.5%, much smaller than the 4.3% rise in 2008. The significant easing in inflation mainly reflected the effects of the Government's one-off relief measures, a modest price rise in basic foodstuffs, slower rise in rental costs, and continued falls in the prices of durable goods. Netting out the effects of the Government's one-off measures, underlying inflation averaged at 1.0% in 2009.*
- *Local business costs generally eased back during 2009, as wages and commercial rentals softened consequential to the economic downturn. External price pressures likewise disappeared. Yet as labour market conditions improved and business sentiment turned up, the downward pressures on wages and commercial rentals tended to abate progressively in the latter part of the year.*

### **Consumer prices**

7.1 Inflationary pressures quickly subsided in the early part of 2009 as the economy slipped into a severe recession. Given the slack in the economy and softening import prices in the aftermath of the global financial crisis, underlying inflation turned slightly negative in July and held steady at the -0.3% level for five consecutive months. Towards the end of the year, however, the slight deflation has given way to slight inflation, thanks to the economic recovery. In the international markets, food and oil prices showed renewed increases during the year, aided partly by a weaker US dollar. Many other Asian economies

also saw a return to inflation in the latter part of the year<sup>(2)</sup>, notably with the Mainland's consumer price inflation turning positive in late 2009, due mainly to higher food prices. The *Composite Consumer Price Index* (Composite CPI) increased by a modest 0.5% in 2009, much slower than the 4.3% increase in 2008. Netting out the effects of the Government's one-off relief measures, underlying consumer price inflation in 2009 was 1.0%, also markedly lower than 5.6% in 2008.

**Diagram 7.1 : Inflation turned slightly positive towards the end of 2009**



**Table 7.1 : 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>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2008	Annual	5.6	4.3	3.6	4.6	4.7
	H1	5.3	5.1	5.6	5.1	4.7
	H2	5.8	3.5	1.6	4.1	4.7
	Q1	4.9 (2.1)	4.6 (1.0)	5.4 (1.0)	4.3 (1.0)	3.9 (0.9)
	Q2	5.7 (1.5)	5.7 (1.5)	5.7 (1.6)	5.9 (1.5)	5.5 (1.5)
	Q3	6.3 (1.3)	4.6 (-0.3)	2.7 (-2.2)	5.3 (0.3)	5.8 (1.2)
	Q4	5.4 (0.4)	2.3 (0.1)	0.6 (0.2)	2.9 (-0.1)	3.6 (*)
	2009	Annual	1.0	0.5	0.4	0.5
	H1	2.1	0.8	0.1	1.0	1.4
	H2	-0.2	0.2	0.6	0.1	-0.1
	Q1	3.1 (-0.1)	1.7 (0.4)	1.0 (1.3)	1.9 (0.1)	2.2 (-0.5)
	Q2	1.2 (-0.3)	-0.1 (-0.2)	-0.8 (-0.1)	0.1 (-0.2)	0.5 (-0.2)
	Q3	-0.3 (-0.2)	-0.9 (-1.1)	-1.3 (-2.8)	-0.8 (-0.5)	-0.7 (*)
	Q4	-0.1 (0.5)	1.3 (2.2)	2.6 (4.1)	1.0 (1.7)	0.4 (1.0)

Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all relevant one-off measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension of Employees Retraining Levy, and subsidies for household electricity charges.

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

(\*) Change of less than 0.05%.

7.2 Among the major components, housing costs showed a moderate increase in 2009, but made the largest contribution to the increase of the Composite CPI given its large weighting in household consumption expenditure. The year-on-year increase in housing cost actually came down progressively over the course of the year, reflecting the gradual feed-through of the earlier downward adjustment in market rentals for private housing after the financial tsunami. Likewise, the food component, despite the modest increase in prices, was the second largest contributor to consumer price inflation. In contrast, the fall in electricity charges had helped to lower consumer price inflation visibly, largely reflecting the effect of Government's electricity charge subsidy. The transport component also recorded a decline, mainly reflecting lower prices of motor fuel and cross-boundary transport fares. Prices of durable goods continued their secular downtrend in 2009, and those of miscellaneous services

also fell on account of the implementation of the free senior secondary education starting from the 2008/09 school year and the suspension of the Employee Retraining Levy since August 2008. On the other hand, prices of alcoholic drinks and tobacco rose notably, mainly due to higher duty on cigarettes, while clothing and footwear and miscellaneous goods registered some mild increases in prices.

**Table 7.2 : Composite Consumer Price Index by component  
(year-on-year rate of change (%))**

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	26.94	10.1	1.3	4.6	1.5	-0.5	-0.3
<i>Meals bought away from home</i>	16.86	5.9	1.6	3.4	1.7	0.7	0.6
<i>Other foodstuffs</i>	10.08	16.8	0.9	6.5	1.2	-2.3	-1.5
Housing <sup>(a)</sup>	29.17	4.1	3.7	6.6	4.5	1.7	1.9
<i>Private dwellings</i>	23.93	6.8	3.6	(6.6)	(4.1)	(1.4)	(-0.2)
<i>Public dwellings</i>	2.49	-27.2	9.5	(7.7)	(4.7)	(1.6)	(-0.4)
				(0.2)	(0.2)	(0.2)	(*)
Electricity, gas and water	3.59	-6.5	-25.3	-42.7	-42.7	-26.1	32.3
				(-8.1)	(-8.2)	(-7.3)	(-2.9)
Alcoholic drinks and tobacco	0.87	0.1	18.7	7.6	22.6	22.9	22.0
Clothing and footwear	3.91	0.8	2.7	1.8	2.5	2.6	3.7
Durable goods	5.50	-2.0	-3.0	-2.9	-3.3	-3.1	-2.8
Miscellaneous goods	4.78	5.0	2.3	3.2	2.3	1.7	1.9
Transport	9.09	2.5	-0.9	0.7	-0.7	-2.4	-1.0
Miscellaneous services	16.15	0.8	-2.1	-1.7	-3.0	-2.8	-0.7
				(-1.1)	(-2.3)	(-2.1)	(*)
All items	100.00	4.3	0.5	1.7	-0.1	-0.9	1.3
				(3.1)	(1.2)	(-0.3)	(-0.1)

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.

Figures in bracket represent the underlying rate of change after netting out the effect of Government's one-off relief measures.

(\*) Change of less than 0.05%.

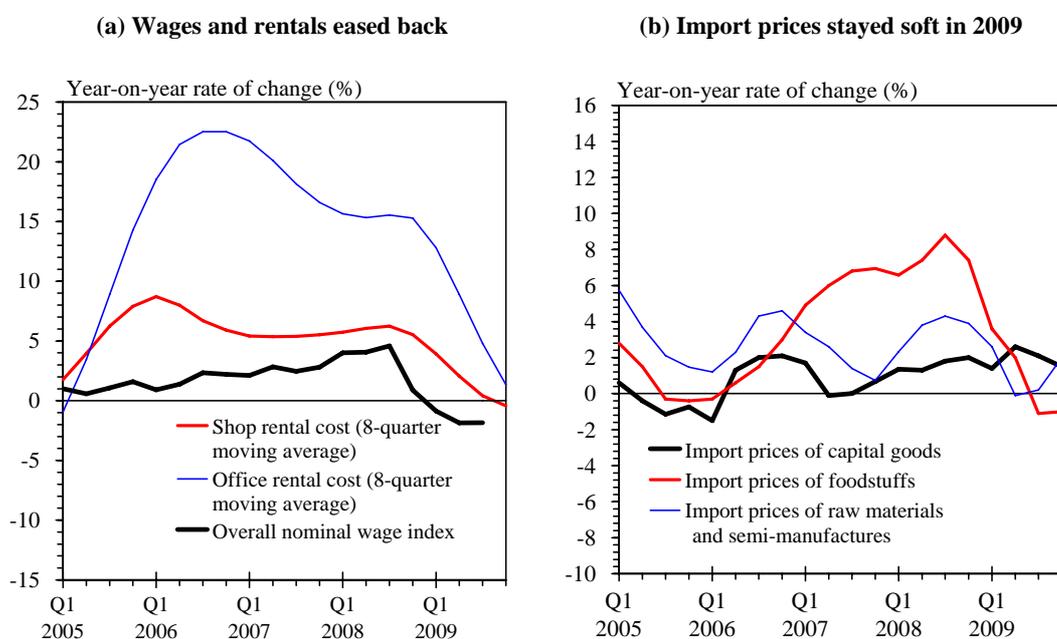
7.3 Deflationary pressures, which prevailed during most of 2009 on a relatively mild scale, abated notably towards the end of the year. Underlying

Composite CPI inflation edged up from -0.3% year-on-year in the third quarter of 2009 to -0.1% in the fourth quarter, and actually reverted to a positive 0.3% in December. This was also evident from the seasonally adjusted data series, which indicated that the average monthly rate of change in the underlying Composite CPI turned from broadly flat in the third quarter of 2009 to 0.2% in the fourth quarter. The receding of the deflationary forces accorded well with the concurrent revival in consumer demand as the economic recovery took hold.

## Costs of factor inputs and import prices

7.4 Wages and commercial rentals eased back in 2009, reducing the pressure on business costs in the aftermath of the global financial crisis. Given that employment and income conditions had yet to fully stabilise in the early stage of economic recovery, wages were still lower than the levels in 2008, although there was some increase on a quarter-to-quarter basis in the third quarter of 2009. Likewise, rentals for the new letting of retail premises and offices fell notably in late 2008 and early 2009. With the upturn in business sentiment, shop and office rentals recouped some lost ground in the latter part of the year. Yet on an eight-quarter-moving-average basis, they continued to ease.

**Diagram 7.2 : Costs of factor inputs and import prices**



7.5 On the external front, import prices eased back in overall terms during 2009 amid the recessionary forces in the global economy. By the second quarter, import prices dipped into a decline and the easing trend continued into the third quarter, only to resume a slight increase in the fourth quarter. This profile in fact closely matched the dramatic changes in the external environment

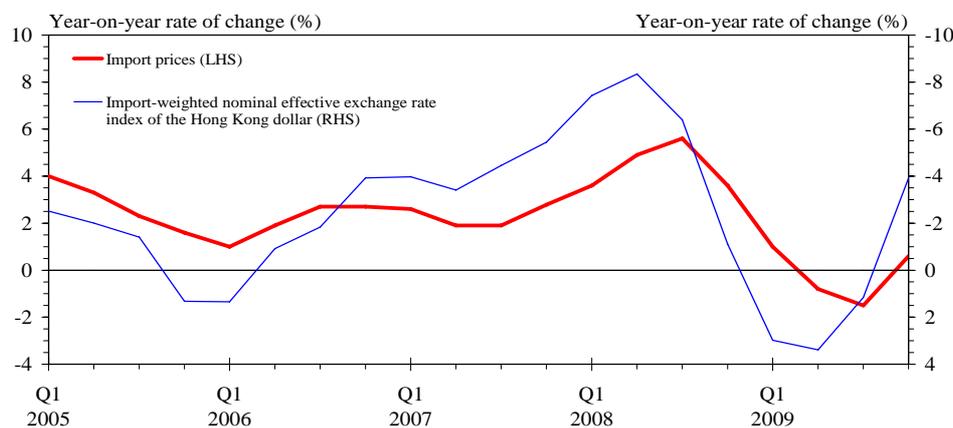
during the year. Analysed by end-use, import prices of fuels were on average markedly lower in 2009 than in 2008, even with the bounce-back in oil prices since early 2009. Import prices of both foodstuffs and consumer goods came down successively during the year, turning to a modest decline in the second half of 2009. Import prices of raw materials recorded a small increase in 2009 as a whole, much slower than in 2008. Import prices of capital goods recorded modest increases all through the four quarters. Conceivably, this was partly due to the strength of yen against the US dollar, with Japan being the second largest source of Hong Kong's capital goods intake.

**Table 7.3 : 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>
2008	Annual	7.5	4.8	3.6	33.0	1.6	4.4
	H1	7.0	3.9	3.1	51.2	1.3	4.3
	H2	8.0	5.8	4.1	18.1	1.9	4.6
	Q1	6.6	3.7	2.3	41.5	1.4	3.6
	Q2	7.4	4.1	3.8	59.3	1.3	4.9
	Q3	8.8	6.1	4.3	49.0	1.8	5.6
	Q4	7.4	5.6	3.9	-7.6	2.0	3.6
2009	Annual	0.9	-0.2	1.2	-32.1	2.0	-0.1
	H1	2.8	1.7	1.1	-41.5	2.1	*
	H2	-1.0	-1.9	1.1	-23.1	1.8	-0.5
	Q1	3.6	2.9	2.6	-38.8	1.4	1.0
	Q2	2.0	0.6	-0.1	-43.2	2.6	-0.8
	Q3	-1.1	-2.1	0.2	-37.6	2.1	-1.5
	Q4	-1.0	-1.8	2.0	-3.6	1.5	0.6

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

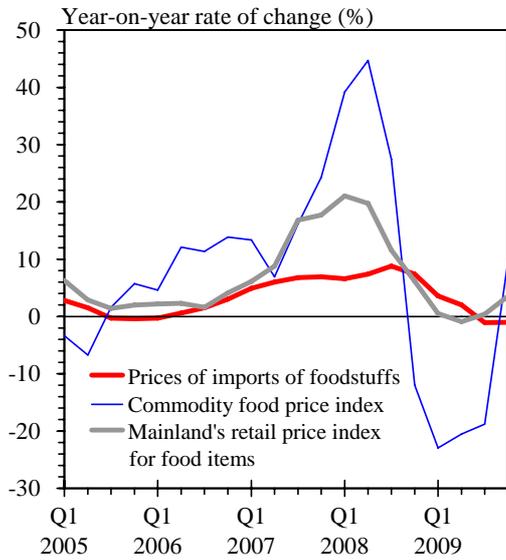
**Diagram 7.3 : Import prices edged up towards the end of the year, amid the global gradual recovery and a weakened HK dollar**



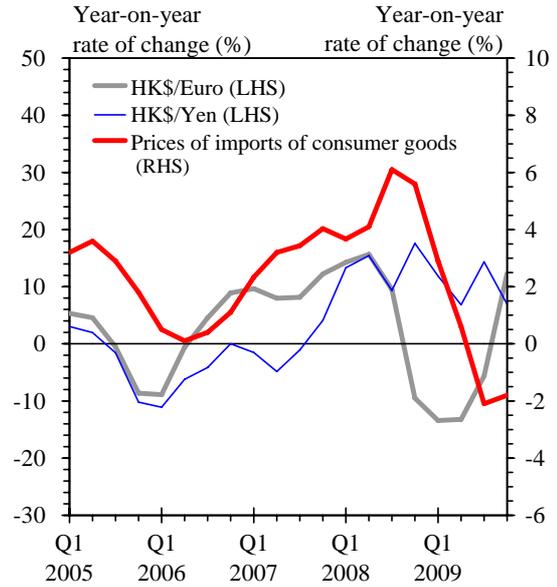
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**Diagram 7.4 : Import prices by end-use categories**

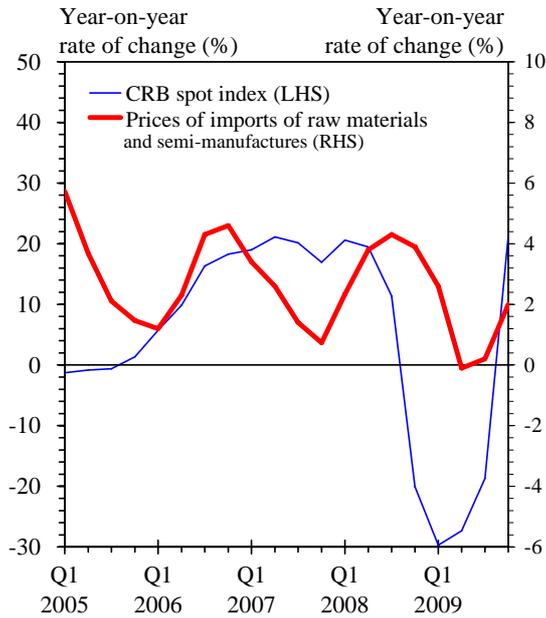
**(a) Import prices of foodstuffs came down successively**



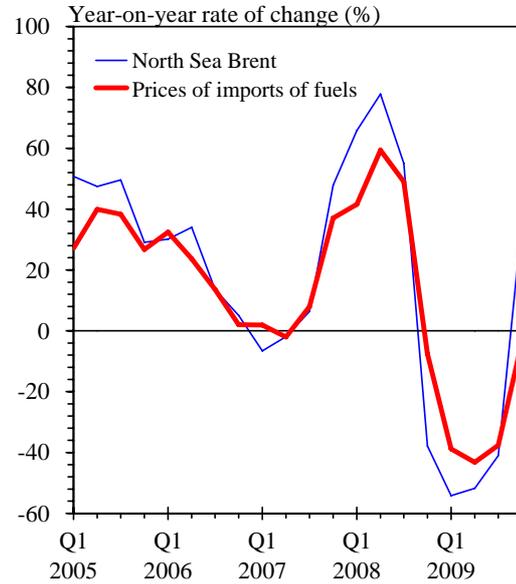
**(b) Import prices of consumer goods turned to decline in latter part of 2009**



**(c) Import prices of raw materials edged up slightly towards year-end**



**(d) Fuel prices rebounded but were still markedly lower in 2009 than 2008**



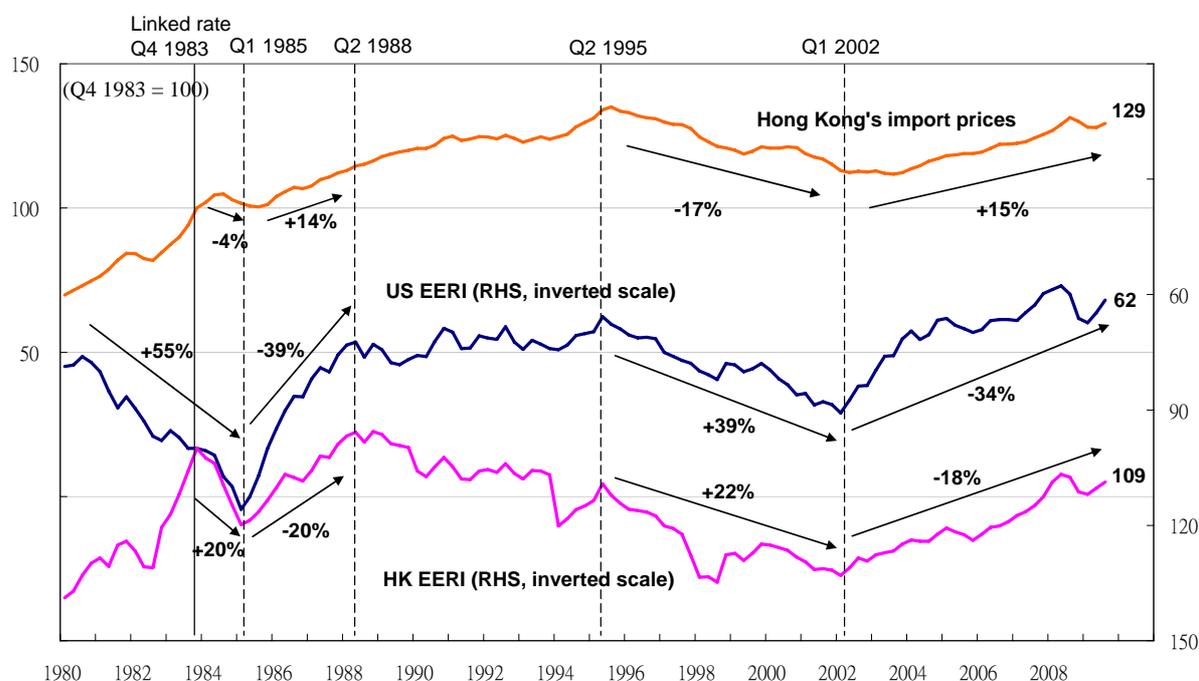
## Box 7.1

### Relationships between exchange rate and import price movements

The outlook for the US dollar is currently subject to considerable uncertainty. There is a concern about whether imported inflation in Hong Kong will go up in the event of a notable weakening of the US dollar. By reviewing the past experience, this article tries to gauge the extent to which Hong Kong's import prices are influenced by exchange rate movements. It also gives a brief comparison with the experiences of other Asian economies.

*Chart 1* shows the movements of the US dollar and Hong Kong dollar in terms of their nominal effective exchange rate index in inverted scale, juxtaposed against those of Hong Kong's import prices. The inverted scale is to reflect the inverse relationship between exchange rate and import price movements.

**Chart 1: The US dollar has gone through several major ups and downs, and so have the HK dollar and import prices\***



(\*) The chart shows the quarterly movements of the US trade-weighted major currencies effective exchange rate index (EERI) and the import-weighted HK EERI, and the corresponding peak-to-trough or trough-to-peak percentage changes.

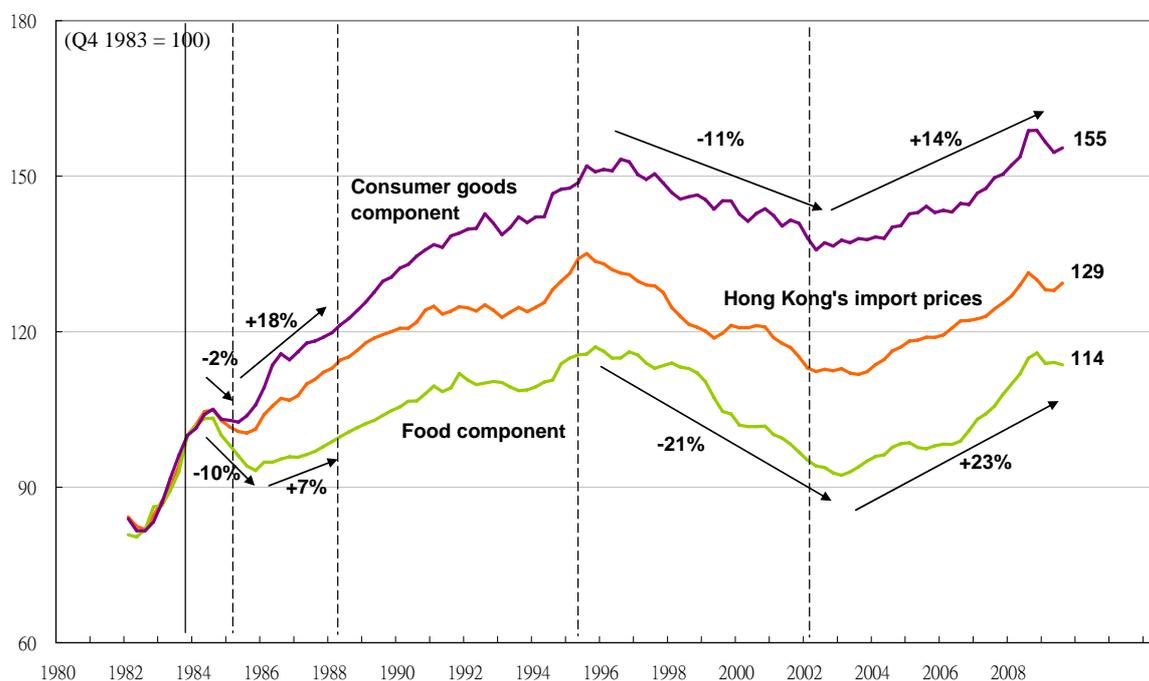
The US dollar went through several rounds of major ups and downs over the past decades. It appreciated sharply by 55% from 1980 to 1985, driven by the success of a tight monetary policy to rein in inflation and by the higher real interest rate resulting from an expansionary fiscal policy. The strong dollar, however, hurt exports and worsened the trade balance. In September 1985, the US reached the Plaza Agreement with France, the then West Germany, Japan and the UK (the then Group of Five) to manage the depreciation of the US dollar against the Japanese yen and the deutschemark. As a result, the US dollar depreciated by 39% from 1985 to 1988, which helped to reduce the current account deficit. The dollar experienced a lingering period of modest depreciation from 1988 to 1995 on the back of a

### Box 7.1 (Cont'd)

strong deutschemark and a strong yen, and rose by a further 39% on a robust economic outlook and strong dollar rhetoric from 1995 to 2002. Then sentiment switched, and thereafter the dollar was on a downtrend, falling by a cumulative 34% between 2002 and mid-2008 amid mounting concerns over its deteriorating trade deficit. The Hong Kong dollar has generally moved in tandem with but to a smaller extent than the US dollar. There was some divergence in movements during the period 1988-1995, mainly due to difference in trade compositions and divergent movements of the currencies of major trading partners. At that time, China took up roughly 30% of the Hong Kong effective exchange rate index and the renminbi had been depreciating gradually until the unification of renminbi exchange rates in 1994.

From the chart, it can be seen that the movements of Hong Kong's import prices correspond roughly to the movements of the US dollar and Hong Kong dollar against their major trading partners. As higher import prices may pass through to consumer prices as imported inflation, a further look is taken at the components of import prices by end-use categories that are more relevant to final consumption. *Chart 2* shows that the consumer goods and food components of import prices have tended to broadly follow the overall import price movements.

**Chart 2: Consumption related components of import prices have tended to follow the overall import price movement\***



(\*) Based on quarterly data.

**Box 7.1 (Cont'd)**

The results of Granger causality tests likewise suggest that exchange rate movements are one of the relevant factors influencing Hong Kong's import prices<sup>(1)</sup>. Further analysis confirms Granger causality from exchange rate movements to the import prices of consumer goods, but little evidence of causality from exchange rates to import prices of food<sup>(2)</sup>. The latter is due to the fact that food prices are also significantly affected by global supply and demand conditions apart from exchange rate factors. For example, the surge in food prices in 2007-2008 was more of a worldwide phenomenon triggered by low levels of world cereal stocks, crop failures in major exporting countries, and rapidly growing demand for agricultural commodities for biofuels, according to the UN's Food and Agriculture Organization (FAO).

Looking at data since the inception of the linked exchange rate system in 1983, there is however little evidence to suggest that Hong Kong's import prices have exhibited greater volatility or larger increases than those of many other Asian economies, or global inflation for that matter (*Table 1*). Indeed, Hong Kong's import prices have been rising generally in tandem with world commodity prices, and actually are less volatile than the import prices of other Asian economies adopting flexible exchange rate regime. In fact, the linked exchange rate system may have shielded Hong Kong's import prices from the sharp volatilities experienced by Thailand and Korea in their import prices during 1997-98, when the Asian financial crisis struck.

**Table 1: Hong Kong import price has been more stable and contained than other Asian economies and global inflation**

**Between 1983 Q4 and 2009 Q3 (26 years)**

	<u>Cumulative change</u> (%)	<u>Average annualised change</u> (%)	<u>Standard deviation<sup>#</sup></u> (%)
Global inflation			
World Bank's estimate	232.4	5.6	5.5
IMF's estimate	1430.7	11.2	7.8
<b>Hong Kong's import prices</b>	<b>29.4</b>	<b>1.0</b>	<b>4.1</b>
Compared with import prices of:			
Korea	85.0	2.4	12.9
Singapore	-15.4	-0.6	4.9
Thailand	175.5	4.0	12.2
Taiwan	10.4	0.4	7.5
World commodity prices	39.3	1.3	11.1

(#) Standard deviation of the year-on-year % change.

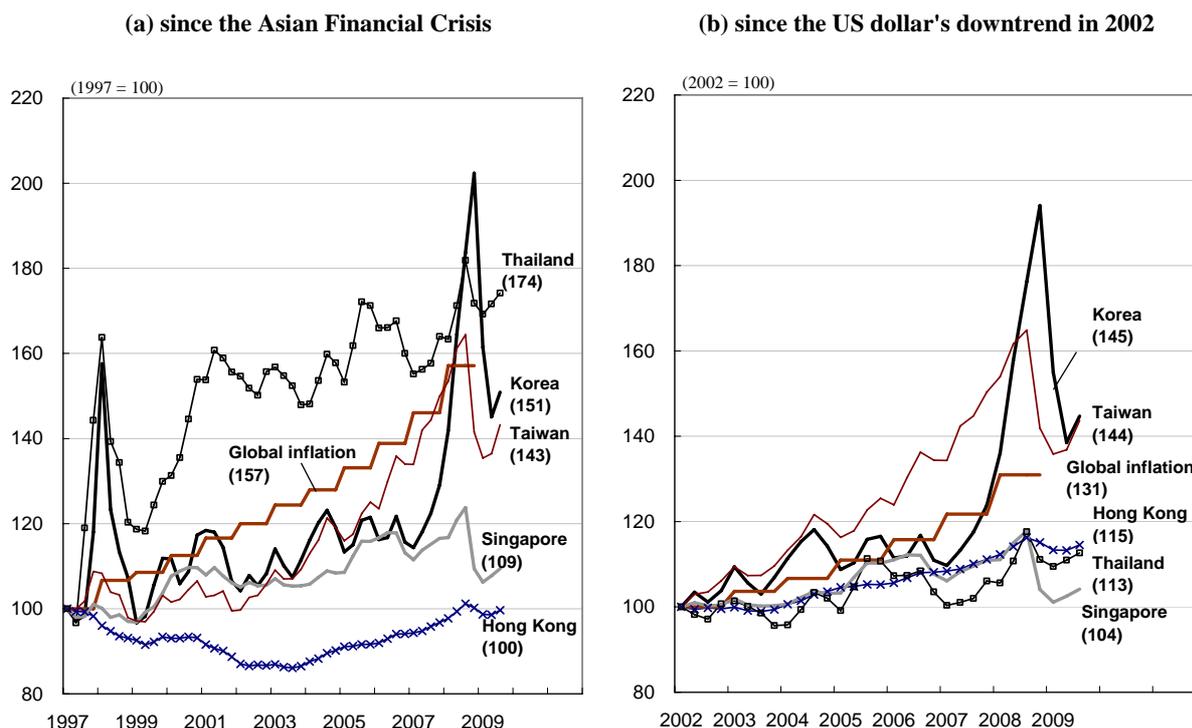
(1) Granger causality tests were run using quarterly data from Q1 1983 to Q3 2009 and four lag periods were included. The results suggest significant Granger causality relationships of US and Hong Kong dollar exchange rates on Hong Kong's import prices, at the 5% and 1% levels respectively.

(2) Granger causality tests were run using quarterly data from Q1 1983 to Q3 2009 and four lag periods. The results suggest significant Granger causality relationships of the US and Hong Kong dollar exchange rates on Hong Kong's import prices of consumer goods, both at the 1% level, but not on import prices of food.

### Box 7.1 (Cont'd)

Looking at different time periods to discern the US dollar's influence on Hong Kong's import prices more closely, it is found that in the past 13 years after the Asian Financial Crisis, during which most Asian currencies became de-linked with the US dollar, Hong Kong's import prices had barely moved compared with the 1997 level whereas other Asian economies had seen their import prices fluctuate wildly and increase at a rapid pace (*Chart 3a*).

**Chart 3: Hong Kong's import prices are less volatile and increase more slowly than many other Asian economies\***



(\*) Import prices are based on quarterly data; global inflation on annual data from the World Bank.

Even in more recent years after 2002, when the US dollar turned and embarked on a persistent downtrend, and along with this the Hong Kong dollar correspondingly declined, the increase in Hong Kong's import prices had been slower than those of many other Asian economies, and also global inflation (*Chart 3b*). This suggests that while exchange rate is a prominent factor affecting import prices, other factors such as world commodity prices and the compositions of imports have also been in play. In particular, the Mainland has been instrumental in keeping import prices down, thanks to our increasing trade ties with the hinterland.

## Output prices

7.6 Output prices, as measured by *Producer Price Indices*<sup>(3)</sup>, declined during the first three quarters of 2009 in most of the economic sectors. With the sluggish import demand in the overseas markets, prices of manufacturing output fell across a wide range of products. Within the services sector, output prices of accommodation services fell notably, despite a relative improvement in inbound tourism in the third quarter of 2009. Along with reduced global trade flows, output prices of land, maritime and air transport continued to decline markedly. Meanwhile, prices of telecommunications services continued on a secular downtrend due to technological advancement and keen competition in the sector, while those of courier services posted a modest increase.

**Table 7.4 : 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>2008</u>				<u>2009</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u> <sup>@</sup>
Manufacturing	5.6	5.9	6.9	5.8	3.9	-1.4	-3.0	-2.0
Selected services sector <sup>(a)</sup>								
Accommodation services	7.8	11.1	10.7	10.7	-0.5	-7.0	-10.8	-10.9
Land transport	0.4	0.6	1.5	1.1	-1.5	-0.6	-1.5	-2.0
Maritime transport	2.1	5.3	3.1	3.4	-3.1	-12.7	-21.0	-20.8
Air transport	5.1	3.3	8.8	9.0	-0.5	-10.3	-13.6	-14.3
Telecommunications	-2.6	-1.8	-2.0	-3.4	-3.2	-2.5	-2.8	-2.5
Courier services	3.5	3.9	4.4	4.1	1.8	2.1	1.9	1.9

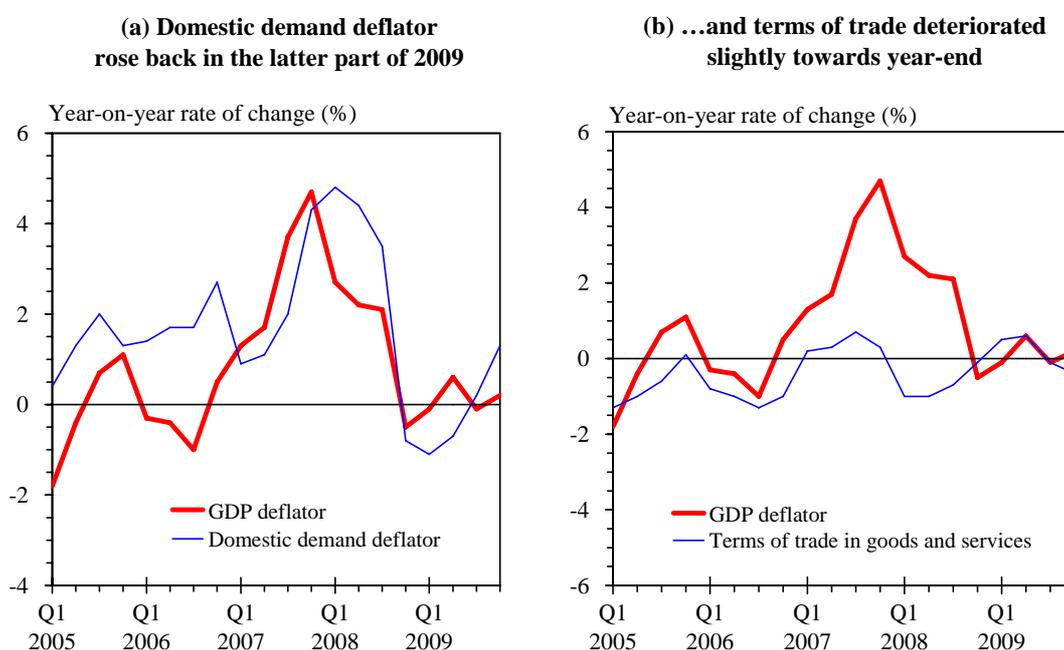
Notes: (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

(<sup>@</sup>) Provisional figures except manufacturing.

## GDP deflator

7.7 As a broad measure of the overall change in prices of the economy, the *GDP deflator* <sup>(4)</sup> rose only slightly by 0.2% in 2009, slower than the 1.5% increase in 2008. The moderation was due mainly to the significant easing in local inflationary pressures during 2009. For the year as a whole, there was a marginal improvement in the *terms of trade* <sup>(5)</sup>, as import prices eased off slightly faster than export prices. Taking out the external trade component, the domestic demand deflator went down more visibly in the first quarter of 2009 before gradually rising back along with the concurrent upturn in local demand.

**Diagram 7.5 : GDP deflator**



**Table 7.5 : GDP deflator and the main expenditure component deflators  
(year-on-year rate of change (%))**

	<u>2008</u>					<u>2009</u>				
	<u>Annual<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Annual<sup>+</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>+</sup></u>
Private consumption expenditure	2.8	5.0	5.2	3.2	-1.8	-1.2	-1.1	-2.0	-2.2	0.3
Government consumption expenditure	4.9	4.2	5.6	5.7	4.3	0.1	3.2	-0.8	-1.6	-0.7
Gross domestic fixed capital formation	1.9	4.9	0.3	3.1	*	4.1	-2.0	4.8	8.3	4.4
Total exports of goods	3.4	2.3	3.4	4.4	3.3	0.3	1.8	-0.3	-1.0	0.7
Imports of goods	4.1	3.4	4.6	5.4	3.1	-1.1	-0.1	-2.2	-2.1	*
Exports of services	3.4	4.2	5.0	5.1	-0.3	-5.9	-7.5	-8.4	-7.0	-1.6
Imports of services	3.8	5.8	5.8	4.7	-0.7	-2.2	-5.8	-5.7	-3.1	5.5
<b>Gross Domestic Product</b>	<b>1.5</b>	<b>2.7</b> <-0.9>	<b>2.2</b> <*>	<b>2.1</b> <0.9>	<b>-0.5</b> <-0.5>	<b>0.2</b>	<b>-0.1</b> <-0.4>	<b>0.6</b> <0.6>	<b>-0.1</b> <0.1>	<b>0.2</b> <-0.1>
Total final demand	3.2	3.3	3.9	4.3	1.6	-0.8	-0.6	-1.5	-1.6	0.5
Domestic demand	2.8	4.8	4.4	3.5	-0.8	*	-1.1	-0.7	0.2	1.3

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

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

## 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>	<i>16.86</i>	<i>18.63</i>	<i>17.65</i>	<i>13.74</i>
<i>Other foodstuffs</i>	<i>10.08</i>	<i>13.47</i>	<i>9.67</i>	<i>6.67</i>
Housing	29.17	30.54	27.70	29.66
<i>Private dwellings</i>	<i>23.93</i>	<i>22.07</i>	<i>23.89</i>	<i>26.11</i>
<i>Public dwellings</i>	<i>2.49</i>	<i>6.18</i>	<i>1.25</i>	<i>--</i>
<i>Maintenance costs and     other housing charges</i>	<i>2.75</i>	<i>2.29</i>	<i>2.56</i>	<i>3.55</i>
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) The table below presents the year-on-year rates of consumer price inflation in selected economies.

	<u>2008</u>	<u>2009</u>				
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Selected developed economies						
US	3.8	-0.4	*	-1.2	-1.6	1.4
Canada	2.3	0.3	1.2	0.1	-0.9	0.8
EU	3.7	1.0	1.6	0.9	0.4	1.0
Japan	1.4	-1.4	-0.1	-1.0	-2.2	-2.0
Major emerging economies						
Mainland China	5.9	-0.7	-0.6	-1.5	-1.3	0.7
Russia	14.1	11.7	13.7	12.4	11.4	9.2
India	8.3	10.9	9.4	8.9	11.8	13.3
Brazil	5.7	4.9	5.8	5.2	4.4	4.2
Selected Asian economies						
Hong Kong	4.3	0.5	1.7	-0.1	-0.9	1.3
Singapore	6.5	0.2	2.1	-0.5	-0.4	-0.3
Taiwan	3.5	-0.9	*	-0.8	-1.3	-1.3
South Korea	4.7	2.8	3.9	2.8	2.0	2.4
Malaysia	5.4	0.6	3.7	1.3	-2.3	-0.2
Thailand	5.5	-0.8	-0.2	-2.8	-2.2	1.9
Indonesia	9.8	4.8	8.6	5.6	2.8	2.6
Philippines	9.3	3.3	6.9	3.2	0.3	3.0
Vietnam	23.1	6.7	14.4	6.2	2.6	4.6
Macao	8.6	1.2	3.3	1.8	-0.2	-0.1

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

- (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.

## **Calendar of Events of Significance for the Hong Kong Economy in 2009**

- 1 Jan The liberalisation measures under Supplement V to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) came into effect. Hong Kong service suppliers enjoyed preferential access to the Mainland market in 40 service areas, including 29 new liberalisation measures in 17 service areas (of which 17 services liberalisation and facilitation measures were for early and pilot implementation in Guangdong Province). Moreover, the number of products with CEPA rules of origin agreed was increased to 1 537.
- 2 Jan The revised Code of Banking Practice became effective.
- 6 Jan The Hong Kong Monetary Authority (HKMA) announced the offer of additional Exchange Fund Bills, totalling HK\$18 billion, to meet the increased demand for the paper by banks.
- 8 Jan The HKMA released the report on Issues Concerning the Distribution of Structured Products Connected to Lehman Group Companies.
- 9 Jan The Finance Committee of the Legislative Council (LegCo FC) approved a new commitment of \$18 billion for establishing a Research Endowment Fund for providing research funding to the University Grants Committee-funded institutions.
- 13 Jan The Heritage Foundation and the Wall Street Journal released the 2009 Index of Economic Freedom. Hong Kong was rated the freest economy in the world for the 15th straight year, followed by Singapore and Australia.
- 16 Jan Guangdong Province promulgated “Measures of the Guangdong Province to Support Hong Kong, Macao and Taiwan-invested Enterprises to Respond to the Global Financial Crisis and Expedite Restructuring and Upgrading”. There were 30 support measures including strengthening financial support, reducing or waiving certain taxes and fees, streamlining approval procedures, supporting innovation of enterprises and strengthening financial services, etc.
- 19-20 Jan The Government and the Hong Kong Trade Development Council (HKTDC) jointly hosted a two-day Asian Financial Forum under the theme “The Changing Face of Asia”. The Forum attracted more than 1 100 participants from the financial markets and business leaders plus almost 300 journalists from 28 countries and regions.
- 20 Jan The HKMA and the People’s Bank of China (PBoC) signed a currency swap agreement with a term of three years that can be extended upon agreement by both parties. The agreement can provide short-term liquidity support up to RMB 200 billion / HK\$227 billion to the Mainland operations of Hong Kong banks and the Hong Kong operations of Mainland banks in case of need.

- 22 Jan After the third meeting of the Task Force on Economic Challenges (TFEC), the Chief Executive (CE) announced measures to cope with the expected wave of staff layoffs and company closures after the Lunar New Year, and to assist graduates entering the labour market later in the year.
- The Government auctioned the radio spectrum in the 2.5 / 2.6 GHz band for the provision of the broadband wireless services. Three successful bidders secured a total of 90 MHz of radio spectrum at a total spectrum utilisation fee exceeding HK\$1.5 billion. By using the spectrum acquired, they will be able to deploy next-generation wireless technologies for the provision of advanced and innovative high-speed multimedia services.
- 31 Jan The Commerce and Economic Development Bureau (CEDB) completed the first round of public consultation on the review of the Control of Obscene and Indecent Articles Ordinance (COIAO).
- 1 Feb The Ministry of Finance (MoF) and State Administration of Taxation (SAT) raised the export tax rebate rates of 3 325 textiles and garments commodities to 15%.
- 3 Feb The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$20.4 billion, to meet the increased demand for the paper by banks.
- 10 Feb The HKSAR Government and the Government of New Zealand agreed to resume negotiations on a Hong Kong and New Zealand Closer Economic Partnership (CEP) Agreement. The negotiations encompassed a wide-ranging scope with emphasis on trade and investment liberalisation and facilitation.
- 17 Feb The Government announced six selected non-profit-making organizations for the adaptive re-use of six Government-owned historic buildings under Batch I of the “Revitalising Historic Buildings Through Partnership Scheme”.
- 19 Feb The Chief Secretary (CS) for Administration, the Vice-Governor of Guangdong Province and the Secretary for Economy and Finance of the Macao Special Administrative Region jointly chaired the Liaison and Coordinating Meeting of Hong Kong, Guangdong and Macao in Jointly Taking Forward the Implementation of "The Outline of the Plan for the Reform and Development of the PRD 2008-2020" (the Outline) in Hong Kong. The three sides had a thorough discussion on how to implement the Outline released by the National Development and Reform Commission in early January, and reached consensus on the key cooperation areas.
- 20 Feb The Securities and Futures Commission (SFC) announced a one-off waiver of annual license fees for over 37 000 intermediaries from 1 April 2009 for one year. This measure helped relieve the regulatory cost burden of the securities industry amidst the economic downturn.

- 22 Feb The FS officiated at the kick-off ceremony of the District Cyber Centres Pilot Scheme. Announced in the 2008-09 Budget, the scheme aims to enhance the capacity of district based cyber centres to help narrow the digital divide of needy community by enhancing their access to computer facilities, Internet connectivity, training and technical support.
- 24 Feb The Secretary for Transport and Housing (STH) and the Vice Minister of Railways signed a memorandum of understanding (MOU) on the technical arrangement for connecting the Mainland and Hong Kong section of the Guangzhou-Shenzhen - Hong Kong Express Rail Link.
- 25 Feb The FS presented the Budget for the financial year 2009-10 to the LegCo, which gave priority to creating jobs and preserving employment.
- The FS proposed a number of one-off measures to alleviate hardship of the people of Hong Kong, including, among others, reduction of final tax in respect of salaries tax and tax under personal assessments; rates waiver; and rental reduction for most government properties and short term tenancies of government land.
- Moreover, the FS announced that the freeze on government fees and charges affecting the general public's daily lives as announced by the CE in July 2008 would be extended until 31 March 2010. The FS also earmarked \$100 million to establish the "Mega Events Fund" in order to assist local non-profit organisations to host more attractive arts, cultural and sports events over the next three years, and to further promote Hong Kong as an events capital of Asia.
- The 2008 Economic Background and 2009 Economic Prospects were published along with the 2009-10 Budget. On Hong Kong's economic outlook for 2009, the Gross Domestic Product (GDP) was forecast to contract by 2% to 3% in real terms as the global financial tsunami had a severe impact on world economic activity. Meanwhile, the headline and underlying Composite Consumer Price Indices (CCPI) for 2009 were forecast to increase by 1.6% and 1.5% respectively.
- 2 Mar The Trade Descriptions (Amendment) Ordinance 2008 and eight related pieces of subsidiary legislation came into effect to strengthen the protection for consumers in the retail business.
- Hong Kong International Airport (HKIA) achieved a superior overall score in the category of Airports Asia & Middle East – 1 000 000 or more tonnes per year in the fifth annual survey of "Air Cargo World".
- 3 Mar The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$22.4 billion, to meet the increased demand for the paper by banks.

- 5 Mar The CE and the Minister of Commerce of the Mainland China co-chaired the “Forum on Assisting Hong Kong Enterprises to Open Up the Mainland Domestic Market” in Beijing to exchange views with Hong Kong business leaders on how to assist Hong Kong enterprises in tapping the Mainland market.
- Premier Wen Jiabao delivered the “Government Work Report” at the second meeting of the 11th National People’s Congress. The Report stated that one of the key areas of work in 2009 would be to further strengthen cooperation between the Mainland and Hong Kong / Macao. Measures included strengthening Hong Kong’s position as an international financial centre; expediting the implementation of pilot scheme for the use of renminbi in settling cross-boundary trade transactions between the Mainland and Hong Kong / Macao; continuing to deepen and widen cooperation among Guangdong, Hong Kong and Macao; expediting infrastructure construction; and further opening up the Mainland’s service industry to Hong Kong and Macao.
- 9 Mar The Microsoft BizSpark Creativity Centre was established at Cyberport to provide local small and medium-sized enterprises in the creative industry with technical and business guidance.
- The Hang Seng Index (HSI) plunged to close at 11 345, the lowest in 2009, along with other stock markets in the region in the aftermath of the global financial tsunami.
- 10 Mar The European Commission (EC) published its 11th report on the HKSAR. The report recognised the substantial and pragmatic cooperation between the European Union (EU) and Hong Kong, which has been enhanced in new areas of mutual interest in 2008. It re-affirmed the role of Hong Kong as an important partner for the EU in Asia; and a platform for trade and investment intermediation between the Mainland and Europe.
- HKIA was named the World’s Best Airport among airports serving over 40 million passengers annually at the Airport Services Quality Awards 2008.
- 12-14 Mar The FS attended the G20 Finance Ministers and Central Bank Governors Meeting in London as member of the Chinese delegation.
- 16 Mar The multi-currency cross-border payment arrangements between the Mainland and Hong Kong took effect. These arrangements helped deepen the promotion of financial cooperation between the Mainland and Hong Kong and marked the introduction of a wide-ranging cross-border payment and settlement mechanism covering multiple currencies.
- 19 Mar The United Kingdom (UK) Foreign and Commonwealth Office presented to UK parliament the 24th Six-monthly Report on Hong Kong covering the period July to December 2008. The Report stated that the “One Country, Two Systems” principle had generally worked well and that the rights and freedoms promised to Hong Kong in the Joint Declaration had continued to be respected.

- 20 Mar The CE officiated at the opening ceremony of the DuPont Apollo Global Thin Film Photovoltaic Business Headquarters and R&D Centre and the Hong Kong Science Park Solar Energy Technology Support Centre at Hong Kong Science Park. The centre is the first major technology cooperation project of the "Shenzhen - Hong Kong Innovation Circle" under the HKSAR Government and the Shenzhen Municipal Government in collaboration with DuPont. The centre helps establish a Solar Energy Research and Industrial Platform in Hong Kong.
- The Government announced the 2009-10 Application List for the sale of Government land, which comprises 40 residential sites, 12 commercial / business sites and 9 "hotel only" sites.
- 23-26 Mar HKTDC organised the Hong Kong International Film and TV Market (FILMART) 2009, a significant cross-media, cross-industry entertainment trade platform in Asia. HKTDC also set up the Hong Kong Animation and Digital Entertainment Pavilion and organised relevant activities to promote the digital entertainment industry at FILMART 2009.
- 24 Mar Cyberport organised the Digital Entertainment Leadership Forum 2009 to share with Hong Kong the successful experience of Wellington, New Zealand in creative industries, and to explore potential collaborations and partnerships with creative professionals from New Zealand and around the world. On the same day, Hong Kong and New Zealand entered into closer ties by signing a MOU on digital entertainment creative business collaboration between Cyberport, Internet Professional Association Limited, Wellington City Council, and New Zealand Institute of Screen Innovation Limited.
- 26 Mar The HKMA announced that it would continue to conduct foreign-exchange swap and term repo under its market operations to provide Hong Kong-dollar liquidity assistance to licensed banks, if needed, after the five temporary measures for providing liquidity assistance introduced on 30 September 2008 expired on 31 March 2009. At the same time, arrangements for obtaining liquidity at the Discount Window would return to the position before the introduction of the five temporary measures, including the reinstatement of the HIBOR leg to the calculation of the Base Rate. The narrower 50-basis point spread over the federal funds target rate would be retained.
- 27 Mar MoF and SAT announced that with effect from 1 April 2009, the export tax rebate rates of 3 802 commodities including textile products and garments, light industries, electronic information, etc. would be raised.
- 31 Mar The third meeting of the "Steering Group on Shenzhen - Hong Kong Cooperation in Innovation and Technology" was held in Shenzhen. The meeting agreed on an action plan under the "Shenzhen - Hong Kong Innovation Circle" for the coming three years. The action plan comprised 24 cooperation projects on various technology areas.

The Government extended the Information and Consultation Agreement (ICA) with The Hong Kong and China Gas Company Limited (Towngas) for a period of three years with effect from 3 April 2009. The ICA was first signed in April 1997 to increase transparency in the Towngas' tariff setting mechanism and provide justification in the event of tariff adjustments, and had been extended four times since then.

- 1 Apr The one-year multiple-entry Individual Visit endorsement for eligible Shenzhen permanent residents to visit Hong Kong was implemented by the Mainland.
- 2 Apr The HKMA participated in the G20 London Summit.
- The Hong Kong Convention and Exhibition Centre atrium link expansion was completed, adding an additional 19 400 square meters of exhibition space capable of accommodating about 1 000 standard exhibition booths.
- 3 Apr After the fourth meeting of the TFEC, the CE announced that the Government would study how to nurture development in six economic areas to tap economic opportunities in the medium to long term, namely, Testing and certification; Medical services; Innovation and technology; Cultural and creative industries; Environmental industry and Educational services.
- 16 Apr A MOU on Cooperation in Wine-related Businesses was signed with Australia, covering wine-related trade and tourism, investment, education, combating counterfeits, wine auctions, storage, and reduction of trade barriers through minimum routine certification requirements.
- 20 Apr The SFC signed a MOU with the State Securities Commission of Vietnam. The MOU established a framework for mutual assistance and facilitates the exchange of information between the two regulators.
- 21 Apr The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$15.4 billion, to meet the increased demand for the paper by banks.
- 22 Apr The Court of Appeal delivered a unanimous judgment to allow the SFC's appeal in the PCCW privatization proceedings and made it clear in its landmark ruling that share splitting for the purpose of manipulating the outcome in a scheme of arrangement is a form of abuse.
- 23 Apr Biotech Centre opened at the Hong Kong Science Park. The 200 000 square-foot centre incorporates two dedicated life science buildings, which provide cutting-edge equipment and wet laboratory facilities for shared use, technical engineering support and an SME centre. The opening of the new centre represents another milestone of the Hong Kong Science Park's drive to help Hong Kong become a hub for innovation in biotechnology in the PRD region.
- 27 Apr The Hong Kong Deposit Protection Board published a consultation paper on a review of the Deposit Protection Scheme.

At the third meeting of the Hong Kong – Shenzhen Joint Task Force on Boundary District Development, the HKSAR and Shenzhen Governments came to the initial view that higher education could be the leading land use in the Lok Ma Chau Loop, complemented with high-tech research and development facilities as well as cultural and creative industries.

The Airport Authority announced a relief package of HK\$450 million to assist airlines and other airport operators amid the economic downturn.

1 May The first imported case of human swine influenza infection was confirmed in Hong Kong. The Government raised the response level from “serious response level” to “emergency response level” under the Emergency Preparedness for Influenza Pandemic in Hong Kong.

3 May The ASEAN + 3 Finance Ministers announced Hong Kong’s participation in the Chiang Mai Initiative Multilateralisation. This can strengthen Hong Kong’s regional financial cooperation with other economies.

4 May The Census and Statistics Department launched a new Annual Earnings and Hours Survey which aims to provide comprehensive data on the level and distribution of wages of employees in Hong Kong as well as their employment and demographic characteristics to support analyses related to Statutory Minimum Wage and other studies on labour-related topics.

7 May The Government, in collaboration with the Hong Kong Housing Society and the Urban Renewal Authority, launched the “Operation Building Bright” to provide subsidies and one-stop technical assistance to owners of old and dilapidated buildings to help them carry out repair and maintenance works.

9 May The HKSAR Government and the Central Government signed Supplement VI to the CEPA. Under the new Supplement, Hong Kong service suppliers enjoyed preferential access to the Mainland market in 42 service areas, including 29 new liberalisation measures in 20 service areas.

11 May Three universities in Hong Kong were named the first, second and fourth in the Asian University Rankings 2009 run by Quacquarelli Symonds (QS).

12 May The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$24.1 billion, to meet the increased demand for the paper by banks.

Total exports of goods plummeted by 22.2% in real terms in the first quarter of 2009 over a year earlier, marking the sharpest contraction since the second quarter of 1954.

13 May The Hong Kong Civil Aviation Department, the Civil Aviation Administration of China and the Macao Civil Aviation Authority signed a Cooperation Arrangement on Mutual Acceptance of Certificates of Airworthiness in Macao. The arrangement will shorten the time required in the transfer of aircraft registration within the region.

- 14 May A MOU on Cooperation in Wine-related Businesses was signed with Italy, covering promotion of trade in wine and related food, wine-related tourism, investment, education and combating counterfeits.
- 15 May The Government released the GDP figures for the first quarter of 2009. The Hong Kong economy contracted sharply by 7.8% in real terms in the first quarter over a year earlier, due to an unprecedented fall-off in world trade as triggered by the deepening global recession. The FS noted that the challenging economic environment would continue to affect people throughout the community, and announced to implement a new package of measures to relieve hardship, stimulate economic activity and assist those in need.
- In the May update of the economic forecast for 2009, the forecast growth rate in real terms of GDP was revised downward to -5.5% to -6.5%. Meanwhile, the forecast rates of increase in the headline and underlying Composite CPI were likewise revised downward to 1% and 0.9% respectively.
- 15-18 May The CEDB, in collaboration with FDC, organized the “Celebrating 100 Years of Hong Kong Cinema” event which marked the 100th anniversary of Hong Kong films in Cannes, France.
- 22 May The LegCo FC approved funding support of \$9,046.5 million and \$621.9 million respectively for the HKSAR’s contribution to the detailed design and construction of the HZMB Main Bridge and the detailed design and site investigation for the HZMB Hong Kong Boundary Crossing Facilities.
- The SFC signed and exchanged a Side Letter to the bilateral MOU with the Taiwan Financial Supervisory Commission (Taiwan FSC). The Side Letter would facilitate cross-listing of exchange-traded funds (ETF) in the two markets.
- 25 May The Noah’s Ark in Ma Wan, the world’s only full-size replica, was opened to the public.
- 26 May The FS announced the details of a further package of relief measures totaling around \$16.8 billion, including, among others, further waiver of rates and reduction of salaries tax and tax under personal assessment, extension of rental reduction for government land and properties, rent waiver for public housing, extra payment of Comprehensive Social Security Allowance, Old Age Allowance and Disability Allowance, as well as waiver of licensing fees, to alleviate the burden of the people of Hong Kong and certain sectors that were most seriously affected by the economic downturn and human swine flu.
- The HKMA and De Nederlandsche Bank N.V. (DNB) jointly announced the signing of a MOU for a liquidity arrangement to be applied for non-routine situations. Under the arrangement, Dutch banks operating in Hong Kong or Hong Kong banks operating in the Netherlands could approach the HKMA or DNB to ask for liquidity assistance if needs arise.
- 27 May A MOU on Cooperation in Wine-related Businesses was signed with Hungary, covering wine-related trade and tourism, investment, education and combating counterfeits.

- 31May-10 Jun The FS led a business delegation to Moscow and St. Petersburg to meet business and political leaders to exchange views on the global economic crisis and promote the business opportunities that were available in Hong Kong. The FS also visited Stockholm and London to update the business and political leaders of the latest development in Hong Kong after the business mission.
- 1 Jun MoF and SAT raised the export tax rebate rates of over 2 600 commodities, including mechanical and electrical products, toys and furniture, etc.
- The Government Wi-Fi Programme completed the installation of Wi-Fi facilities at 350 premises, marking the achievement of the planned implementation target. Free Wi-Fi Internet access was made available to citizens in all districts.
- The Planning Department and Civil Engineering and Development Department jointly commissioned the “Planning and Engineering Study on Development of Lok Ma Chau Loop” to formulate a comprehensive plan for the development of the Loop, with a view to developing a sustainable, environmentally friendly, energy efficient and people oriented community.
- 2 Jun The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$46.1 billion, to meet the increased demand for the paper by banks.
- 5 Jun The LegCo FC approved the injection of an additional \$1 billion into the SME Export Marketing Fund (EMF) and the SME Development Fund, and increasing the total loan guarantee commitment of the SME Loan Guarantee Scheme from \$12.6 billion to \$20 billion in support of SMEs. The scope of reimbursable items under the EMF was also expanded to provide greater flexibility to SMEs in their export promotion activities.
- 9-10 Jun The CE attended the Fifth Pan-PRD Regional Cooperation and Development Forum in Nanning, to strengthen Hong Kong’s relations with the provinces in the Pan-PRD region.
- 15 Jun The Government extended the application period of the \$100 billion Special Loan Guarantee Scheme (SpGS) from 15 June to 31 December 2009 and implemented a series of enhancement measures to better support local enterprises. The Government’s guarantee ratio was increased from 70% to 80%. The maximum amount of loan that each enterprise might obtain was doubled from \$6 million to \$12 million. The maximum guarantee period was also extended from three years to five years.
- 19 Jun The State Council announced that the provisional export duties for certain commodities would be rescinded with effect from 1 July 2009. These products included wheat, rice, soybean and related grain flour, sulphuric acid and steel wire, etc.
- 22 Jun After the TFEC held its final meeting, the CE announced that the Government would pursue a series of proposals to develop the six economic areas identified at the previous meeting.

The public consultation on the review of the Trustee Ordinance and related matters commenced. Reforming the trust law will boost Hong Kong's trust-services industry's competitiveness and attractiveness, and enhance the city's position as a major asset-management centre in Asia.

27 Jun HKIA won the Air Transport Research Society's "2009 Asia-Pacific Efficiency Excellence Award" for the third consecutive year.

29 Jun The HKMA and the PBoC signed a supplementary Memorandum of Cooperation to prepare for the implementation of the pilot scheme for the use of renminbi in settling cross-border trade transactions between the Mainland and Hong Kong.

The Government streamlined the control arrangements for Hong Kong's textiles exports to the EU and dispensed with the Production Notification and Textiles Trader Registration Scheme requirements for such exports.

30 Jun The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$45.1 billion, to meet the increased demand for the paper by banks.

1 Jul The Government waived the licensing fees for travel agents for one year to help the trade overcome the impact of the global economic downturn and human swine flu.

The Agreement on Mutual Exemption of Visa Requirements signed by the HKSAR and the Russian Governments came into effect. HKSAR passport holders may visit Russia visa-free for a stay of up to 14 days. Likewise, Russian nationals can also enjoy 14 days' visa-free access to Hong Kong.

The number of products with CEPA rules of origin agreed was increased to 1 565.

1-14 Jul The HKSAR Government and the Bureau of Shanghai World Expo Coordination jointly organised an "Exhibition on Hong Kong's Participation in the World Expo 2010 Shanghai China" from 1 to 14 July in Shanghai.

2 Jul The HKSAR Government and the Government of the Republic of Finland signed an Agreement for the Promotion and Protection of Investments in Helsinki, Finland. The Agreement provides for equal treatment of investors of both sides, compensation if investments were expropriated, free transfer abroad of investments and returns, and settlement of investment disputes in accordance with internationally accepted rules.

The Government organised a foundation completion ceremony for the Hong Kong Pavilion in the Shanghai World Expo Park. The CS for Administration and the Fulltime Deputy Director of the Executive Committee of the World Expo 2010 Shanghai China officiated at the ceremony and delivered speeches.

3 Jul The LegCo FC approved a sum of \$4,642.7 million for the reclamation and associated construction works for the Wan Chai Development Phase II. The works are targeted for completion in June 2017.

The LegCo FC also approved a sum of \$28,104.6 million for the construction of the Central – Wan Chai Bypass and Island Eastern Corridor Link.

6 Jul The pilot scheme for cross-border trade settlement in renminbi commenced operation, enabling enterprises in Hong Kong to settle trade transactions with the designated enterprises in the approved Mainland regions in renminbi.

7 Jul Hong Kong ranked the second in the Enabling Trade Index 2009 published by the World Economic Forum.

The environmental levy scheme on plastic shopping bags commenced. It is the first mandatory producer responsibility scheme implemented in Hong Kong.

8 Jul The Mandatory Provident Fund Schemes (Amendment) Ordinance 2009 was enacted by the LegCo to increase employees' control over their Mandatory Provident Fund (MPF) investments and to promote greater market competition. Under the Ordinance, scheme members may transfer accrued benefits derived from their mandatory contributions made during their current employment from an employer selected MPF Scheme to another MPF scheme of their own choice at least once per year.

9 Jul The first-round public consultation on the conceptual framework for legislative proposals to enhance the anti-money laundering (AML) regulatory regime in respect of the financial sectors and introduce a licensing regime for remittance agents and money changers. The proposals will enhance the integrity of the AML regime of Hong Kong in line with international standards.

10 Jul The LegCo FC approved a sum of \$702 million for the Food and Health Bureau for implementing the first stage of the territory-wide patient oriented electronic health record (eHR) Programme, aiming to have the eHR sharing platform as an essential healthcare infrastructure ready by 2013-14 for connection with all public and private hospitals.

The fourth meeting of the Hong Kong - Guangdong Expert Group on Cooperation in Informatisation was held at Cyberport to further enhance cooperation in informatisation between the two places.

13 Jul The HKMA issued a circular requiring all authorized institutions to step up their security controls over their Internet banking services.

HSBC Bank (China) Company Limited issued floating rate renminbi bonds totalling RMB 1 billion in Hong Kong to institutional investors.

14 Jul The sixth meeting of the “Guangdong - Hong Kong Expert Group on Cooperation in Innovation and Technology” was held in Guangzhou. The meeting agreed to carry out more in-depth and comprehensive collaboration and exchanges in technology.

The Hong Kong – Shenzhen Joint Working Group on the Regulation of Shenzhen River held its 18th meeting in Shenzhen. The meeting reviewed the progress of the works under the Regulation of Shenzhen River Stage 3 and endorsed the first stage findings and recommendations of the planning and feasibility study on the Regulation of Shenzhen River Stage 4.

Construction of the West Island Line commenced.

14-16 Jul The FDC organised a film cooperation business matching in Beijing under the “Hong Kong Film New Action” programme to help Hong Kong’s new generation directors to promote their film projects to the Mainland investors and producers.

20 Jul The Board of the West Kowloon Cultural District Authority (WKCA) announced the appointment of three Conceptual Plan Consultants and a Project Consultant to take forward the masterplanning of the West Kowloon Cultural District (WKCD).

The seasonally adjusted unemployment rate soared to a peak of 5.4% in the second quarter of 2009, before coming down gradually since the third quarter.

21 Jul The Forum on the Implementation of the Outline by Hong Kong and the Nine PRD Municipalities was held in Hong Kong. The Forum enabled the industries in Hong Kong to have a better understanding of the implementation of the Outline by the nine PRD municipalities. It also offered them the opportunity to have direct exchanges with the governments of Guangdong and the nine municipalities, and to explore possibilities of strengthening cooperation on the foundation of the long-term Hong Kong - Guangdong cooperation and the Outline.

The Taiwan FSC approved the offering of the first Hong Kong ETF, W.I.S.E. CSI 300 China Tracker, in Taiwan and its application to the Taiwan Stock Exchange for listing.

21 - 23 Jul The 14th Executives’ Meeting of East Asia-Pacific Central Banks Governors’ Meeting was held in Hong Kong with the participation of 11 member central banks and monetary authorities.

22 Jul The HKMA, Bank Negara Malaysia and the Monetary Authority of Singapore announced the establishment of a tripartite working group to map out a coordinated strategy for the scheduled exit from the full deposit guarantee by the end of 2010 in their respective jurisdictions.

The SFC, the HKMA and 16 distributing banks of the Lehman Brothers Minibonds reached an agreement in relation to the repurchase of Lehman Brothers Minibonds from eligible investors. The repurchase scheme enabled customers who hold Lehman Brothers Minibonds to receive a substantial return of their capital.

- 23 Jul The Bank of East Asia (China) Limited issued renminbi retail bonds totalling RMB 4 billion in Hong Kong.
- The Government published the "Air Quality Objectives Review" to seek public views on a proposal to update the existing Air Quality Objectives and develop a long-term air quality management strategy for better protection of public health.
- 24 Jul The scheme of the South Island Line (East) was gazetted under the Railways Ordinance (Cap. 519).
- 28 Jul The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$40.7 billion, to meet the increased demand for the paper by banks.
- The SFC released its Fund Management Activities Survey, which showed that Hong Kong's combined fund management business amounted to HK\$5,850 billion as at end-2008.
- 2 Aug In response to the measure announced by the Central Government in April allowing Mainland tour groups traveling to Taiwan by taking cruise vessels homeporting in Hong Kong, the first cruise sailing taking Mainland tour groups to Taiwan was launched.
- 3 Aug The Government announced the appointment of 12 Primary Dealers and 97 Recognized Dealers to assist in taking forward the institutional tranche of the Government Bond Programme (GBP), and the intention to appoint two Co-arrangers to help arrange and manage offerings of Retail Government Bonds under the GBP.
- 6 Aug The SFC granted authorization to the first Taiwan ETF, Polaris Taiwan Top 50 Tracker Fund, for offering in Hong Kong.
- 11 Aug The HKMA announced the commencement of operation of the CMU Fund Order Routing and Settlement Service, a new service provided by the Central Moneymarkets Unit of the HKMA to make fund order routing and settlement safer and more efficient by streamlining the processing of investment fund transactions among market participants.
- 12 Aug The OGCIO collaborated with the ICT industry to launch the Hong Kong ICT Awards 2009. The Awards aimed to recognise, promote and commend the excellent achievements to which Hong Kong ICT professionals and organisations contributed.

14 Aug The Government released the GDP figures for the second quarter of 2009. The Hong Kong economy rebounded in the second quarter. Following a sharp year-on-year contraction in the first quarter of 2009, real GDP registered a smaller decline of 3.8% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the economy resumed growth at 3.3% in the second quarter, ending the contraction in the previous four quarters. The FS welcomed the rebound and pointed out that this had benefited from the Mainland regaining further growth momentum, and the confidence exhibited by the Hong Kong people also underpinned the relative stable local consumption. The FS also stated that the Government would continue to adopt the strategy of stabilising the financial system, supporting enterprises and preserving employment, and remain vigilant and make timely moves in response to the evolving external situation.

In the August update of the economic forecast for 2009, the forecast growth rate in real terms of GDP was revised upward to -3.5% to -4.5%. Meanwhile, the forecast rate of increase in the underlying Composite CPI was kept unchanged at 0.9%, while that for the headline Composite CPI was revised downward to 0.5%.

The OGCIO won the Hong Kong Most Admired Knowledge Enterprise (MAKE) Award 2009 organised by the Knowledge Management Research Centre of the Hong Kong Polytechnic University.

Hang Seng Index ETF and Hang Seng H-share Index ETF became the first Hong Kong ETFs to cross-list in Taiwan following the co-operative deal signed between the SFC and the Taiwan FSC in May 2009.

18 Aug The Hong Kong Deposit Protection Board published the report on the public consultation on the first phase of the review of the Deposit Protection Scheme and the consultation paper on the second phase of the review.

19 Aug The CE and the Governor of Guangdong Province jointly chaired the 12th Plenary of the Hong Kong - Guangdong Cooperation Joint Conference in Hong Kong. Both sides agreed that concrete results had been attained in various major cooperation areas. Both sides also agreed to continue to follow up on the implementation of the facilitation measures and to take forward cooperation on modern services industry in Qianhai.

The STH and the Shenzhen Mayor signed a cooperation arrangement on advancing the Hong Kong - Shenzhen Western Express Line.

20 Aug Underlying consumer price inflation turned slightly negative in July, and held steady at the -0.3% level from July to November.

24 Aug The Government announced the tendering of 2-year Government Bonds totalling HK\$3.5 billion, under the Institutional Bond Issuance Programme of the GBP.

- 28 Aug The Government launched Batch II of the ‘Revitalising Historic Buildings Through Partnership Scheme’ and invited interested non-profit-making organizations to submit applications for the adaptive re-use of five Government-owned historic buildings.
- HKSAR and Guangdong Governments jointly launched the Hong Kong – Guangdong Cleaner Production Partners Recognition Scheme to recognise the efforts and achievements of Hong Kong-owned enterprises in pursuing cleaner production.
- Hong Kong Exchanges and Clearing Limited (HKEx) launched a public consultation on a proposed framework to give Mainland incorporated companies listed in Hong Kong a choice to prepare financial statements under Mainland accounting standards and audited by Mainland audit firms which meet relevant qualification requirements.
- 1 Sep The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$21.7 billion, to meet the increased demand for the paper by banks.
- 4-5 Sep The FS and the Chief Executive of the HKMA attended the G20 Finance Ministers and Central Bank Governors Meeting in London as members of the Chinese delegation.
- 8 Sep The World Economic Forum released its Global Competitiveness Report 2009-2010. Hong Kong ranked the 11th, same place as the last year.
- 9 Sep The UK Foreign and Commonwealth Office presented to UK parliament the 25th Six-monthly Report on Hong Kong covering the period January to June 2009. The Report stated that the “One Country, Two Systems” principle had generally worked well and that the rights and freedoms promised to Hong Kong in the Joint Declaration had continued to be respected.
- The World Bank released its Doing Business 2010 Report. Hong Kong was ranked as the third easiest place to do business in the world.
- 14 Sep Hong Kong remained the freest economy in the world, according to the 2009 Annual Report on the Economic Freedom of the World jointly released by the Fraser Institute of Canada, CATO Institute of the US and over 70 other research institutes around the world.
- 17 Sep The Government established the Hong Kong Council for Testing and Certification to spearhead the development of the testing and certification industry, one of the six economic areas identified by the TFEC for promotion. The priority task of the Council is to work with the industry to formulate a three-year market-driven development plan within six months of its establishment for submission to the CE.
- 18 Sep Hong Kong retained its position as Asia’s second largest destination for foreign direct investment (FDI), according to the “World Investment Report 2009”, released by the United Nations Conference on Trade and Development. FDI flows to Hong Kong in 2008 reached US\$63 billion. On a global scale, Hong Kong ranked the seventh in FDI inflows in 2008.

- 22 Sep The Government announced that Radio Television Hong Kong would be tasked to take up the new mission to serve as the public service broadcaster in Hong Kong, with sufficient resources provided for service enhancement to enable it to better serve the community.
- The CE in Council approved the partial uplifting of the Pokfulam Moratorium to facilitate the “preservation-cum-development” proposal for the preservation of the historic building ‘Jessville’ at 128 Pokfulam Road.
- The CE in Council also granted approval for CLP Power Hong Kong Limited to extend the contract for the supply of nuclear electricity from Daya Bay Nuclear Power Station for another term of 20 years from 7 May 2014 onwards. This provides an assurance of continued supply of cleaner electricity to Hong Kong at reasonable and affordable prices.
- The Global Financial Centres Index by the City of London ranked Hong Kong as the third most competitive financial centre in the world.
- 24 Sep Established by the Hong Kong side under the Hong Kong - Guangdong Cooperation Joint Conference, the Greater PRD Business Council released a study report in response to the Outline.
- 24-25 Sep The FS and the Chief Executive of the HKMA attended the G20 Leaders’ Summit held in Pittsburgh as members of the Chinese delegation.
- 25 Sep The fourth meeting of the “Mainland - Hong Kong Science and Technology Cooperation Committee” was held in Beijing. The two sides agreed to continue exploring measures to further promote the sharing of technology talent, information and resources in order to encourage more technology cooperation between the Mainland and Hong Kong.
- The SFC launched a public consultation on proposals to fine-tune the regulation of intermediaries selling investment products to the public. The proposals include the requirement of product key facts statements, introduction of cooling-off periods, disclosure of commercial interest involving in the sales process (including commissions, fees and other benefits), etc.
- 28 Sep The Central Government launched renminbi sovereign bonds totalling RMB 6 billion in Hong Kong.
- The HKMA and Bank Negara Malaysia jointly announced the signing of a MOU on cooperation in the development of the financial services industry, particularly in the area of Islamic finance.
- 29 Sep The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$23.1 billion, to meet the increased demand for the paper by banks.

- 1 Oct The liberalisation measures under Supplement VI to the CEPA came into effect.
- The Office of the Telecommunications Authority (OFTA), the Ministry of Industry and Information Technology and the Guangdong Communications Administration signed a MOU under CEPA in Beijing, which allows Hong Kong service suppliers to distribute in the Guangdong province fixed and mobile telephone cards to be used in Hong Kong.
- 5 Oct The results of the “2009 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong” were published by the Census and Statistics Department and Invest Hong Kong. Of the 6 397 overseas, Mainland and Taiwanese companies representing parent companies located outside Hong Kong surveyed as at 1 June 2009, there were 1 252 regional headquarters, 2 328 regional offices and 2 817 local offices.
- 8 Oct For the preparation of the Development Plan, the WKCDA started the Stage 1 Public Engagement (PE) exercise to collect views of the public and stakeholders on their aspirations and expectations for the planning of the WKCD as a whole, as well as their requirements for the facilities in the arts and cultural venues in the WKCD.
- Three universities in Hong Kong were ranked top fifty in the Times Higher Education World University Rankings 2009.
- HKIA was voted the “Best Airport” for seven consecutive years in the TTG Travel Awards.
- The World Economic Forum released its Financial Development Report 2009. Hong Kong was ranked 5th among 55 economies, being the world leading financial systems and capital markets.
- 9 Oct The HKMA and the China Banking Regulatory Commission agreed to further increase cooperation on promoting integrated development of cross-border banking and effective supervision of such services.
- 12 Oct The Hong Kong Airport Authority and the Shanghai Airport (Group) Co. Ltd. signed an airport cooperation agreement. Both sides agreed to set up a joint-ventured Shanghai Hong Kong Airport Management Company Limited which would be responsible for the management of the expanded Shanghai Hongqiao Airport, and to strengthen airport cooperation between the two places.

- 14 Oct The CE announced in his Policy Address that, among other things, Hong Kong would enhance its competitiveness and continue to evolve into a high value-added, knowledge-based economy. Specifically, the flow of people, goods, capital and information would be strengthened to support the four pillar industries. Hong Kong would develop into a global financial centre, asset management centre and offshore RMB business centre attracting capital and talent from within and outside the country. A series of measures, including optimizing land use by releasing the potential of over 1 000 old industrial buildings, were introduced to promote the six industries with clear competitive advantages. Hong Kong would also strengthen its cooperation with Guangdong and enhance its exchanges with Taiwan.
- 20 Oct The CE in Council approved the implementation of the Hong Kong section of the Guangzhou – Shenzhen - Hong Kong Express Rail Link project.
- 21 Oct The HKMA announced the tendering of 5-year Government Bonds, totalling HK\$2 billion, under the Institutional Bond Issuance Programme of the GBP.
- The Hong Kong Mortgage Corporation Limited (HKMC) announced the launch of a special scheme under the Fixed Adjustable Rate Mortgage Programme to promote mortgage loans with fixed-rate periods from one to 10 years.
- 23 Oct The HKMA issued a circular to authorized institutions requiring them to lower the loan-to-value ratio for residential mortgages on properties valued at \$20 million or more from 70% to 60%, and to cap the maximum loan amount for other properties at \$12 million. The circular also reminded authorized institutions that they should be prudent in conducting valuation of properties and in calculating borrowers' debt servicing ratios.
- 28 Oct An Arrangement on Cooperation on Wine-related Business was signed with New Zealand, covering wine-related trade and tourism, investment, education and combating counterfeits.
- The Development Bureau, together with the Guangdong Provincial Department of Construction and the Secretariat for Transport and Public Works of Macao, promulgated the findings of the "Planning Study on the Coordinated Development of the Greater Pearl River Delta (GPRD) Townships". The Study suggested the formulation of a regional development strategy for coordinated development amongst the cities in the GPRD region, with a view to promoting, inter alia, economic development and strengthening the overall competitiveness of the region in the global economy.
- 28-31 Oct The Environment Bureau, together with the HKTDC, co-organised the Eco Expo Asia 2009 which attracted more than 200 exhibitors from 19 countries and regions.
- 29 Oct The HKMA consulted the Hong Kong Association of Banks and the Deposit-taking Companies Association on its draft "Guideline on a Sound Remuneration System". The consultation closed on 30 November 2009.

The Government announced to further extend the application period for the SpGS from 31 December 2009 to 30 June 2010.

The public consultation on the review of corporate rescue procedure legislative proposals commenced. A corporate rescue procedure will facilitate companies with long-term viability that are facing short-term financial difficulty to restructure their business or debts or seek a capital injection to turn the business around.

29-30 Oct The Intellectual Property Department together with the WIPO and Central Government co-organised the "World Intellectual Property Organization (WIPO) Regional Symposium on Management of Intellectual Capital, Intellectual Assets and Intellectual Property" in Hong Kong.

30 Oct The HKSAR Government and the Government of the French Republic signed a MOU for negotiations of an Agreement for the Avoidance of Double Taxation with Respect to Taxes on Income and on Capital and the Prevention of Fiscal Evasion.

The total gross tonnage registered under the Hong Kong Shipping Register crossed the 44 million mark.

The SFC launched a public consultation on proposal to rationalize the regulatory requirements for public offers of structured products. The proposal would transfer the public offering regime for structured products in the form of debentures from the Companies Ordinance to the Securities and Futures Ordinance. This would be complemented by a new Code on Unlisted Structured Products.

30 Oct-8 Nov The Hong Kong Tourism Board (HKTB) organised the first "Hong Kong Wine and Dine Festival". The event was rated one of the "Top 10 International Food and Wine Festivals" by Forbes Traveler.

The TDC held the second Hong Kong International Wine and Spirits Fair. Relative to 2008, the number of exhibitors more than doubled from 240 to 525.

3 Nov In its Preliminary Conclusions, the International Monetary Fund (IMF) Article IV Staff Mission to Hong Kong welcomed the proactive and concerted policy efforts by the Government to tackle the global financial crisis, and maintained its support for the Linked Exchange Rate system.

The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$34.7 billion, to meet the increased demand for the paper by banks.

4 Nov The FS announced that the HKSAR Government had reached in-principle agreement with the Mainland Customs to provide facilitation measures for wines exported from Hong Kong to the Mainland. This would help Hong Kong traders tap the growing wine market across the Mainland. The measures are expected to be rolled out in early 2010.

6-7 Nov The HKMA participated in the G20 Finance Ministers and Central Bank Governors meeting in St Andrews, Scotland.

9 Nov Moody's upgraded Hong Kong's long-term foreign-currency and local-currency rating outlook to "Positive" from "Stable", with ratings at "Aa2".

The initial phase of the Mandatory Energy Efficiency Labelling Scheme had been fully implemented. The scheme required room air-conditioners, refrigerating appliances and compact fluorescent lamps to carry energy labels before they were supplied to the local market.

The SFC signed the Declaration on Mutual Cooperation on Development of Islamic Capital Market and Islamic Collective Investment Schemes with the Securities Commission of Malaysia. The declaration would provide for the mutual recognition of Islamic collective investment schemes between Hong Kong and Malaysia. It would facilitate the cross-border offering of these schemes to investors in the two markets, and foster the development of Islamic fund management in Hong Kong.

11 Nov The Pacific Economic Cooperation Council published its State of the Region Report 2009-2010. The Report recognised Hong Kong as one of the economies most highly integrated with the Asia Pacific region.

12-15 Nov The CE attended the 17th APEC Leaders' Meeting in Singapore. Leaders committed to pursue growth which is balanced, inclusive, and sustainable, to ensure a durable recovery that will create jobs and benefit the people on a broad basis. Leaders also strongly re-affirmed their commitment to achieving an ambitious and balanced conclusion to the Doha Development Agenda in 2010, and to rejecting all forms of protectionism.

13 Nov The Government released the GDP figures for the third quarter of 2009. The Hong Kong economy improved further after a strong rebound during the second quarter, leading to a further tapering of the year-on-year decline in real GDP to 2.4% in the third quarter. This was led mainly by the further improvement in the domestic sector, offsetting the drag from the weak external demand. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded further by 0.4% in the third quarter over the second quarter.

In the November update of the economic forecast for 2009, the forecast growth rate of GDP in real terms was revised upward to -3.3%. Meanwhile, the forecast rates of increase in the headline and underlying Composite CPI were kept at 0.5% and 0.9% respectively.

The CE and New Zealand Prime Minister jointly announced in Singapore the conclusion of negotiations on a Closer Economic Partnership Agreement between Hong Kong and New Zealand, which would be Hong Kong's first free trade agreement with a foreign economy. The Agreement would provide Hong Kong exporters with enhanced market access to the New Zealand market, promote bi-lateral investment flows, and bring about multiple benefits to both economies.

16 Nov The HSI rose to a 17-month high of 22 944, 102% higher than the trough in March 2009.

- 16-21 Nov ITC joined hand with the HKTDC in setting up the Hong Kong Pavilion at China Hi-Tech Fair 2009 at Shenzhen Convention & Exhibition Centre. Besides, ITC jointly set up a ‘Shenzhen - Hong Kong Innovation Circle Pavilion’ with the Shenzhen Bureau of Science Technology & Information at the fair.
- 17 Nov The CEDB released refined proposals for strengthening copyright protection in the digital environment, with a view to ensuring the copyright protection regime to remain appropriate in present-day circumstances.
- 20 Nov The HKMA took disciplinary action against a relevant individual in connection with a Lehman Brothers-related investment product.
- 23 Nov The Hong Kong - Shenzhen Joint Task Force on Boundary District Development held its fourth meeting in Hong Kong. The Joint Task Force noted the progress of the development of the Liantang / Heung Yuen Wai Boundary Control Point and the Lok Ma Chau Loop, and deliberated on the work plan.
- 24 Nov The HKMA announced the offer of additional Exchange Fund Bills, totalling HK\$62.7 billion, to meet the increased demand for the paper by banks.
- 25 Nov The OGCIO co-organised the "Hong Kong Clean PC Day 2009" Campaign with the Hong Kong Police Force and the Hong Kong Computer Emergency Response Team Coordination Centre to promote information security in the community.
- 26 Nov The Copyright (Amendment) Ordinance 2009 was passed into law. It prescribed, in new schedules to the Ordinance, the numeric limits beyond which the unauthorised copying and distribution of printed copyright works for use in business would attract criminal liability.
- 27 Nov The scheme of the Kwun Tong Line Extension was gazetted under the Railways Ordinance (Cap. 519).  
  
The announcement of a standstill in debt payment by Dubai World triggered renewed turmoil in the financial markets around the world. HSI closed at 21 135, down 5% in a single day.
- 30 Nov The Hong Kong Deposit Protection Board published a report on the public consultation on the second phase of the review of the Deposit Protection Scheme.
- 30 Nov-5 Dec “Business of Design Week 2009”, the largest annual design event in Asia and one of the leading design events in the world, was held. Over 50 000 persons participated in the events. France was the partner country for the event.
- 1 Dec The HKSAR Government signed a Joint Declaration on Strengthening Economic Cooperation with the Government of Malaysia, aiming to encourage and promote bi-lateral economic cooperation in various areas and laid the foundation for future discussions of a bi-lateral free trade.

In response to the Government's request, the Real Estate Developers Association of Hong Kong required developers to show the flat price per square foot / metre in "saleable area" of individual flats on the price lists of all uncompleted first-hand residential properties which were approved for pre-sale under the Lands Department's Consent Scheme as from that day.

The Government announced the "Supplementary Notes on the Implementation of Projects under the Clean Development Mechanism (CDM) by Hong Kong enterprises in the Mainland" to facilitate Hong Kong enterprises to participate in CDM projects in the Mainland.

3 Dec The IMF released its Staff Report on Hong Kong, welcoming the Government's efforts to sustain economic recovery and reiterating its support for the Linked Exchange Rate system.

The Airport Authority announced the extension of the 10% reduction in landing and parking charges at HKIA for three months to 31 March 2010 to further assist airlines during the economic downturn.

5-13 Dec The Hong Kong 2009 East Asian Games (EAG) was the first large-scale international multi-sport event hosted by Hong Kong. More than 2 100 athletes from nine countries and regions competed for 262 gold medals in 22 sports. As the host, Hong Kong sent a delegation of nearly 400 athletes to participate in all 22 sports and captured a total of 110 medals (26 gold, 31 silver and 53 bronze), the best ever result achieved by Hong Kong in a large-scale international sports event.

7 Dec The Hong Kong - Guangdong Joint Working Group on Sustainable Development and Environmental Protection held its tenth annual meeting in Guangzhou. The meeting reviewed progress of environmental cooperation initiatives and noted that good progress had been made on various areas. For 2010, both sides would take forward "Environmental Cooperation Agreement between Hong Kong and Guangdong", and to actively transform the PRD region into a Green and Quality Living Area.

The second-round public consultation on the detailed proposals for the new legislation to enhance the AML regulatory regime in respect of the financial institutions and introduce a licensing regime for remittance agents and money changers, after the first-round public consultation on the conceptual framework ended on 8 October 2009.

9 Dec The Government introduced the Buildings Energy Efficiency Bill into the LegCo. The Bill specified the minimum energy efficiency standards for buildings in Hong Kong by mandating compliance with the Building Energy Codes. It is estimated that for new buildings, the implementation of the proposal will result in energy saving of 2.8 billion kWh in the first decade.

11-14 Dec Cyberport organised the first ever PANORAMA – Asia Pacific Animation Challenge and Animation Camp 2009 to provide an excellent training opportunity and platform for the student talents from the region.

12-19 Dec The Secretary for the Environment attended the 15th session of the Conference of Parties to the United Nations Framework Convention on Climate Change as a member of the Chinese Delegation, as well as the Climate Summit for Mayors as a member of C40 Large Cities Climate Leadership Group in Copenhagen. During the meeting sessions, Hong Kong's experiences in formulating strategies and measures to tackle climate change were shared among the participants.

13 Dec A ground breaking ceremony for the expansion works of Hong Kong Disneyland was held. The expansion would enlarge the existing theme park by about 23% with more than 30 new attractions added, bringing the total number of attractions to over 100. The new attractions will open in phases and will be completed in entirety by mid-2014.

14 Dec The HKSAR Government and the Government of Japan jointly announced that the "2009 Hong Kong - Japan Tourism Exchange Year" was extended for three months until March 2010, building on the success of the promotional events in 2009. The Tourism Exchange Year aimed to promote two-way tourism and enhance cultural exchange.

As an initiative to facilitate private hospital development, the Government invited the market to express interests in developing private hospitals at four reserved sites. The invitation would be open to local and overseas interested parties until 31 March 2010.

15 Dec A pilot arrangement to allow non-Guangdong residents ordinarily residing in Shenzhen to apply for Individual Visit endorsements in Shenzhen to visit Hong Kong was implemented by the Mainland.

The construction of the HZMB Main Bridge commenced. Upon completion of the Bridge, it will enhance the further economic development of Hong Kong, Macao and the Western PRD at large. It would significantly reduce the cost and time for travellers and for the flow of goods between Hong Kong and the Western PRD.

16 Dec The LegCo passed the Public Officers Pay Adjustment Bill. Following the commencement of the Ordinance on 24 December 2009, the pay of civil servants in the upper salary band and above as well as that of certain public officers earning more than \$48,400 a month was reduced by 5.38% from 1 January 2010, subject to the proviso that their pay after reduction shall not be lower than \$48,700.

17 Dec The third annual structured dialogue meeting between the European Commission and the HKSAR Government was held in Hong Kong. The two sides had extensive exchange on a number of issues including trade, innovation and technology, creative industries, education, food and consumer safety and agreed to continue to strengthen cooperation in these areas.

The first-phase public consultation on the draft provisions of the Companies Bill commenced. The rewrite of the Companies Ordinance is a major exercise to update and modernise the legal framework for companies in Hong Kong.

- 22 Dec The HKSAR Government and the European Free Trade Association (EFTA), consisting the Governments of Iceland, Liechtenstein, Norway and Switzerland, agreed to commence negotiations on a Hong Kong and EFTA Free Trade Agreement in early 2010, encompass: a wide-ranging scope, with emphasis on trade and investment liberalisation and facilitation.
- 23 Dec A ground breaking ceremony of the site formation for the Kai Tak Cruise Terminal was held, signifying the commencement of works of the new cruise terminal and a milestone in the development of cruise tourism in Hong Kong.
- 28 Dec The Finance Ministers and Central Bank Governors of the ASEAN + 3 and the HKMA announced the signing of the Chiang Mai Initiative Multilateralization Agreement.
- 30 Dec The China Institute of City Competitiveness issued its 8th China City Competitive Rankings. Hong Kong topped the list with best comprehensive competitiveness among Chinese cities.

The Government announced the tendering of 10-year Government Bonds, totalling HK\$2.5 billion, under the Institutional Bond Issuance Programme.

The SFC, jointly with HKEx and the Federation of Share Registrars, issued a consultation paper on the proposed operational model for implementing a scripless securities market in Hong Kong. The paper puts forward an operational model in building market rapport in pressing ahead an important initiative to modernize our financial infrastructure, enhance corporate governance / investor protection as well as align with international trends.

The Government announced the naming of an auditorium and a forum in the Hong Kong Science Park as Charles Kao Auditorium in recognition of the outstanding achievements of Nobel laureate Professor Charles Kao.

- 31 Dec The OFTA issued a consultation paper to solicit public views for reviewing the local access charge (LAC) regime, which governs the payment of interconnection charge by external telecommunications services providers to the local network operators for the conveyance of external telecommunications traffic.

With the completion of five more fill-in transmitting stations constructed by ATV and TVB, the coverage of digital terrestrial television (DTT) broadcasting in Hong Kong was extended from 75% to 85% of the population.

In 2009, the amount of funds raised through IPO on HKEx totalled \$248.2 billion, making Hong Kong rank first in the world.

HSI closed the year at 21 873, representing a leap of 52% over end-2008.

## Statistical Appendix

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(\$Mn)					
Private consumption expenditure	777,141	782,984	748,402	719,873	767,923	804,936
Government consumption expenditure	120,172	128,866	131,291	130,151	127,327	121,435
Gross domestic fixed capital formation	347,375	333,044	286,025	261,576	275,034	289,170
<i>of which:</i>						
Building and construction	155,441	142,659	131,757	116,628	107,692	105,993
Machinery, equipment and computer software	180,204	180,011	144,832	136,537	150,545	163,287
Changes in inventories	14,399	-4,060	5,660	9,111	7,076	-4,761
Total exports of goods	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031	2,251,744
Imports of goods	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545	2,311,091
Exports of services	315,012	320,799	347,836	362,420	429,584	495,394
Imports of services	192,427	194,180	202,494	203,400	242,507	264,237
<b>GDP</b>	<b>1,317,650</b>	<b>1,299,218</b>	<b>1,277,314</b>	<b>1,234,761</b>	<b>1,291,923</b>	<b>1,382,590</b>
<i>Per capita GDP (\$)</i>	<i>197,697</i>	<i>193,500</i>	<i>189,397</i>	<i>183,449</i>	<i>190,451</i>	<i>202,928</i>
<b>GNP</b>	<b>1,326,404</b>	<b>1,327,761</b>	<b>1,282,966</b>	<b>1,263,252</b>	<b>1,315,333</b>	<b>1,384,238</b>
<i>Per capita GNP (\$)</i>	<i>199,010</i>	<i>197,751</i>	<i>190,235</i>	<i>187,682</i>	<i>193,902</i>	<i>203,170</i>
Total final demand	3,146,788	3,042,620	3,081,335	3,232,220	3,633,975	3,957,918
Total final demand excluding re-exports <sup>(a)</sup>	2,048,719	1,983,301	1,923,623	1,896,483	2,062,142	2,212,697
Domestic demand	1,259,087	1,240,834	1,171,378	1,120,711	1,177,360	1,210,780
Private	1,078,515	1,053,973	986,542	939,104	1,001,588	1,048,026
Public	180,572	186,861	184,836	181,607	175,772	162,754
External demand	1,887,701	1,801,786	1,909,957	2,111,509	2,456,615	2,747,138

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)							
	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>		<u>2009</u>		
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Private consumption expenditure	863,591	972,028	1,022,530	1,006,486	235,136	255,377	248,770	267,203
Government consumption expenditure	123,033	130,404	139,373	142,307	37,623	33,610	35,165	35,909
Gross domestic fixed capital formation	322,691	325,366	334,200	340,238	75,762	79,914	95,144	89,418
<i>of which:</i>								
Building and construction	106,268	111,776	127,310	129,662	32,410	31,904	32,323	33,025
Machinery, equipment and computer software	199,631	189,093	182,039	186,338	40,444	42,454	54,714	48,726
Changes in inventories	-2,129	12,841	8,394	26,805	-7,969	-4,945	18,923	20,796
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	512,316	618,781	657,215	706,434
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	547,074	658,136	723,129	774,627
Exports of services	565,054	660,728	717,249	669,974	151,645	144,750	178,068	195,511
Imports of services	287,900	332,240	366,484	344,055	78,217	79,887	91,316	94,635
<b>GDP</b>	<b>1,475,357</b>	<b>1,615,455</b>	<b>1,675,171</b>	<b>1,633,535</b>	<b>379,222</b>	<b>389,464</b>	<b>418,840</b>	<b>446,009</b>
<i>Per capita GDP (\$)</i>	<i>215,158</i>	<i>233,248</i>	<i>240,075</i>	<i>233,239</i>	--	--	--	--
<b>GNP</b>	<b>1,502,705</b>	<b>1,659,892</b>	<b>1,758,477</b>	<b>N.A.</b>	<b>387,830</b>	<b>410,975</b>	<b>427,946</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>219,146</i>	<i>239,664</i>	<i>252,014</i>	<i>N.A.</i>	--	--	--	--
Total final demand	4,339,597	4,800,217	5,065,744	4,680,556	1,004,513	1,127,487	1,233,285	1,315,271
Total final demand excluding re-exports <sup>(a)</sup>	2,406,861	2,660,027	2,803,356	2,685,432	597,304	632,358	706,162	749,608
Domestic demand	1,307,186	1,440,639	1,504,497	1,515,836	340,552	363,956	398,002	413,326
Private	1,149,285	1,278,479	1,329,270	1,332,704	291,185	321,825	353,157	366,537
Public	157,901	162,160	175,227	183,132	49,367	42,131	44,845	46,789
External demand	3,032,411	3,359,578	3,561,247	3,164,720	663,961	763,531	835,283	901,945

Notes : (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 yet available.

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

(%)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Private consumption expenditure	5.1	1.8	-0.9	-1.3	7.0	3.0
Government consumption expenditure	2.0	6.0	2.4	1.8	0.7	-3.2
Gross domestic fixed capital formation	7.9	2.6	-4.7	0.9	2.5	4.1
<i>of which:</i>						
Building and construction	-7.9	-1.1	-1.3	-5.4	-10.7	-7.6
Machinery, equipment and computer software	27.3	6.2	-7.6	7.0	10.3	12.8
Total exports of goods	16.9	-3.3	8.6	14.0	14.9	10.4
Imports of goods	18.4	-1.9	7.9	13.1	13.7	8.0
Exports of services	13.4	6.4	11.1	7.6	18.0	11.6
Imports of services	2.2	2.0	3.9	-2.2	14.6	7.8
<b>GDP</b>	<b>8.0</b>	<b>0.5</b>	<b>1.8</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>
<i>Per capita GDP</i>	<i>7.0</i>	<i>-0.2</i>	<i>1.4</i>	<i>3.2</i>	<i>7.6</i>	<i>6.6</i>
<b>GNP</b>	<b>6.6</b>	<b>2.0</b>	<b>0.1</b>	<b>4.9</b>	<b>7.9</b>	<b>5.3</b>
<i>Per capita GNP</i>	<i>5.6</i>	<i>1.3</i>	<i>-0.3</i>	<i>5.1</i>	<i>7.0</i>	<i>4.8</i>
Total final demand	12.6	-0.7	5.0	7.9	11.8	7.7
Total final demand excluding re-exports <sup>(a)</sup>	9.8	0.3	2.0	3.1	8.9	5.4
Domestic demand	7.7	0.9	-0.7	-0.2	5.0	1.6
Private	9.5	0.5	-1.0	-0.5	6.2	3.0
Public	-2.1	3.3	1.1	1.4	-1.2	-6.2
External demand	16.3	-1.7	9.0	12.8	15.4	10.6

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

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

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

(--) Not applicable.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 1998-2008.

(~) Average annual rate of change for the 5-year period 2003-2008.

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

(%)

	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>				Average annual rate of change:	
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	10 years 1999 to 2009 <sup>#</sup>	5 years 2004 to 2009 <sup>#</sup>
Private consumption expenditure	5.9	8.5	2.3	-0.3	-6.1	-0.8	0.5	4.9	3.1	3.8
Government consumption expenditure	0.3	3.0	1.8	2.0	1.6	2.1	2.9	1.7	1.7	0.8
Gross domestic fixed capital formation	7.1	3.4	0.8	-2.2	-11.1	-12.3	2.6	14.7	2.2	2.6
<i>of which:</i>										
Building and construction	-7.1	-0.3	6.1	*	-5.6	-2.3	6.0	2.9	-3.6	-1.9
Machinery, equipment and computer software	19.2	3.0	-0.8	-3.6	-5.8	-17.3	-3.5	16.2	6.9	5.8
Total exports of goods	9.3	7.0	1.9	-12.6	-22.7	-12.4	-13.2	-2.6	6.3	2.9
Imports of goods	9.2	8.8	1.8	-9.7	-21.4	-12.7	-8.3	3.1	6.6	3.4
Exports of services	10.1	14.1	5.0	-0.7	-5.5	-5.3	-0.5	7.7	9.5	7.9
Imports of services	8.1	12.1	6.3	-4.0	-9.5	-5.5	-3.3	2.4	4.9	5.9
<b>GDP</b>	<b>7.0</b>	<b>6.4</b>	<b>2.1</b>	<b>-2.7</b>	<b>-7.5</b>	<b>-3.7</b>	<b>-2.2</b>	<b>2.6</b>	<b>4.1</b>	<b>3.9</b>
<i>Per capita GDP</i>	<i>6.3</i>	<i>5.3</i>	<i>1.4</i>	<i>-3.0</i>	--	--	--	--	3.5	3.3
<b>GNP</b>	<b>8.8</b>	<b>7.4</b>	<b>4.3</b>	<b>N.A.</b>	<b>-8.8</b>	<b>-2.1</b>	<b>-6.0</b>	<b>N.A.</b>	<b>4.9</b> ^	<b>6.7</b> ~
<i>Per capita GNP</i>	<i>8.1</i>	<i>6.3</i>	<i>3.5</i>	<i>N.A.</i>	--	--	--	--	<b>4.3</b> ^	<b>6.0</b> ~
Total final demand	8.4	8.2	2.2	-6.9	-15.7	-9.3	-5.9	2.9	5.5	3.7
Total final demand excluding re-exports <sup>(a)</sup>	7.3	7.9	1.7	-2.7	-10.5	-7.2	-0.4	6.9	4.3	3.8
Domestic demand	6.0	7.9	1.6	0.8	-8.1	-5.2	5.8	10.9	3.0	3.5
Private	7.5	9.0	1.4	0.4	-9.5	-6.3	5.7	11.9	3.5	4.2
Public	-3.8	0.2	2.7	3.9	1.6	3.7	6.7	4.0	-0.1	-0.7
External demand	9.4	8.3	2.5	-10.2	-19.1	-11.1	-10.6	-0.5	7.0	3.8

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

	<u>2004</u>		<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>2008<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share						
Agriculture and fishing	886	0.1	847	0.1	849	0.1	895	0.1	824	0.1
Mining and quarrying	72	*	100	*	93	*	114	*	96	*
Manufacturing	44,455	3.6	45,547	3.4	45,761	3.2	39,319	2.5	38,710	2.5
Electricity, gas and water	39,726	3.2	39,924	3.0	40,364	2.8	39,673	2.6	38,421	2.5
Construction	40,376	3.2	38,538	2.9	38,688	2.7	40,153	2.6	47,922	3.1
Services	1,119,304	89.9	1,207,873	90.6	1,297,545	91.2	1,431,815	92.3	1,441,934	92.0
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>345,092</i>	<i>27.7</i>	<i>386,726</i>	<i>29.0</i>	<i>397,252</i>	<i>27.9</i>	<i>417,339</i>	<i>26.9</i>	<i>442,454</i>	<i>28.2</i>
<i>Transport, storage and communications</i>	<i>126,820</i>	<i>10.2</i>	<i>135,119</i>	<i>10.1</i>	<i>137,166</i>	<i>9.6</i>	<i>141,749</i>	<i>9.1</i>	<i>120,647</i>	<i>7.7</i>
<i>Financing, insurance, real estate and business services</i>	<i>266,855</i>	<i>21.4</i>	<i>294,260</i>	<i>22.1</i>	<i>356,371</i>	<i>25.0</i>	<i>450,989</i>	<i>29.1</i>	<i>418,389</i>	<i>26.7</i>
<i>Community, social and personal services</i>	<i>257,630</i>	<i>20.7</i>	<i>253,312</i>	<i>19.0</i>	<i>256,347</i>	<i>18.0</i>	<i>265,108</i>	<i>17.1</i>	<i>279,909</i>	<i>17.9</i>
<i>Ownership of premises</i>	<i>122,906</i>	<i>9.9</i>	<i>138,455</i>	<i>10.4</i>	<i>150,408</i>	<i>10.6</i>	<i>156,631</i>	<i>10.1</i>	<i>180,536</i>	<i>11.5</i>
<b>GDP at current factor cost</b>	<b>1,244,819</b>	<b>100.0</b>	<b>1,332,830</b>	<b>100.0</b>	<b>1,423,299</b>	<b>100.0</b>	<b>1,551,970</b>	<b>100.0</b>	<b>1,567,907</b>	<b>100.0</b>
Taxes on production and imports	58,729	--	62,891	--	71,071	--	93,981	--	84,889	--
Statistical discrepancy (%)	-0.9	--	-0.9	--	-1.3	--	-1.9	--	1.3	--
<b>GDP at current market prices</b>	<b>1,291,923</b>	<b>--</b>	<b>1,382,590</b>	<b>--</b>	<b>1,475,357</b>	<b>--</b>	<b>1,615,455</b>	<b>--</b>	<b>1,675,171</b>	<b>--</b>

Notes : Individual 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%.

(--) Not applicable.

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

	(%)									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2008</u>	<u>2009</u>		
							Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Agriculture and fishing	-6.3	2.7	-1.0	-5.0	-6.4	-18.8	-19.2	-4.0	-2.0	4.3
Mining and quarrying	2.3	-16.7	10.1	10.2	13.7	-3.2	-9.2	-12.0	-14.7	-16.3
Manufacturing	-10.3	1.7	2.1	2.2	-1.5	-6.6	-10.4	-12.2	-10.8	-8.3
Electricity, gas and water	1.8	2.3	2.5	0.8	1.2	0.2	2.2	-1.4	2.4	5.3
Construction	-4.6	-9.3	-8.1	-9.4	-1.1	8.8	9.5	-3.4	-1.0	8.1
Services	4.3	9.9	7.5	7.1	7.0	2.5	-2.0	-7.1	-3.6	-2.1
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	8.9	15.1	14.1	8.8	6.6	6.2	-0.1	-15.5	-11.2	-8.8
<i>Transport, storage and communications</i>	0.6	13.9	7.4	6.8	5.1	2.4	-4.0	-8.8	-8.8	-6.9
<i>Financing, insurance, real estate and business services</i>	5.5	13.4	8.6	12.2	13.5	-0.4	-6.5	-6.4	0.3	4.3
<i>Community, social and personal services</i>	0.4	2.6	-0.1	1.3	1.7	2.2	1.5	0.6	1.5	1.0
<i>Ownership of premises</i>	2.8	1.5	2.9	2.4	3.3	1.7	2.2	1.4	1.0	0.2
Taxes on production and imports	2.6	12.3	0.8	6.8	16.4	-0.4	-13.1	-20.7	-4.6	1.8
<b>GDP in chained (2007) dollars</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>2.1</b>	<b>-2.7</b>	<b>-7.5</b>	<b>-3.7</b>	<b>-2.2</b>

Note : (#) 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>		
						Q4	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Current account <sup>(a)</sup>	122,512	156,933	178,166	199,160	228,125	85,672	41,278	41,187	23,530
Goods	-72,514	-59,347	-108,983	-153,672	-180,091	-30,638	-34,758	-39,355	-65,914
Services	187,077	231,157	277,154	328,488	350,765	96,753	73,428	64,863	86,752
Income	23,410	1,648	27,348	44,437	83,306	25,365	8,608	21,511	9,106
Current transfers	-15,461	-16,524	-17,353	-20,093	-25,855	-5,808	-6,000	-5,832	-6,414
Capital and financial account <sup>(a)</sup>	-184,640	-182,431	-209,935	-259,247	-231,162	-81,286	-30,212	-63,942	-42,123
Capital and financial non-reserve assets (net change)	-159,155	-171,752	-163,199	-144,749	32,707	66,031	38,688	79,154	64,502
Capital transfers	-2,561	-4,939	-2,900	10,338	16,393	4,242	7,447	6,929	12,274
Financial non-reserve assets (net change)	-156,594	-166,812	-160,300	-155,086	16,314	61,789	31,241	72,225	52,228
<i>Direct investment</i>	-91,038	49,996	635	-52,577	70,393	48,513	56,331	-73,027	-22,141
<i>Portfolio investment</i>	-306,368	-245,017	-207,879	-21,452	-295,148	-388,624	74,899	-227,441	-75,181
<i>Financial derivatives</i>	44,319	30,502	25,925	43,534	63,338	5,099	774	14,926	1,776
<i>Other investment</i>	196,492	-2,294	21,019	-124,592	177,732	396,802	-100,764	357,766	147,774
Reserve assets (net change)	-25,486	-10,679	-46,735	-114,498	-263,869	-147,317	-68,900	-143,096	-106,625
Net errors and omissions	62,128	25,498	31,769	60,087	3,037	-4,385	-11,066	22,756	18,593
<b>Overall balance of payments</b>	<b>25,486</b>	<b>10,679</b>	<b>46,735</b>	<b>114,498</b>	<b>263,869</b>	<b>147,317</b>	<b>68,900</b>	<b>143,096</b>	<b>106,625</b>

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

(a) In accordance with the Balance of Payments accounting rules, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. For the capital and financial account, a positive value indicates a net capital and financial inflow and a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>			
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Total exports of goods	2,251,744	2,467,357	2,698,850	2,843,998	2,494,746	512,316	618,781	657,215	706,434
Imports of goods	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966	547,074	658,136	723,129	774,627
<b>Visible trade balance</b>	<b>-59,347</b>	<b>-108,983</b>	<b>-153,672</b>	<b>-180,091</b>	<b>-208,220</b>	<b>-34,758</b>	<b>-39,355</b>	<b>-65,914</b>	<b>-68,193</b>
	<b>(-2.6)</b>	<b>(-4.2)</b>	<b>(-5.4)</b>	<b>(-6.0)</b>	<b>(-7.7)</b>	<b>(-6.4)</b>	<b>(-6.0)</b>	<b>(-9.1)</b>	<b>(-8.8)</b>
Exports of services	495,394	565,054	660,728	717,249	669,974	151,645	144,750	178,068	195,511
Imports of services	264,237	287,900	332,240	366,484	344,055	78,217	79,887	91,316	94,635
<b>Invisible trade balance</b>	<b>231,157</b>	<b>277,154</b>	<b>328,488</b>	<b>350,765</b>	<b>325,919</b>	<b>73,428</b>	<b>64,863</b>	<b>86,752</b>	<b>100,876</b>
	<b>(87.5)</b>	<b>(96.3)</b>	<b>(98.9)</b>	<b>(95.7)</b>	<b>(94.7)</b>	<b>(93.9)</b>	<b>(81.2)</b>	<b>(95.0)</b>	<b>(106.6)</b>
Exports of goods and services	2,747,138	3,032,411	3,359,578	3,561,247	3,164,720	663,961	763,531	835,283	901,945
Imports of goods and services	2,575,328	2,864,240	3,184,762	3,390,573	3,047,021	625,291	738,023	814,445	869,262
<b>Visible and invisible trade balance</b>	<b>171,810</b>	<b>168,171</b>	<b>174,816</b>	<b>170,674</b>	<b>117,699</b>	<b>38,670</b>	<b>25,508</b>	<b>20,838</b>	<b>32,683</b>
	<b>&lt;6.7&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;5.5&gt;</b>	<b>&lt;5.0&gt;</b>	<b>&lt;3.9&gt;</b>	<b>&lt;6.2&gt;</b>	<b>&lt;3.5&gt;</b>	<b>&lt;2.6&gt;</b>	<b>&lt;3.8&gt;</b>

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

(#) 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>				
	(% change)		(% change)		(\$Mn)	Q1	Q2	Q3	Q4	
						(% change over a year earlier)				
<b>All markets</b>	<b>11.4</b>	<b>9.4</b>	<b>9.2</b>	<b>5.1</b>	<b>-12.6</b>	<b>2,469,089</b>	<b>-21.9</b>	<b>-12.9</b>	<b>-14.3</b>	<b>-2.0</b>
Mainland of China	14.0	14.2	13.2	4.7	-7.8	1,263,249	-23.5	-5.3	-8.0	4.0
United States	5.6	2.9	-0.8	-2.4	-20.6	285,236	-20.9	-21.5	-24.2	-15.5
Japan	10.3	1.6	-0.7	1.2	-10.0	108,869	-13.3	-17.7	-7.6	-2.0
Germany	15.6	4.0	7.2	15.8	-15.5	79,342	-7.2	-18.9	-22.5	-12.2
United Kingdom	5.2	6.3	1.7	0.7	-20.8	59,671	-21.2	-20.2	-25.2	-16.5
Singapore	6.8	4.4	3.8	9.6	-23.6	42,252	-32.9	-28.8	-20.3	-11.6
Taiwan	2.7	3.3	1.6	3.8	-0.4	54,713	-26.2	-5.6	3.0	24.8
Republic of Korea	9.5	7.5	2.0	-6.4	-13.0	43,133	-30.1	-21.1	-9.5	13.1
Rest of the world	13.3	8.5	13.2	11.3	-17.3	532,622	-20.9	-20.5	-21.5	-6.3

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

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>			
	(% change)			(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>All sources</b>	<b>10.3</b>	<b>11.6</b>	<b>10.3</b>	<b>5.5</b>	<b>-11.0</b>	<b>2,692,356</b>	<b>-22.8</b>	<b>-14.9</b>	<b>-10.4</b>	<b>3.4</b>
Mainland of China	14.3	13.7	11.5	6.1	-11.4	1,249,374	-19.0	-13.0	-11.9	-3.0
Japan	0.1	4.5	7.2	3.6	-20.6	236,369	-40.8	-25.3	-16.0	*
Singapore	21.8	21.9	18.2	0.1	-10.4	174,659	-27.3	-15.0	-6.7	7.4
Taiwan	9.4	15.9	5.2	-6.4	-8.5	175,649	-31.8	-14.9	-5.6	20.4
United States	6.5	3.6	12.3	8.6	-5.7	142,137	-9.8	-9.4	-11.9	9.6
Republic of Korea	2.6	16.1	-0.2	-1.1	-12.7	103,046	-31.6	-26.8	-13.3	26.3
Rest of the world	8.4	7.6	10.7	11.5	-7.6	611,122	-19.4	-13.0	-6.0	8.4

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

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

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>			
	(% change)			(% change)		(\$Mn)	Q1	Q2	Q3	Q4
							(% change over a year earlier)			
<b>Overall</b>	<b>7.3</b>	<b>14.3</b>	<b>9.4</b>	<b>5.3</b>	<b>-8.7</b>	<b>703,164</b>	<b>-27.4</b>	<b>-22.7</b>	<b>-1.3</b>	<b>18.9</b>
Foodstuffs	3.1	4.3	12.9	19.7	8.8	77,814	2.9	7.6	9.7	14.2
Consumer goods	5.5	3.1	11.4	9.0	-12.9	139,435	-40.1	-26.9	-2.3	24.6
Raw materials and semi-manufactures	4.2	8.8	17.7	-4.5	-13.2	229,198	-38.2	-30.9	0.7	19.2
Fuels	23.5	22.8	20.1	26.6	-18.4	86,854	-24.3	-36.7	-24.2	19.3
Capital goods	10.8	33.2	-8.3	2.5	-1.9	165,355	-9.0	-11.3	4.2	8.4

Note : Individual 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>		<u>2009</u>			
	(% change)				(% change)		(\$Mn)	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>15.3</b>	<b>14.1</b>	<b>16.9</b>	<b>8.6</b>	<b>-6.6</b>	<b>669,974</b>	<b>-12.6</b>	<b>-13.3</b>	<b>-7.5</b>	<b>6.0</b>
Transportation	16.9	10.2	14.6	12.7	-13.6	194,456	-18.8	-16.7	-15.1	-3.2
Travel	14.2	12.9	18.7	11.1	7.1	127,648	13.1	-4.2	1.2	16.4
Trade-related	10.7	9.9	11.6	8.5	-6.4	202,039	-12.9	-11.5	-8.8	4.2
Other services	22.3	28.4	26.7	1.5	-7.2	145,831	-21.5	-16.7	0.2	13.5
<b>Imports of services</b>	<b>9.0</b>	<b>9.0</b>	<b>15.4</b>	<b>10.3</b>	<b>-6.1</b>	<b>344,055</b>	<b>-14.8</b>	<b>-10.8</b>	<b>-6.3</b>	<b>8.0</b>
Transportation	20.3	10.9	20.4	13.5	-14.4	105,542	-21.1	-18.8	-15.1	-1.3
Travel	0.1	5.4	7.6	6.8	-1.1	123,935	-11.3	-1.7	-1.2	11.3
Trade-related	12.8	12.6	15.9	10.6	-7.9	24,755	-14.5	-13.3	-10.8	3.5
Other services	10.5	11.2	21.2	11.0	-1.3	89,823	-11.9	-11.1	0.4	16.5
<b>Net exports of services</b>	<b>23.6</b>	<b>19.9</b>	<b>18.5</b>	<b>6.8</b>	<b>-7.1</b>	<b>325,919</b>	<b>-10.2</b>	<b>-16.1</b>	<b>-8.6</b>	<b>4.3</b>

Notes : Individual 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>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		
						Q1	Q2	Q3	Q4
<u>('000)</u>									
<b>All sources</b>	<b>23 359.4</b>	<b>25 251.1</b>	<b>28 169.3</b>	<b>29 506.6</b>	<b>29 590.7</b>	<b>7 403.7</b>	<b>6 293.1</b>	<b>7 463.2</b>	<b>8 430.7</b>
Mainland of China	12 541.4	13 591.3	15 485.8	16 862.0	17 956.7	4 675.8	3 586.1	4 614.8	5 080.0
South and Southeast Asia	2 413.0	2 659.7	2 888.1	2 936.2	2 885.2	627.7	700.6	651.5	905.4
Taiwan	2 130.6	2 177.2	2 238.7	2 240.5	2 009.6	484.9	457.6	544.1	523.0
Europe	1 398.0	1 548.2	1 772.2	1 711.4	1 610.5	390.1	382.2	369.7	468.5
Japan	1 210.8	1 311.1	1 324.3	1 324.8	1 204.5	316.1	230.5	332.1	325.8
United States	1 143.1	1 159.0	1 230.9	1 146.4	1 070.1	243.1	268.4	257.8	300.7
Others	2 522.6	2 804.5	3 229.2	3 285.3	2 854.0	665.9	667.7	693.3	827.2
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>7.1</b>	<b>8.1</b>	<b>11.6</b>	<b>4.7</b>	<b>0.3</b>	<b>1.8</b>	<b>-8.9</b>	<b>-1.6</b>	<b>9.0</b>
Mainland of China	2.4	8.4	13.9	8.9	6.5	12.6	-4.1	0.1	16.6
South and Southeast Asia	16.1	10.2	8.6	1.7	-1.7	-1.8	-10.5	4.5	1.7
Taiwan	2.7	2.2	2.8	0.1	-10.3	-9.2	-16.9	-11.2	-3.7
Europe	22.3	10.7	14.5	-3.4	-5.9	-17.5	-7.4	5.0	-1.1
Japan	7.5	8.3	1.0	*	-9.1	-2.9	-25.0	-1.1	-8.5
United States	8.7	1.4	6.2	-6.9	-6.7	-18.5	-11.6	4.4	1.2
Others	20.6	11.2	15.1	1.7	-13.1	-21.8	-17.7	-13.7	1.0

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

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

**Table 12 : Property market**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</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)	25 790	26 262	31 052	26 397	26 036	17 321	16 579
Commercial property	160	208	304	417	371	145	291
<i>of which :</i>							
Office space	96	76	166	299	280	34	108
Other commercial premises <sup>(b)</sup>	64	132	138	118	91	111	183
Industrial property <sup>(c)</sup>	62	45	29	15	1	17	27
<i>of which :</i>							
Industrial-cum-office premises	37	14	0	15	0	4	0
Conventional flatted factory space	19	30	3	0	1	0	0
Storage premises <sup>(d)</sup>	6	0	27	0	0	13	27
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	40 944	47 590	20 154	13 705	20 614	24 691	4 430
Subsidized sales flats <sup>(e)</sup>	22 768	25 702	1 072	320	0	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	1 142.7	1 002.5	790.0	1 038.4	530.0	550.7	706.7
Commercial property	337.5	265.0	365.3	200.0	161.3	481.9	468.4
Industrial property <sup>(f)</sup>	129.2	45.7	107.1	0.8	16.4	35.1	23.9
Other properties	240.2	75.0	109.3	444.2	407.1	408.0	199.2
Total	1 849.5	1 388.1	1 371.8	1 683.3	1 114.8	1 475.8	1 398.2
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	65 340	69 667	72 974	71 576	100 630	103 362	82 472
Primary market	13 911	18 366	23 088	26 498	25 694	15 994	13 986
Secondary market	51 429	51 301	49 886	45 078	74 936	87 368	68 486
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 724	1 774	1 639	1 817	3 213	3 431	2 874
Other commercial premises	2 411	2 989	3 167	4 142	7 833	7 143	4 402
Flatted factory space	3 393	3 493	3 756	3 813	5 889	6 560	7 409

Notes : Individual 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>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		
				Q1	Q2	Q3	Q4
<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)	10 471	8 776	7 157	1 645	1 499	2 376	1 637
Commercial property	368	390	235	108	3	95	28
<i>of which :</i>							
Office space	320	341	151	68	1	58	25
Other commercial premises <sup>(b)</sup>	48	49	84	40	2	38	4
Industrial property <sup>(c)</sup>	16	78	3	0	3	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	16	70	3	0	3	0	0
Storage premises <sup>(d)</sup>	0	4	0	0	0	0	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	4 795	22 759	19 021	10 017	4 270	1 576	3 158
Subsidized sales flats <sup>(e)</sup>	2 010	2 200	370	0	0	0	370
<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	956.1	530.0	546.8	127.9	92.7	141.9	184.3
Commercial property	327.5	147.7	178.3	41.7	76.6	17.1	42.8
Industrial property <sup>(f)</sup>	103.5	106.6	97.1	6.1	29.2	43.7	18.0
Other properties	207.7	212.8	253.2	63.9	20.7	102.4	66.2
Total	1 594.8	997.1	1 075.4	239.7	219.2	305.1	311.3
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	123 575	95 931	115 092	16 464	35 449	35 558	27 621
Primary market	20 123	11 046	16 161	1 602	6 829	5 140	2 590
Secondary market	103 452	84 885	98 931	14 862	28 620	30 418	25 031
Selected types of non-residential properties <sup>(h)</sup>							
Office space	4 129	2 845	2 505	304	613	743	845
Other commercial premises	5 490	4 149	5 375	578	1 340	1 786	1 671
Flatted factory space	9 072	5 741	5 649	611	1 249	1 776	2 013

Notes (e) The series, sourced from the Housing Authority's housing production figures, 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 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.

**Table 13 : Property prices and rentals**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	89.6	78.7	69.9	61.6	78.0	92.0	92.7
Office space	89.9	78.7	68.4	62.5	99.3	133.0	139.3
Shopping space	93.6	86.8	85.0	85.5	119.3	149.3	153.5
Flatted factory space	91.2	82.0	74.8	71.7	88.6	125.0	158.5
Property rental indices <sup>(b)</sup> :							
Residential flats	98.1	95.4	83.4	73.6	77.7	86.5	91.6
Office space	98.5	101.0	85.4	74.6	78.1	96.4	117.4
Shopping space	101.3	99.4	92.9	86.4	92.8	100.5	104.3
Flatted factory space	95.4	90.3	82.7	74.9	77.3	82.6	91.0
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-10.4	-12.2	-11.2	-11.9	26.6	17.9	0.8
Office space	-10.1	-12.5	-13.1	-8.6	58.9	33.9	4.7
Shopping space	-6.4	-7.3	-2.1	0.6	39.5	25.1	2.8
Flatted factory space	-8.8	-10.1	-8.8	-4.1	23.6	41.1	26.8
Property rental indices <sup>(b)</sup> :							
Residential flats	-1.9	-2.8	-12.6	-11.8	5.6	11.3	5.9
Office space	-1.5	2.5	-15.4	-12.6	4.7	23.4	21.8
Shopping space	1.3	-1.9	-6.5	-7.0	7.4	8.3	3.8
Flatted factory space	-4.6	-5.3	-8.4	-9.4	3.2	6.9	10.2

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

(b) 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>2007</u>	<u>2008</u>	<u>2009<sup>+</sup></u>		<u>2009</u>		
				Q1	Q2	Q3 <sup>#</sup>	Q4 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	103.5	120.5	121.1	108.0	117.1	127.1	132.0
Office space	165.5	199.0	179.2	154.6	170.1	191.5	200.5
Shopping space	172.5	192.2	191.3	164.4	181.7	204.2	215.0
Flatted factory space	199.5	235.9	216.2	196.3	205.1	222.7	240.7
Property rental indices <sup>(b)</sup> :							
Residential flats	101.8	115.7	100.1	94.3	96.1	102.3	107.6
Office space	131.9	155.5	135.7	141.6	132.1	132.5	136.6
Shopping space	111.8	116.2	110.9	108.2	108.2	111.6	115.4
Flatted factory space	100.5	109.3	99.5	98.7	97.7	99.1	102.6
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	11.7	16.4	0.5	-13.6	-7.0	3.2	22.2
Office space	18.8	20.2	-9.9	-25.1	-19.2	-6.3	14.6
Shopping space	12.4	11.4	-0.5	-16.6	-11.0	5.3	23.8
Flatted factory space	25.9	18.2	-8.4	-17.0	-16.1	-9.0	10.5
Property rental indices <sup>(b)</sup> :							
Residential flats	11.1	13.7	-13.5	-18.3	-20.0	-15.1	0.9
Office space	12.4	17.9	-12.7	-3.1	-15.8	-17.9	-13.4
Shopping space	7.2	3.9	-4.6	-7.4	-7.7	-4.5	1.1
Flatted factory space	10.4	8.8	-9.0	-9.2	-12.7	-10.6	-2.9

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	203,966	229,841	259,411	354,752	412,629	348,248	387,909
M2 <sup>(a)</sup>	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679
M3 <sup>(a)</sup>	2,002,358	2,016,635	2,004,225	2,122,861	2,219,557	2,345,838	2,795,545
Total money supply (\$Mn)							
M1	243,847	258,056	295,650	413,423	484,494	434,684	491,648
M2	3,649,492	3,550,060	3,518,326	3,813,442	4,166,706	4,379,057	5,054,332
M3	3,692,753	3,594,130	3,561,852	3,858,044	4,189,544	4,407,188	5,089,741
Deposit (\$Mn)							
HK\$	1,851,177	1,854,651	1,824,911	1,930,790	2,017,911	2,131,579	2,568,283
Foreign currency	1,676,670	1,551,852	1,492,631	1,636,227	1,848,145	1,936,322	2,188,993
Total	3,527,847	3,406,502	3,317,542	3,567,018	3,866,056	4,067,901	4,757,275
Loans and advances (\$Mn)							
HK\$	1,652,191	1,647,684	1,615,667	1,573,079	1,666,740	1,797,350	1,917,437
Foreign currency	809,259	537,301	460,659	462,000	488,964	514,637	550,392
Total	2,461,450	2,184,986	2,076,325	2,035,079	2,155,704	2,311,987	2,467,828
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(b)(c)</sup>							
Trade-weighted	101.7	104.7	104.0	100.7	98.3	97.4	96.1
Import-weighted	101.5	105.1	104.7	101.6	99.2	98.1	96.8
Export-weighted	101.9	104.3	103.3	99.8	97.3	96.7	95.5
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	-0.7	12.7	12.9	36.8	16.3	-15.6	11.4
M2 <sup>(a)</sup>	3.4	0.5	-0.7	6.2	4.8	5.5	19.2
M3 <sup>(a)</sup>	3.5	0.7	-0.6	5.9	4.6	5.7	19.2
Total money supply :							
M1	8.3	5.8	14.6	39.8	17.2	-10.3	13.1
M2	7.8	-2.7	-0.9	8.4	9.3	5.1	15.4
M3	7.5	-2.7	-0.9	8.3	8.6	5.2	15.5
Deposit							
HK\$	4.4	0.2	-1.6	5.8	4.5	5.6	20.5
Foreign currency	13.5	-7.4	-3.8	9.6	13.0	4.8	13.0
Total	8.5	-3.4	-2.6	7.5	8.4	5.2	16.9
Loans and advances							
HK\$	2.8	-0.3	-1.9	-2.6	6.0	7.8	6.7
Foreign currency	-32.9	-33.6	-14.3	0.3	5.8	5.3	6.9
Total	-12.5	-11.2	-5.0	-2.0	5.9	7.2	6.7
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	0.8	2.9	-0.7	-3.2	-2.4	-0.9	-1.3
Import-weighted	0.1	3.5	-0.4	-3.0	-2.4	-1.1	-1.3
Export-weighted	1.5	2.4	-1.0	-3.4	-2.5	-0.6	-1.2

**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.

**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>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		
				Q1	Q2	Q3	Q4
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	454,342	491,115	671,241	528,633	581,965	694,046	671,241
M2 <sup>(a)</sup>	3,281,017	3,239,857	3,587,716	3,282,859	3,482,447	3,599,862	3,587,716
M3 <sup>(a)</sup>	3,300,500	3,261,306	3,604,842	3,302,413	3,500,873	3,616,373	3,604,842
Total money supply (\$Mn)							
M1	616,709	645,833	901,819	690,327	759,881	908,031	901,819
M2	6,106,348	6,269,578	6,602,309	6,236,463	6,485,032	6,638,110	6,602,309
M3	6,139,758	6,302,270	6,626,842	6,268,122	6,514,058	6,665,330	6,626,842
Deposit (\$Mn)							
HK\$	3,075,042	3,033,980	3,373,595	3,077,660	3,281,975	3,392,085	3,373,595
Foreign currency	2,793,856	3,025,524	3,007,445	2,944,232	2,991,979	3,032,220	3,007,445
Total	5,868,898	6,059,504	6,381,039	6,021,892	6,273,955	6,424,305	6,381,039
Loans and advances (\$Mn)							
HK\$	2,184,705	2,354,755	2,401,393	2,322,941	2,365,902	2,380,617	2,401,393
Foreign currency	776,971	930,883	887,159	843,452	837,383	896,774	887,159
Total	2,961,676	3,285,638	3,288,552	3,166,393	3,203,285	3,277,392	3,288,552
Nominal Effective Exchange Rate Indices (Jan 2000 =100) <sup>(b)(c)</sup>							
Trade-weighted	91.9	87.1	88.2	90.3	88.9	87.6	86.3
Import-weighted	92.5	87.1	87.9	89.9	88.6	87.3	85.9
Export-weighted	91.3	87.2	88.5	90.6	89.2	87.9	86.8
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	17.1	8.1	36.7	15.5	28.5	55.1	36.7
M2 <sup>(a)</sup>	18.1	-1.3	10.7	3.3	13.5	14.4	10.7
M3 <sup>(a)</sup>	18.1	-1.2	10.5	3.3	13.3	14.1	10.5
Total money supply :							
M1	25.4	4.7	39.6	11.2	24.3	51.9	39.6
M2	20.8	2.7	5.3	4.2	9.8	9.7	5.3
M3	20.6	2.6	5.2	4.2	9.6	9.4	5.2
Deposit							
HK\$	19.7	-1.3	11.2	3.5	14.2	15.2	11.2
Foreign currency	27.6	8.3	-0.6	5.6	5.6	4.5	-0.6
Total	23.4	3.2	5.3	4.5	10.0	9.9	5.3
Loans and advances							
HK\$	13.9	7.8	2.0	2.0	0.5	-0.7	2.0
Foreign currency	41.2	19.8	-4.7	-5.6	-15.8	-12.9	-4.7
Total	20.0	10.9	0.1	-0.1	-4.3	-4.3	0.1
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	-4.4	-5.2	1.3	3.6	3.7	1.4	-3.8
Import-weighted	-4.4	-5.8	0.9	3.0	3.4	1.2	-3.9
Export-weighted	-4.4	-4.5	1.5	4.0	4.1	1.6	-3.6

Notes : (a) Adjusted to include foreign currency swap deposits.

(b) Period average.

(c) 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.

**Table 15 : Rates of change in business receipts indices for service industries/domains**

(%)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>		
				Q1-Q3	Q4	Q1	Q2	Q3
<b>Service Industry</b>								
Import and export trade	10.3	8.1	7.4	-18.5	-5.8	-24.2	-17.4	-14.8
Wholesale	7.9	10.4	6.3	-17.4	-6.9	-25.7	-16.2	-11.4
Retail	7.2	12.8	10.6	-3.3	0.9	-3.9	-5.1	-1.1
Transportation	10.0	10.5	4.4	-24.9	-10.3	-23.0	-25.9	-25.6
<i>within which :</i>								
Land transport	4.3	3.7	2.2	-4.2	-2.2	-3.9	-6.0	-2.7
Water transport	16.4	16.8	6.1	-27.1	-10.3	-26.1	-26.4	-28.7
Air transport	6.8	7.3	3.5	-28.5	-12.3	-25.5	-30.8	-28.8
Warehousing and storage	10.2	15.9	6.6	-0.7	5.7	-6.8	-0.2	4.8
Courier	6.9	5.5	2.1	-14.0	-10.8	-20.0	-17.1	-5.4
Accommodation	13.8	15.2	3.8	-21.3	-6.5	-18.1	-27.8	-17.8
Food services	9.6	13.4	13.1	0.1	8.2	1.4	-0.7	-0.3
Information and communications	6.1	8.4	6.0	-4.0	1.9	-5.1	-2.0	-4.9
<i>within which :</i>								
Telecommunications	-0.7	11.0	9.8	1.6	3.6	7.3	1.2	-3.2
Film entertainment	1.7	6.1	-0.7	-16.4	-10.7	-16.7	-19.7	-13.0
Banking	19.5	38.3	-16.9	-6.6	-45.5	-15.8	-0.3	-3.6
Financing (except banking)	47.9	68.8	-19.4	-22.2	-57.6	-46.7	-19.2	5.4
<i>within which :</i>								
Financial markets and asset management	49.3	71.7	-20.0	-24.7	-60.9	-51.5	-19.6	4.5
<i>within which : Asset management</i>	51.8	56.8	-5.2	-28.1	-45.9	-46.7	-30.5	-0.3
Insurance	21.3	28.8	*	-4.3	-22.4	-10.1	-8.1	5.4
Real estate	-0.3	39.5	-3.7	6.7	-26.9	-13.0	7.5	26.7
Professional, scientific and technical services	13.2	12.3	6.8	-2.6	1.1	-7.4	-3.4	2.7
Administrative and support services	20.9	11.5	9.4	-15.7	2.8	-16.4	-15.5	-15.2
<b>Service Domain</b>								
Tourism, convention and exhibition services	14.1	18.9	10.1	-5.7 <sup>+</sup>	1.7	-1.6 <sup>+</sup>	-10.0 <sup>+</sup>	-5.9 <sup>+</sup>
Computer and information technology services	9.8	6.8	5.3	-19.3	-12.2	-26.7	-12.9	-18.1

Notes : Upon the implementation of the new HSIC Version 2.0 by the C&SD in October 2008, the new classification has been adopted in compiling the quarterly business receipts indices. Starting from the first quarter of 2009, all business receipts indices are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The series of business receipts indices under the HSIC Version 2.0 has also been backcasted to the first quarter of 2005.

(+) Provisional figures.

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

**Table 16 : Labour force characteristics**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009<sup>+</sup></u>		<u>2009</u>		
						Q1	Q2	Q3	Q4 <sup>+</sup>
<u>(%)</u>									
Labour force participation rate	60.9	61.2	61.2	60.9	61.0	61.3	61.3	61.0	60.3
Seasonally adjusted unemployment rate	5.6	4.8	4.0	3.6	5.2	5.2	5.4	5.3	4.9
Underemployment rate	2.7	2.4	2.2	1.9	2.3	2.1	2.3	2.4	2.3
<u>('000)</u>									
Population of working age	5 800.7	5 832.2	5 928.4	5 993.9	6 058.6	6 026.7	6 050.1	6 069.9	6 087.8
Labour force	3 534.2	3 571.8	3 629.6	3 648.9	3 694.7	3 694.9	3 709.2	3 704.7	3 669.9
Persons employed	3 336.6	3 400.8	3 483.8	3 518.8	3 501.6	3 507.6	3 506.2	3 495.5	3 497.1
Persons unemployed	197.6	171.1	145.7	130.1	193.0	187.2	203.0	209.1	172.8
Persons underemployed	96.3	86.3	79.2	69.0	84.6	79.2	84.9	89.9	84.5
<u>(% change over a year earlier)</u>									
Population of working age	1.2	0.5	1.6	1.1	1.1	0.9	1.0	1.1	1.2
Labour force	0.6	1.1	1.6	0.5	1.3	1.6	2.0	1.3	0.2
Persons employed	1.9	1.9	2.4	1.0	-0.5	-0.3	-0.3	-0.8	-0.7
Persons unemployed	-17.4	-13.4	-14.8	-10.7	48.3	58.4	67.7	56.5	22.4
Persons underemployed	-15.7	-10.4	-8.2	-12.9	22.7	13.4	24.9	35.6	22.5

Note : (+) Provisional figures.

**Table 17 : Employment in selected major industries**

Selected major industries	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>			No.
	(% change)				(% change over a year earlier)				
					Dec	Mar	Jun	Sep	
Manufacturing	-2.6	-3.2	-2.9	-3.5	-3.8	-7.0	-6.2	-5.0	124 689
Construction sites (manual workers only)	-10.6	-10.8	-5.1	-1.5	-1.3	2.8	-1.2	-0.4	47 965
Import and export trade	2.5	1.0	0.8	-0.3	-1.5	-4.7	-5.7	-4.3	494 955
Wholesale	2.0	-4.2	-0.3	-2.7	-3.6	-3.1	-2.1	-2.2	63 321
Retail	2.0	3.1	2.1	2.8	1.5	-0.6	-1.5	-0.4	236 827
Food and beverage services	2.4	5.0	3.3	1.8	-0.3	-0.4	-1.4	-1.7	208 817
Accommodation services	8.5	8.0	5.4	3.1	2.5	2.7	-0.5	-4.1	31 390
Transportation, storage, postal and courier services	3.2	1.6	2.5	3.5	1.8	1.6	-0.1	0.5	157 715
Information and communications	-0.7	1.4	2.2	3.6	1.7	-0.9	-3.3	-2.2	87 910
Financing and insurance	4.9	4.6	7.3	5.6	0.9	-0.6	-1.6	-2.3	182 173
Real estate	6.6	5.3	4.4	2.7	-0.1	-1.2	-0.9	0.6	107 123
Professional and business services (excluding cleaning and similar services)	3.3	4.9	4.8	3.4	1.8	0.6	0.5	0.6	233 806
Cleaning and similar services	3.4	2.5	0.6	-1.7	1.0	0.1	2.7	7.5	60 585
Education	1.8	5.0	3.3	4.8	5.7	4.6	4.5	5.6	161 723
Human health services	1.7	3.7	5.5	5.1	5.5	3.0	4.9	3.9	90 404
Residential care and social work services	-0.4	1.5	1.4	1.3	0.3	0.6	0.5	1.7	55 835
Arts, entertainment, recreation and other services	18.1	3.3	1.5	1.9	1.5	0.6	1.2	-0.8	109 117
Civil Service <sup>(a)</sup>	-2.7	-1.3	-0.4	0.1	0.3	1.1	1.1	1.1	155 964
Others <sup>(b)</sup>	-6.9	-0.3	0.9	7.0	4.3	-2.8	1.4	-4.4	10 504

Notes : Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and arts, entertainment, recreation and other services. The series of employment statistics under the HSIC Version 2.0 has also been backcasted to March 2004.

(a) 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 outside Hong Kong, and other Government employees such as non-civil service contract staff are not included.

(b) Include employment in mining and quarrying and in electricity, gas and waste management.

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u> Dec	Mar	<u>2009</u> Jun	Sep
<u>(number)</u>									
Building sites									
Private sector	33 619	31 556	30 993	29 240	28 899	28 179	29 666	28 360	27 301
Public sector <sup>(a)</sup>	13 325	10 135	7 643	7 767	8 136	9 235	11 106	9 295	9 540
Sub-total	46 944	41 690	38 636	37 007	37 034	37 414	40 772	37 655	36 841
Civil engineering sites									
Private sector	2 564	2 198	1 569	1 674	1 686	1 715	1 453	1 610	1 733
Public sector <sup>(a)</sup>	16 772	15 378	12 661	11 504	10 703	10 319	9 719	9 677	9 391
Sub-total	19 336	17 576	14 230	13 178	12 388	12 034	11 172	11 287	11 124
<b>Total</b>	<b>66 280</b>	<b>59 266</b>	<b>52 865</b>	<b>50 185</b>	<b>49 422</b>	<b>49 448</b>	<b>51 944</b>	<b>48 942</b>	<b>47 965</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.8	-6.1	-1.8	-5.7	-1.2	-5.2	-0.8	-2.9	-3.5
Public sector <sup>(a)</sup>	-17.7	-23.9	-24.6	1.6	4.7	15.6	30.8	30.9	23.7
Sub-total	-6.3	-11.2	-7.3	-4.2	0.1	-0.8	6.1	3.7	2.3
Civil engineering sites									
Private sector	-6.9	-14.3	-28.6	6.7	0.7	-7.8	-12.3	-18.6	24.4
Public sector <sup>(a)</sup>	-4.0	-8.3	-17.7	-9.1	-7.0	-2.0	-7.2	-14.2	-12.5
Sub-total	-4.4	-9.1	-19.0	-7.4	-6.0	-2.9	-7.9	-14.9	-8.3
<b>Total</b>	<b>-5.7</b>	<b>-10.6</b>	<b>-10.8</b>	<b>-5.1</b>	<b>-1.5</b>	<b>-1.3</b>	<b>2.8</b>	<b>-1.2</b>	<b>-0.4</b>

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

**Table 19 : Rate of change in indices of payroll per person engaged  
by selected industry section**

(%)

Selected industry section	2005	2006	2007	2008	2008	2009		
					Q4	Q1	Q2	Q3
<b>(in nominal terms)</b>								
Manufacturing	0.9	1.7	2.5	0.9	-2.4	-8.2	-3.5	-2.2
Sewerage, waste management and remediation activities	28.0	10.4	17.0	-8.6	-7.6	1.6	12.7	1.2
Import/export and wholesale trade	6.9	3.9	1.8	6.3	2.6	-5.7	0.5	-0.2
Retail trade	9.0	2.1	2.6	8.1	8.4	0.4	-0.6	-4.7
Transportation, storage, postal and courier services	5.2	3.0	3.9	-0.6	-3.3	0.6	-6.6	4.9
Accommodation and food service activities	2.0	2.6	3.9	2.6	1.6	-2.3	-0.6	0.2
Information and communications	*	0.6	-2.9	6.6	8.7	-3.2	2.3	0.5
Financial and insurance activities	5.5	10.0	9.8	9.0	0.2	-9.8	-0.2	0.6
Real estate activities	5.7	-2.5	-0.4	8.0	0.6	-14.2	-0.3	4.5
Professional and business services	2.5	3.3	4.8	3.5	-4.9	-1.7	-2.9	4.6
Social and personal services	-3.2	1.0	1.5	3.1	1.4	6.8	2.2	-1.5
<b>All industries surveyed</b>	<b>3.5</b>	<b>2.4</b>	<b>4.0</b>	<b>2.6</b>	<b>-2.1</b>	<b>-0.2</b>	<b>-0.7</b>	<b>2.1</b>
<b>(in real terms)</b>								
Manufacturing	*	-0.3	0.5	-3.3	-4.6	-9.7	-3.5	-1.2
Sewerage, waste management and remediation activities	26.8	8.2	14.8	-12.3	-9.8	*	12.7	2.2
Import/export and wholesale trade	5.9	1.8	-0.2	1.9	0.2	-7.3	0.5	0.8
Retail trade	8.0	0.1	0.6	3.6	5.9	-1.3	-0.6	-3.8
Transportation, storage, postal and courier services	4.2	0.9	1.9	-4.7	-5.5	-1.1	-6.6	5.9
Accommodation and food service activities	1.0	0.6	1.8	-1.7	-0.7	-4.0	-0.6	1.2
Information and communications	-0.9	-1.4	-4.7	2.2	6.2	-4.8	2.3	1.4
Financial and insurance activities	4.5	7.9	7.7	4.6	-2.1	-11.3	-0.2	1.6
Real estate activities	4.8	-4.4	-2.3	3.5	-1.7	-15.7	-0.3	5.5
Professional and business services	1.6	1.3	2.8	-0.7	-7.1	-3.3	-2.9	5.6
Social and personal services	-4.1	-1.0	-0.5	-1.2	-0.9	5.0	2.2	-0.5
<b>All industries surveyed</b>	<b>2.6</b>	<b>0.4</b>	<b>1.9</b>	<b>-1.7</b>	<b>-4.3</b>	<b>-1.9</b>	<b>-0.7</b>	<b>3.0</b>

Notes : The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2004/05-based Composite CPI.

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) by the C&SD in October 2008, the new classification has been adopted in compiling the payroll statistics. Starting from the first quarter of 2009, all the payroll statistics, unless otherwise specified, are compiled based on the HSIC V2.0. The series of payroll indices under HSIC V2.0 has also been backcasted to the first quarter of 2004.

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

**Table 20 : Rates of change in wage indices  
by selected industry section**

(%)

Selected industry section	2005	2006	2007	2008	2008	2009		
					Dec	Mar	Jun	Sep
<b>(in nominal terms)</b>								
Manufacturing	1.6	0.2	4.3	2.6	1.4	2.2	-2.1	-2.0
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	1.6	1.1	2.3	3.6	0.3	-1.1	-2.2	-1.8
Import/export and wholesale trades	2.7	1.0	2.8	3.1	-0.3	-1.6	--	-1.5
Retail trade	0.8	0.8	-1.7	4.9	6.2	7.0	--	-3.6
Transportation	1.2	0.1	1.5	1.8	-1.0	-0.9	0.4	-1.1
Accommodation and food service activities	*	1.0	1.4	3.1	1.9	-2.1	-3.5	-3.2
Financial and insurance activities <sup>(b)</sup>	0.1	2.1	2.4	2.8	-0.1	0.1	-1.5	-2.5
Real estate leasing and maintenance management	0.5	2.3	1.4	2.7	1.0	-0.9	-0.9	-1.0
Professional and business services	-1.9	2.4	4.8	4.9	3.5	1.0	-0.1	0.1
Personal services	2.4	3.4	8.5	0.5	-1.2	1.9	-0.9	-3.4
<b>All industries surveyed</b>	<b>1.1</b>	<b>1.7</b>	<b>2.6</b>	<b>3.4</b>	<b>0.9</b>	<b>-0.9</b>	<b>-1.9</b>	<b>-1.8</b>
<b>(in real terms)</b>								
Manufacturing	0.4	-1.5	2.4	-0.1	0.2	1.6	-0.5	-2.8
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	0.4	-0.6	0.4	0.9	-1.0	-1.6	-0.6	-2.5
Import/export and wholesale trades	1.5	-0.7	0.9	0.4	-1.6	-2.1	--	-2.2
Retail trade	-0.5	-0.9	-3.5	2.2	4.9	6.5	--	-4.3
Transportation	*	-1.7	-0.4	-0.8	-2.2	-1.4	2.1	-1.8
Accommodation and food service activities	-1.3	-0.8	-0.4	0.4	0.6	-2.6	-2.0	-3.9
Financial and insurance activities <sup>(b)</sup>	-1.1	0.3	0.6	0.2	-1.3	-0.4	0.1	-3.3
Real estate leasing and maintenance management	-0.8	0.6	-0.5	0.1	-0.3	-1.4	0.7	-1.8
Professional and business services	-3.0	0.7	2.9	2.2	2.2	0.5	1.5	-0.6
Personal services	1.2	1.6	6.5	-2.1	-2.4	1.4	0.7	-4.2
<b>All industries surveyed</b>	<b>-0.2</b>	<b>*</b>	<b>0.7</b>	<b>0.7</b>	<b>-0.4</b>	<b>-1.4</b>	<b>-0.3</b>	<b>-2.6</b>

Notes : The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2004/05-based CPI(A).

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) by the C&SD in October 2008, the new classification has been adopted in compiling the wage statistics. Starting from March 2009, all the wage statistics, unless otherwise specified, are compiled based on the HSIC V2.0. The series of wage indices under HSIC V2.0 has also been backcasted to March 2004.

(a) Starting from 2009, the sample size of the wage enquiry conducted in the second and fourth quarters of a year will be reduced. Therefore, wage statistics at detailed industry breakdowns will not be available for June and December of a year.

(b) Excluding stock, commodity and bullion brokers, exchanges and services companies; insurance agents and brokers; and real estate agencies.

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

(--) Not applicable.

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

(%)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
GDP deflator	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3	2.9
Domestic demand deflator	-2.6	-2.3	-4.9	-4.2	0.1	1.2	1.9	2.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-3.8	-1.6	-3.0	-2.6	-0.4	1.0	2.0	2.0
CPI(A)	-3.0	-1.7	-3.2	-2.1	*	1.1	1.7	1.3
CPI(B)	-3.9	-1.6	-3.1	-2.7	-0.5	1.0	2.1	2.2
CPI(C)	-4.5	-1.5	-2.8	-2.9	-0.9	0.8	2.2	2.7
Unit Value Indices :								
Domestic exports	-1.0	-4.7	-3.3	0.2	1.5	2.2	-2.1	0.8
Re-exports	-0.1	-2.0	-2.7	-1.5	1.1	1.2	1.1	2.4
Total exports of goods	-0.2	-2.3	-2.7	-1.4	1.2	1.3	1.0	2.3
Imports of goods	0.8	-3.1	-3.9	-0.4	2.9	2.7	2.1	2.3
Terms of Trade Index	-1.0	0.9	1.2	-1.0	-1.7	-1.4	-1.1	0.1
Producer Price Index for all manufacturing industries <sup>(b)</sup>	0.2	-1.6	-2.7	-0.3	2.2	0.8	2.2	3.0
Tender Price Indices :								
Public sector building projects	-13.1	-8.5	-11.7	-0.3	-1.5	1.4	5.0	20.1
Public housing projects	-11.9	-15.1	-9.6	-10.0	3.5	7.7	11.2	19.7

Notes : (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.

(b) Starting from the first quarter of 2009, the producer price indices for all manufacturing industries are compiled based on the HSIC Version 2.0, and the base period of the indices has been changed to 2008 (i.e. with the quarterly average of the indices in 2008 taken as 100). The new series has also been backcasted to the first quarter of 2005. The rates of change before 2006 presented here are the old series compiled based on the HSIC Version 1.1. The two series are therefore not strictly comparable.

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

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

(--) Not applicable.

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 1998-2008.

(~) Average annual rate of change for the 5-year period 2003-2008.

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

	(%)							
	<u>2008</u>	<u>2009</u>	<u>2009</u>				<u>Average annual rate of change:</u>	
			Q1	Q2	Q3	Q4	10 years 1999 to 2009	5 years 2004 to 2009
GDP deflator	1.5 #	0.2 #	-0.1 #	0.6 #	-0.1 #	0.2 #	-1.5 #	0.8 #
Domestic demand deflator	2.8 #	* #	-1.1 #	-0.7 #	0.2 #	1.3 #	-0.6 #	1.6 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	4.3	0.5	1.7	-0.1	-0.9	1.3	-0.2	1.9
CPI(A)	3.6	0.4	1.0	-0.8	-1.3	2.6	-0.2	1.6
CPI(B)	4.6	0.5	1.9	0.1	-0.8	1.0	-0.2	2.1
CPI(C)	4.7	0.6	2.2	0.5	-0.7	0.4	-0.2	2.2
Unit Value Indices :								
Domestic exports	5.1	-0.2	2.5	*	-2.2	-1.2	-0.2	1.1
Re-exports	3.8	1.2	2.5	0.8	0.3	0.9	0.4	1.9
Total exports of goods	3.8	1.1	2.5	0.8	0.2	0.8	0.4	1.9
Imports of goods	4.4	-0.1	1.0	-0.8	-1.5	0.6	0.7	2.3
Terms of Trade Index	-0.5	1.3	1.6	1.6	1.7	0.2	-0.3	-0.4
Producer Price Index <sup>(b)</sup> for all manufacturing industries	5.6	N.A.	-1.4	-3.0	-2.0	N.A.	--	--
Tender Price Indices :								
Public sector building projects	41.9	N.A.	-3.9	-24.7	-20.7	N.A.	1.8 ^	12.3 ~
Public housing projects	30.8	-6.8	-0.7	-11.3	-10.0	-4.4	1.0	11.8

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

(%)								
	Weight	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
<b>All items</b>	<b>100.0</b>	<b>-3.8</b> (--)	<b>-1.6</b> (--)	<b>-3.0</b> (--)	<b>-2.6</b> (--)	<b>-0.4</b> (--)	<b>1.0</b> (--)	<b>2.0</b> (--)
Food	26.94	-2.2	-0.8	-2.1	-1.5	1.0	1.8	1.7
<i>Meals bought away from home</i>	16.86	-0.9	-0.3	-1.5	-1.5	0.2	0.9	1.3
<i>Food, excluding meals bought away from home</i>	10.08	-4.2	-1.7	-3.1	-1.7	2.5	3.2	2.5
Housing <sup>(a)</sup>	29.17	-8.2	-3.1	-5.7	-4.8	-5.2	0.1	4.7
<i>Private housing rent</i>	23.93	-9.8	-2.9	-6.5	-6.3	-6.6	-0.1	5.6
<i>Public housing rent</i>	2.49	1.1	-8.3	-2.7	9.1	2.5	0.2	0.1
Electricity, gas and water	3.59	3.6	-1.9	-7.0	1.4	11.4	4.1	2.1
Alcoholic drinks and tobacco	0.87	-0.9	3.3	2.4	0.1	*	0.4	-3.7
Clothing and footwear	3.91	-10.1	-4.6	0.7	-2.7	6.4	2.0	1.0
Durable goods	5.50	-4.6	-7.1	-6.3	-6.4	-2.2	-3.2	-6.4
Miscellaneous goods	4.78	0.9	1.3	1.7	2.3	3.6	1.5	1.7
Transport	9.09	1.0	0.4	-0.6	-0.4	0.4	1.4	0.7
Miscellaneous services	16.15	-0.2	0.5	-2.3	-3.2	-0.2	1.0	1.9

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.

Figures in bracket represent the underlying rate of change after netting out the effect of Government's one-off relief measures.

(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  $\pm 0.05\%$ .

(--) Not applicable.

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

	Weight	(%)								
		<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>				Average annual rate of change:	
					Q1	Q2	Q3	Q4	10 years 1999 to 2009	5 years 2004 to 2009
<b>All items</b>	<b>100.0</b>	<b>2.0</b> <b>(2.8)</b>	<b>4.3</b> <b>(5.6)</b>	<b>0.5</b> <b>(1.0)</b>	<b>1.7</b> <b>(3.1)</b>	<b>-0.1</b> <b>(1.2)</b>	<b>-0.9</b> <b>(-0.3)</b>	<b>1.3</b> <b>(-0.1)</b>	<b>-0.2</b> <b>(--)</b>	<b>1.9</b> <b>(--)</b>
Food	26.94	4.3	10.1	1.3	4.6	1.5	-0.5	-0.3	1.3	3.8
<i>Meals bought away from</i>	<i>16.86</i>	<i>2.5</i>	<i>5.9</i>	<i>1.6</i>	<i>3.4</i>	<i>1.7</i>	<i>0.7</i>	<i>0.6</i>	<i>0.8</i>	<i>2.4</i>
<i>Food, excluding meals bought     away from home</i>	<i>10.08</i>	<i>7.1</i>	<i>16.8</i>	<i>0.9</i>	<i>6.5</i>	<i>1.2</i>	<i>-2.3</i>	<i>-1.5</i>	<i>2.1</i>	<i>5.9</i>
Housing <sup>(a)</sup>	29.17	2.0	4.1	3.7	6.6	4.5	1.7	1.9	-1.3	2.9
<i>Private housing rent</i>	<i>23.93</i>	<i>4.0</i>	<i>6.8</i>	<i>3.6</i>	<i>7.7</i>	<i>5.1</i>	<i>2.0</i>	<i>*</i>	<i>-1.4</i>	<i>4.0</i>
<i>Public housing rent</i>	<i>2.49</i>	<i>-17.7</i>	<i>-27.2</i>	<i>9.5</i>	<i>-0.2</i>	<i>0.6</i>	<i>-7.0</i>	<i>45.4</i>	<i>-4.0</i>	<i>-8.0</i>
Electricity, gas and water	3.59	-0.7	-6.5	-25.3	-42.7	-42.7	-26.1	32.3	-2.4	-5.9
Alcoholic drinks and tobacco	0.87	-1.2	0.1	18.7	7.6	22.6	22.9	22.0	1.8	2.6
Clothing and footwear	3.91	4.1	0.8	2.7	1.8	2.5	2.6	3.7	-0.1	2.1
Durable goods	5.50	-4.7	-2.0	-3.0	-2.9	-3.3	-3.1	-2.8	-4.6	-4.0
Miscellaneous goods	4.78	2.5	5.0	2.3	3.2	2.3	1.7	1.9	2.3	2.6
Transport	9.09	-0.1	2.5	-0.9	0.7	-0.7	-2.4	-1.0	0.4	0.7
Miscellaneous services	16.15	1.7	0.8	-2.1	-1.7	-3.0	-2.8	-0.7	-0.2	0.6

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

(%)

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Private consumption expenditure	-3.3	-1.1	-3.6	-2.5	-0.3	1.8	1.3
Government consumption expenditure	-1.8	1.1	-0.5	-2.6	-2.9	-1.4	1.0
Gross domestic fixed capital formation	-1.0	-6.6	-9.9	-9.4	2.6	1.0	4.2
Total exports of goods	-0.3	-2.6	-2.9	-1.8	0.9	0.6	0.3
Imports of goods	0.7	-3.5	-4.2	-0.9	2.9	1.9	2.1
Exports of services	0.5	-4.3	-2.4	-3.1	0.5	3.3	3.6
Imports of services	1.7	-1.1	0.3	2.7	4.1	1.0	0.8
<b>Gross Domestic Product</b>	<b>-3.6</b>	<b>-1.9</b>	<b>-3.5</b>	<b>-6.2</b>	<b>-3.5</b>	<b>-0.1</b>	<b>-0.3</b>
Total final demand	-1.1	-2.7	-3.6	-2.8	0.6	1.2	1.2
Domestic demand	-2.6	-2.3	-4.9	-4.2	0.1	1.2	1.9

Notes : (#) 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>2007</u>	<u>2008<sup>#</sup></u>	<u>2009<sup>#</sup></u>	<u>2009</u>				<u>Average annual rate of change:</u>	
				Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	10 years 1999 to 2009 <sup>#</sup>	5 years 2004 to 2009 <sup>#</sup>
Private consumption expenditure	3.7	2.8	-1.2	-1.1	-2.0	-2.2	0.3	-0.3	1.6
Government consumption expenditure	2.9	4.9	0.1	3.2	-0.8	-1.6	-0.7	*	1.5
Gross domestic fixed capital formation	-2.5	1.9	4.1	-2.0	4.8	8.3	4.4	-1.7	1.7
Total exports of goods	2.2	3.4	0.3	1.8	-0.3	-1.0	0.7	*	1.4
Imports of goods	1.7	4.1	-1.1	-0.1	-2.2	-2.1	*	0.3	1.7
Exports of services	2.5	3.4	-5.9	-7.5	-8.4	-7	-1.6	-0.2	1.3
Imports of services	2.9	3.8	-2.2	-5.8	-5.7	-3.1	5.5	1.4	1.3
<b>Gross Domestic Product</b>	<b>2.9</b>	<b>1.5</b>	<b>0.2</b>	<b>-0.1</b>	<b>0.6</b>	<b>-0.1</b>	<b>0.2</b>	<b>-1.5</b>	<b>0.8</b>
Total final demand	2.2	3.2	-0.8	-0.6	-1.5	-1.6	0.5	-0.3	1.4
Domestic demand	2.1	2.8	*	-1.1	-0.7	0.2	1.3	-0.6	1.6

