



First Quarter Economic Report 2010

Government of the Hong Kong
Special Administrative Region

FIRST QUARTER ECONOMIC REPORT 2010

ECONOMIC ANALYSIS DIVISION
ECONOMIC ANALYSIS AND BUSINESS FACILITATION UNIT
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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

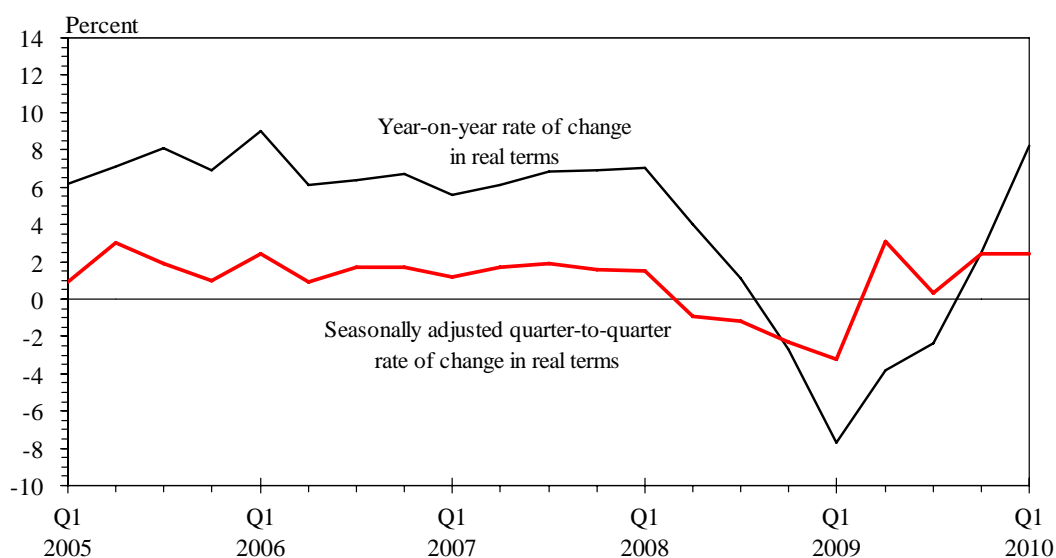
- *Economic recovery in Hong Kong became increasingly entrenched in the first quarter of 2010. Having resumed a positive year-on-year growth of 2.5% in the fourth quarter of 2009, GDP grew markedly further by 8.2% in real terms in the first quarter of 2010.*
- *The improvement in the first quarter was broadly based. Merchandise exports rebounded strongly from the exceptionally low base in the same quarter last year, thanks to the vibrant growth in the Mainland, the resurgence in intra-regional trade and a gradual return of import demand from the United States and Europe. For the first quarter as a whole, exports had by and large returned to the level prior to the global financial tsunami.*
- *Exports of services likewise thrived on all fronts. Exports of financial and business services continued to benefit from the surge in financial market and commercial activities. Transportation and trade-related services saw a visible turnaround on reviving trade flows. Inbound tourism was likewise vibrant, with visitors from most major sources showing rapid growth.*
- *The local segment was highly resilient in the first quarter. Private consumption expenditure grew further, as consumer sentiment held firm amid the improving labour market conditions and the Government's relief measures. The distinctly low base of comparison in the same quarter last year was also relevant. Business sentiment continued to strengthen, with investment spending rising notably.*
- *The seasonally adjusted unemployment rate has successively come down since mid-2009, to 4.4% in the first quarter of 2010. Wages and earnings also showed some improvement towards the end of last year.*
- *The local stock market retreated from mid-January to early February 2010, before resuming its uptrend in the rest of the quarter. Market sentiments were sensitive to news that could affect the global economic outlook. The local property market firmed up further during the first quarter. In response, the Government put in place measures to forestall the risk of a property market bubble.*
- *Inflation edged up in tandem with the increasingly entrenched recovery. Underlying consumer price inflation stood at 0.8% in the first quarter of 2010, up from the -0.1% in the fourth quarter of 2009.*

Overall situation

1.1 Economic recovery in Hong Kong became more entrenched stepping into 2010, with both domestic and external sectors growing vibrantly. External merchandise trade picked up strongly, thanks to a surge in intra-regional trade in Asia and improvement in import demand from the United States and Europe. Exports of services also benefited from the continued recovery in the global economy, led by the rapid growth in the Asian region, particularly the Mainland. Domestic sector stayed highly resilient. While consumer sentiment was aided by improved job and income prospects, business confidence strengthened on a brighter global economic outlook, leading to notable growth in both consumption and investment expenditures. Along with the economic revival, overall price pressures increased slightly in the first quarter of 2010.

1.2 In the first quarter of 2010, the *Gross Domestic Product (GDP)*⁽¹⁾ rose by 8.2% in real terms over a year earlier. This was in stark contrast to the contraction of 2.8% for 2009 as a whole (revised from the earlier estimate of -2.7%), and accelerated markedly from the growth of 2.5% in the fourth quarter of last year (revised from the earlier estimate of 2.6%). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP rose by 2.4% in real terms in the first quarter, the fourth consecutive quarterly expansion, after a similar pace of growth in the fourth quarter of last year. Despite the difficulties experienced by the economy over the past year or so, the underlying trend of overall productivity growth in Hong Kong still outperformed many other economies at a similar stage of development (**Box 1.1**).

Diagram 1.1 : Economic recovery in Hong Kong became more entrenched stepping into 2010



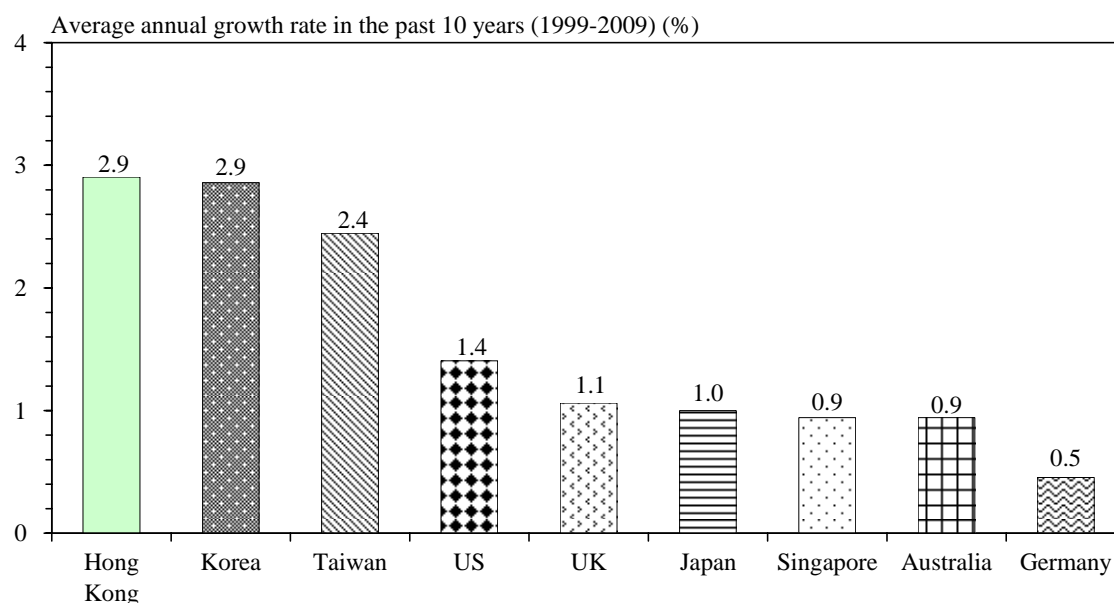
Box 1.1

Overall productivity growth in Hong Kong and selected economies

Economic growth can be broadly decomposed into two components, namely the increase in the employed population and the productivity growth of the employed persons. In the longer run, the former component is dependent on demographic and migration trends. As for the latter, the underlying growth depends on a string of factors, including technological progress, capital deepening and widening, better institutional arrangements, as well as improved quality of workers. Productivity growth is an important driving force for raising the living standards of an economy over the longer run. It is also a key indicator of the overall competitiveness of an economy, reflecting the efficiency of its economic system and the effectiveness of its economic policies.

This article provides an update of the analysis of Hong Kong's productivity in **Box 1.1** of the *2006 Economic Background and 2007 Prospect*. **Chart 1** gives a comparison of the average annual growth rates of overall productivity over the past ten years (1999-2009) in Hong Kong (as measured by an economy's real GDP per employed person) with those in selected advanced economies as well as other Asian economies at a stage of development similar to Hong Kong. Under the period of comparison, Hong Kong's productivity growth compared favourably with these economies, and actually outperformed the more advanced economies by a considerable margin. Over the past ten years, the Hong Kong economy endured a series of shocks, including the bursting of the global IT bubble in 2000, the eruption of SARS in 2003, and the Great Recession of 2008-2009 triggered by the global financial tsunami. Despite these adverse developments, Hong Kong still attained an admirable trend growth in overall productivity, at 2.9% per annum over the past ten years.

Chart 1: Hong Kong's overall productivity growth outpaced many other advanced economies



Box 1.1 (Cont'd)

The underlying growth momentum of Hong Kong's overall productivity was well maintained over the past ten years. The trend growth attained over this period was even higher than that of 2.2% per annum in the preceding ten years (1989-1999). An important contributory factor to this sustained fast pace of growth is the significant economic restructuring that Hong Kong has been undergoing. By capitalizing on the ample opportunities arising from the opening up and economic reform in the Mainland, the Hong Kong economy has been constantly moving towards higher-value-added, knowledge-based activities. Over the past decade or so, the integration with the Mainland has been brought to new heights. The signing and implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) since 2003 and its subsequent Supplements have accelerated the pace of such integration. This has enabled Hong Kong to make better use of its comparative advantages, go further up the value chain, and engage in such high value-added activities as financial and professional services.

To support the productivity growth in Hong Kong, the Government has all along assumed a pro-active role in investing in infrastructure to enlarge the production capacity of the economy, as well as in education, training and retraining to raise the quality of Hong Kong's labour force (See **Box 1.2** of the *2007 Economic Background and 2008 Prospect* on the importance of human capital to productivity growth). This, together with the Government's continuous efforts to further integration with the Mainland (*paragraph 1.18*) and enhance links with other emerging markets, should augur well for the productivity growth in Hong Kong over the medium to longer term. Faster productivity growth will not only enable a more rapid pace of economic expansion, but also help to contain the pressures on costs and prices. The latter effect is also of importance in forestalling the risk of higher inflation in the coming years.

The external sector

1.3 The global economy continued to recover in the first quarter of 2010, with the risk of relapsing into another recession seemingly receding. The United States economy expanded at a moderate pace. However, its labour market had yet to show a visible turnaround. The growth pace of the European Union was more anemic, with several member states facing challenging fiscal problems. In contrast, Asian economies, particularly the Mainland, fared robustly, taking the lead in the global recovery process and resulting in a strong revival of intra-regional trade. In some Asian economies, the policy focus gradually shifted from stimulating growth to containing inflation. In April 2010, the International Monetary Fund (IMF) revised upward its global growth forecast for 2010 to 4.2%, from the previous estimate of 3.9% in January.

1.4 Against this background, Hong Kong's total exports of goods expanded by 21.6% in real terms in the first quarter of 2010 over a year earlier, in stark contrast with the 2.9% decline in the fourth quarter of 2009 and the 12.7% contraction for 2009 as a whole. The strong export performance was mainly led by the sizable growth in exports to the Mainland and other Asian markets. In addition, exports to the US resumed modest growth after quarters of significant decline. Exports to Europe were still down despite the already very low base of comparison a year ago. Overall, the volume of merchandise exports in the first quarter largely returned to levels prior to the outbreak of the global financial tsunami.

1.5 Exports of services also grew strongly in the first quarter of 2010, by 17.9% year-on-year in real terms, after the 8.9% increase in the fourth quarter of last year. All major components turned in sizable growth in the first quarter of 2010. Exports of financial services grew vibrantly, thanks to the sustained pick-up in financial market and commercial activities. Exports of travel services also expanded rapidly, along with a notable and broad-based growth in visitor arrivals. Exports of trade-related and transportation services, which were severely battered in most of 2009, saw a notable turnaround in the first quarter of 2010 on the back of normalisation in global trade flows.

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

	<u>2008[#]</u>	<u>2009[#]</u>	<u>2009</u>				<u>2010</u>
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
<i><u>Change in real terms of GDP and its main expenditure components (%)</u></i>							
Private consumption expenditure	2.4	-0.4	-6.2 (-1.7)	-0.6 (4.1)	0.6 (0.4)	4.8 (2.0)	6.5 (*)
Government consumption expenditure	1.8	2.4	1.5 (-0.3)	2.6 (1.8)	3.4 (0.6)	2.0 (-0.2)	3.5 (1.3)
Gross domestic fixed capital formation	0.8	-1.8	-10.3	-11.8	3.2	14.1	10.5
<i>of which :</i>							
Building and construction	6.1	-0.5	-5.6	-2.4	5.4	1.3	-2.1
Machinery, equipment and computer software	-0.8	-2.6	-4.1	-16.6	-2.1	16.2	12.1
Total exports of goods	1.9	-12.7	-22.7 (-12.7)	-12.8 (6.0)	-13.2 (-1.3)	-2.9 (7.3)	21.6 (8.4)
Imports of goods	1.8	-9.5	-20.8 (-10.4)	-12.6 (5.3)	-8.3 (2.5)	3.3 (7.1)	28.0 (10.3)
Exports of services	5.0	0.3	-5.5 (-1.8)	-3.8 (1.9)	0.8 (3.7)	8.9 (4.8)	17.9 (6.6)
Imports of services	6.3	-3.7	-9.7 (-3.5)	-5.0 (1.9)	-2.7 (1.6)	2.5 (2.6)	10.2 (3.7)
Gross Domestic Product	2.2	-2.8	-7.7 (-3.2)	-3.8 (3.1)	-2.4 (0.3)	2.5 (2.4)	8.2 (2.4)
<i><u>Change in the main price indicators (%)</u></i>							
GDP deflator	1.5	0.2	0.7 (0.2)	0.9 (0.2)	-1.0 (-0.6)	0.2 (0.4)	0.9 (0.9)
Composite CPI							
Headline	4.3	0.5	1.7 (0.4)	-0.1 (-0.2)	-0.9 (-1.1)	1.3 (2.2)	1.9 (1.0)
Underlying[^]	5.6	1.0	3.1 (-0.1)	1.2 (-0.3)	-0.3 (-0.2)	-0.1 (0.5)	0.8 (0.7)
<i><u>Change in nominal GDP (%)</u></i>	3.7	-2.6	-7.0	-2.9	-3.4	2.7	9.2

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 domestic sector sustained a fairly strong momentum in the first quarter of 2010. *Private consumption expenditure* increased by 6.5% year-on-year in real terms over a year earlier, up from the 4.8% growth in the fourth quarter of last year. Consumer confidence was firmly supported by the continued improvement in labour market and somewhat brighter economic outlook. The Government's successive rounds of relief measures also contributed. *Government consumption expenditure* rose steadily further in the first quarter.

Table 1.2 : Consumer spending by major components^(a)
(year-on-year rate of change in real terms (%))

Of which :

		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2009	Annual	0.4	-2.0	0.7	-0.1	1.0	1.9	7.8	-0.4
	H1	-2.7	-3.0	-6.9	-5.8	-1.0	1.4	6.7	-3.4
	H2	3.5	-1.0	7.7	5.6	3.1	2.3	8.8	2.7
	Q1	-4.1	-3.7	-5.8	-5.7	-3.1	-3.8	14.3	-6.2
	Q2	-1.4	-2.4	-8.2	-5.9	1.0	7.2	-1.6	-0.6
	Q3	0.7	-1.3	-2.4	-1.4	2.5	0.3	1.7	0.6
	Q4	6.1	-0.8	18.3	11.8	3.7	4.5	15.3	4.8
2010	Q1	8.8	3.8	29.6	14.6	4.6	1.2	19.9	6.5

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

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

Diagram 1.2 : Private consumption expenditure increased further

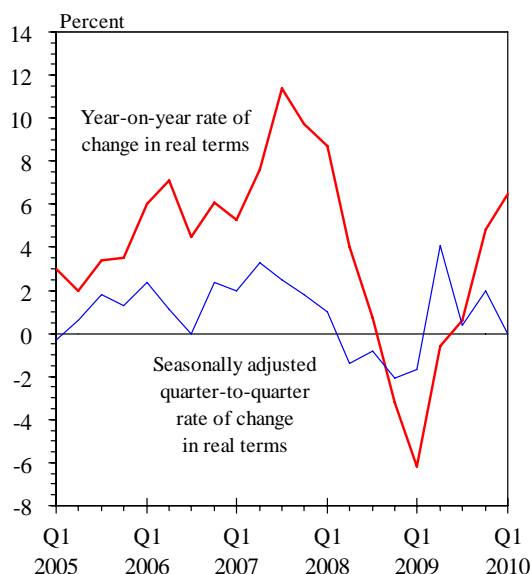
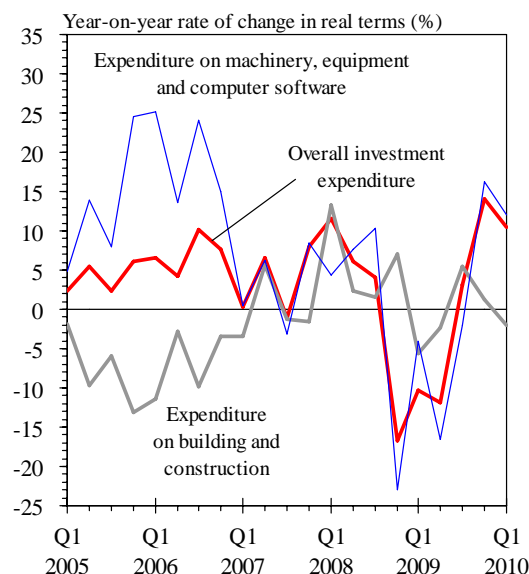


Diagram 1.3 : Overall investment spending remained strong in the first quarter



1.7 Overall investment spending remained strong. *Gross domestic fixed capital formation* increased significantly by 10.5% in real terms in the first quarter of 2010 over a year earlier, after a rebound of 14.1% in the preceding quarter. Machinery and equipment acquisition surged by 12.1%, with a greater contribution coming from the private sector component. Businesses became more willing to invest in capacity building in view of the improved business situation and outlook (**Box 1.2**). The results of the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in March and early April also indicated a general increase in optimism among the large enterprises surveyed. Expenditure on building and construction declined modestly by 2.1% in the first quarter of 2010. Public sector works continued to grow rapidly as the Government expedited small-scale works and as some large-scale infrastructure projects started⁽³⁾. However, private sector construction activity remained slack.

The labour sector

1.8 Labour market improved further in the first quarter of 2010 alongside the strong rebound in overall economic activities. The seasonally adjusted unemployment rate came down successively since mid-2009, reaching 4.4% by the first quarter. Downward pressure on labour wages and earnings that once prevailed in the aftermath of the financial tsunami by and large disappeared by the end of last year. Companies also showed stronger intention to reactivate their hiring plans.

Box 1.2

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

To gain a better understanding of the impact of the financial tsunami on business receipts, employment and credit access situations of small and medium-sized enterprises (SMEs)⁽¹⁾, 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 feedback. This note provides a further update of the results reported in **Box 1.1** in the *2009 Economic Background and 2010 Prospects*.

The results of the consultation exercise available up to April 2010 indicated that the overall situation in business receipts continued to improve markedly since the beginning of 2010. Business situation in the local segments attained across-the-board improvement, with SMEs in the insurance sector showing the fastest recovery. Travel agents and retail trade saw a notable rebound in business receipts, as did restaurants, thanks to the firmer consumer sentiment over the period. On the other hand, the improvement in business receipts of real estate stalled in recent months after the earlier sharp rebound, following the Government's recently announced measures to forestall the risk of a property market bubble (*Chart 1a*). As for the external segments, business receipts for SMEs in import/export trades also regained most of the lost ground over the past several months in tandem with the strong revival of trade flows within the region. Business situation in financing institutions also improved firmly further. However, business receipts in the logistics sector were still notably down from the normal level (*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.

The results of the consultation also indicated that SMEs' employment situation gradually improved. More discernable improvements were recorded in the financing institutions, restaurants, retail trade, and travel agents sectors. Many SMEs also indicated the intention of hiring additional hands in the more recent months.

Credit access situation continued to improve in recent months. The proportion of SMEs reporting tighter-than-normal credit access came down successively further to 4% in April 2010 from above 12% in late November 2008, 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, as the monetary conditions remained accommodative and thanks in part to the Government's efforts to relieve credit strains via the enhanced and special loan guarantee schemes. As at the end of April, some 18 200 companies benefited under these schemes, involving approved loan amount of \$83 billion. This also indirectly helped to secure the jobs of those employed by these companies, totaling over 300 000.

(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 1.2 (Cont'd)

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

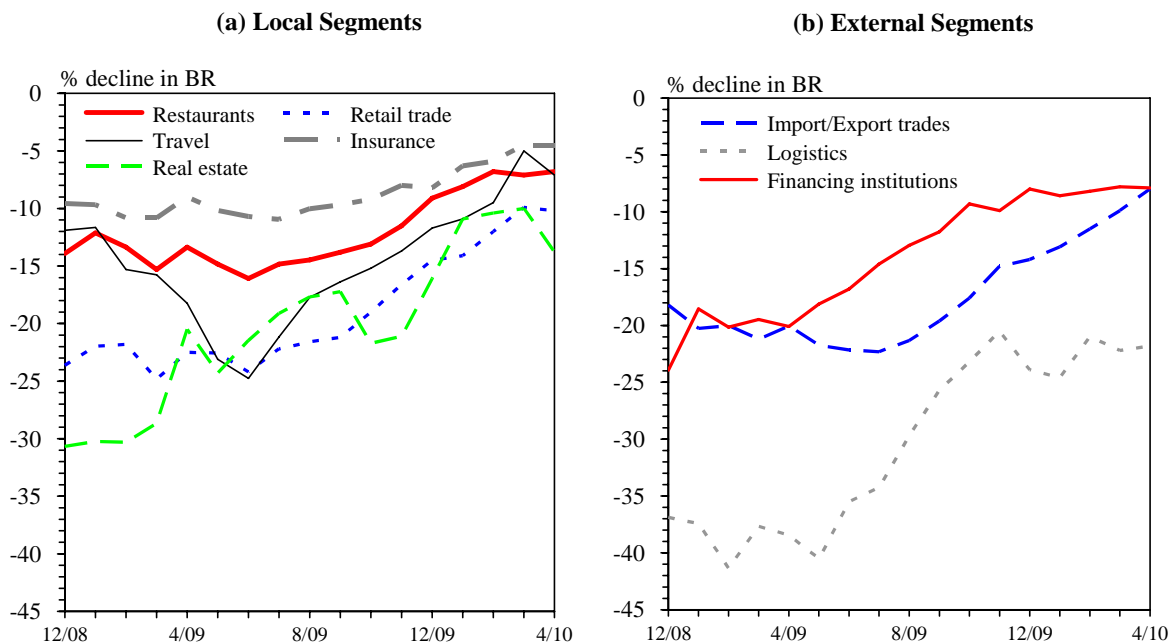
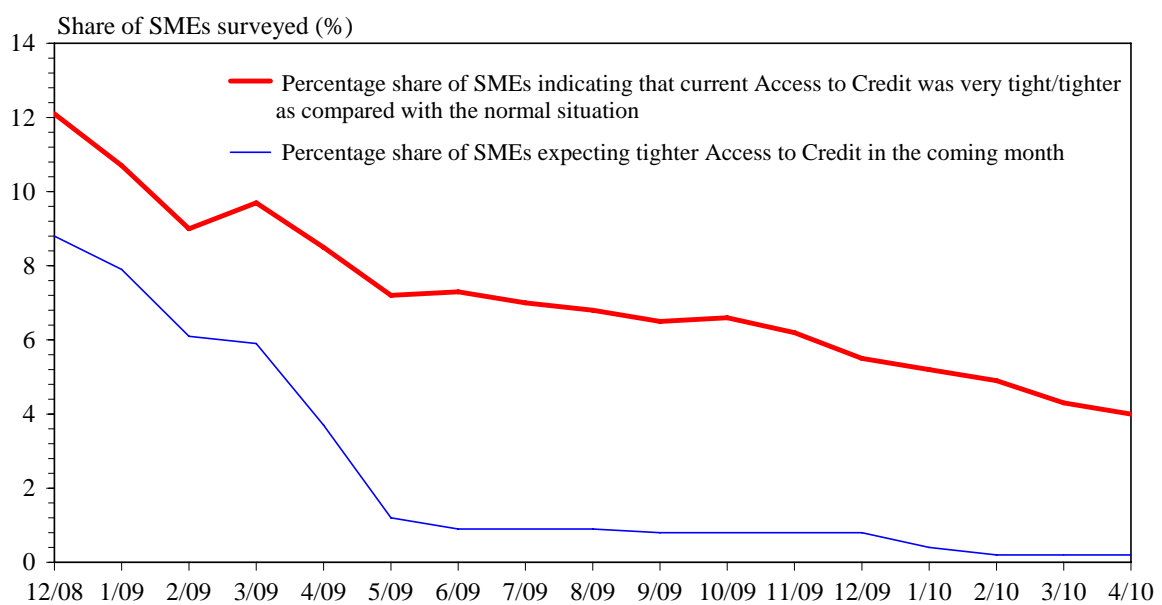


Chart 2: Access to credit improved further



The asset markets

1.9 Following the strong rebound since March last year, the local stock market consolidated from mid-January to early February 2010 along with other major overseas markets, on concerns over the fragile fiscal positions in some European countries and the sustainability of the global recovery. As the appetite for risks revitalized along with more favourable incoming data on the global economy, the stock market recovered some lost ground in the latter part of the quarter. During the first quarter, the Hang Seng Index fell slightly by 3%.

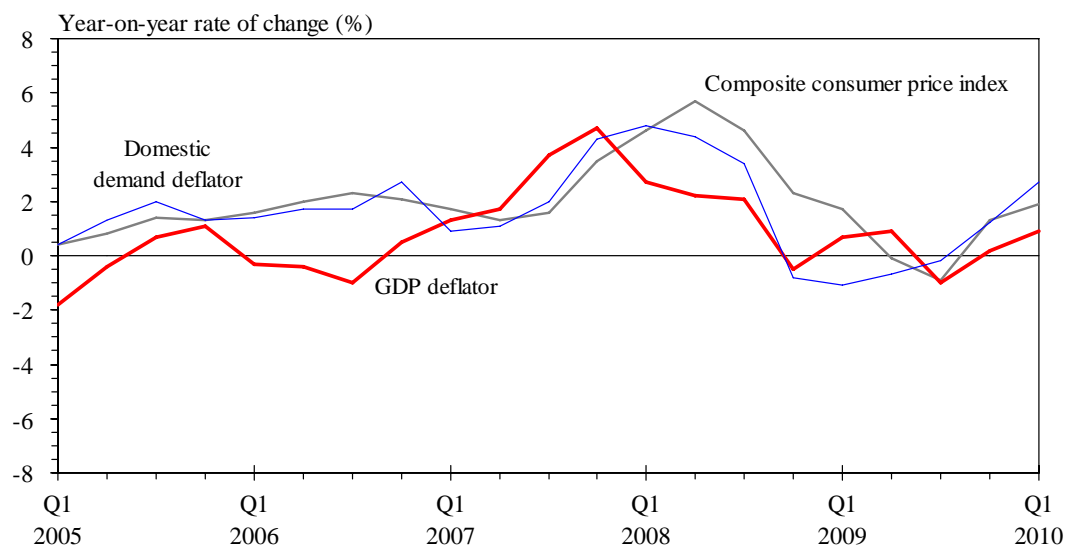
1.10 Residential property market continued to firm up during the first quarter of 2010 in terms of both prices and transaction volume. To ensure a healthy and stable development of the property market, the Government announced in the 2010-11 Budget measures to address the issue of flat supply, increase the transaction cost of property speculation, ensure transparency in property transactions and transaction prices, and curb excessive expansion in mortgage lending. Further measures were announced in April, with a view to forestalling the formation of a property market bubble (**Box 3.1**). In comparison to flat prices, the concurrent increase in flat rentals was more moderate during the first quarter of 2010.

Inflation

1.11 Inflationary pressure increased slightly in the first quarter of 2010 as the economic recovery became more entrenched. *Headline consumer price inflation* was higher at 1.9% in the quarter, mainly due to the low base of comparison in the same quarter last year as a result of the one-off electricity charge subsidy. Netting out the effect of the Government's one-off relief measures, *underlying consumer price inflation* edged up to 0.8% year-on-year in the quarter. Overall inflationary pressure was still tame, as both local and external price pressures remained modest in the first quarter of 2010.

1.12 The *GDP deflator* rose by 0.9% in the first quarter of 2010, further from the 0.2% increase in the fourth quarter last year. The pick-up in the domestic demand deflator more than offset the worsening terms of trade due to higher import prices of food and fuel, thereby rendering a faster increase in the GDP deflator.

Diagram 1.4 : Inflationary pressures increased slightly in the first quarter



GDP by major economic sector

1.13 The global financial tsunami took a heavy toll on many sectors of the economy in most of 2009. Latest available figures indicate that net output of the services sector as a whole contracted by 2.0% in real terms in 2009, after a growth of 2.5% in 2008. The manufacturing sector declined significantly by 9.2% in 2009, widening from the 6.6% decline in 2008, and the growth of net output in the construction sector also saw a marked deceleration to 1.6% in 2009 from 8.8% in 2008. Nevertheless, a notable improvement was seen across sectors by the fourth quarter of 2009. The net output of the services sector as a whole reverted to a year-on-year growth of 3.4%, after four consecutive quarters of contraction. Financing and insurance saw the quickest revival, followed by wholesale and retail trades, and real estate. However, the net output of transport and storage, and restaurants and hotels still declined modestly in the fourth quarter of last year. The decrease in manufacturing output narrowed visibly in the fourth quarter of last year, while construction output resumed growth since the third quarter.

Table 1.3 : GDP by economic activity^(a)
(year-on-year rate of change in real terms (%))

	<u>2008</u>	<u>2009</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>	<u>Q4</u>
Manufacturing	-6.6	-9.2	-4.4	-4.1	-6.7	-10.4	-12.3	-10.6	-8.0	-6.2
Construction	8.8	1.6	15.6	5.5	4.1	9.5	-3.4	-1.0	7.0	4.7
Services ^(b)	2.5	-2.0	7.1	3.9	1.9	-2.0	-6.9	-3.4	-1.4	3.4
Wholesale, retail and import and export trades, restaurants and hotels	6.2	-7.7	10.9	9.3	6.6	-0.1	-15.4	-11.3	-8.3	2.4
Wholesale and retail trades	4.2	-3.5	10.2	7.3	3.6	-2.4	-10.4	-7.9	-3.6	6.3
Import and export trade	7.2	-8.9	11.8	10.6	7.9	0.7	-18.4	-12.8	-9.5	2.2
Restaurants and hotels	1.9	-4.3	5.6	3.5	0.9	-2.0	-5.3	-7.6	-4.0	-0.6
Transport, storage and communications	2.4	-4.9	7.8	4.1	2.2	-4.0	-6.7	-7.5	-6.0	0.6
Transport and storage	2.1	-6.5	8.5	4.0	1.8	-5.1	-8.4	-9.6	-7.9	-0.2
Communications	3.4	1.2	4.3	4.5	4.2	0.7	0.5	-0.2	1.3	3.2
Financing, insurance, real estate and business services	-0.4	1.5	8.1	0.3	-2.7	-6.5	-6.4	*	5.2	7.6
Financing and insurance	-1.3	1.9	8.8	-0.8	-3.6	-8.6	-8.9	0.8	6.3	10.3
Real estate	0.9	1.8	11.3	0.6	-2.6	-5.2	-4.9	1.6	5.2	6.2
Business services	1.9	-0.1	2.8	3.8	0.9	0.3	-0.2	-1.5	0.6	0.5
Community, social and personal services	2.2	1.4	2.1	2.6	2.8	1.4	0.7	2.0	1.3	1.5

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.

(*) Less than 0.05%.

Some highlights of economic policy

1.14 The 2010-11 Budget announced on 24 February unveiled a series of measures with a view to consolidating the recovery, developing our economy and building a caring society. While the Government is cautiously optimistic about the economic outlook, it also recognized that there are still considerable challenges on the road to recovery.

1.15 The Government introduced another round of one-off relief measures, amounting to about \$20 billion⁽⁴⁾. This, together with the measures in the previous rounds, would add up to some \$110 billion. These measures have been effective in countering the global financial crisis, by stabilizing the domestic sector and reducing job losses. While the new round of one-off relief measures will help to consolidate the economic recovery, it will also reduce the burden of the disadvantaged groups and those who have yet to enjoy the fruits of the economic recovery, particularly as inflationary pressures are expected to increase in the latter part of the year.

1.16 The Government has been closely monitoring the situation in the property market in view of the large inflows of fund amid an exceptionally low interest rate environment. The Budget announced measures in four aspects to ensure a healthy and stable development of the property market. Further measures were announced in April, indicating the strong determination of the Government in forestalling the risk of a property market bubble (**Box 3.1**).

1.17 Specifically on developing the economy, the Government pledged in the Budget continued efforts to create conditions for market development under the principles of “Market Leads, Government Facilitates” and “Big Market, Small Government”. Land resources, human capital and incentives were pledged to promote the four traditional pillar industries and the six industries with clear advantages⁽⁵⁾. Besides, the Government would strive to further Hong Kong’s economic development, by reinforcing Hong Kong’s position as an international financial centre, investing in infrastructure, strengthening cooperation between Guangdong, Hong Kong and Macao, enhancing exchanges with Taiwan, enhancing links with emerging markets, and complementing in all respects the preparation of the National 12th Five-Year Plan.

1.18 Further to the “Outline of the Plan for the Reform and Development of the Pearl River Delta” (the Outline Plan) issued by the National Reform and Development Commission in January 2009, the Framework Agreement on Hong Kong/Guangdong Co-operation was signed in April 2010, putting the Outline Plan into action. The framework agreement set clear targets and development positioning for Hong Kong/Guangdong co-operation and also outlined specific policies and measures⁽⁶⁾, with a view to raising the competitiveness of the Pearl River Delta, consolidating Hong Kong’s position as an international financial centre and improving people’s quality of life.

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.
- (3) Construction works for the Hong Kong-Zhuhai-Macao Main Bridge, site formation works for the new cruise terminal, and the Central-Wan Chai Bypass project all began at end-2009. The works for the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link project also started in January 2010.
- (4) The one-off relief measures announced in the 2010-11 Budget include, among others: (1) paying two months’ rent for public housing tenants at a cost of \$1.8 billion; (2) providing one additional month of CSSA payment, Old Age Allowance and Disability Allowance at a cost of \$1.8 billion; (3) reducing 75% of salaries tax and tax under personal assessment for 2009-10, subject to a cap of \$6,000, at a cost of \$4.5 billion; (4) waiving rates for 2010-11, subject to a ceiling of \$1,500 per quarter, at a cost of \$8.6 billion; (5) waiving the business registration fee for one year at a cost of \$1.8 billion; and (6) providing a \$1,000 allowance to students receiving CSSA or student financial assistance, at a cost of \$570 million.
- (5) The four traditional pillar industries refer to financial services, tourism, trading and logistics, and producer and professional services. The six industries where Hong Kong enjoys clear advantages refer to medical services, educational services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries.

- (6) The framework agreement on Hong Kong-Guangdong co-operation was signed on 7 April 2010. The more notable specific policies and measures include: (1) promoting joint socio-economic development in Hong Kong and Guangdong to create a new world-class economic zone; (2) enhancing Hong Kong's position as an international financial centre and expedite the development of financial services in Guangdong to build an international financial centre with Hong Kong; (3) capitalising on the competitiveness of Hong Kong's service industries and Guangdong's manufacturing industries to build an advanced global manufacturing and modern services base; (4) facilitating the flow of key factors such as people, goods, information and capital across the boundary, with a view to building an international aviation, shipping and logistics hub and a world-class modern economic circulation sphere; (5) implementing a regional ecology and environment protection regime operating at a leading level by the national standards to create a high quality living area; and (6) promoting collaborative development among Hong Kong and the Pearl River Delta cities to form a world-class metropolis cluster.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The external sector expanded markedly in the first quarter of 2010, thanks to the faster-than-expected recovery of the global economy and a very low base of comparison last year. Hong Kong's trade flows benefited notably from the strong revival of the Mainland economy and many other Asian economies. The region continued to outpace the major advanced economies in terms of GDP growth by a wide margin during the quarter.*
- *Intra-regional trade within Asia grew significantly throughout the first quarter, and import demand from the United States and Europe also improved. As a result, the year-on-year growth of total exports of goods accelerated to 23.4% in real terms in the first quarter, bringing the export volume close to that before the financial tsunami in 2008.*
- *Exports of services likewise picked up notably further in the first quarter, with double-digit growth rates across all major components. Exports of financial and other business services benefited from the buoyant financial market and commercial activities. Exports of trade-related and transportation services also recovered as global trade flows regained momentum. Exports of travel services continued to fare strongly, thanks to the rapid growth in visitor arrivals from most major sources.*
- *Co-operation at both the regional and national levels was brought to new heights. The Government indicated clearly that it would complement in all respects the preparation of the National 12th Five-Year Plan under the principle of "One Country, Two Systems". The Framework Agreement on Hong Kong/Guangdong Co-operation signed in April laid a strong groundwork for further integration between the two places. The setting up of the Hong Kong-Taiwan Economic & Cultural Co-operation Council in April also opened a new communication platform between the two places. Separately, the signing of the Closer Economic Partnership Agreement with New Zealand, Hong Kong's first free trade pact with a foreign economy, should also enhance trade and investment flows between the two economies.*

Visible trade

Total exports of goods

2.1 Hong Kong's merchandise exports grew strongly in the first quarter of 2010, thanks to the continued robust growth in intra-regional trade in Asia as well as to the gradual recovery in import demand from the United States and Europe. This also reflected the very low base of comparison in the first quarter of last year. Total exports of goods (comprising re-exports and domestic exports) expanded by 23.4% in real terms⁽¹⁾ in the first quarter of 2010 over a year earlier, after a decrease of 2.3% in the fourth quarter of last year. The strong recovery, which ended the declines in the preceding five quarters, brought the volume of merchandise exports close to that before the global financial tsunami in 2008. On a seasonally adjusted quarter-to-quarter basis, total exports of goods increased by 8.9% in real terms in the first quarter, further to the 9.1% growth in the final quarter of 2009.

2.2 The Asian markets, particularly the Mainland market, continued to significantly outperform the US and EU markets. The strong expansion in intra-Asia trade, helped in a large measure by the substantial growth of the Mainland's imports, should have contributed significantly to the strong export performance in many Asian economies. Also, the further moderate recovery of the US economy rendered some support to the revival of global trade flows. Other advanced markets in Europe also improved, albeit at a slower pace. Reflecting the improvement in global economic outlook, the International Monetary Fund (IMF) revised upwards in April its forecast for global economic growth in 2010⁽²⁾.

2.3 *Re-exports*⁽³⁾, which remained the mainstay of the overall merchandise exports, accounted for 97.6% of total export value in the first quarter. Re-exports posted a sizable year-on-year growth of 23.5% in real terms in the first quarter of 2010, after a mild decline in the fourth quarter of 2009. *Domestic exports* likewise rebounded notably in the first quarter, by 20.2% over a year earlier, reversing the 21.6% decline in the fourth quarter of last year.

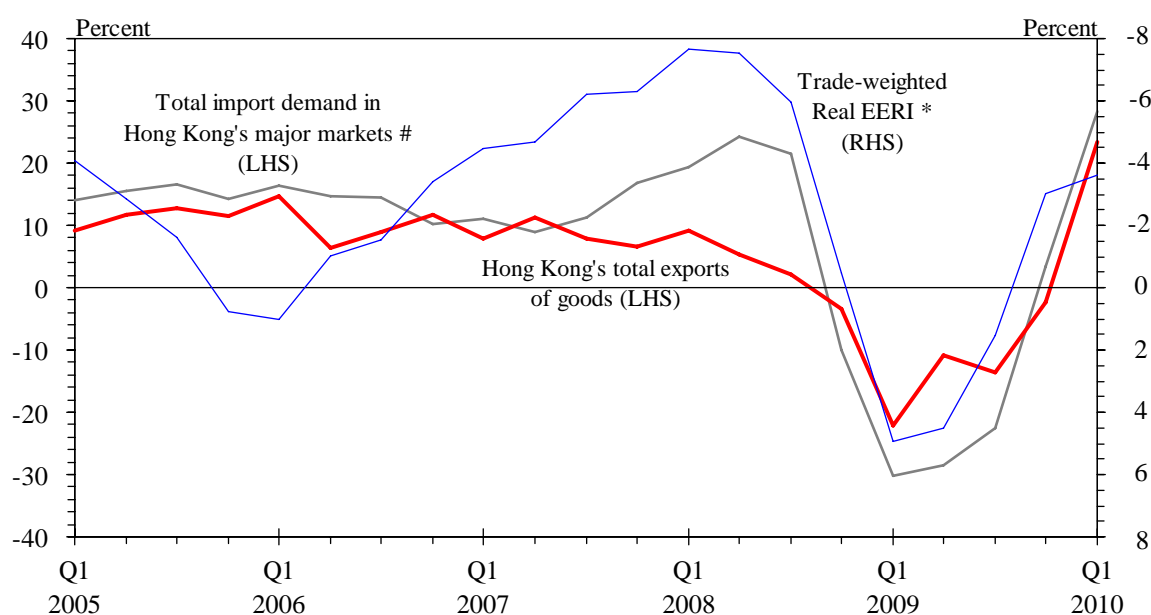
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>		
	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices
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
2010 Q1	26.0	23.4 (8.9)	2.8	26.1	23.5 (8.5)	2.8	23.1	20.2 (26.7)	3.2

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

(*) Change of less than 0.05%.

**Diagram 2.1 : Merchandise exports grew strongly in the first quarter of 2010
(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 first quarter of 2010 is based on statistics for January and February 2010.

Diagram 2.2 : Both re-exports and domestic exports rebounded markedly

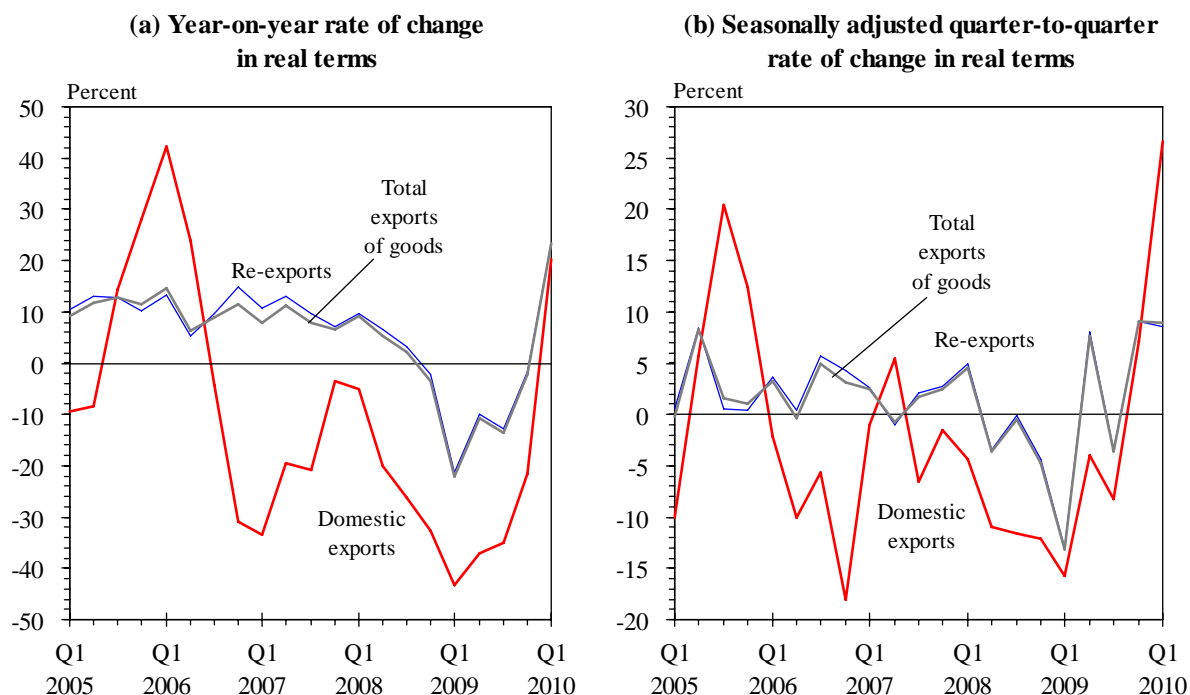
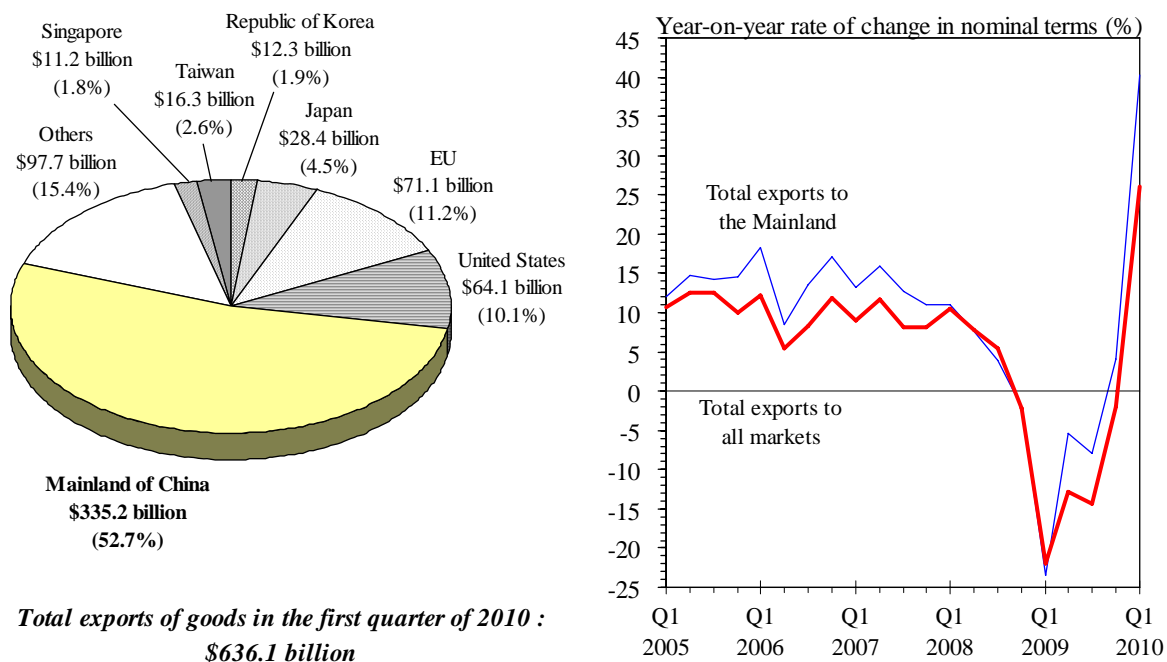


Diagram 2.3 : The Asian markets, particularly the Mainland, continued to significantly outperform the US and EU markets



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

		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
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
2010	Q1	32.1	6.7	-0.6	15.1	37.9	59.8	16.9

2.4 Total exports of goods showed notable improvement across all major markets in the first quarter of 2010. Yet the Asian markets continued to stand out. Total exports to the Mainland returned to a strong year-on-year growth, alongside its highly robust import demand and surge in industrial activity. Total exports to most other destinations in Asia also expanded significantly. Of particular note were exports to Taiwan and Republic of Korea, both of which recorded growth exceeding 30%. Exports to Singapore and Japan also registered double-digit growth rates. All are beneficiaries of the resilient performance of the Asian region and marked revival of intra-regional trade.

2.5 Total exports to the US and EU also staged some relative improvement in the first quarter of 2010 from the significant contraction throughout 2009. However, as the pace of economic recovery in the US and EU remained rather modest so far, the performance of exports to these markets lagged notably behind those to the Asian markets. As such, the volumes of exports to these markets were still much below their pre-crisis levels.

Diagram 2.4 : Exports to the Mainland returned to a strong year-on-year growth

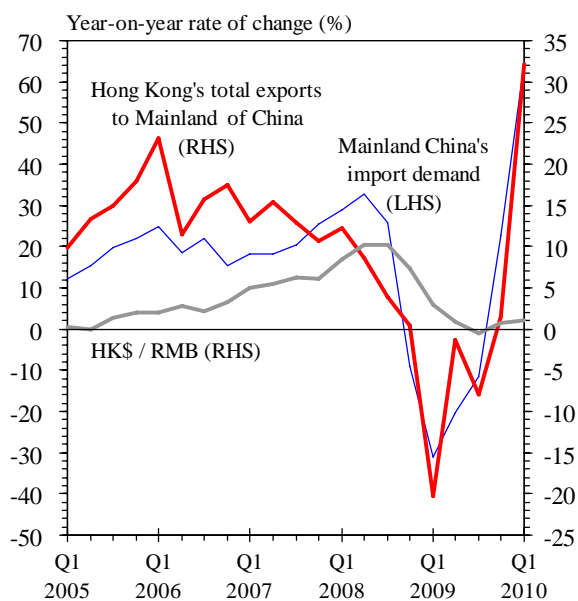


Diagram 2.5 : Exports to EU also showed some relative improvement in the first quarter of 2010

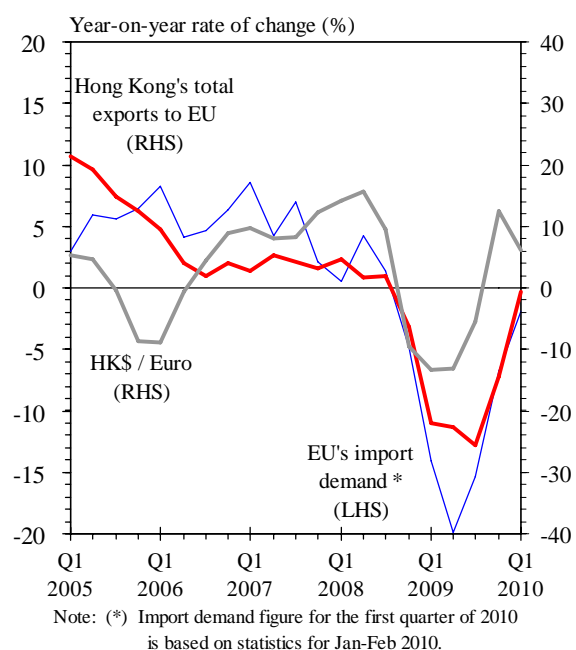


Diagram 2.6 : Exports to US showed only moderate growth

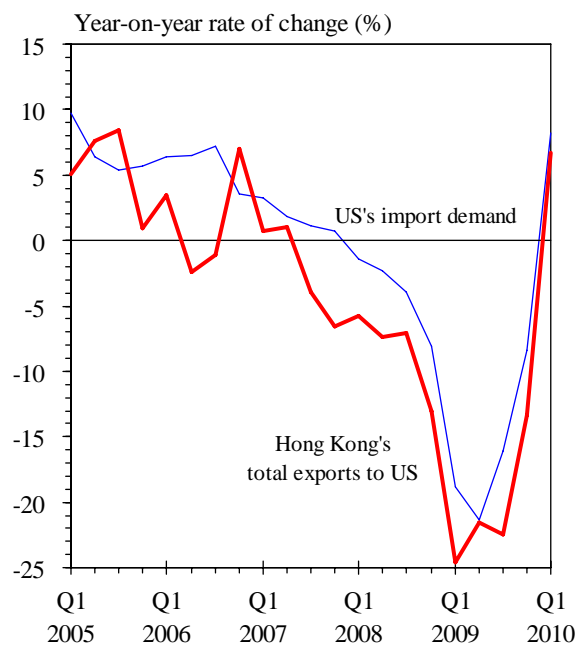


Diagram 2.7 : Exports to Japan picked up further

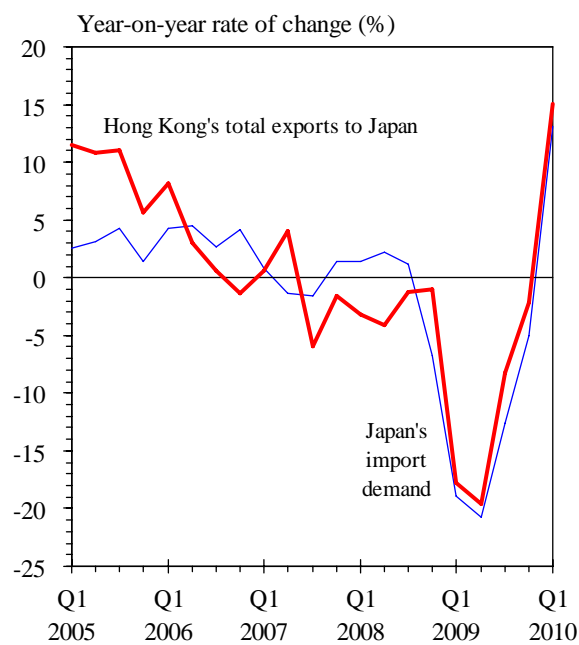


Diagram 2.8 : Exports to Singapore expanded significantly

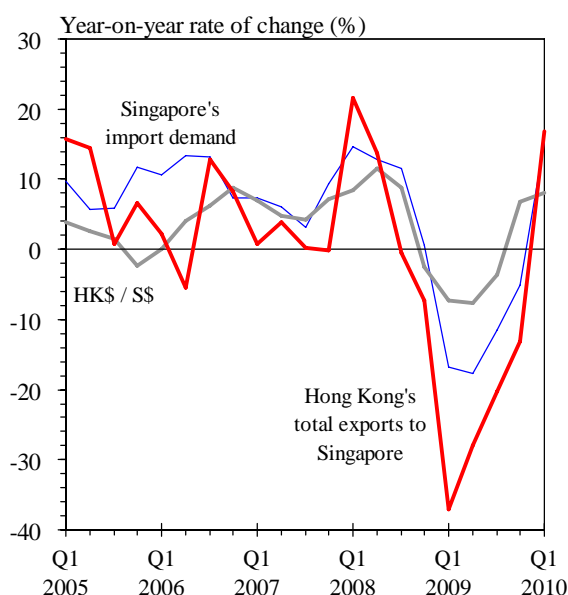
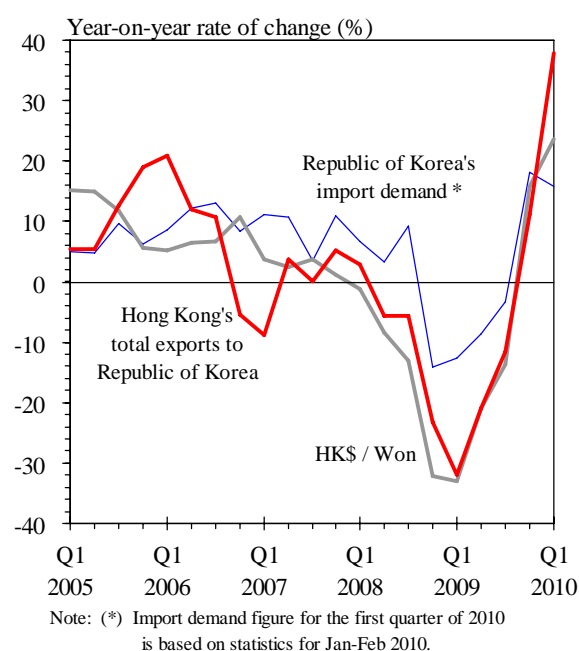


Diagram 2.9 : Exports to Republic of Korea likewise achieved stellar performance



Imports of goods

2.6 *Imports of goods* surged by 31.4% in real terms in the first quarter of 2010 over a year earlier, picking up notably further from the 4.0% expansion in the fourth quarter of 2009. *Retained imports*, which accounted for around one third of total imports, registered a distinct growth of 54.2% on the back of vibrant domestic demand in the Hong Kong economy. Retained imports of all major end-use categories except fuels surged significantly in the first quarter. The very low base of comparison in the same quarter of last year also exaggerated the growth rates in retained imports of raw materials and semi-manufactures, and consumer goods. After seasonal adjustment, retained imports rose by 12.6% in the first quarter over the previous quarter.

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

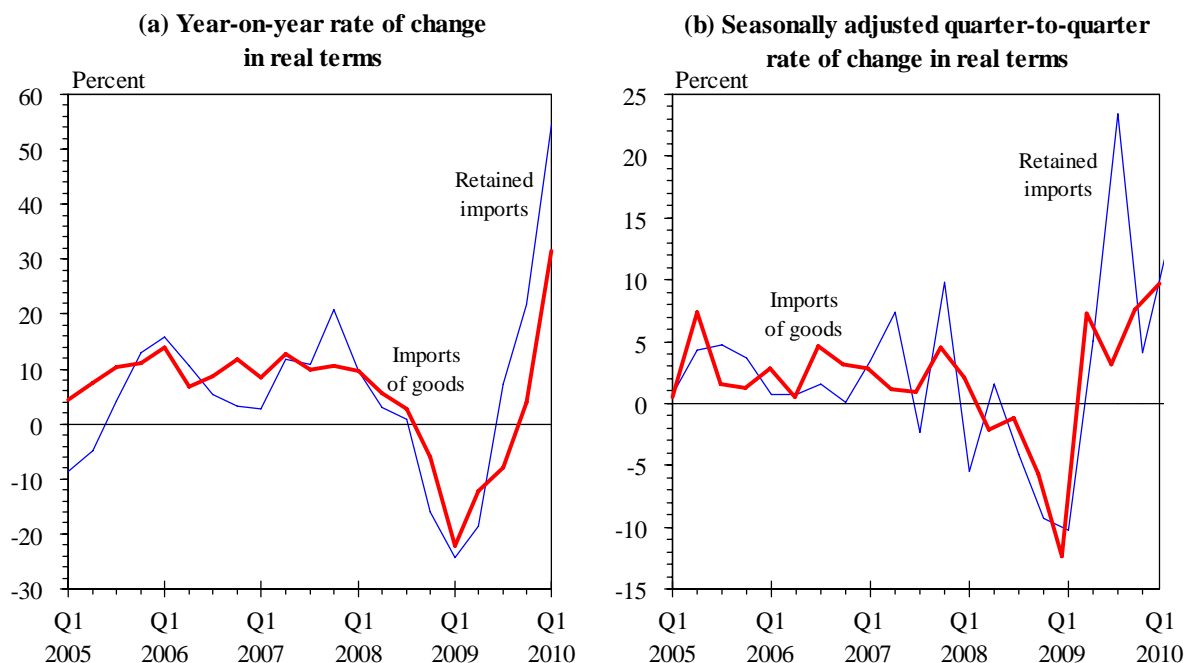
		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u>	<u>Change In prices</u>		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2009	Annual	-11.0	-9.4	-0.1		-8.7	-3.8		-3.6
	Q1	-22.8	-22.2	(-12.4)	1.0	-27.4	-24.2	(-10.3)	-3.5
	Q2	-14.9	-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)	*
2010	Q1	34.3	31.4	(9.7)	3.6	59.6	54.2	(12.6)	5.8

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 2.10 : Retained imports picked up notably further
on vibrant domestic demand**



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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
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
2010	Q1	48.7	28.6	21.2	344.4	-0.2

Invisible trade

Exports of services

2.7 *Exports of services* likewise picked up strongly further in the first quarter of 2010, expanding sizably by 17.9% in real terms over a year earlier, after a rebound of 8.9% in the preceding quarter. There was a broad-based improvement with the global recovery gaining momentum. All the major components of service exports showed double-digit growth in the quarter. As fund-raising and other financial market activities gathered steam, exports of finance, business and other services grew markedly by 17.8% in the first quarter. Reflecting the pickup in global trade flows, particularly those in Asia, exports of trade-related services (mainly offshore trade) and transportation services surged by 18.8% and 15.8% respectively. With visitor arrivals to Hong Kong from most sources, the Mainland in particular, rising notably in the first quarter, exports of travel services continued to increase sharply by 20.0%.

Diagram 2.11 : Trade-related and transportation services accounting for nearly 55% of service exports

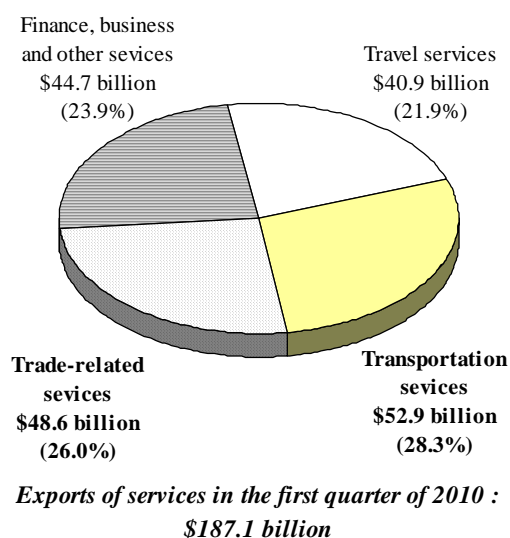


Diagram 2.12 : Exports of services expanded sizably further with the rebound in economic activities

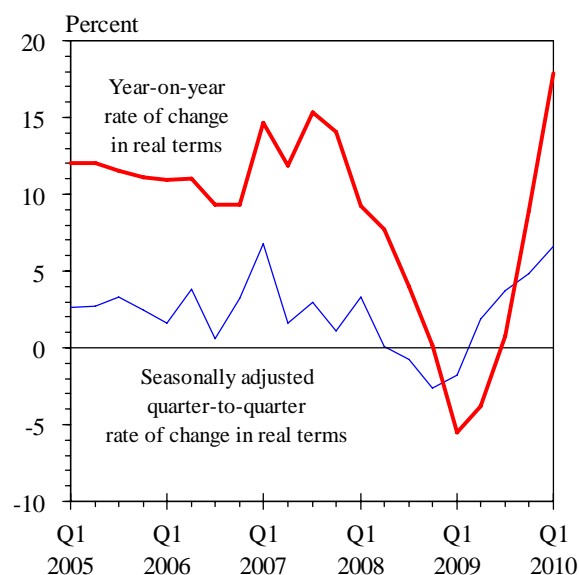


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	Finance, business and other services
2009	Annual	0.3	-7.4	2.1	7.9	2.5
	Q1	-5.5	(-1.8)	-15.0	-5.6	-7.0
	Q2	-3.8	(1.9)	-12.2	0.4	-2.5
	Q3	0.8	(3.7)	-9.0	5.1	8.5
	Q4	8.9	(4.8)	3.4	8.5	12.8
2010	Q1	17.9	(6.6)	18.8	15.8	20.0
					17.8	

Notes : (a) Comprising mainly offshore trade.

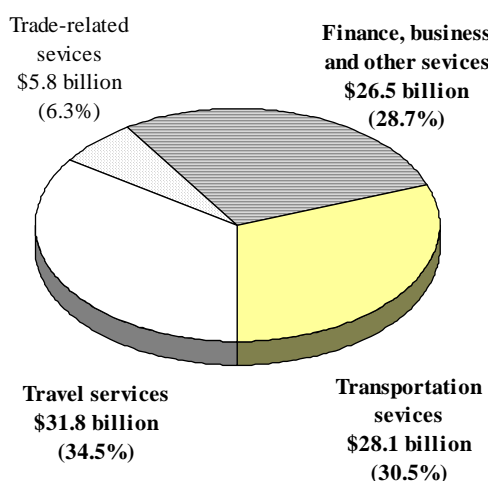
(b) Comprising mainly inbound tourism receipts.

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

Imports of services

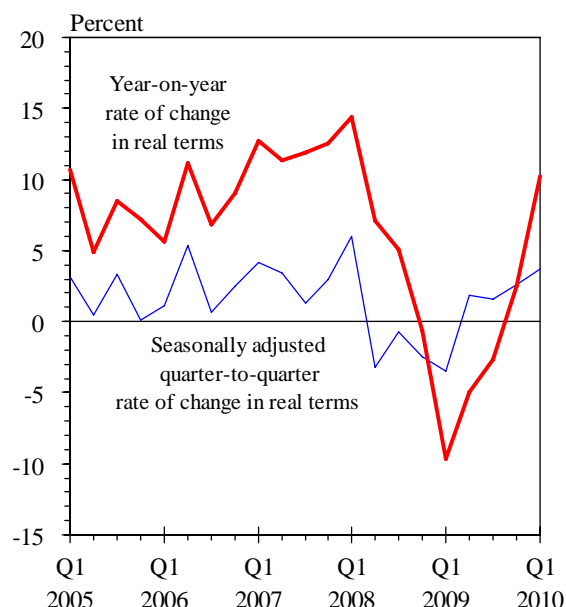
2.8 *Imports of services* likewise expanded substantially in the first quarter of 2010, by 10.2% in real terms over a year earlier. The increase was across all categories. Imports of financial, business and other services grew vibrantly alongside the revival of financial market and other commercial activities. Imports of trade-related and transportation services also performed well in tandem with the pick-up in regional and global trading activities. Meanwhile, imports of travel services rose moderately, reflecting the sustained local demand for outbound tourism amidst the improved income and job prospects.

Diagram 2.13 : Travel services, transportation services, and services involving finance and business were the main components in imports of services



*Imports of services in the first quarter of 2010 :
\$92.2 billion*

Diagram 2.14 : Imports of services likewise expanded substantially across most categories



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

Of which :

		<u>Imports of services</u>		<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services</u>
2009	Annual	-3.7		2.0	-10.4	-7.7	-1.4
	Q1	-9.7	(-3.5)	-4.0	-16.1	-15.4	-8.2
	Q2	-5.0	(1.9)	5.4	-11.3	-12.6	-8.2
	Q3	-2.7	(1.6)	2.0	-8.9	-9.4	1.9
	Q4	2.5	(2.6)	5.2	-5.4	2.9	8.7
2010	Q1	10.2	(3.7)	2.7	13.0	18.2	15.7

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

2.9 The surplus in the invisible trade account continued to be larger than the deficit in the merchandise trade account in the first quarter of 2010, giving a surplus of \$7.2 billion in the combined visible and invisible trade balance, equivalent to 0.9% of the total value of imports of goods and services. This was smaller than the corresponding figures of \$39.0 billion and 6.2% in the same quarter last year. The narrower balance reflected a more vibrant import demand as the local economic recovery became more entrenched.

**Table 2.7 : 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>	
2009	Annual	2,495	669	2,703	344	-208	325	117	3.8
	Q1	512	152	547	78	-35	74	39	6.2
	Q2	619	145	658	80	-39	65	25	3.4
	Q3	657	178	723	92	-66	86	20	2.5
	Q4	706	195	775	95	-68	101	32	3.7
2010	Q1	640	187	728	92	-88	95	7	0.9

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

Other developments

2.10 To promote sustainable development of the Hong Kong economy, the 2010-11 Budget pledged to further regional economic co-operation. The Framework Agreement on Hong Kong/Guangdong Co-operation (the Framework Agreement) was signed in April 2010, providing a strong foundation for further integration between the two places. The Framework Agreement converted the Outline of the Plan for the Reform and Development of the Pearl River Delta issued early last year into actions, setting specific targets and development positioning for Hong Kong/Guangdong co-operation⁽⁴⁾. The Government will work with the government of the Guangdong Province to ensure the relevant policies contained in the Framework Agreement to be included in the National 12th Five-Year Plan.

2.11 Further progress was made in the Government's continued effort in enhancing the economic co-operation between Hong Kong and Taiwan. The Hong Kong-Taiwan Economic & Cultural Co-operation Promotion Council was established on 1 April 2010. Discussions and negotiations will be held with its also newly established Taiwanese counterpart⁽⁵⁾ on various policy-related issues, and to sign memoranda of co-operation and other documents with the Taiwanese side. At the corporate level, the Hong Kong-Taiwan Business Co-operation Committee comprising members of the local commercial sector and Taiwanese businessmen in Hong Kong was also established on 1 April. The Committee will work with its Taiwanese counterpart to foster exchange on trade, investment and tourism between the two places.

2.12 Hong Kong and New Zealand signed the Closer Economic Partnership Agreement (the Agreement) on 29 March 2010. The Agreement was the first of its kind for Hong Kong with a foreign economy. The agreement is expected to come into force in the final quarter of this year. It will strengthen bilateral trade and economic ties, by introducing liberalization measures on both trade in goods and services as well as by facilitating investment and movement of business people.

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 April, the IMF forecast the world economy to expand by 4.2% in 2010, compared with 3.9% as announced in January, while leaving its forecast for 2011 unchanged at 4.3%.
- (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 framework agreement on Hong Kong/Guangdong co-operation was signed on 7 April 2010. Specific policies and measures included: (1) to promote joint socio-economic development in Hong Kong and Guangdong to create a new world-class economic zone; (2) to enhance Hong Kong's position as an international financial centre and expedite the development of financial services in Guangdong to build an international financial centre with Hong Kong; (3) to capitalise on the competitiveness of Hong Kong's service industries and Guangdong's manufacturing industries to build an advanced global manufacturing and modern services base; (4) to facilitate the flow of key factors such as people, goods, information and capital across the boundary, with a view to building an international aviation, shipping and logistics hub and a world-class modern economic circulation sphere; (5) to implement a regional ecology and environment protection regime operating at a leading level by the national standards to create a high quality living area; and (6) to promote collaborative development among Hong Kong and the Pearl River Delta cities to form a world-class metropolis cluster.
- (5) According to Taiwan's announcement on 2 April 2010, a Taiwan-Hong Kong Economic & Cultural Co-operation Council, the counterpart of the Hong Kong-Taiwan Economic & Cultural Co-operation & Promotion Council, will be established in May 2010.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

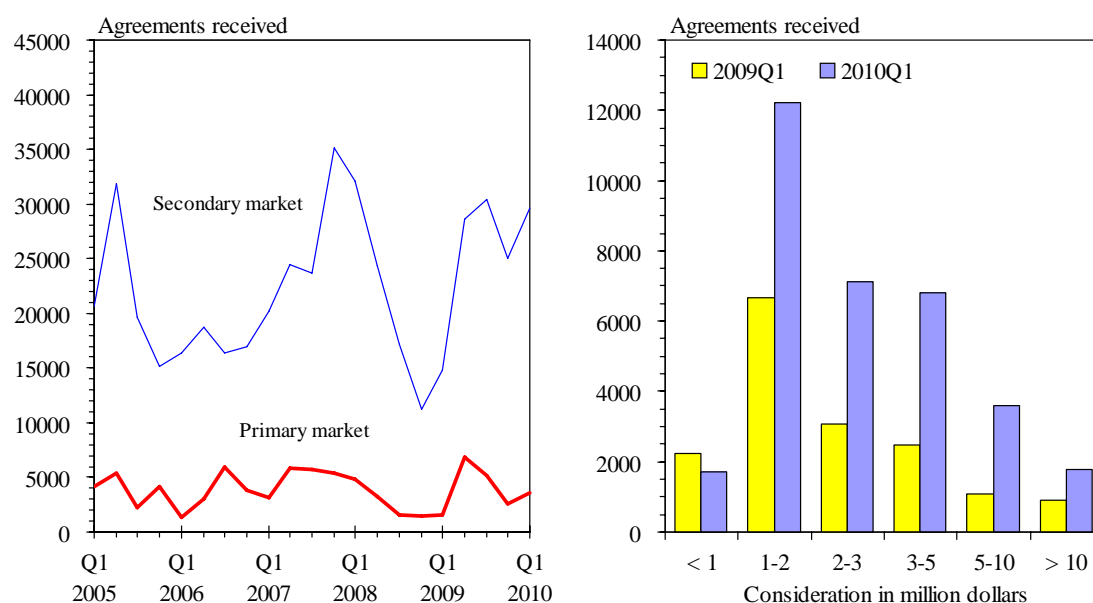
Summary

- *The residential property market picked up momentum again in the first quarter of 2010, on the back of the improving economy, ongoing low interest rate environment and tight supply relative to demand. Flat prices rose sharply further by 5% during the quarter, while transactions, particularly in the primary market, staged a strong rebound.*
- *A number of indicators suggested that the residential property market remained largely end-user led. Yet with the sharp gain in flat prices over the past year or so, the risk of a property market bubble remains. To ensure a healthy and stable development of the property market, the Government announced a series of measures first in February and subsequently also in April.*
- *Inbound tourism gathered further momentum in the first quarter. Mainland visitors remained the major growth impetus, while visitors from both the long-haul and short-haul markets also grew notably from the low base a year earlier.*
- *The logistics sector continued to improve, with throughput of both port and air cargoes registering significant growth in the first quarter.*

Property

3.1 After a relatively steady quarter, the *residential property market* picked up momentum again in the first quarter of 2010. The improving global economy, ongoing accommodative mortgage rate environment and tight supply relative to demand combined to lend strong support to both transactions and prices. The number of sale and purchase agreements for residential property received by the Land Registry rose to 33 249 in the first quarter, up by 20% over the preceding quarter or 102% over the low base a year earlier. Likewise, total consideration for the agreements rose to \$125.3 billion, representing increases of 15% and 127% respectively over the preceding quarter and a year earlier. With the launch of a number of large-scale projects, primary market transactions in the first quarter jumped by 38% over the preceding quarter, while secondary market transactions also grew by a rapid 19%. Analysed by range of consideration, trading activities rose across flats of all price ranges, except for flats valued less than \$1 million.

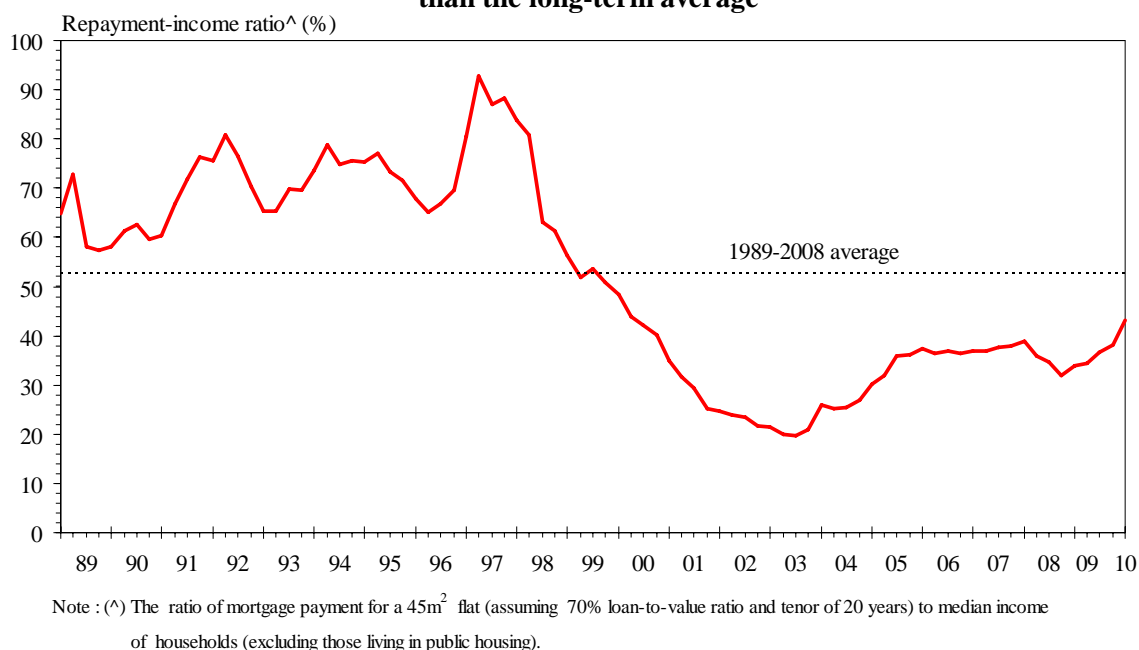
**Diagram 3.1 : Residential property market transactions
rebounded in the first quarter of 2010**



3.2 In parallel with the active transactions, overall flat prices in the secondary market in March 2010 increased sharply further by 5% over December 2009, and have surpassed the peak in 2008 by 12%. Analysed by size of properties, prices of large flats surged by 9% between December 2009 and March 2010, faster than the 5% increase in prices of small/medium-sized flats. In March 2010, prices of large flats have exceeded the historic high in 1997 by 4%, but prices of small/medium-sized flats were still 19% lower.

3.3 Notwithstanding the sustained increase in flat prices since early 2009, the property market was largely end-user led. In the first quarter of 2010, about 90% of the secondary market transactions involved flats in the mass market (i.e. flats smaller than 70 square metres). Speculative activities remained contained, as reflected by the small share of confirmor cases in total transactions. Thanks to the exceptionally low mortgage rates, 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) was around 42% in the first quarter, still lower than the long-term average of 53% over 1989 to 2008.

Diagram 3.2 : Home purchase affordability was still more favourable than the long-term average



3.4 Nonetheless, with the sharp gain in flat prices over the past year or so, the risk of a property bubble remains. The repayment burden to homebuyers would increase should the interest rate environment eventually normalise. To ensure a healthy and stable development of the property market, the Government announced a series of measures in February 2010 to increase the flat supply via fine-tuning the land supply arrangements, discourage property speculation, improve transparency in property transactions and transaction prices, and prevent excessive expansion in mortgage lending. Further measures were rolled out along the same directions in April (**Box 3.1**). The Government will continue to closely monitor the situation and introduce further measures when necessary.

Box 3.1**Latest government measures on the residential property market**

The Government announced a series of measures in February 2010 to promote the healthy and stable development of the property market, targeting at four different aspects. Further measures along the same directions were rolled out in April. These measures are summarised below:

(1) Increase flat supply

In the 2010-11 Budget, the Financial Secretary announced two measures to fine-tune the land supply arrangements. First, depending on the market situation, six urban residential sites designated in the 2010-11 Application List will be put up for open auction or tender over the next two years if those sites are not successfully triggered for sale. Subsequently in April, the Government announced that the two sites in Homantin and at the Peak would be auctioned in June and July respectively. Second, as a pilot, specific flat number and flat size restrictions will be imposed in the Condition of Sale for a large residential site in Yuen Long to increase the supply of mass market flats. Meanwhile, the Government will liaise with the MTR Corporation Limited and Urban Renewal Authority to increase the supply of mass market flats in some of their projects. Separately, the Hong Kong Housing Authority will actively explore means to revitalize the secondary market for flats under the Home Ownership Scheme.

(2) Discourage property speculation

To increase the transaction cost of property speculation, the stamp duty rate on transactions of properties valued over \$20 million was raised from 3.75% to 4.25% with effect from 1 April 2010, and buyers in such transactions are no longer allowed to defer stamp duty payment. The Government will consider extending the measures to transactions of properties valued at or below \$20 million if there is excessive speculation in the trading of these properties. Also, the Inland Revenue Department will closely follow up on property transactions involving speculation and will levy profits tax on profits arising from transactions constituting a business.

(3) Improve transparency in property market

To facilitate effective operation of the market, in November 2009 the Government announced three measures including shortening the lead time for developers to make public details of transactions, requiring developers to list the price per square foot in saleable area of individual flats and adopting a reasonable floor numbering system.

On 21 April 2010, the Government requested the Real Estate Developers Association of Hong Kong to issue new guidelines on nine measures regarding the sales of first-hand private residential flats, including the minimum number of units to be included in the first price list for each batch of units put up for sale in a development, the timing of the provision of sale brochures and price lists, the requirements on show flats, and the reporting on transactions relating to the members of the Board of the developer and their immediate family members. The Government will implement these measures within a few months, and will closely monitor their effectiveness. Should they prove to be ineffective, the Government may introduce legislative regulation.

Box 3.1 (Cont'd)**(4) Prevent excessive expansion in mortgage lending**

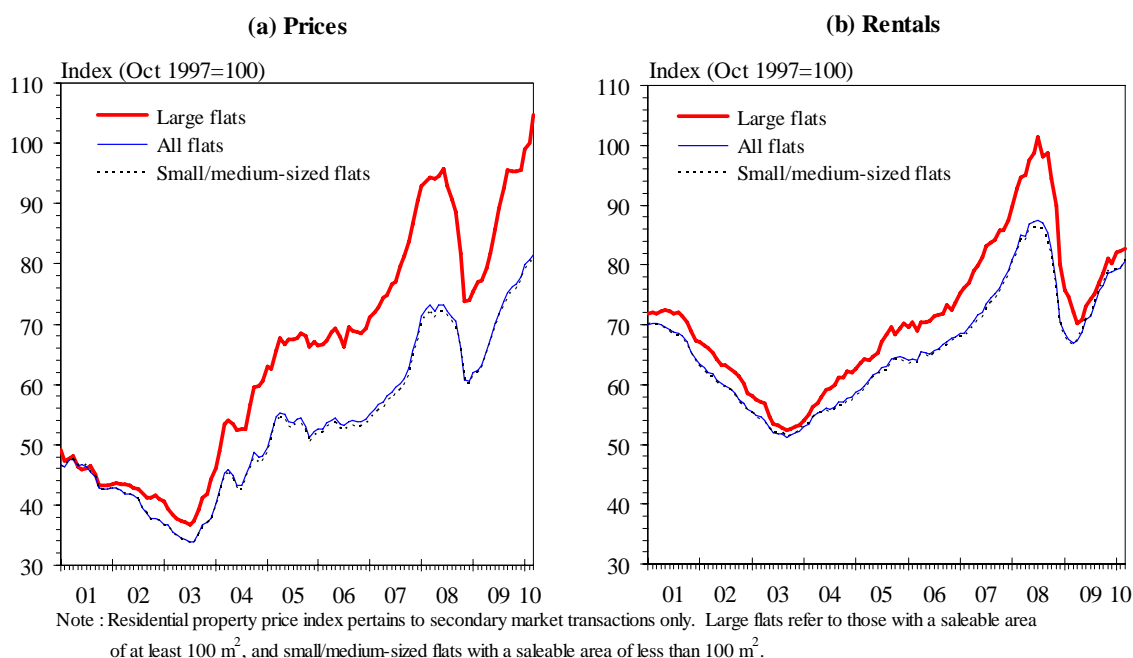
In October 2009 the HKMA issued a set of guidelines to banks, lowering the maximum loan-to-value ratio for mortgages on properties valued at \$20 million or above and requiring banks to process mortgage loan applications prudently. In April 2010, the HKMA conducted a new round of on-site examinations of the major mortgage lenders to ensure that prudential lending practices had been followed. The HKMA is also considering the inclusion of mortgage data in the positive credit data sharing arrangement to help banks access more comprehensive credit information for more effective management of credit risks.

These measures aim at striking a balance between reducing the risk of property bubble and preventing public policies from causing unnecessary fluctuations in the property market. The Government will continue to closely monitor the situation and introduce further measures when necessary.

3.5 As regards flat supply, *completions* of private residential properties surged by 197% over a year earlier to 4 900 units in the first quarter of 2010, partly due to a low base of comparison. The medium-term supply of flats have also picked up somewhat, due to developers' keener interests in land acquisition and the various Government measures. In the first quarter of 2010, a number of major sites which together could produce up to a total of 5 700 residential units were disposed, bringing the total supply of flats in the coming few years to 55 000 units as at end-March 2010. In addition, upon the conversion of a number of residential sites into "disposed sites" or the completion of auctions/tendering of some sites in the months ahead, another 7 250 units could be added to the potential flat supply⁽¹⁾.

3.6 In the leasing market, flat rentals also rose between December 2009 and March 2010, though by a relatively modest 2%. Comparing with the high in 2008 before the onset of the global financial crisis, overall flat rentals in March 2010 were still lower by 8%. Analysed by size, rentals for large and small/medium-sized flats were up by 3% and 1% respectively between December 2009 and March 2010. As a result of the more distinct increase in flat prices than rentals, the average rental yield for residential flats edged down from 3.6% in December 2009 to 3.5% in March 2010.

Diagram 3.3 : Both flat prices and rentals continued to rise



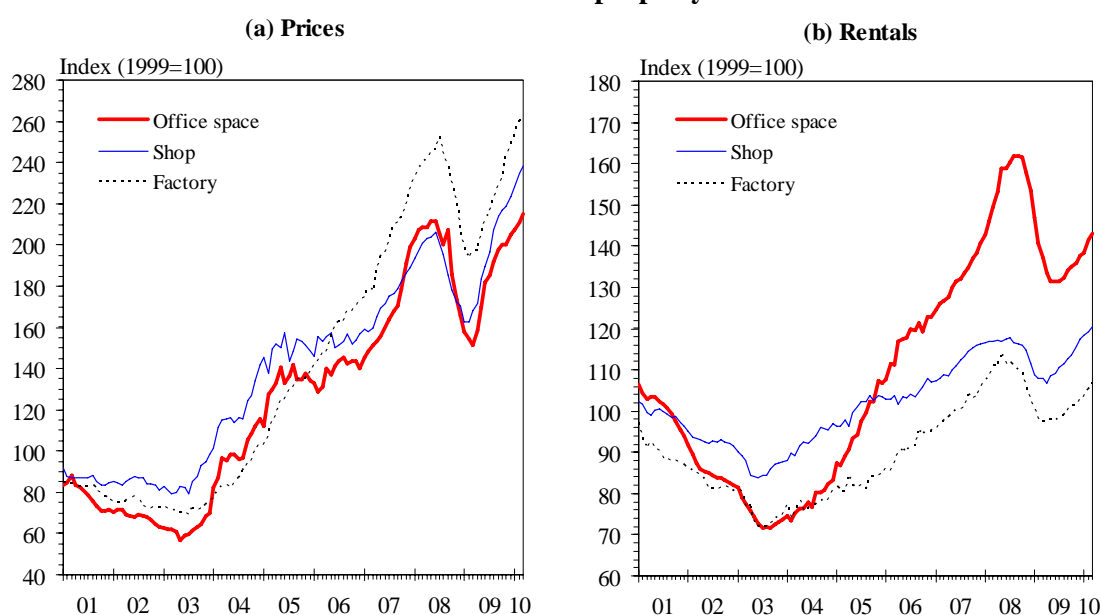
3.7 The *commercial* and *industrial property markets* gained further momentum in the first quarter of 2010, alongside the further recovery of the economy. For *office space*, overall prices in March 2010 rose by 5% over December 2009, and have totally recovered the loss during the global financial

crisis. Analysed by type of office space, the prices of Grade A office space increased noticeably by 7%, and those of Grade B and C office space both moderately by 3%. On the leasing front, office rentals in March 2010 gained by 4% over December 2009, though they were still 12% below the 2008 peak. The increase in rentals for Grade A, B and C office space were 5%, 4% and 1% respectively. The average rental yields for Grade A, B and C office space were 3.3%, 4.1% and 4.1% respectively in March 2010, compared with the corresponding figures of 3.3%, 4.0% and 4.2% in December 2009.

3.8 On *retail shop* space, prices in March 2010 surged by 7% over December 2009, and have surpassed the high in 2008 by a sharp 16%. By comparison, shop rentals in March 2010 rose by only 2% over December 2009, and were 2% above the peak in 2008. The average rental yield for retail space declined slightly from 3.7% in December 2009 to 3.6% in March 2010.

3.9 As to *flatted factory space*, both prices and rentals registered noticeable increases, of 5% and 4% respectively between December 2009 and March 2010. Compared with the respective highs in 2008, prices of factory space were 3% higher, but rentals remained 6% lower. The average rental yield for flatted factory space edged down from 5.1% in December 2009 to 5.0% in March 2010.

**Diagram 3.4 : Prices and rentals rose by various degree
in the non-residential property market**



Land

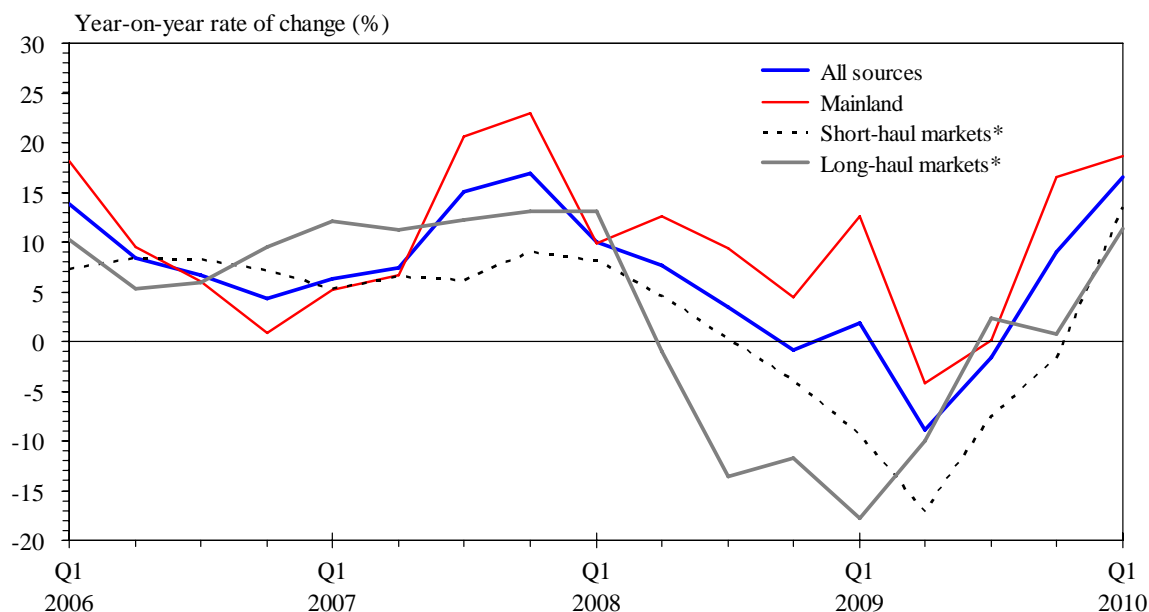
3.10 The developers have shown keener interest in land acquisition following the continued buoyancy in the property market. A total of three land sites were sold in the first quarter of 2010, including one residential site in Tseung Kwan O from the Application List (AL) disposed through auction and two sites for petrol filling stations through public tender. These three plots of land together had a total land area of 1.43 hectares and fetched a combined land premium of \$3.54 billion. As regards lease modifications, 12 sites were approved in the quarter, among which eight were designated for residential use. On exchange of land, one site was approved for institution/community use in the quarter.

3.11 On 25 February 2010, the Government announced that 62 sites with a total area of 44.22 hectares would be made available under the 2010-11 AL. Depending on the actual design of the developments, the 46 sites designated for residential developments could provide a total of about 9 000 flats. Of the remaining 16 sites, eight sites were designated for commercial/business use and another eight for “hotel only” use.

Tourism

3.12 The inbound tourism sector strengthened further on entering 2010, underpinned by the global economic recovery. The number of *incoming visitor arrivals* surged by 16.5% over a year earlier to 8.6 million in the first quarter of 2010, with impressive growth from all markets. Visitor arrivals from the Mainland soared by 18.7% to 5.5 million, among which 62.8% came under the Individual Visit Scheme. Visitor arrivals from the long-haul and short-haul markets were also up by 11.4% and 13.5% respectively, though this partly reflected a rebound from the low base a year earlier⁽²⁾. Analysed by length of stay, same-day visitors jumped by 21.7%, while overnight visitors grew by a more moderate 12.7%. As a result, the share of same-day visitors in total arrivals rose to 43.9% in the first quarter from 42.0% a year earlier.

Diagram 3.5 : Incoming visitor arrivals improved visibly across all major markets



Note : (*) See note (2) at the end of this chapter for the definition of short-haul and long-haul markets.

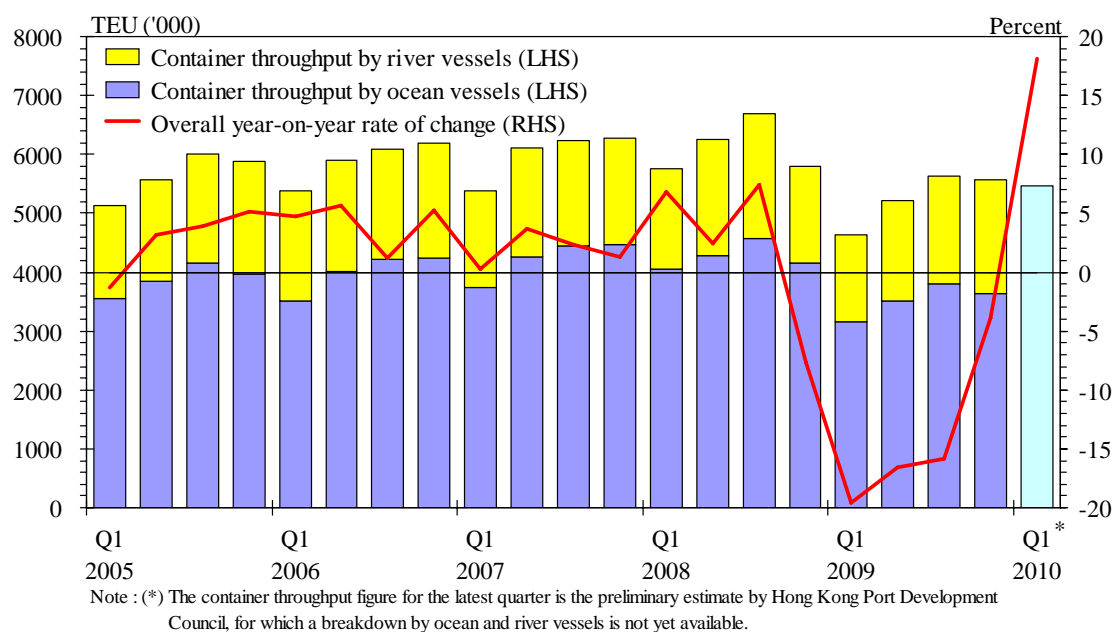
3.13 Along with the surge in visitor arrivals, the hotel room occupancy rate rose by six percentage points over a year earlier to 85% in the first quarter of 2010. Likewise, the average achieved hotel room rate rose by 3.4% over the same period to \$1,106 per night⁽³⁾.

3.14 The total tourism expenditure associated with inbound tourism amounted to \$162.9 billion in 2009, 3.2% higher than in 2008. Per capita spending of overnight visitors grew by 6.1% to \$5,770, mainly due to the increase in per capita spending of Mainland visitors, which more than offset the decline observed for visitors from other markets⁽⁴⁾.

Logistics

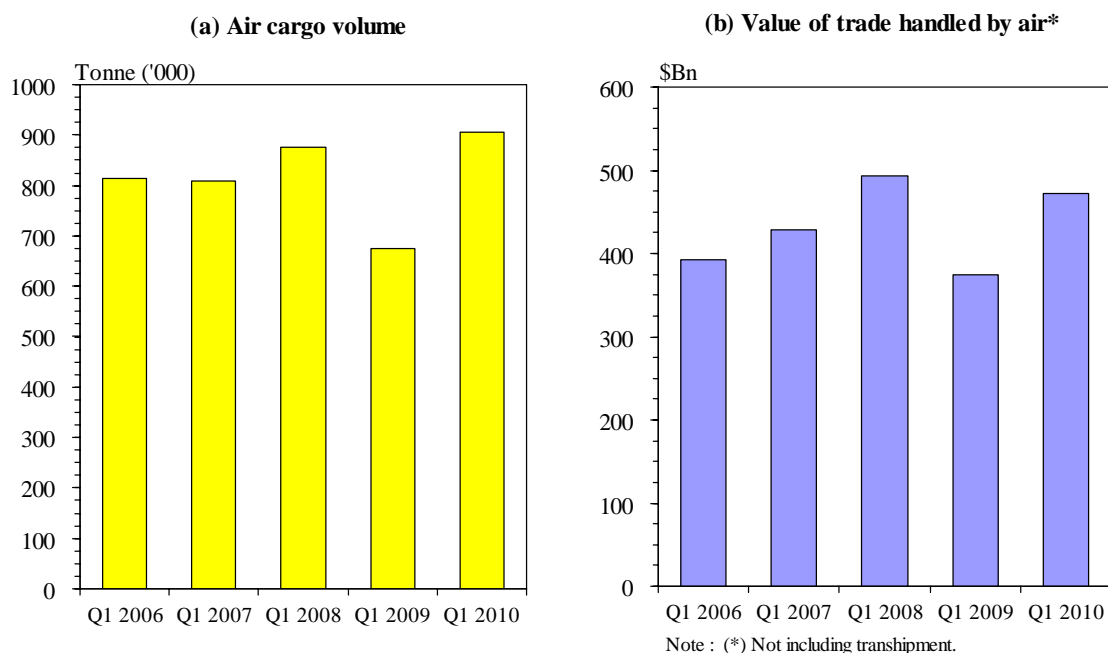
3.15 The logistics sector showed a solid performance as external trade continued to recover from the impact of the global financial crisis. The total *container throughput* posted a distinct increase of 18.1% from the trough a year earlier to 5.5 million TEUs in the first quarter of 2010. The value of trade handled at the Hong Kong Port likewise soared by 17.8%, though its share in the overall trade value declined to 27.1% from 30.0% a year earlier.

Diagram 3.6 : Port container traffic rebounded sharply from a low base of comparison



3.16 *Air freight throughput* recorded an even sharper year-on-year growth of 34.0% to 905 000 tonnes in the first quarter. The total value of trade by air also surged by 32.3%, and its share in overall trade value rose slightly from 35.9% a year earlier to 36.5%.

Diagram 3.7 : Both air cargo volume and the value of trade rallied on entering 2010



Transport

3.17 Thanks to the improving economic environment, traffic flows for the various modes of transport all recovered by various degree in the past few months. Air passenger traffic grew by 6.7% over a year earlier to 12.0 million in the first quarter of 2010, having declined for six straight quarters. As to cross-boundary land traffic, two-way land-based passenger trips grew by an accelerated 6.2% to an average of 487 000 per day, while cross-boundary vehicular movements gained distinctly by 11.3% to 40 400 per day. Over the same period, water-borne passenger trips showed a narrowed decline of 0.3% to 6.2 million.

3.18 On cross-boundary transportation projects, following the approval of funding by the Legislative Council's Finance Committee on 16 January 2010, the construction of the Hong Kong section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link commenced in late January 2010 and is expected for completion in 2015. Upon completion, Hong Kong will be integrated into the 16 000-kilometre national high-speed rail network.

3.19 As regards the Hong Kong-Zhuhai-Macao Bridge, the governments of Guangdong, Hong Kong SAR and Macao SAR have been working closely to take forward its construction. In February 2010, the three governments jointly signed an inter-governmental agreement to specify the partnership arrangements among them as well as their rights and responsibilities in respect of the construction, operation, maintenance and management of the Main Bridge.

Creativity and innovation

3.20 With a view to strengthening Hong Kong's competitiveness in the long term, a number of measures were put forward in the 2010-11 Budget to further develop technology, innovation and creativity. The Government has decided to implement the development of Science Park Phase 3 to further promote the development of innovation and technology and attract more high-tech companies to establish a presence in Hong Kong. The construction works are expected to start in 2011 for completion in phases between 2013 and 2016. Moreover, the Government has proposed profits tax deductions for capital expenditure on purchase of registered trademarks, copyrights and registered designs (purchase of patent rights and industrial know-how is currently tax deductible). On 1 April 2010, a new "R&D Cash Rebate Scheme" was launched with a funding commitment of \$200 million to reinforce the research culture among enterprises and encourage them to establish

long-term partnership with local research institutions.

3.21 The Hong Kong Council for Testing and Certification set up in September 2009 submitted the first three-year development plan for the testing and certification industry to the Chief Executive in March 2010. The Council has identified four selected trades (namely Chinese medicine, construction materials, food and jewellery) that had greater opportunities for promoting the use of testing and certification services, and two emerging trades (namely environmental protection, and information and communications technologies) that had potential for further exploration. The Council will first focus on enhancing the accreditation service and factors of production for the industry as a whole, and then proceed to work on the four selected trades.

3.22 As to the West Kowloon Cultural District (WKCD), the three-month Stage 1 Public Engagement exercise on the planning of the WKCD was concluded in January 2010. There was general consensus among the public and stakeholders that equal focus should be placed on both hardware and software development. Respondents also expressed valuable views on the overall look and ambience of the WKCD, the facilities and activities, the programme and education-related activities to be provided there and connectivity of the WKCD. These views will provide very useful guidance on the planning and design works ahead for the WKCD Authority.

Environment

3.23 The 2010-11 Budget proposed a number of fiscal measures to promote a “green economy” and the use of environment-friendly vehicles. A \$300 million Pilot Green Transport Fund will be set up to encourage the transport sector to test out green and low-carbon transport technology. Another \$540 million will be dedicated for subsidising the replacement of Euro II diesel commercial vehicles. Furthermore, enterprises will be granted a 100% profits tax deduction in the first year of purchase of the environment-friendly vehicles.

Notes :

- (1) The figure on additional potential flat supply is an estimate as at 30 April 2010.
- (2) Long-haul markets here refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific, while 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.
- (4) Total tourism expenditure associated with inbound tourism includes destination consumption expenditure as well as passenger international transportation expenditure. In the calculation of per capita visitor spending, only the destination consumption expenditures by overnight and same-day in-town visitors are included, but the corresponding expenditures by other visitors and travellers (e.g. cruise passengers arriving and departing on the same cruise vessel, servicemen, aircrew members and transit/transfer passengers) and passenger international transportation expenditure are excluded.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *Thanks to the ongoing accommodative monetary policy in the United States, the low interest rate environment in Hong Kong continued in the first quarter of 2010. Meanwhile, loans to most economic sectors recorded distinct increases amid the broad-based economic recovery.*
- *The spot exchange rate of the Hong Kong dollar against the US dollar traded within a narrow range of 7.755 to 7.776 in the first quarter. Under the linked exchange rate system, the Hong Kong dollar Effective Exchange Rate Indices strengthened somewhat along with the strengthening of the US dollar.*
- *After the strong performance witnessed in most of 2009, stock prices showed a consolidation in the first quarter. Market turnover was broadly stable, while fund raising activities quietened somewhat in the absence of large-scale initial public offerings.*
- *To further strengthen Hong Kong's competitiveness in asset management business, the Financial Secretary announced in the 2010-11 Budget a number of measures, including the extension of the stamp duty wavier to cover more types of exchange traded funds and extension of concessionary profit tax rate to cover qualifying investment products with shorter maturities. Moreover, the Government will continue to enhance prudential regulation and investor protection, and further promote offshore renminbi business, with the aim of strengthening Hong Kong's role as an international financial centre.*

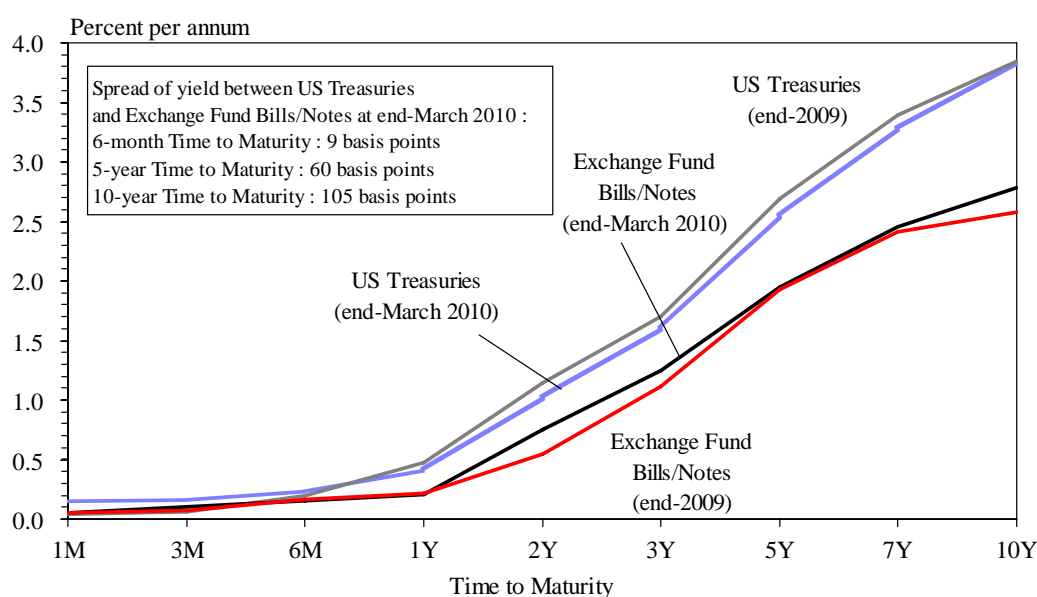
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.

Interest rates and exchange rates

4.1 Thanks to the ongoing accommodative monetary policy in the United States, the low interest rate environment in Hong Kong continued in the first quarter of 2010. The *Base Rate* under the Discount Window operated by the HKMA stayed at 0.5% during the first quarter of 2010, as the US Federal Funds Target Rate was kept unchanged at 0-0.25%⁽¹⁾. As a result of the earlier capital inflows and the consequential abundant liquidity in the local interbank money market, the *Hong Kong dollar interbank interest rates* remained stable at low levels. The overnight HIBOR stayed close to zero and the three-month HIBOR at 0.13% at end-March 2010.

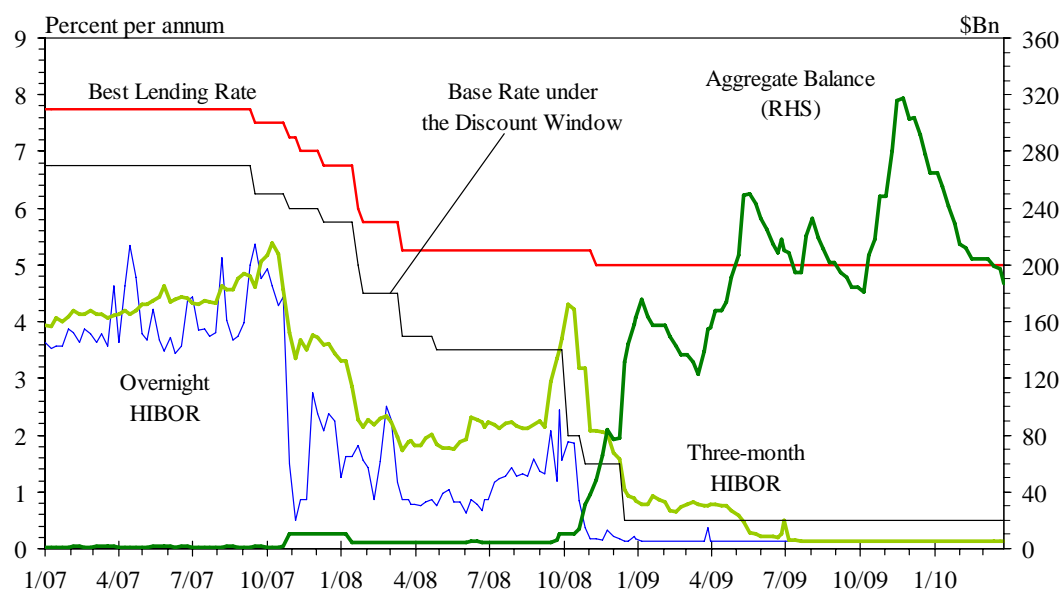
4.2 The spreads between Hong Kong dollar interest rates and US dollar interest rates remained negative in the first quarter of 2010. The three-month HIBOR was 31 basis points lower than the corresponding Euro-dollar deposit rate at end-March 2010, compared with 35 basis points three months ago. During the first quarter, yields of longer-term Exchange Fund Notes edged up, leading to a slight steepening of the *Hong Kong dollar yield curve*. Meanwhile, the US Treasury yield curve flattened slightly. As a result, the yield spread between the 10-year US Treasury and the 10-year Exchange Fund Notes narrowed from 127 basis points at end-2009 to 105 basis points at end-March 2010.

Diagram 4.1 : The Hong Kong dollar yield curve steepened slightly while its US dollar counterpart flattened somewhat



4.3 Interest rates at the retail level also remained stable. Banks kept their Best Lending Rates (BLRs) unchanged at 5.00% or 5.25% in the first quarter of 2010, while the average savings deposit rate and one-month time deposit rate quoted by the major banks hovered at around 0.01%. The composite interest rate, an indicator of the banks' average cost of funds, was virtually unchanged at 0.11-0.12%⁽²⁾. On the mortgage front, against the background of keen competition, more banks offered loans priced with reference to HIBOR, which generally entail lower interest rates than those priced with reference to the BLR given the prevailing low interbank interest rates. The share of these HIBOR-based loans in newly approved mortgage loans rose sharply from 61.6% in December 2009 to a record high of 76.5% in March 2010.

**Diagram 4.2 : Hong Kong dollar interbank interest rates stayed low
(end for the week)**



4.4 After weakening somewhat in the preceding quarter, the Hong Kong dollar spot exchange rate traded within a narrow range of 7.755 to 7.776 per US dollar in the first quarter of 2010. Meanwhile, the discounts of the *3-month and 12-month Hong Kong dollar forward rates* rose slightly to 53 and 195 pips (each pip equivalent to HK\$0.0001) respectively at end-March 2010, from 48 and 193 pips at end-2009.

4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. During the first quarter of 2010, the trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices* rose slightly by 0.7% and 1.2% respectively⁽³⁾, alongside the strengthening of the US dollar especially against the Euro and the Pound.

Diagram 4.3 : Hong Kong dollar traded within a narrow range while forward spreads widened slightly (end for the week)

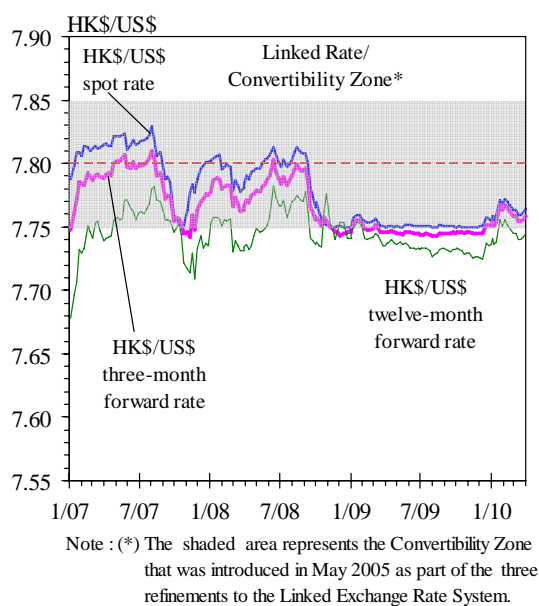
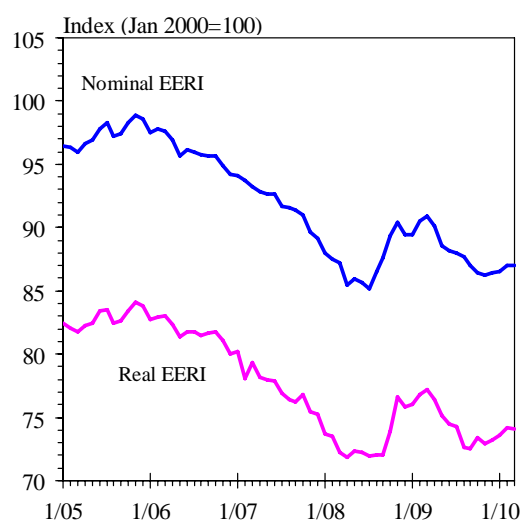


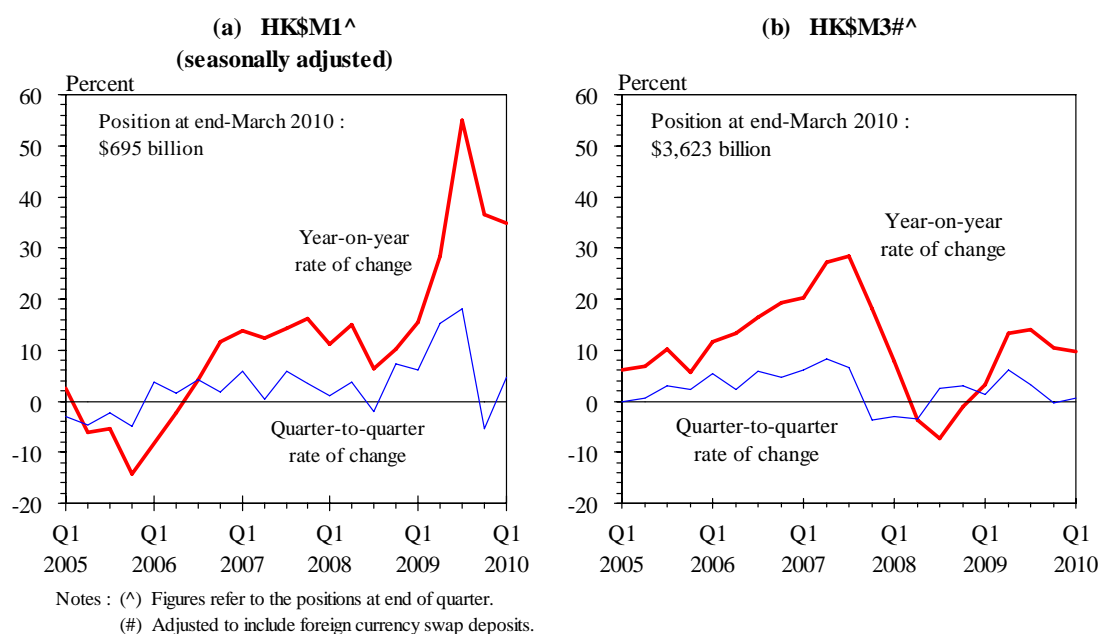
Diagram 4.4 : Trade-weighted EERIs strengthened somewhat alongside the US dollar (average for the month)



Money supply and banking sector

4.6 At end-March 2010, Hong Kong dollar broad *money supply* (HK\$M3) expanded slightly by 0.5% from end-2009 to \$3,623 billion, after recording a contraction during the preceding quarter⁽⁴⁾. Meanwhile, the seasonally adjusted narrow money supply (HK\$M1) posted a larger growth of 4.8% to \$695 billion, as depositors were increasingly willing to hold demand deposits in a low interest rate environment. *Total deposits* with authorised institutions (AIs) declined by a marginal 0.2% from end-2009 to \$6,371 billion at end-March 2010⁽⁵⁾. Analysed by currency, foreign currency deposits edged down by 0.6% to \$2,991 billion, while Hong Kong dollar deposits edged up by 0.2% to \$3,380 billion.

Diagram 4.5 : Growth of HK\$M1 outpaced that of HK\$M3



4.7 Continuing the generally upward trend established in the second half of 2009, *total loans and advances* grew further on the back of the improving economy. Total loans outstanding expanded by 5.5% from end-2009 to \$3,469 billion at end-March 2010, comprising Hong Kong dollar loans of \$2,479 billion and foreign currency loans of \$990 billion. Loans for use in Hong Kong grew by 5.0% to \$2,808 billion, and were virtually back to the pre-crisis level. Thanks to the broad-based economic recovery, domestic credit to most economic sectors recorded distinct increases. Lending to stockbrokers and financial concerns jumped by 13.9% and 8.0% respectively notwithstanding the consolidation in the stock market. In tandem with the buoyant property market, lending to building, construction, property development and investment grew notably by 6.5%, while residential mortgage loans also expanded by 2.5%. Lending to trade finance, manufacturing, and wholesale and retail trade also recorded increases of various degree along with the economic recovery. Reflecting the stronger growth in loans than deposits, the Hong Kong dollar loan-to-deposit ratio rose from 71.2% at end-2009 to 73.3% at end-March 2010.

Table 4.1 : Loans and advances

All loans and advances for use in Hong Kong											
Loans to :											
% change during the quarter		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	All loans and advances for use outside Hong Kong ^(c)	Total loans and advances
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	-2.6	2.0	3.2	2.0	-13.9	-70.8	-0.7	5.1	0.3
2010	Q1	12.8	5.0	10.6	6.5	2.5	8.0	13.9	5.0	7.6	5.5
Total amount at end March-2010 (\$Bn)		197	142	172	727	715	209	14	2,808	661	3,469
% change over a year earlier		24.8	-1.8	19.3	7.0	10.3	-13.7	49.9	7.7	18.2	9.5

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.

4.8 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs continuing 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 16.9% at end-2009. Moreover, all individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.9 To address the issues revealed by the global financial crisis, the Basel Committee issued a final package of proposals in July 2009 for enhancements of the Basel II capital framework, and further issued two consultative documents in December 2009 setting out proposals to strengthen global capital and liquidity requirements. The Committee launched a comprehensive impact assessment of its proposals in February 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 will continue to be involved in the process of refining and finalising the proposals at the Committee.

4.10 Asset quality of the local banking sector continued to improve. The ratio of classified loans to total loans eased back further to 1.35% at end-December 2009, down from the recent peak of 1.51% at end-June. Arrears for over three months in credit card repayment followed a similar pattern, declining to 0.34% at end-December from 0.50% at end-June. Meanwhile, the delinquency ratio for residential mortgage loans was little changed at 0.03% at end-March 2010.

Table 4.2 : 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
	Q4	96.74	1.91	1.35

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”.

4.11 In view of the intense competition in the mortgage loan market, the HKMA issued a circular on 8 January 2010 reminding banks to adopt prudent pricing strategies in mortgage lending. In the course of setting the pricing strategies, mortgage lenders should ensure that the mortgage rates are sustainable on a long-term basis with reasonable margin, and must be mindful of the re-pricing pressure on their loan portfolios as existing borrowers might seek refinancing at a lower mortgage rate.

4.12 Renminbi banking business in Hong Kong recorded decent growth. The amount of renminbi deposits outstanding increased markedly from RMB62.7 billion at end-2009 to RMB70.8 billion at end-March 2010. Both the expansion in scope of renminbi banking business and renewed speculation of an renminbi appreciation have led to increased demand for such deposits. Yet renminbi deposits still accounted for only 2.7% of total foreign currency deposits in Hong Kong.

4.13 Based on the existing policy framework and having regard to the views of the industry, the HKMA issued a circular in February 2010 to elucidate the supervisory principles and operational arrangements regarding renminbi business in Hong Kong, with a view to simplifying banks' operational procedures and increasing flexibility.

Table 4.3 : Renminbi deposits in Hong Kong

<u>As at end of period</u>		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Interest rates on^(a)</u>		<u>Number of authorised institutions engaged in RMB business</u>
					<u>Savings deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)	
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
2010	Q1	44,609	26,145	70,755	0.46	0.68	73
% change over a year earlier		26.9	45.7	33.2	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

4.14 The Hong Kong dollar *debt market* expanded further in the first quarter of 2010, driven by robust growth in public sector debt. Total gross issuance of Hong Kong dollar debt securities rose sharply by 164.8% over a year earlier to \$484.9 billion in the quarter. Within the total, issuance of Exchange Fund Bills and Notes amounted to \$437.4 billion, or 90.2% of all new debt issuance, as the HKMA continued to increase the supply of short-dated Exchange Fund papers to meet the strong demand by banks for liquidity management. Meanwhile, issuance of the Hong Kong dollar debt by AIs, local corporations and overseas borrowers excluding the multilateral development banks only registered a mild growth of 1.7%. At end-March 2010, the total outstanding balance of Hong Kong dollar debt reached a record level of \$1,192.8 billion, 51.8% higher than a year earlier⁽⁶⁾. This was equivalent to 32.9% of HK\$M3 or 27.2% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁷⁾.

4.15 Under the Institutional Bond Issuance Programme of the Government Bond Programme, a 10-year bond with an issue size of \$2.5 billion and a two-year bond with an issue size of \$3.5 billion were tendered in January and March 2010 respectively. Both issues were well-received by investors. Since the inaugural issue in September 2009, the tenders for a total of four institutional issues have been completed and the total outstanding size of institutional bonds was \$11.5 billion at end-March 2010.

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

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs^(a)</u>	<u>Local corporations</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New issuance											
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
2010	Q1	437.4	2.8	6.0	446.2	20.5	4.3	13.8	38.6	-	484.9
% change over a year earlier		234.6	-67.9	N.A.	220.2	268.4	50.7	-53.3	1.7	N.A.	164.8
Outstanding (as at end of period)											
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
2010	Q1	612.5	68.0	13.0	693.5	90.7	82.6	304.9	478.2	21.1	1,192.8
% change over a year earlier		179.8	7.1	160.0	141.3	5.3	21.9	-6.2	-0.2	9.3	51.8

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

N.A. Not available.

The stock and derivatives markets

4.16 After the strong performance since the second quarter of 2009, the *local stock market* took a breather in the first quarter of 2010. Concerns about the looming monetary tightening in the major economies, in particular the United States and the Mainland, and the vulnerability of some European economies' fiscal position triggered a consolidation in the first two months, though the losses were mostly recouped in March amid sustained global economic recovery and strong corporate earnings. The *Hang Seng Index (HSI)* was down by 2.9% from end-2009 to close at 21 239 at end-March 2010, while most major stock markets recorded some moderate gains over the period. Meanwhile, trading activities were broadly stable. While the *average daily turnover* jumped by 44.8% over a year earlier to \$64.8 billion in the first quarter, this was mainly due to a low base of comparison, and the figure was marginally lower than the preceding quarter by 1.0%.

4.17 As a result of the consolidation, the *market capitalisation* edged up by only 1.0% over end-2009 to \$18.1 trillion at end-March 2010. Nonetheless, latest data from the *World Federation of Exchanges* showed that the local bourse remained the seventh largest in the world and third largest in Asia⁽⁸⁾. Meanwhile, fund raising activities quietened down in the absence of large-scale initial public offerings (IPOs). *Equity capital raised* through new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) fell by 68.6% from the preceding quarter to \$87.1 billion in the first quarter of 2010, mainly due to an 81.6% plunge in funds raised from IPOs⁽⁹⁾. Compared with a year earlier, total equity fund raised and IPO funds recorded sharp growth of 436% and 2,075% respectively in the first quarter, but these largely represented a rebound from the lows during the global financial crisis.

Diagram 4.6 : Market capitalisation and trading activities were broadly stable

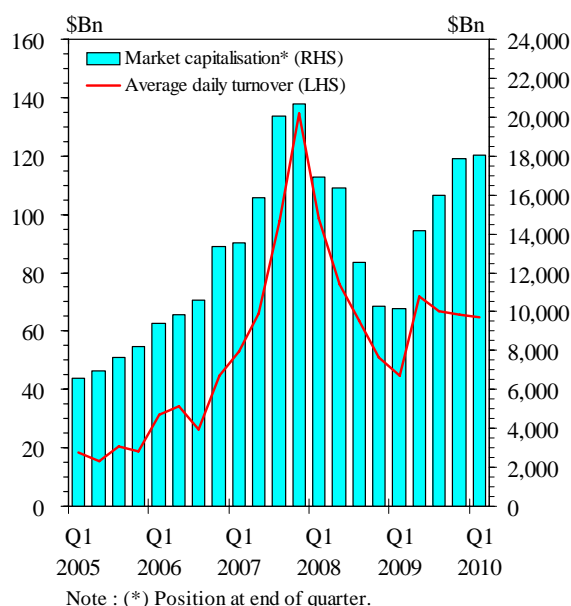
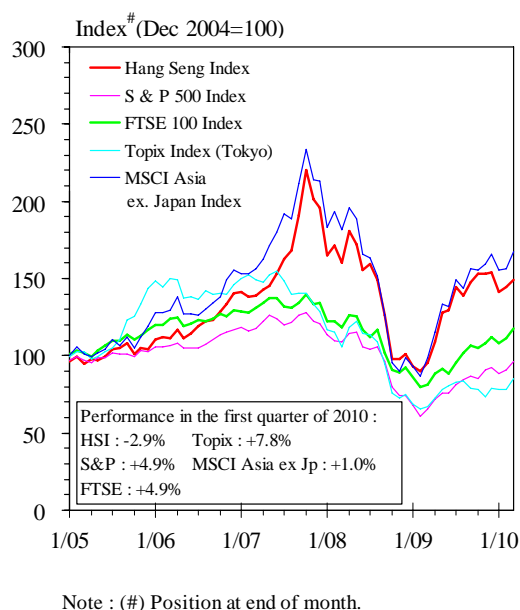


Diagram 4.7 : Hong Kong stock market consolidated, while other major markets showed some moderate gains



4.18 Mainland enterprises continued to play a prominent role in the local stock market. At end-March 2010, a total of 530 Mainland enterprises (including 156 H-share companies, 97 “Red Chips” companies and 277 private enterprises) were listed on the Main Board and GEM, representing 40% of the total number of listed companies and 58% of the total market capitalisation. In the first quarter of 2010, Mainland-related stocks accounted for 69% of equity turnover and 41% of total equity fund raised in the Hong Kong stock exchange.

4.19 In contrast to the stable trading in equities, trading in the *derivatives market* turned more active. The average daily trading volume of futures and options in the first quarter of 2010 rose by 7.1% over a year earlier or 9.3% over the preceding quarter⁽¹⁰⁾. Among the total, trading of HSI options surged by 73.2% over a year earlier, while that of HSI futures and stock options also recorded increases of 5.0% and 5.8% respectively. By contrast, trading in H-shares Index futures fell by 11.3%. As to securitised derivatives, the average daily trading value in the first quarter increased by 29.8% year-on-year or 5.2% quarter-to-quarter. Within the total, trading of derivative warrants jumped by 84.1% over a year earlier, more than offsetting the 18.8% fall in trading of callable bull/bear contracts.

**Table 4.5 : Average daily turnover of derivatives 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 [*]	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn) [^]
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
2010	Q1	84 138	29 731	48 617	205 581	417 305	9,646	4,757	14,402
% change in 2010 Q1 over 2009 Q1		5.0	73.2	-11.3	5.8	7.1	84.1	-18.8	29.8
% change in 2010 Q1 over 2009 Q4		11.6	13.9	13.5	9.8	9.3	37.3	-28.6	5.2

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.

Fund management and investment funds

4.20 Fund management business gathered further momentum in early 2010 alongside the improving economic situation. Gross retail sales of *mutual funds* jumped by 252% over a year earlier to US\$6.4 billion in the first quarter of 2010⁽¹¹⁾. While the surge was partly due to the low base of comparison when the financial markets were still in dislocation, there was still a 23.9% distinct gain when compared with the preceding quarter. The aggregate net asset value of the approved constituent funds under the *MPF schemes* also increased, by a further 2.6% from end-2009 to \$317 billion at end-March 2010⁽¹²⁾. Meanwhile, retail hedge funds business grew further⁽¹³⁾.

4.21 The Financial Secretary proposed a number of measures in the 2010-11 Budget to strengthen the competitiveness of Hong Kong's asset management industry. These include the extension of the stamp duty waiver to cover exchange traded funds (ETFs) tracking indices that comprise 40% or less of Hong Kong stocks, and the extension of concessionary profits tax rate to cover qualifying debt instruments with a maturity period of less than three years. The market generally welcomes the measures.

Insurance sector

4.22 Gross premium income from long-term business for the *insurance sector* fell by 23.3% in 2009⁽¹⁴⁾. As policy buyers generally had a lower risk appetite following a period of financial market turbulence, premium from investment-linked plans plunged by 58.3% for 2009 as a whole, though performance has apparently improved in the second half of the year. By contrast, premium income from non-linked plans witnessed a decent 28.7% growth. As regards general business, performance was sturdy throughout 2009, with gross premium increasing by 5.7% in the year. Underwriting profit for general business even surged by 46.3% for 2009 as a whole, though the gains were concentrated in the first three quarters.

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

		General business			Premium for long-term business [^]					Gross premium from long-term business and general business
		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	
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	Annual	28,550	20,512	2,209	30,965	15,066	279	207	46,517	75,067
	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
	Q4	7,016	4,890	245	8,044	4,459	84	28	12,615	19,631
% change in 2009 Q4 over 2008 Q4		15.3	16.9	-64.8	110.8	78.0	35.5	-26.3	96.5	57.0
% change in 2009 over 2008		5.7	7.1	46.3	28.7	-58.3	9.0	-5.0	-23.3	-14.4

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

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

Some highlights of market developments

4.23 With a view to enhancing investor protection under a holistic strategy, the Government launched in February 2010 a public consultation for the proposed establishment of an Investor Education Council (IEC) and a Financial Dispute Resolution Centre (FDRC). The proposed IEC will oversee the needs of investor education and the delivery of related initiatives, with the aim of improving the financial literacy and capability of the general public thus assisting them to make better financial decisions. Regarding FDRC, it would provide consumers a one-stop, independent and affordable alternative to litigation for resolving monetary disputes with the financial service providers.

4.24 In March 2010, the HKMA issued a “Guideline on a Sound Remuneration System”. The Guideline focuses on the governance and control arrangements for, and operation of, remuneration systems of AIs in the context of the incentives for risk-taking they may create. The Guideline represents a follow-up work on the remuneration issues undertaken by the Financial Stability Board, and is in line with the recent initiatives of regulators in other international financial centres. HKMA has asked the local AIs to review their remuneration systems and take action to bring them in line with the risk management principles set out in the Guideline by end-2010.

4.25 The Chiang Mai Initiative Multilateralisation (CMIM) Agreement, which covers the Mainland, Hong Kong, ASEAN Members States, Japan and Korea, came into effect on 24 March 2010. With a total size of US\$120 billion, the CMIM will help address any balance of payment and short-term liquidity difficulties in the region and supplement the existing international financial arrangements by providing financial support through currency swap transactions among CMIM participants. The successful launch of the CMIM, together with an independent regional surveillance unit to be established, demonstrated the solid commitments and concerted efforts of CMIM members to further enhance regional capacity to safeguard against risks and challenges in the global economy.

4.26 Measures have also been taken to enhance the transparency of Hong Kong’s securities market. In late March 2010 the Government proposed to make it statutory for listed corporations to make timely disclosure of price sensitive information. In parallel the SFC has begun the consultation on a set of draft guidelines to explain “inside information” and its application.

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-March 2010, there were 147 licensed banks, 24 restricted licence banks and 27 deposit-taking companies in Hong Kong. Altogether, 198 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 7 May 2010), covering almost all globally recognised stock exchanges.
- (9) At end-March 2010, there were 1 158 and 174 companies listed on the Main Board and GEM respectively.
- (10) At end-March 2010, 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-March 2010, the survey covered a total of 1 237 active authorised funds.
- (12) At end-March 2010, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 365 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 239 000 employers, 2.21 million employees and 263 000 self-employed persons have participated in MPF schemes.
- (13) At end-March 2010, there were 11 SFC-authorised retail hedge funds with combined net asset size of US\$703 million. The amount of net assets under management was 3.5% higher than the end-2009 level and more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (14) At end-March 2010, there were 170 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 105 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

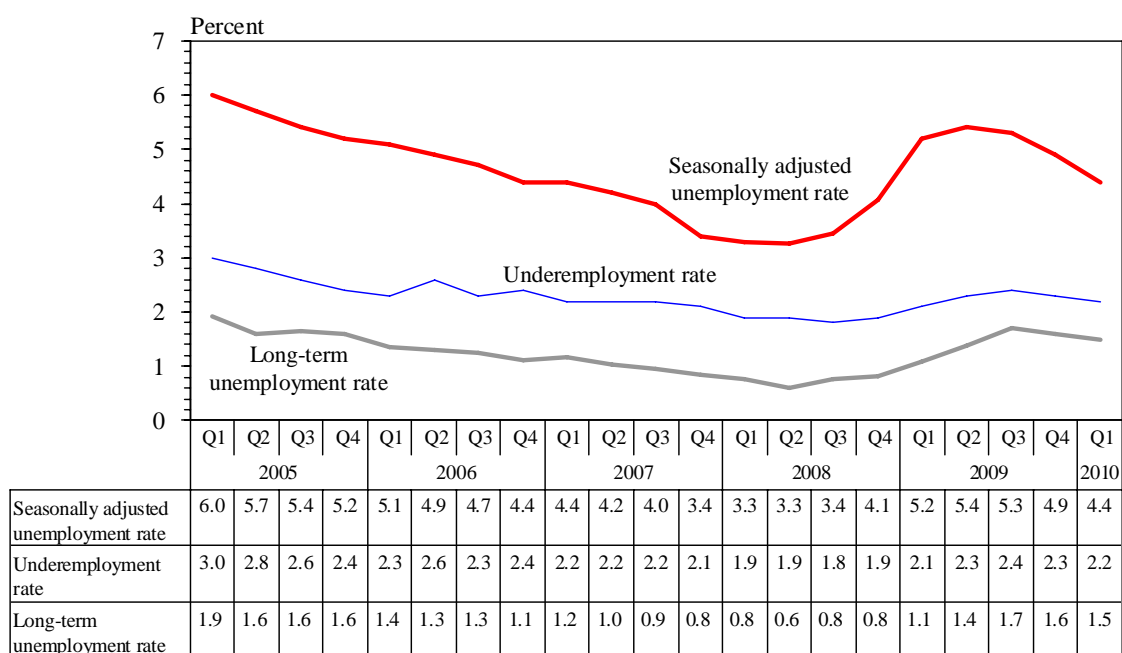
Summary

- *Major labour market indicators showed an extensive improvement in the first quarter of 2010. The improving trend was even more apparent, after adjusting for the seasonal influence of lower business activity and reduced number of part-time and temporary workers after the Lunar New Year holidays.*
- *Reflecting the progressive upturn in the labour market, the year-on-year decline in total employment narrowed from 0.7% in the fourth quarter of 2009 to 0.3% in the first quarter of 2010. On a seasonally adjusted basis, total employment actually went up by 0.4% over the quarter, ending two successive quarters of decline.*
- *The numbers unemployed and the seasonally adjusted unemployment rate both dropped notably in the first quarter to 160 600 and 4.4%, which were at their lowest levels since the fourth quarter of 2008. While the decrease in unemployment took place across many major economic sectors, it was most visible in professional and business services, manufacturing and the retail trade.*
- *In tandem with the improving job market, labour wages and earnings resumed modest increases in the final quarter of 2009, reversing the downtrend in most of the year. Comparing December 2009 with a year earlier, the respective increases were 0.8% and 0.9% in money terms, although in real terms there were slight declines of 0.8% and 0.4%.*

Overall labour market situation

5.1 In the first quarter of 2010, developments in the labour market were generally upbeat. Along with the improvement in demand-supply balance in the labour market, the number of unemployed persons fell noticeably by 12 200 to 160 600, as did the seasonally adjusted unemployment rate⁽¹⁾ by 0.5 percentage point to 4.4%. Concurrently, the underemployment rate⁽²⁾ edged down by 0.1 percentage point to 2.2%. As to labour income, modest upward adjustments in wages and earnings were seen across a wide spectrum of the workforce. All these figures indicated that the fundamentals of the labour market have improved further during the first quarter of this year.

Diagram 5.1 : The unemployment rate remained on a downward trend on entering 2010



Total employment and labour force

5.2 The overall employment situation showed signs of picking up on entering the year 2010. On a year-on-year basis, although *total employment*⁽³⁾ edged lower by 0.3% in the first quarter of 2010, this fared better than the 0.7% decline in the fourth quarter of 2009. On a quarter-to-quarter comparison, whereas a slight decrease (less than 0.1%) was observed for the unadjusted employment figure, there was in fact an increase of 0.4% on the basis of the seasonally adjusted data. This followed a reduction of 0.2% on the same basis in the fourth quarter of 2009.

5.3 At present there is no seasonally adjusted data series on total employment and labour force by component. An analysis of the relevant breakdowns has thus to be carried out based on the unadjusted figures.

5.4 A breakdown by economic sector showed that the wholesale, retail and catering trades posted the largest employment gains during the first quarter of 2010, thanks to the strong pick-up in tourism and consumer spending. As to the construction sector, whereas the respective total employment underwent a slight contraction over the quarter, the number of full-time employed workers continued to rise. Moreover, there was a sustained increase of 3.2% (or 8 400) in total employment for the sector over a year earlier. This was mainly due to the implementation of several large-scale public sector projects such as the West Island Line, the site formation works for the Kai Tak Cruise Terminal, the Central-Wan Chai Bypass and

Island Eastern Corridor Link, and the Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link, as well as the launch of more minor works and Operation Building Bright (which assists owners of about 1 000 old buildings to carry out repair works) over the past year or so. In terms of occupation categories, lower-skilled workers were the group benefiting most from the latest economic upturn, as manifested in the 11 500 increase in their employment during the first quarter of this year. Among them, service workers and shop sales workers registered the greatest employment gain. On the other hand, the higher-skilled workers had a job loss of 11 800, despite a visible pick-up in demand for managers and administrators more recently. In terms of other socio-economic attributes such as age group and educational attainment level, the employment situation appeared to be mixed with no clear patterns of development observed during the period.

5.5 When compared with June – August 2008, i.e. the period just before the outbreak of the global financial turmoil, workers at the higher-skilled segment faced a cumulative job loss of 4.6% (60 200 jobs), outweighing the gain of 1.2% (25 900 jobs) at the lower-skilled segment. Taking these two groups together, total employment thus still fell short of the pre-crisis level by 1.0% (34 300 jobs). The decrease continued to be concentrated in the externally-oriented sectors, particularly in trading (-51 300 or -8.6%) and logistics (-14 600 or -6.3%).

5.6 On the supply side, the *labour force*⁽⁴⁾ contracted by 1.0% in the first quarter of 2010 over a year earlier, after a 0.2% increase in the fourth quarter of 2009. On a seasonally adjusted quarter-to-quarter comparison, labour force fell less by 0.2%, following a 0.6% decline in the preceding quarter. The more notable reduction in the labour supply over the past year had much to do with the high base of comparison a year earlier, when the labour force was boosted by an increased entry of women workers (comprising mainly homemakers) in the midst of the economic downturn. As an indication, the labour force participation rate for women was distinctly lower in the first quarter of 2010 than a year earlier, at 52.4% as against 54.0%.

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

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<u>Persons underemployed</u>
2009	Annual	3 676 600 (0.8)		3 479 800 (-1.1)		196 700	86 400
	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

Three months ending

2010	Jan	3 672 000 (-0.4)		3 505 700 (-0.7)		166 400	80 600
	Feb	3 672 700 (-0.3)		3 513 600 (*)		159 100	78 200
	Mar	3 657 300 (-1.0)		3 496 700 (-0.3)		160 600	80 000
		<-0.2>		<0.4>			

- Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () Year-on-year % change.
 < > Seasonally adjusted % change between the first quarter of 2010 and the fourth quarter of 2009.
 (*) Less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Employment showed relative improvement in early 2010

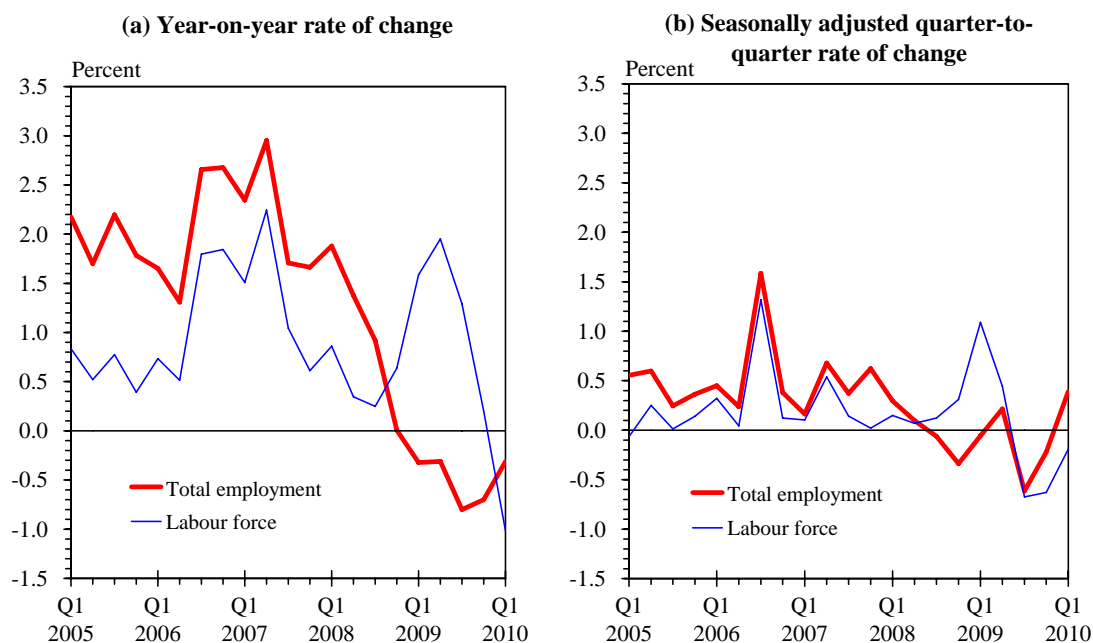


Table 5.2 : Labour force participation rates by sex (%)

		<u>Male</u>	<u>Female</u>	<u>Both sexes combined</u>
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
2010	Q1	68.7	52.4	60.0

Source : General Household Survey, Census and Statistics Department.

Table 5.3 : Labour force participation rates by sex and by age group (%)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010 Q1#</u>
<u>Male</u>						
15-19	15.8	14.3	14.8	13.0	12.6	9.2
20-24	69.5	69.0	67.6	65.8	64.8	61.1
25-29	95.3	95.6	95.0	94.3	94.8	95.0
30-39	96.8	96.7	97.1	96.5	96.3	96.6
40-49	95.4	95.2	95.5	95.1	95.0	95.0
50-59	83.7	83.3	83.3	84.0	84.3	83.6
≥ 60	18.3	19.3	19.6	20.0	21.2	22.3
Overall	71.1	70.9	70.5	69.7	69.4	68.7
<u>Female</u>						
15-19	13.3	13.1	13.5	12.4	11.4	9.3
20-24	72.6	71.1	71.7	69.5	66.2	62.3
25-29	86.2	87.2	87.4	87.3	87.0	87.1
30-39	75.1	75.5	76.2	76.8	77.0	76.6
40-49	63.7	65.1	66.6	66.7	68.5	68.8
50-59	44.3	45.7	46.7	48.5	48.8	48.3
≥ 60	4.2	4.5	5.2	5.7	6.6	6.4
Overall	51.8	52.6	53.1	53.1	53.1	52.4
<u>Both sexes</u>						
15-19	14.5	13.7	14.2	12.7	12.0	9.3
20-24	71.2	70.1	69.8	67.7	65.5	61.7
25-29	90.3	90.9	90.7	90.3	90.4	90.5
30-39	84.5	84.6	85.1	85.1	85.1	84.9
40-49	78.8	79.3	80.1	79.8	80.7	80.6
50-59	64.1	64.5	64.9	66.1	66.5	65.8
≥ 60	11.0	11.7	12.1	12.6	13.7	14.1
Overall	60.9	61.2	61.2	60.9	60.7	60.0

Note : (#) Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.7 Unemployment showed a noticeable fall in overall terms in the first quarter of 2010, continuing the downtrend as observed since mid-2009. On a quarter-to-quarter comparison, the number of unemployed persons (not seasonally adjusted) fell by 12 200 to 160 600, further to the 36 300 decrease in the preceding period. Moreover, visible declines were seen across a wide array of economic sectors, including professional and business services, manufacturing, education, retail, and information and communications. Thus unemployment improved both in terms of scale and scope during the first quarter. As to the seasonally adjusted unemployment rate, there was a distinct decrease of 0.5 percentage point over the same period to 4.4%, the lowest level recorded since end-2008.

5.8 An analysis by occupation category indicated that unemployment came down most notably among workers at the upper segment, including in particular professionals and associate professionals. To a large extent, this was due to a larger reduction in labour supply than employment especially among these workers after the Lunar New Year holidays. In terms of other attributes, pronounced drops were likewise observed among people with upper secondary education or above, as well as those in the age bracket of 15 – 29.

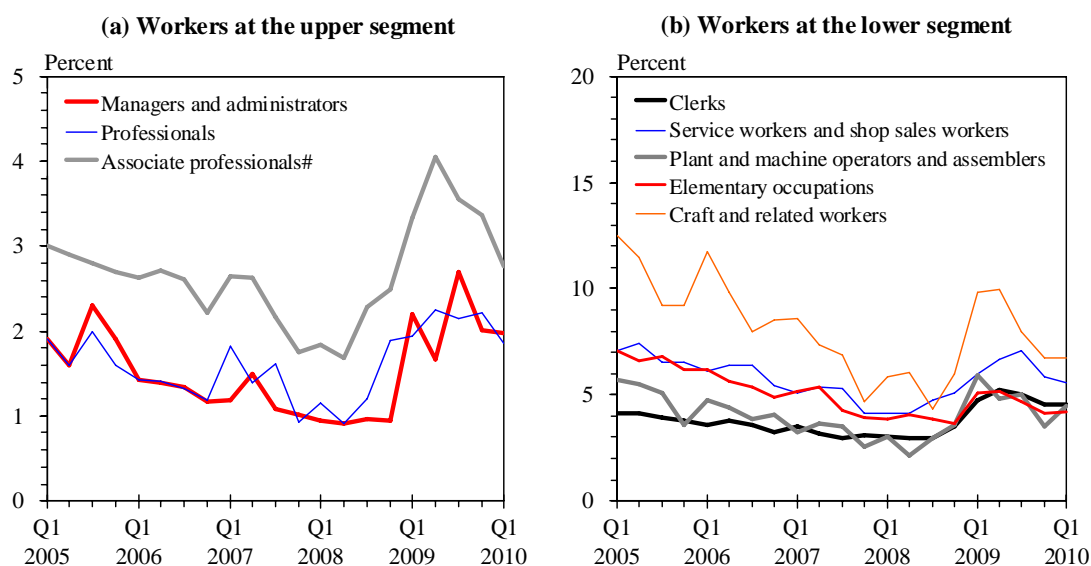
Table 5.4 : Unemployment rate by major economic sector

	<u>2009</u>				<u>2010</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	4.6	4.9	4.9	4.0	4.3
Retail	6.0	6.5	6.7	5.7	5.1
Accommodation and food services	7.3	8.2	8.3	7.0	6.8
Transportation, storage, postal and courier services	5.8	4.9	4.4	3.9	4.1
Information and communications	4.6	4.8	4.3	5.3	4.5
Financing, insurance, real estate, professional and business services	3.6	4.0	3.8	3.8	3.4
Public administration, social and personal services	1.8	2.0	2.3	1.9	1.8
Manufacturing	6.2	6.8	6.2	5.1	4.5
Construction	11.2	11.8	9.4	7.4	8.0
Overall	5.1 (5.2)	5.5 (5.4)	5.6 (5.3)	4.7 (4.9)	4.4 (4.4)

Note : () Seasonally adjusted unemployment figures.

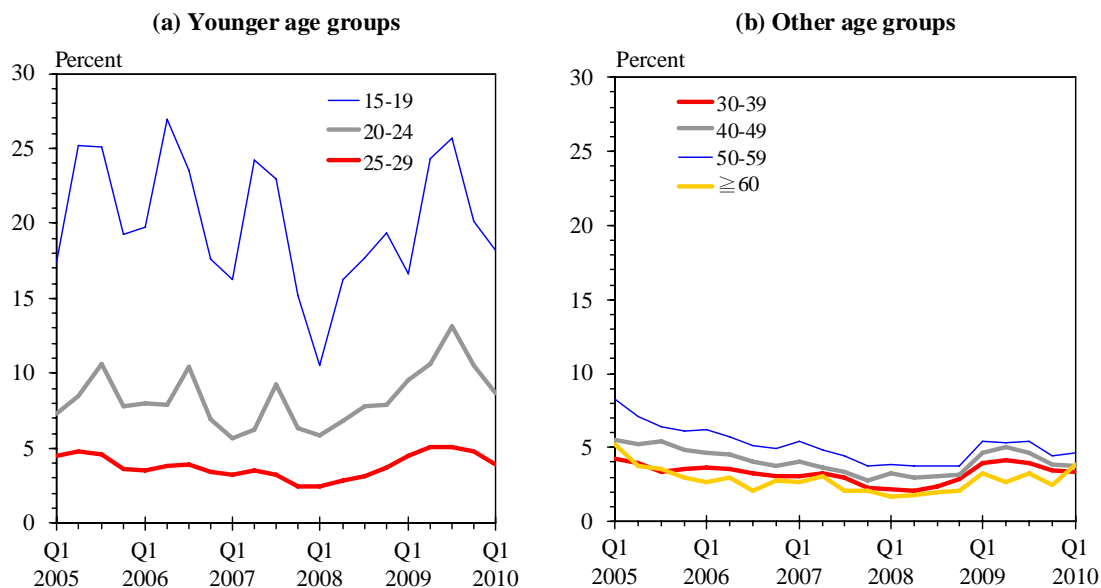
Source : General Household Survey, Census and Statistics Department.

Diagram 5.3 : Unemployment rate* fell more visibly among workers at the upper segment during the first quarter of 2010



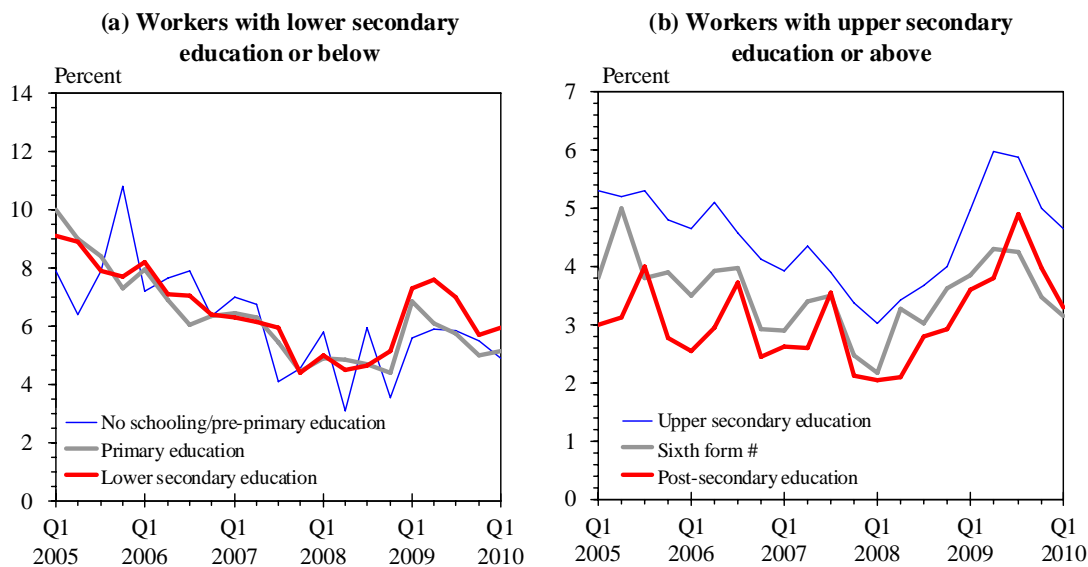
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.
(#) Including technicians and supervisors.

Diagram 5.4 : Unemployment rate* declined across all the age groups, with a larger decrease occurring among persons aged 15-29



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

Diagram 5.5 : The fall in unemployment rate* was concentrated among persons with upper secondary education or above



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

(#) Including craft courses.

5.9 The intensity of the unemployment problem can also be assessed by reference to the long-term unemployment (i.e. unemployed for six months or longer) figures. The latest data available pointed to a continued shrinkage in the number of long-term unemployed persons from 57 800 in the fourth quarter of 2009 to 54 700 in the first quarter of 2010. When compiled as a proportion of the labour force, the long-term unemployment rate edged down from 1.6% to 1.5% over the same period. Furthermore, among all the unemployed persons, 62.1% were found to have been dismissed or laid off in the first quarter, down from both 62.4% in the preceding period and 72.0% a year earlier. All these indicated that the unemployment situation kept on improving on various fronts.

Profile of underemployment

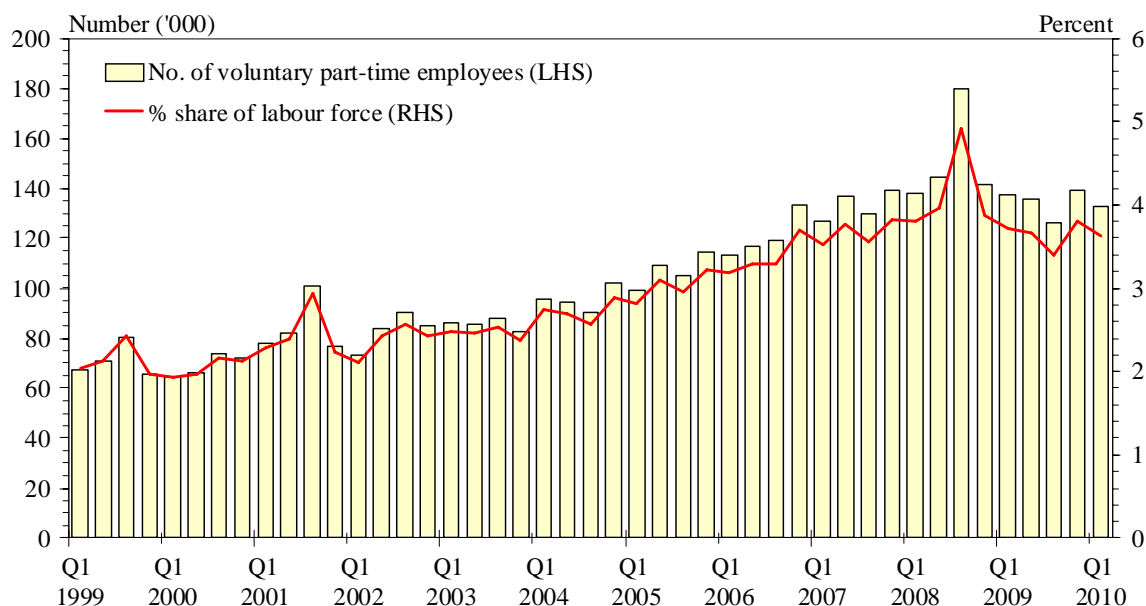
5.10 The underemployment situation held broadly stable. At 2.2% in the first quarter of this year, the underemployment rate was marginally lower than that of 2.3% in the fourth quarter of last year. Among the major economic sectors, construction, education, and professional and business services were the ones where more notable decreases were found. Another development worth noting was that the proportion of voluntary part-time employees in the labour force, having been generally on an uptrend over the past decade, hovered mostly in the range of 3.5 – 4.0% more recently (*Box 5.1*).

Box 5.1

Recent trends of voluntary part-time employees

Voluntary part-time employees¹ have grown in relative importance over the past decade. From 2.2% (70 900 workers) in 1999, the proportion of these employees in the labour force has risen to 2.9% (95 400 workers) in 2004 and further to 3.9% (133 100 workers) in 2007, before hovering mostly around this level in more recent years.

Chart 1 : Voluntary part-time employees have been mostly on the increase over the past decade



Relative to their full-time counterparts, voluntary part-time workers generally have lower levels of educational attainment and are engaged in different types of jobs in terms of skill requirement and economic sector. Analysed by educational attainment, 41% of voluntary part-time employees in 2009 had lower secondary education or below, compared with 28% for the total employed population. In terms of occupation categories, 32% of voluntary part-time employees were engaged in elementary occupations (versus 14% for the total employed population), while another 27% comprised service workers and shop sales workers (versus 17%). Furthermore, 32% of these part-time workers were employed in public administration, social and personal services (versus 25% for the total employed population), whereas 29% were in retail, accommodation and food services (versus 16%). Below is a summary of other more distinctive features of voluntary part-time employees.

¹ Defined as employees working voluntarily for less than 35 hours a week (except those on vacation), who are not available and have not sought additional work, i.e. excluding those who are underemployed.

Box 5.1 (Cont'd)

In terms of demographics, middle-aged females comprising largely homemakers made up the largest group of voluntary part-time employees. Reflecting this, some 47% of such employees in 2009 cited “busy with housework” as their reason for engaging in part-time work. This represented a noticeable rebound from the share of 38% in 2004, and was also larger than that of 43% in 1999. Moreover, there was a growing trend of students taking up voluntary part-time work over the period. This was borne out by the increasing proportion of voluntary part-time employees citing “busy with school work” as reason for not able to work longer hours, from 7% in 1999 to 16% in 2004 and further to 17% in 2009.

Also worthy of note is that whereas part-time employees have on average lower education qualifications and work skills, apparently the quality of this particular group of workers has undergone a considerable upgrading over the years, alongside the general uplifting in education standard of the entire working population. Nowadays part-time opportunities are no longer confined to the lower segment of the labour market, and have in fact become increasingly available at the middle and upper segments in recent years. As an indication, the employment size in respect of managers, administrators and professionals working on a voluntary part-time basis expanded notably by 37% between 2004 and 2009, following the increase of 7% over the period 1999 – 2004. Furthermore, the number of voluntary part-time employees with monthly earnings above \$10,000 went up by 35% over the past five years, in contrast to the 10% drop observed in the preceding 5-year period.

Part-time working allows both employers and employees to have a higher degree of flexibility in coping with the changing economic and labour market conditions, which is conducive to more efficient utilisation of human capital and enhancement of resilience and competitiveness of the local economy.

Profile of employment in establishments

5.11 The employment figures compiled from the Quarterly Survey of Employment and Vacancies and the Quarterly Employment Survey of Construction Sites revealed an even more favourable picture. In December 2009, employment in *private sector establishments* went up by 1.4% over a year earlier, representing a noticeable rebound from the 1.0% contraction in September. For 2009 as a whole, although there was still a slight decrease of 0.5%, this was entirely due to the subdued economic and labour market conditions prevailing in the first half of the year.

5.12 More specifically for December 2009, the largest employment gain was attained in the construction sector (up by 7.5% on a year-on-year basis), thanks to the implementation of large-scale public sector investment projects since late 2008. This was followed by social and personal services (up by 4.1%) and financing, insurance, real estate, professional and business services (up by 3.8%), on the back of sustained pick-up in overall economic activity. An analysis by establishment size indicated that large enterprises continued to be the primary source of job creation, registering an increase of 3.0% (or 37 600) in employment, following a 2.1% rise in September. Employment in small and medium-sized enterprises (SMEs)⁽⁵⁾ saw a marginal reduction of 0.1%, yet this was distinctly better than the 4.1% drop in September. As to the civil service, the number of employees was 1.2% higher in December 2009 than a year earlier, similar to the 1.1% increase in September. For 2009 as a whole, the growth was 1.1%, outpacing that of 0.1% in 2008. These figures bore out the recruitment drive as has been launched proactively by the Government over the past year.

5.13 As announced by the Financial Secretary in the 2010-11 Budget Speech, the Labour Department (LD) will launch a two-year “Pilot Employment Navigator Programme”. Under this programme, a cash incentive of \$5,000 will be payable to each person who has worked for a continuous period of three months after receiving the department's intensive employment counselling and job matching services. The programme will provide 11 000 places a year. It is designed to address the problem of manpower mismatch, fully utilise the productivity from the labour force and encourage employment.

5.14 To step up the efforts to help young people with special employment difficulties, LD will also launch a targeted employment programme under which non-governmental organisations will provide training and internship for 12 months to young people aged 15 – 24 with low educational qualifications, who need special assistance because of emotional and behavioural problems or learning difficulties. The programme will provide 500 places.

Table 5.5 : Employment by major economic sector

	<u>2008</u>					<u>2009</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
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)	558 700 (-4.1)	559 800 (-4.5)	554 200 (-5.3)	558 300 (-4.1)	562 600 (-2.4)
Retail	236 000 (2.8)	233 400 (3.3)	236 100 (2.8)	237 800 (3.6)	236 900 (1.5)	235 300 (-0.3)	232 000 (-0.6)	232 600 (-1.5)	236 800 (-0.4)	239 800 (1.2)
Accommodation and food services	241 500 (2.0)	238 200 (1.8)	241 900 (3.7)	245 100 (2.5)	240 700 (*)	241 100 (-0.2)	238 200 (*)	238 800 (-1.3)	240 200 (-2.0)	247 000 (2.6)
Transportation, storage, postal and courier services ^(a)	156 300 (3.5)	155 500 (5.1)	157 000 (3.1)	156 900 (3.8)	155 800 (1.8)	158 000 (1.1)	158 000 (1.6)	156 900 (-0.1)	157 700 (0.5)	159 300 (2.2)
Information and communications	88 600 (3.6)	86 900 (2.2)	89 800 (5.3)	89 900 (5.2)	87 700 (1.7)	87 200 (-1.6)	86 100 (-0.9)	86 900 (-3.3)	87 900 (-2.2)	87 800 (0.1)
Financing, insurance, real estate, professional and business services ^(a)	577 100 (3.4)	573 700 (5.2)	578 600 (3.8)	581 800 (3.7)	574 400 (1.1)	582 600 (0.9)	572 700 (-0.2)	577 500 (-0.2)	583 700 (0.3)	596 400 (3.8)
Social and personal services ^(a)	401 600 (3.6)	396 600 (3.3)	399 000 (2.9)	405 000 (4.5)	406 000 (3.8)	414 600 (3.2)	407 100 (2.6)	411 600 (3.2)	417 100 (3.0)	422 700 (4.1)
Manufacturing	132 500 (-3.5)	135 200 (-2.9)	133 000 (-3.7)	131 300 (-3.7)	130 600 (-3.8)	125 000 (-5.7)	125 700 (-7.0)	124 700 (-6.2)	124 700 (-5.0)	124 900 (-4.4)
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)	50 500 (2.2)	51 900 (2.8)	48 900 (-1.2)	48 000 (-0.4)	53 200 (7.5)
<i>All establishments surveyed in the private sector^{(a) (b)}</i>	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)	2 463 600 (-0.5)	2 442 200 (-1.0)	2 442 600 (-1.5)	2 464 900 (-1.0)	2 504 700 (1.4)
		<0.8>	<0.4>	<0.4>	<-1.1>		<-0.7>	<-0.1>	<0.9>	<1.3>
<i>Civil service^(c)</i>	154 000 (0.1)	153 500 (-0.2)	153 700 (*)	154 300 (0.4)	154 300 (0.3)	155 700 (1.1)	155 100 (1.1)	155 400 (1.1)	156 000 (1.1)	156 200 (1.2)

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

5.15 In face of the progressive revival in economic activity since mid-2009, more and more employers have reviewed their staffing situation with a general tendency towards expansion. Reflecting this, vacancies in private sector establishments resumed positive growth by 7.5% in December 2009 over a year earlier, signalling a distinct turnaround from the 18.8% drop in September. It also brought the declining trend since September 2008 to a halt. Despite this, there was still a decrease of 29.4% for 2009 as a whole, being dragged by the dismal growth performance in the early part of the year.

5.16 Comparing December 2009 with the low base a year earlier, information and communications led the pack with a surge of 70.9% in job vacancies, followed by transportation, storage, postal and courier services (up by 65.4%), and the retail trade (up by 29.7%). Analysed by occupation category, new job openings were concentrated in the lower segment of the labour market, as borne out by the 13.9% jump observed for the lower-skilled workers in December 2009 over a year earlier. Among them, plant and machine operators and assemblers, and craft and related workers were the ones experiencing the largest increases in hiring, by 66.7% and 22.9% respectively. Meanwhile, job vacancies for service workers and shop sales workers also went up notably by 14.7%. On the other hand, vacancies for higher-skilled workers were reduced by 3.7%. This was entirely due to the 8.7% decline seen for associate professionals, although it represented a pronounced improvement from the 21.8% fall in September. In terms of establishment size, SMEs reported a jump in vacancies by 17.4% year-on-year in December 2009, the first increase since mid-2008. As to large enterprises, while vacancies were cut by 2.0%, this decrease narrowed visibly from that of 21.7% in September.

5.17 A comparison between vacancies and job-seekers gave a ratio of 20 job vacancies per 100 job-seekers in December 2009, up further from 19 in September. Performance however varied among different types of personnel within the occupational hierarchy. For lower-skilled workers, the corresponding ratio went higher from 18 to 20, whereas that for higher-skilled workers dropped from 37 to 31. When expressed as a percentage of total employment opportunities, the vacancy rate for private sector establishments edged lower from 1.5% to 1.4% between September and December 2009, attributable to the usual slowdown in hiring around the year-end. As for the civil service, the vacancies totalled 5 200 in December 2009, roughly similar to 5 000 in September, indicating that the Government was broadly maintaining its recruitment momentum throughout the year.

5.18 The vacancy figures compiled by the LD, notwithstanding its smaller sample size, may provide some clue to more recent trend in the job market. In March 2010, the number of private sector job vacancies posted by the department was about 66 000, up distinctly by 31.3% over a year earlier. Whilst a decrease of 8.0% was observed in the first quarter as compared to the fourth quarter last year, this was attributable primarily to a temporary slowdown in registration activity in the run-up to the Lunar New Year.

Diagram 5.6 : Vacancies for lower-skilled workers staged a distinct recovery in the fourth quarter of 2009

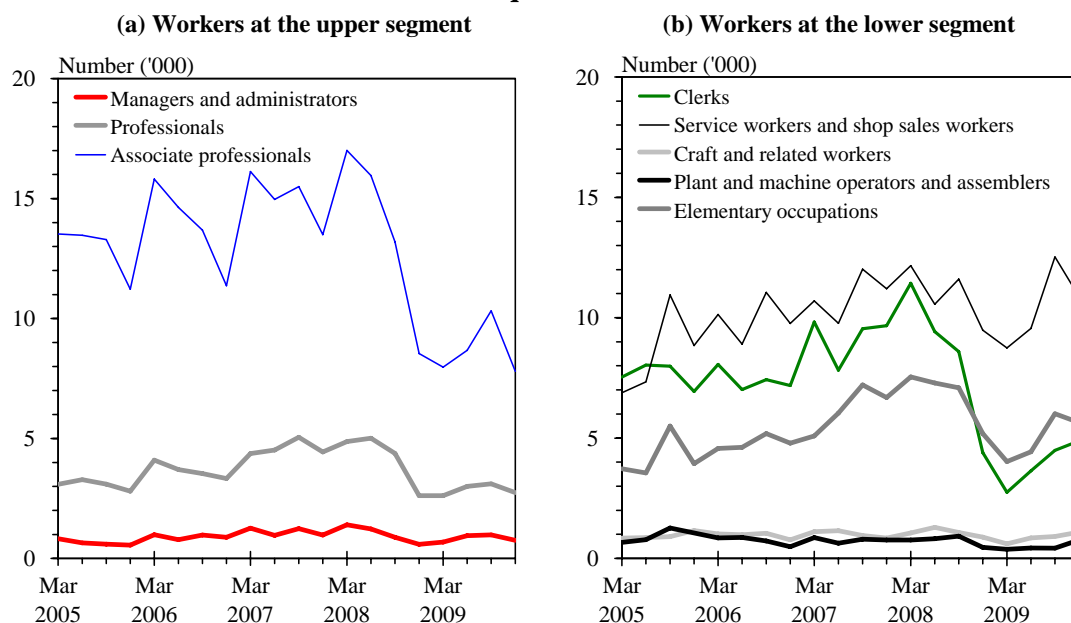


Table 5.6 : Vacancies by major economic sector

	<u>2008</u>					<u>2009</u>					Vacancy rate in Dec 2009 (%)
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</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)	4 200 (-44.1)	3 300 (-67.1)	4 300 (-51.9)	4 500 (-37.6)	4 800 (16.5)	0.8
Retail	5 000 (7.6)	5 700 (14.7)	5 200 (25.5)	5 500 (9.8)	3 500 (-19.7)	3 800 (-22.9)	2 900 (-49.6)	3 700 (-29.4)	4 200 (-22.8)	4 600 (29.7)	1.9
Accommodation and food services	5 500 (5.0)	5 400 (24.6)	5 600 (21.7)	5 400 (-19.4)	5 700 (5.6)	5 400 (-2.7)	5 200 (-4.2)	4 500 (-19.2)	7 100 (31.0)	4 700 (-17.0)	1.9
Transportation, storage, postal and courier services ^(a)	1 700 (-12.0)	2 300 (28.4)	1 900 (0.3)	1 600 (-24.9)	900 (-50.8)	1 100 (-32.5)	1 000 (-58.2)	1 000 (-49.1)	1 100 (-28.7)	1 500 (65.4)	0.9
Information and communications	1 900 (-9.7)	2 100 (-5.0)	2 400 (26.1)	2 200 (-6.2)	800 (-55.5)	1 300 (-30.7)	900 (-57.8)	1 500 (-36.7)	1 400 (-37.1)	1 400 (70.9)	1.6
Financing, insurance, real estate, professional and business services ^(a)	13 100 (-9.6)	16 300 (10.1)	14 300 (2.9)	13 100 (-14.0)	8 600 (-38.2)	8 500 (-35.2)	6 800 (-58.4)	7 400 (-48.2)	11 100 (-15.3)	8 600 (0.2)	1.4
Social and personal services ^(a)	10 500 (9.9)	12 400 (41.5)	11 100 (30.2)	11 200 (8.7)	7 300 (-31.2)	7 800 (-25.4)	7 100 (-42.6)	8 400 (-24.2)	8 100 (-27.5)	7 700 (5.0)	1.8
Manufacturing	1 600 (-9.2)	2 000 (0.1)	2 000 (12.4)	1 500 (-16.2)	1 100 (-36.2)	900 (-43.7)	700 (-67.1)	700 (-67.2)	1 200 (-19.2)	1 200 (10.6)	0.9
Construction sites (manual workers only)	# (26.3)	# (*)	# (87.5)	# (57.7)	# (-26.7)	# (-54.2)	# (-92.1)	# (-86.7)	# (-56.1)	# (172.7)	0.1
<i>All establishments surveyed in the private sector^{(a)(b)}</i>	46 900 (-4.0) <-1.5>	56 200 (14.0) <-2.7>	51 600 (12.5) <-13.7>	47 800 (-8.7) <-19.3>	32 200 (-33.1)	33 200 (-29.4) <-26.9>	27 800 (-50.6) <20.2>	31 500 (-38.9) <14.5>	38 800 (-18.8) <6.6>	34 600 (7.5)	1.4
<i>Civil service^(c)</i>	5 800 (127.7)	5 500 (366.2)	6 200 (94.4)	5 500 (81.6)	5 800 (114.8)	5 200 (-10.2)	5 300 (-3.8)	5 200 (-15.8)	5 000 (-9.7)	5 200 (-10.8)	3.2

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.

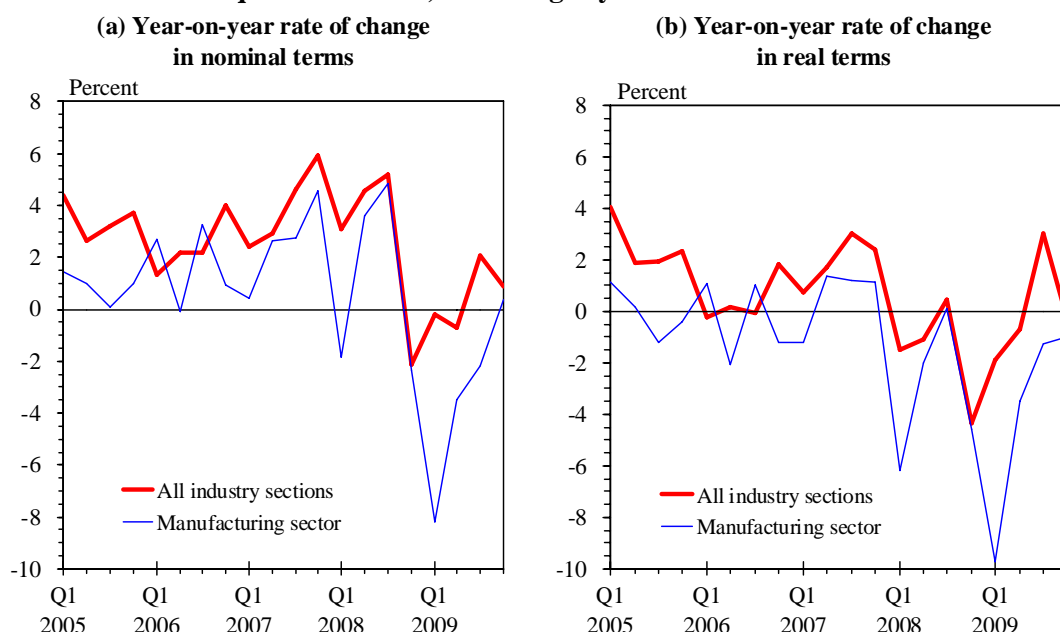
Earnings and Wages

5.19 With the labour market progressively improving in overall terms, *labour wages*, as a measure of regular payments to employees at the supervisory level or below, went up by 0.8% year-on-year in December 2009, reversing the declining trend seen earlier in the year. After discounting the price change⁽⁶⁾, wages edged down by 0.8% in December, which nevertheless still compared favourably with the 2.6% drop in September. For 2009 as a whole, wages fell modestly both in money terms and in real terms, by 0.9% and 1.3% respectively.

5.20 As for individual occupations at supervisory level or below, wages moved up moderately across the board, with somewhat larger increases observed for supervisory and technical workers, and craftsmen and operatives (both at 0.9% year-on-year in December 2009, which compared well with the respective decreases of 1.6% and 1.1% in September). In terms of economic sectors, pay rises were also effected on a broad front, with more notable increases seen for professional and business services (up by 2.2% as against 0.1% in September 2009), financing and insurance (up by 2.1% as against a decrease of 2.5%), and transportation (up by 1.7% as against a 1.1% decline).

5.21 *Labour earnings*⁽⁷⁾, as measured by payroll per person engaged in private sector, likewise rose by 0.9% in the fourth quarter of 2009 from a year earlier. For 2009 as a whole, the increase averaged at 0.5%. After discounting the price effect, there was a small decline of 0.4% in real terms in the fourth quarter of 2009, and nil change for the whole year. On a seasonally adjusted basis, labour earnings were lower by 2.3% in money terms and 4.2% in real terms in the fourth quarter of 2009 over the preceding period. This was due to the higher base in the third quarter, caused by the disbursement of discretionary bonuses and allowances by business establishment in some selected sectors.

Diagram 5.7 : Payroll continued on an uptrend in money terms in the fourth quarter of 2009, albeit slightly down in real terms



5.22 Analysed by economic sector, the picture was mixed. On the one hand, nominal pay rises were noted for food services, professional and business services, and real estate, at 2.8%, 2.7% and 2.5% respectively on a year-on-year basis. On the other hand, pay cuts were seen for sewerage, waste management and remediation activities and the import/export trade, at 5.4% and 2.7% respectively.

5.23 More recent data from the General Household Survey, whilst not strictly comparable to those from the business establishment surveys, revealed that the average monthly employment earnings⁽⁸⁾ (excluding foreign domestic helpers) for the workforce jumped by 11.3% year-on-year in the first quarter of 2010, following a decrease of 1.2% in the fourth quarter of 2009. Earnings for higher-skilled workers registered a marked gain of 17.8%, as against a fall of 0.4% previously. This was mainly due to the significant increase in employment earnings for workers in some sectors, in tandem with the visible upturn in net earnings of the relevant businesses. As to the lower-skilled workers, they also enjoyed a pay rise of 2.1%, after a 1.0% 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 X-11 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) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.

- (5) 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 6 : PRICES

Summary

- *Consumer price inflation pressures edged up in the first quarter of 2010, being a natural phenomenon in the midst of a more entrenched economic recovery. Nevertheless, inflationary pressures in the economy remained rather tamed, due to the spare capacity at both global and local levels. The headline Composite Consumer Price Index⁽¹⁾ rose moderately by 1.9% over a year earlier. After netting out the effects of the Government's one-off relief measures, the underlying Composite Consumer Price Index rose by 0.8% over a year earlier.*
- *As regards business costs, although downward pressures on wages by and large disappeared in the first quarter, unit labour cost on the whole remained contained, being capped by the hefty productivity growth. Meanwhile, the market rentals of both retail premises and offices continued to rise back in the first quarter, but the rental rebound over the past few months was driven mainly by the strong economic recovery. Local cost pressures, whilst edging up in overall terms, remained largely contained over this period.*
- *External price pressures were, on the whole, still mild. The increases in import prices for most major end-use categories were rather modest. The exception was the increase in fuel prices, though its direct impact on consumer price inflation was small.*

Consumer prices

6.1 As the recovery in the Hong Kong economy became more entrenched, overall inflationary pressures inched up in the first quarter of 2010. Headline consumer price inflation, as measured by the year-on-year increase in the *Composite Consumer Price Index* (Composite CPI), rose to 1.9% in the first quarter from 1.3% in the fourth quarter of 2009. The low base of comparison in the same quarter last year due to the one-off electricity subsidy contributed to a higher headline inflation in the first quarter of 2010. Netting out the effects of the Government's one-off relief measures, underlying consumer price inflation, as measured by the year-on-year increase in the underlying Composite CPI, was 0.8%, in contrast to the rate of the -0.1% in the fourth quarter of 2009. Inflation was still mild in the first quarter of 2010, as both local and external price pressures remained modest.

Diagram 6.1 : Inflationary pressures inched up in the first quarter of 2010

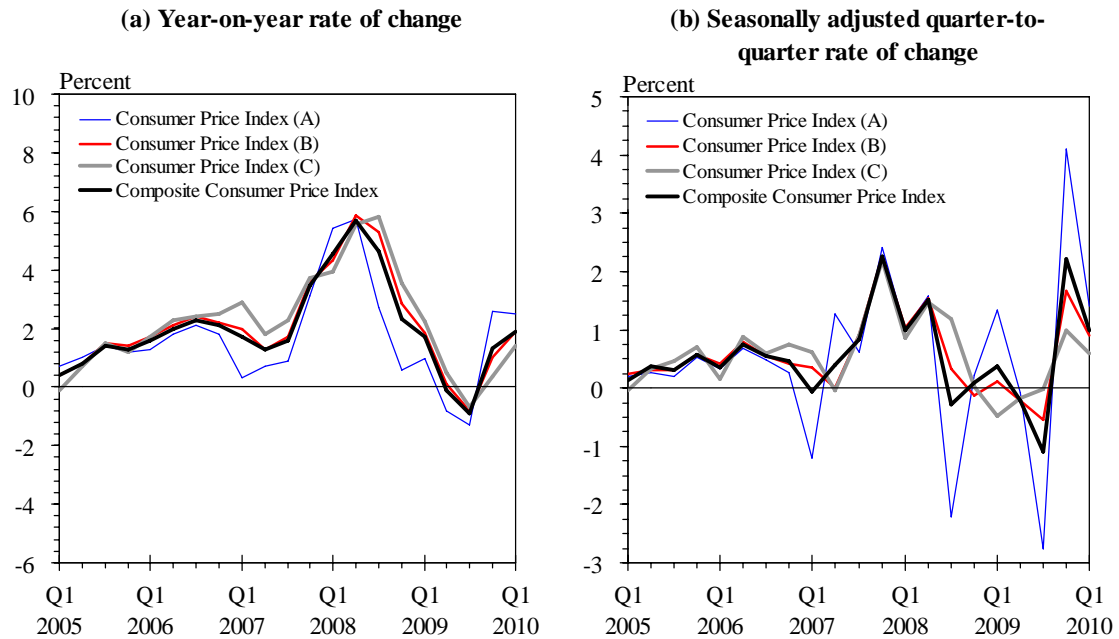


Table 6.1 : Consumer Price Indices
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2009	Annual	1.0	0.5	0.4	0.5	0.6
	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)
2010	Q1	0.8 (0.7)	1.9 (1.0)	2.5 (1.4)	1.9 (0.9)	1.4 (0.6)

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.

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

(*) Change of less than 0.05%.

6.2 The gradual increase in inflationary pressure in the first quarter was also reflected in the major components of the Composite CPI. Food prices showed some mild pick-up in the first quarter, alongside higher food inflation in the sources of supply and the adverse weather conditions that pushed up prices of fresh food items. The rate of decline of the underlying component of private housing cost also showed continuous narrowing during the first three months of this year, as the effect of the drop in market rentals for private housing immediately after the outbreak of the financial tsunami was gradually offset by their subsequent revival since the second quarter of last year. Prices for miscellaneous services also returned to increase, driven by higher charges for such items as package tours and various entertainment services. The rate of decline in prices for durable goods also narrowed. Both were indicative of a gradual return of pricing power of retailers amidst the improving economy. The transport component and the underlying component of electricity, gas and water also showed faster price increases, due mainly to higher fuel prices and town gas charges. Prices of alcoholic drinks and tobacco were notably higher than a year earlier, due to the higher duty on cigarettes imposed since March 2009.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2009</u>				<u>2010</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	26.94	4.6	1.5	-0.5	-0.3	1.1
<i>Meals bought away from home</i>	16.86	3.4	1.7	0.7	0.6	0.8
<i>Other foodstuffs</i>	10.08	6.5	1.2	-2.3	-1.5	1.5
Housing ^(a)	29.17	6.6	4.5	1.7	1.9	-0.1
		(6.6)	(4.1)	(1.4)	(-0.2)	(-0.4)
<i>Private dwellings</i>	23.93	7.7	5.1	2.0	0.0	0.0
		(7.7)	(4.7)	(1.6)	(-0.4)	(-0.4)
<i>Public dwellings</i>	2.49	-0.2	0.6	-7.0	45.4	0.6
		(0.2)	(0.2)	(0.2)	(0.0)	(0.0)
Electricity, gas and water	3.59	-42.7	-42.7	-26.1	32.3	61.1
		(-8.1)	(-8.2)	(-7.3)	(-2.9)	(5.3)
Alcoholic drinks and tobacco	0.87	7.6	22.6	22.9	22.0	13.1
Clothing and footwear	3.91	1.8	2.5	2.6	3.7	1.4
Durable goods	5.50	-2.9	-3.3	-3.1	-2.8	-1.7
Miscellaneous goods	4.78	3.2	2.3	1.7	1.9	2.0
Transport	9.09	0.7	-0.7	-2.4	-1.0	1.1
Miscellaneous services	16.15	-1.7	-3.0	-2.8	-0.7	0.5
		(-1.1)	(-2.3)	(-2.1)	(-0.1)	(1.1)
All items	100.00	1.7	-0.1	-0.9	1.3	1.9
		(3.1)	(1.2)	(-0.3)	(-0.1)	(0.8)

Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.

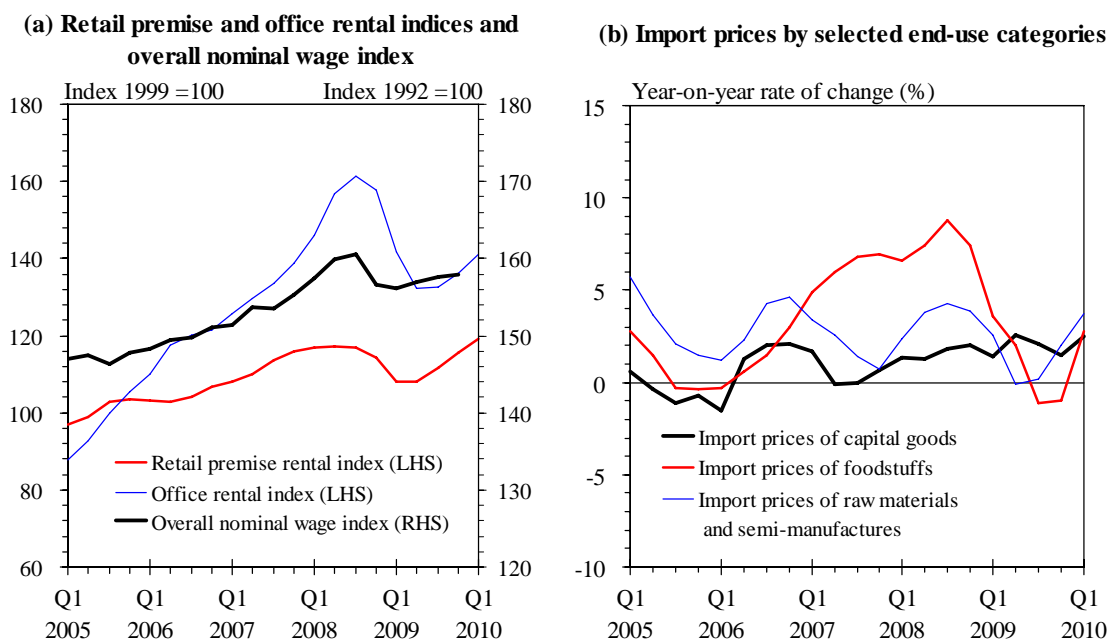
() Underlying rate of change after netting out the effect of Government's one-off relief measures.

Costs of factor inputs and import prices

6.3 Domestic cost pressures were still contained in the first quarter this year. In overall terms, wages and salaries reverted to some slight increases towards the end of last year. Nevertheless, unit labour cost for the business sector was contained by the hefty productivity growth. Meanwhile, rents for fresh lettings and lease renewals of both retail premises and offices continued to

rise back in the first quarter. Despite the latest bounce-back, the latest office rentals remained lower than their 2008 pre-crisis level by around 13%, while shop rentals have just climbed back to a level slightly higher than their 2008 peak. In general, the rental rebound over the past few months was driven mainly by the strong economic recovery. Local cost pressures, whilst edging up in overall terms, remained largely contained over this period.

Diagram 6.2 : Local cost pressures remained largely contained, while overall import prices rose moderately



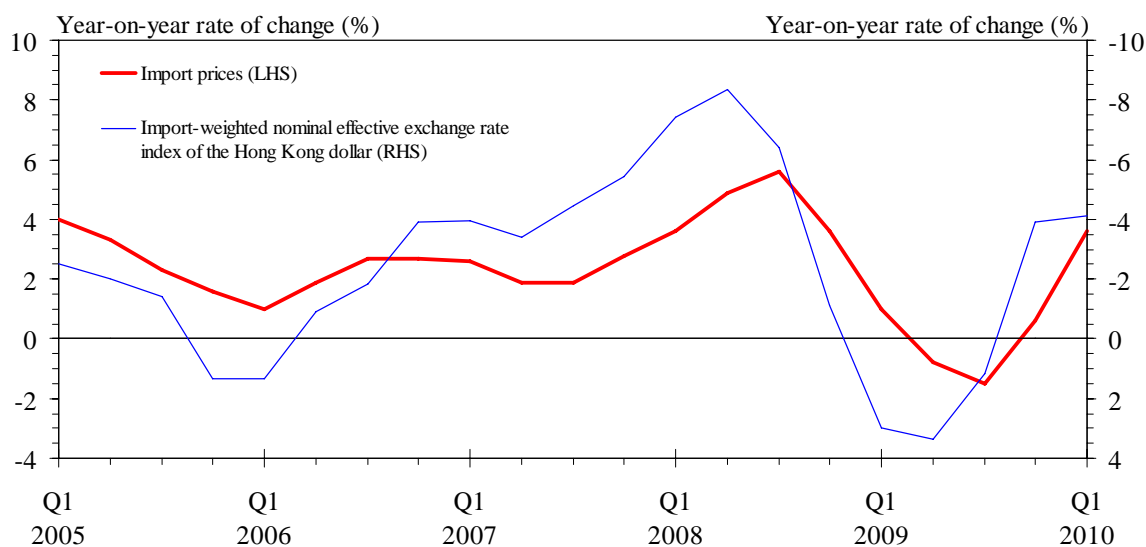
6.4 On the external front, in tandem with the global economic recovery, world commodity prices, including those of crude oil, food and raw materials, rebounded as a result. Reflecting this development, and coupled with the weakening of Hong Kong dollar along with the US dollar after March last year, overall import prices rose back by 3.6% in the first quarter of 2010 over a year earlier, reversing the previous declining trend. Analysed by major end-use categories, import prices of fuels rose most markedly in the first quarter, which reflected the notable rebound in oil prices in the international markets from the significant fall immediately after the financial tsunami, although they were still substantially lower than their 2008 peaks. Import prices of foodstuffs rose back along with higher international food prices. The increases in import prices of raw materials and capital goods accelerated somewhat in this quarter, while those of consumer goods remained modest.

**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
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
2010	Q1	2.8	1.1	3.7	42.8	2.5	3.6

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

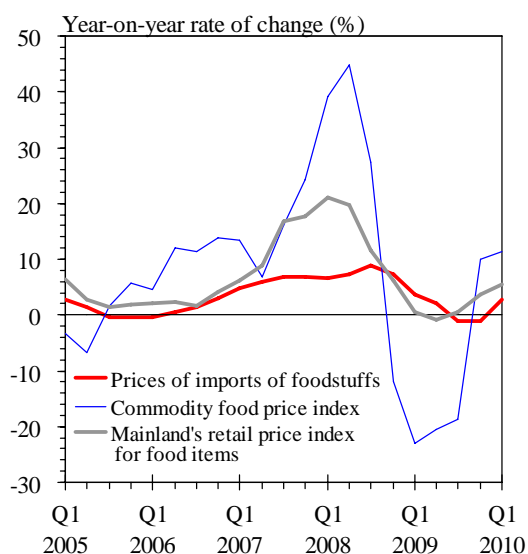
Diagram 6.3 : Import prices increased partly because Hong Kong dollar weakened along with the US dollar



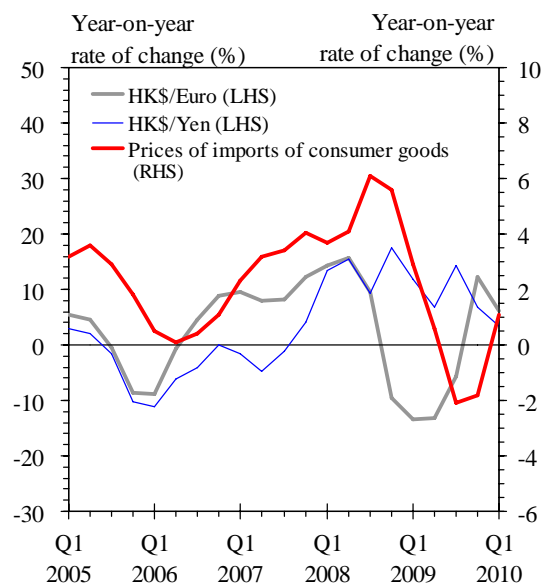
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

Diagram 6.4 : Import prices by end-use categories

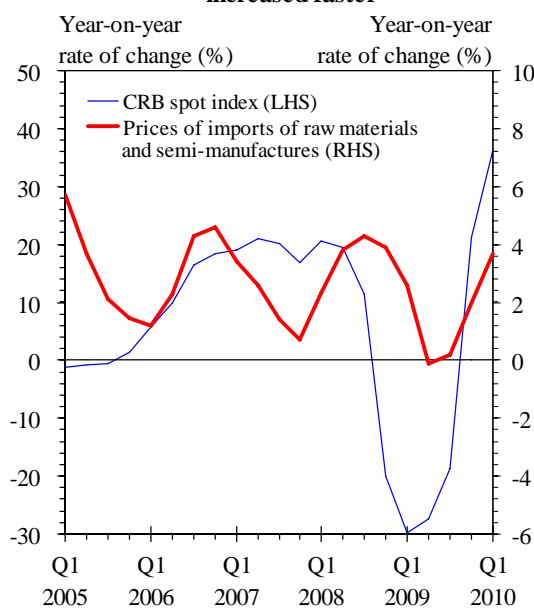
(a) Import prices of foodstuffs reverted to increase along with world food prices



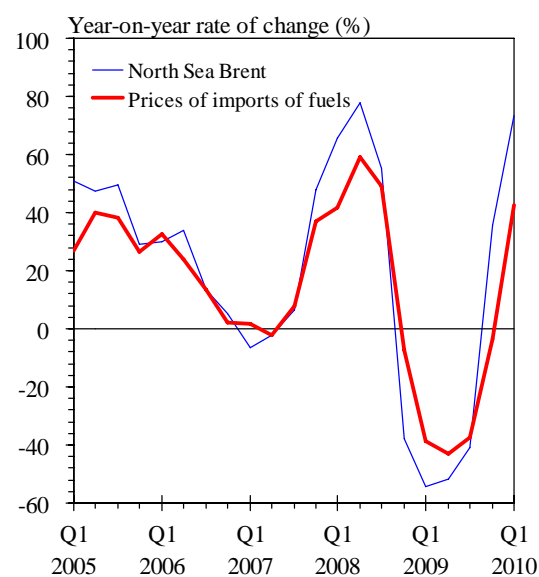
(b) Import prices of consumer goods rose slightly



(c) Import prices of raw materials increased faster



(d) Fuel prices rebounded but were still markedly lower than the 2008 peaks



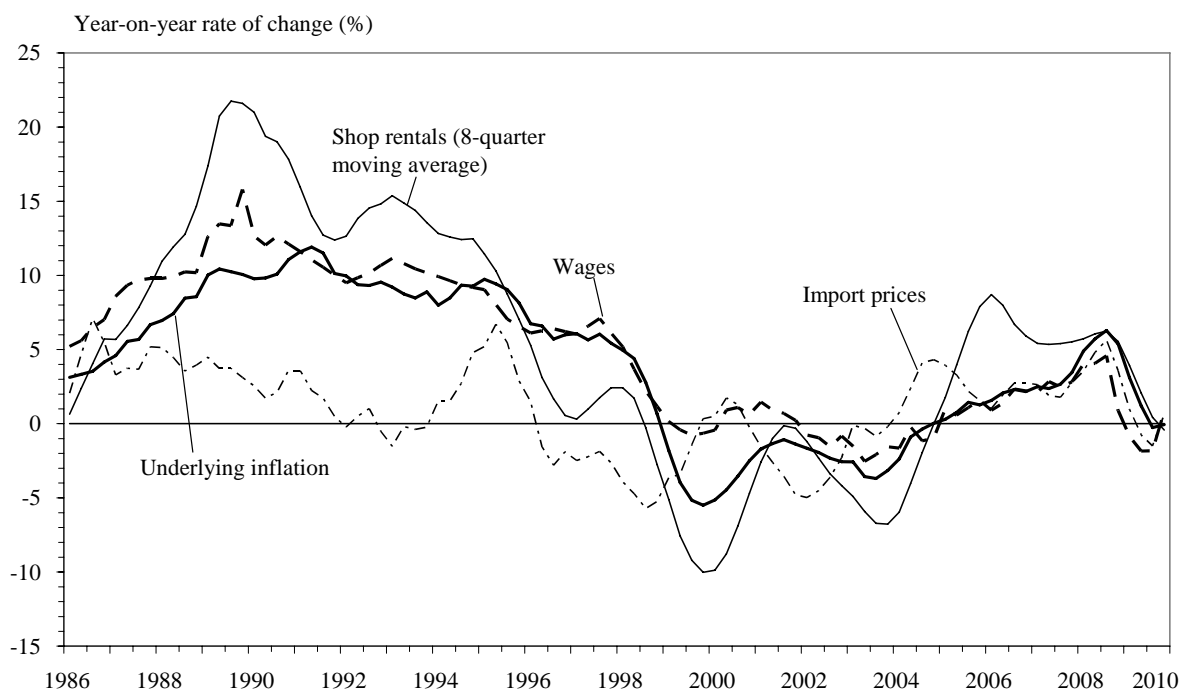
Box 6.1

To what extent is Hong Kong's CPI inflation explained by imported inflation?

There is some concern that the US dollar may weaken significantly in the medium to long run on its mounting debt and fragile nature of recovery. With the linked exchange rate system, a significant weakening of the US dollar may translate into higher import prices for Hong Kong, which could in turn add to consumer price inflation. As detailed in **Box 7.1** of the **2009 Economic Background and 2010 Prospects**, while exchange rate movement is a relevant factor influencing import prices, Hong Kong's import prices have been more stable and increased at a slower pace than in many other Asian economies since the inception of the linked exchange rate system in 1983. The purpose of this box article is to show to what extent Hong Kong's consumer price inflation is explained by imported inflation.

From **Chart 1**, imported inflation does not appear to be a major source of Hong Kong's CPI inflation. The results of Granger causality tests point to a statistically insignificant linkage from import prices to consumer price inflation, and suggests that Hong Kong's consumer price inflation is largely explained by domestic factors such as wages and rentals⁽¹⁾. Indeed, the surge in inflation in the 1990s was mainly a result of the buoyant economy, marked by sustained double-digit increases in both wages (10% per annum between 1987 and 1997) and rentals (11% per annum).

Chart 1: Hong Kong's consumer price inflation is driven more by domestic costs than import prices



(1) Granger causality tests were run using quarterly data from Q1 1983 to Q4 2009 and four lag periods. The results suggest significant Granger causality from wages and rentals to consumer price inflation both at the 1% level, but not from import prices.

Box 6.1 (Cont'd)

To gauge the extent to which underlying inflation is affected by imported sources, the contribution of imported inflation to underlying inflation can be crudely estimated on the basis of the import contents of food, consumer goods and fuel in the consumption basket and their respective rates of change over time, assuming a 100% pass-through from the import cost to the CPI level (*Table 1*).

Table 1: Decomposition of underlying CPI inflation into domestic and import sources

	Underlying CPI inflation (%)	Estimated % share of retained imports of food and consumer goods in private consumption expenditure (%)	Contribution to underlying inflation from:			
			<u>Imported sources</u>		Domestic sources#	
			<u>Food and consumer goods^</u> (% point)	<u>Fuel@</u> (% point)	<u>Combined</u> (% point)	
2000	-3.9	20.9	-0.5	0.1	-0.4	-3.6
2001	-1.4	21.2	-0.3	0.0	-0.3	-1.1
2002	-2.1	21.3	-0.7	0.0	-0.8	-1.4
2003	-3.2	22.0	0.1	0.1	0.1	-3.4
2004	-0.9	22.2	0.4	0.1	0.5	-1.4
2005	0.9	22.2	0.5	0.1	0.6	0.3
2006	2.0	21.4	0.2	0.1	0.2	1.8
2007	2.8	21.3	0.9	0.0	0.8	1.9
2008	5.6	22.6	1.2	0.2	1.4	4.2
2009	1.0	21.6	0.0	-0.3	-0.2	1.2
Annual average:						
Before crisis (08/03)	2.1	21.8	0.6	0.1	0.7	1.3
Past 5 years (09/04)	2.4	21.9	0.6	0.0	0.6	1.9
Past 10 years (09/99)	0.0	21.5	0.2	0.0	0.2	-0.2
Past 19 years (09/90)	3.0	22.9	0.2	0.1	0.2	2.8

Notes : (^) The contribution is crudely estimated by multiplying the rates of change of imported prices of food and consumer goods (weighted by the respective shares of food and consumer goods in the trade value of retained imports for local use in the base period) by the import content as proxied by the share of retained imports of food and consumer goods in private consumption expenditure in the base period.

(@) Actual figures extracted directly from fuel-components in the CPI series. Fuel-components include motor fuel, LPG and town gas.

(#) The contribution by domestic sources is derived as residual.

Estimates for years before 1990 are not available.

Over the past ten years from 2000 to 2009, imported inflation contributed roughly around 0.2 percentage point to Hong Kong's underlying CPI inflation, assuming that import price changes had been fully reflected in consumer prices. Except for 2007 and 2008 when Hong Kong was affected by a significant acceleration in food-led inflation caused by the global wide surge in food prices, imported inflation was rarely a key source of Hong Kong's inflation. In fact, the majority of contribution to consumer price inflation has for most of the time come from sources other than the imported components, i.e. the domestic components. In particular, for the past 19 years from 1990 to 2009, the average contribution of imported inflation to overall consumer price inflation is merely 0.2 percentage point out of the trend CPI inflation of around 3%.

From the observation that Hong Kong's import prices have fared better than many Asian economies both in terms of stability and rate of increase despite the US dollar's rough ride over the past 26 years, and given the small contribution of imported inflation to underlying inflation, unless the US dollar were to depreciate drastically, the risk posed to Hong Kong's CPI inflation should not be that significant in the near term.

Output prices

6.5 For output prices, which measured by *Producer Price Indices*⁽²⁾, the downward trend started to reverse towards the end of last year. Prices of land and air transport resumed year-on-year increases in the fourth quarter of last year, while the declines in prices of maritime transport and accommodation services narrowed notably. The decline in the prices of manufacturing also narrowed, as export performance improved. The fall in prices of telecommunication services continued, in tandem with the keen competition in the industry and the sustained increase in productivity.

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

	<u>2008</u>	<u>2009</u>	<u>2008</u>				<u>2009</u>			
<u>Industry group</u>			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u> [@]
Manufacturing	5.6	-1.7	5.9	6.9	5.8	3.9	-1.4	-3.0	-2.0	-0.3
Selected services sector ^(a)										
Accommodation services	7.8	-8.2	11.1	10.7	10.7	-0.5	-7.0	-10.8	-10.5	-4.6
Land transport	0.4	-1.0	0.6	1.5	1.1	-1.5	-0.6	-1.5	-2.0	0.2
Maritime transport	2.1	-16.2	5.3	3.1	3.4	-3.1	-12.7	-21.0	-20.8	-10.5
Air transport	5.1	-8.7	3.3	8.8	9.0	-0.5	-10.3	-13.6	-15.2	4.7
Telecommunications	-2.6	-2.5	-1.8	-2.0	-3.4	-3.2	-2.5	-2.8	-2.5	-2.0
Courier services	3.5	2.0	3.9	4.4	4.1	1.8	2.1	1.9	1.9	2.1

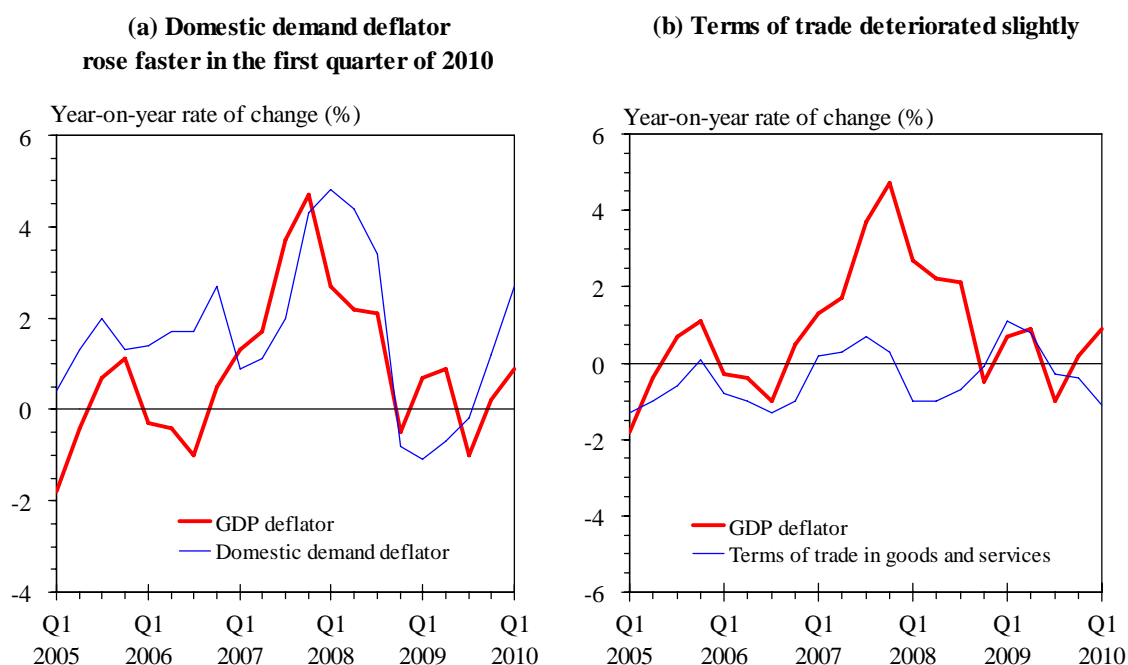
Notes : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

([@]) Provisional figures except manufacturing.

GDP deflator

6.6 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽³⁾ rose further by 0.9% in the first quarter of 2010 over a year earlier, after a 0.2% increase in the fourth quarter of last year. The slight acceleration mainly reflected the faster increases in the price deflators for the investment components as well as some edging up in local consumer prices, which offset the effect from a slight deterioration in the *terms of trade*⁽⁴⁾. Taking out the external trade component, the *domestic demand deflator* increased by 2.7%.

Diagram 6.5 : GDP deflator



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

	<u>2009</u>		<u>2009</u>			<u>2010</u>
	<u>Annual[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1⁺</u>
Private consumption expenditure	-1.5	-1.1	-2.2	-2.5	*	0.6
Government consumption expenditure	0.1	3.3	-0.9	-1.6	-0.6	-0.9
Gross domestic fixed capital formation	3.9	-2.6	4.5	7.9	5.0	11.0
Total exports of goods	0.5	1.8	0.1	-0.9	0.9	2.8
Imports of goods	-1.3	-0.8	-2.3	-2.1	-0.1	3.9
Exports of services	-7.0	-7.6	-9.8	-8.4	-2.9	4.8
Imports of services	-2.5	-6.2	-6.0	-3.3	5.2	7.5
Gross Domestic Product	0.2	0.7 <0.2>	0.9 <0.2>	-1.0 <-0.6>	0.2 <0.4>	0.9 <0.9>
Total final demand	-0.9	-0.6	-1.5	-1.9	0.4	3.1
Domestic demand	-0.2	-1.1	-0.7	-0.2	1.2	2.7

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

(#) Revised figures.

(+) Preliminary figures.

< > Seasonally adjusted quarter-to-quarter rate of 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>	16.86	18.63	17.65	13.74
<i>Other foodstuffs</i>	10.08	13.47	9.67	6.67
Housing	29.17	30.54	27.70	29.66
<i>Private dwellings</i>	23.93	22.07	23.89	26.11
<i>Public dwellings</i>	2.49	6.18	1.25	--
<i>Maintenance costs and other housing charges</i>	2.75	2.29	2.56	3.55
Electricity, gas and water	3.59	4.84	3.37	2.45
Alcoholic drinks and tobacco	0.87	1.35	0.79	0.42
Clothing and footwear	3.91	2.81	4.28	4.67
Durable goods	5.50	4.01	5.67	6.99
Miscellaneous goods	4.78	4.68	4.76	4.91
Transport	9.09	8.07	9.05	10.35
Miscellaneous services	16.15	11.60	17.06	20.14
All items	100.00	100.00	100.00	100.00

- (2) 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.
- (3) 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.
- (4) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

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

	(\$Mn)					
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
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
GDP	1,317,650	1,299,218	1,277,314	1,234,761	1,291,923	1,382,590
<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>
GNP	1,326,404	1,327,761	1,282,966	1,263,252	1,315,333	1,384,238
<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 ^(a)	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[#]</u>	<u>2009[#]</u>	<u>Q2[#]</u>	<u>2009</u> <u>Q3[#]</u>	<u>Q4[#]</u>	<u>2010</u> <u>Q1[#]</u>
Private consumption expenditure	863,591	972,028	1,022,678	1,004,235	255,157	248,196	265,940	251,724
Government consumption expenditure	123,033	130,404	139,374	142,784	33,768	35,328	36,034	38,628
Gross domestic fixed capital formation	322,691	325,366	334,195	340,861	80,171	95,312	89,429	93,194
<i>of which:</i>								
Building and construction	106,268	111,776	127,305	129,781	31,908	32,489	32,973	34,919
Machinery, equipment and computer software	199,631	189,093	182,039	186,842	42,707	54,716	48,789	50,240
Changes in inventories	-2,129	12,841	8,394	27,618	-4,018	15,560	21,917	26,008
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	618,781	657,215	706,434	640,479
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	658,136	723,129	774,627	728,114
Exports of services	565,054	660,728	717,249	669,015	144,698	177,720	195,042	187,116
Imports of services	287,900	332,240	366,484	344,009	79,956	91,686	94,536	92,233
GDP	1,475,357	1,615,455	1,675,315	1,632,284	390,465	414,516	445,633	416,802
<i>Per capita GDP (\$)</i>	<i>215,158</i>	<i>233,248</i>	<i>240,096</i>	<i>233,060</i>	--	--	--	--
GNP	1,502,705	1,659,892	1,758,621	1,681,676	411,976	423,622	455,800	N.A.
<i>Per capita GNP (\$)</i>	<i>219,146</i>	<i>239,664</i>	<i>252,034</i>	<i>240,113</i>	--	--	--	--
Total final demand	4,339,597	4,800,217	5,065,888	4,679,259	1,128,557	1,229,331	1,314,796	1,237,149
Total final demand excluding re-exports ^(a)	2,406,861	2,660,027	2,803,500	2,684,135	633,428	702,208	749,133	722,931
Domestic demand	1,307,186	1,440,639	1,504,641	1,515,498	365,078	394,396	413,320	409,554
Private	1,149,285	1,278,479	1,329,413	1,331,803	322,789	349,388	366,321	356,089
Public	157,901	162,160	175,228	183,695	42,289	45,008	46,999	53,465
External demand	3,032,411	3,359,578	3,561,247	3,163,761	763,479	834,935	901,476	827,595

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
GDP	8.0	0.5	1.8	3.0	8.5	7.1
<i>Per capita GDP</i>	7.0	-0.2	1.4	3.2	7.6	6.6
GNP	6.6	2.0	0.1	4.9	7.9	5.3
<i>Per capita GNP</i>	5.6	1.3	-0.3	5.1	7.0	4.8
Total final demand	12.6	-0.7	5.0	7.9	11.8	7.7
Total final demand excluding re-exports ^(a)	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.

(--) 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) (Cont'd)**

	(%)									
	<u>2006</u>	<u>2007</u>	<u>2008[#]</u>	<u>2009[#]</u>	<u>2009</u>			<u>2010</u>	Average annual rate of change:	
					Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 1999 to 2009 [#]	5 years 2004 to 2009 [#]
Private consumption expenditure	5.9	8.5	2.4	-0.4	-0.6	0.6	4.8	6.5	3.1	3.9
Government consumption expenditure	0.3	3.0	1.8	2.4	2.6	3.4	2.0	3.5	1.7	0.8
Gross domestic fixed capital formation	7.1	3.4	0.8	-1.8	-11.8	3.2	14.1	10.5	2.2	2.7
<i>of which:</i>										
Building and construction	-7.1	-0.3	6.1	-0.5	-2.4	5.4	1.3	-2.1	-3.7	-2.0
Machinery, equipment and computer software	19.2	3.0	-0.8	-2.6	-16.6	-2.1	16.2	12.1	7.0	6.0
Total exports of goods	9.3	7.0	1.9	-12.7	-12.8	-13.2	-2.9	21.6	6.3	2.8
Imports of goods	9.2	8.8	1.8	-9.5	-12.6	-8.3	3.3	28.0	6.7	3.4
Exports of services	10.1	14.1	5.0	0.3	-3.8	0.8	8.9	17.9	9.6	8.1
Imports of services	8.1	12.1	6.3	-3.7	-5.0	-2.7	2.5	10.2	5.0	6.0
GDP	7.0	6.4	2.2	-2.8	-3.8	-2.4	2.5	8.2	4.1	3.9
Per capita GDP	6.3	5.3	1.4	-3.1	--	--	--	--	3.5	3.2
GNP	8.8	7.4	4.3	-4.6	-2.1	-6.2	-1.0	N.A.	4.2	4.1
Per capita GNP	8.1	6.3	3.5	-4.9	--	--	--	--	3.6	3.5
Total final demand	8.4	8.2	2.3	-6.8	-9.2	-5.9	2.9	19.2	5.5	3.8
Total final demand excluding re-exports ^(a)	7.3	7.9	1.7	-2.5	-6.8	-0.4	7.2	16.9	4.3	3.9
Domestic demand	6.0	7.9	1.6	0.9	-5.0	5.3	11.1	16.4	3.0	3.5
Private	7.5	9.0	1.4	0.5	-6.0	5.1	12.0	17.7	3.5	4.2
Public	-3.8	0.2	2.7	4.1	4.1	6.9	4.2	8.0	-0.1	-0.7
External demand	9.4	8.3	2.5	-10.1	-11.1	-10.4	-0.4	20.7	7.0	3.9

**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[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$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	1,441,908	92.0
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	345,092	27.7	386,726	29.0	397,252	27.9	417,339	26.9	442,454	28.2
<i>Transport, storage and communications</i>	126,820	10.2	135,119	10.1	137,166	9.6	141,749	9.1	120,647	7.7
<i>Financing, insurance, real estate and business services</i>	266,855	21.4	294,260	22.1	356,371	25.0	450,989	29.1	418,389	26.7
<i>Community, social and personal services</i>	257,630	20.7	253,312	19.0	256,347	18.0	265,108	17.1	279,881	17.9
<i>Ownership of premises</i>	122,906	9.9	138,455	10.4	150,408	10.6	156,631	10.1	180,537	11.5
GDP at current factor cost	1,244,819	100.0	1,332,830	100.0	1,423,299	100.0	1,551,970	100.0	1,567,880	100.0
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	--
GDP at current market prices	1,291,923	--	1,382,590	--	1,475,357	--	1,615,455	--	1,675,315	--

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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2009</u>			
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Agriculture and fishing	2.7	-1.0	-5.0	-6.4	-18.8	0.9	-3.7	-1.7	4.4	5.3
Mining and quarrying	-16.7	10.1	10.2	13.7	-3.2	-16.1	-12.0	-14.7	-16.3	-20.9
Manufacturing	1.7	2.1	2.2	-1.5	-6.6	-9.2	-12.3	-10.6	-8.0	-6.2
Electricity, gas and water	2.3	2.5	0.8	1.2	0.2	1.9	-0.8	2.4	5.2	-0.3
Construction	-9.3	-8.1	-9.4	-1.1	8.8	1.6	-3.4	-1.0	7.0	4.7
Services	9.9	7.5	7.1	7.0	2.5	-2.0	-6.9	-3.4	-1.4	3.4
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>15.1</i>	<i>14.1</i>	<i>8.8</i>	<i>6.6</i>	<i>6.2</i>	<i>-7.7</i>	<i>-15.4</i>	<i>-11.3</i>	<i>-8.3</i>	<i>2.4</i>
<i>Transport, storage and communications</i>	<i>13.9</i>	<i>7.4</i>	<i>6.8</i>	<i>5.1</i>	<i>2.4</i>	<i>-4.9</i>	<i>-6.7</i>	<i>-7.5</i>	<i>-6.0</i>	<i>0.6</i>
<i>Financing, insurance, real estate and business services</i>	<i>13.4</i>	<i>8.6</i>	<i>12.2</i>	<i>13.5</i>	<i>-0.4</i>	<i>1.5</i>	<i>-6.4</i>	<i>*</i>	<i>5.2</i>	<i>7.6</i>
<i>Community, social and personal services</i>	<i>2.6</i>	<i>-0.1</i>	<i>1.3</i>	<i>1.7</i>	<i>2.2</i>	<i>1.4</i>	<i>0.7</i>	<i>2.0</i>	<i>1.3</i>	<i>1.5</i>
<i>Ownership of premises</i>	<i>1.5</i>	<i>2.9</i>	<i>2.4</i>	<i>3.3</i>	<i>1.7</i>	<i>0.7</i>	<i>1.4</i>	<i>1.1</i>	<i>0.4</i>	<i>0.1</i>
Taxes on production and imports	12.3	0.8	6.8	16.4	-0.4	-6.4	-22.3	-5.0	1.3	2.0
GDP in chained (2008) dollars	8.5	7.1	7.0	6.4	2.2	-2.8	-7.7	-3.8	-2.4	2.5

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

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

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

	(\$Mn)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009[#]</u>		<u>2009</u>		
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Current account ^(a)	156,933	178,166	199,160	228,125	141,687	41,574	41,066	22,812	36,235
Goods	-59,347	-108,983	-153,672	-180,091	-208,220	-34,758	-39,355	-65,914	-68,193
Services	231,157	277,154	328,488	350,765	325,006	73,724	64,742	86,034	100,506
Income	1,648	27,348	44,437	83,306	49,392	8,608	21,511	9,106	10,167
Current transfers	-16,524	-17,353	-20,093	-25,855	-24,491	-6,000	-5,832	-6,414	-6,244
Capital and financial account ^(a)	-182,431	-209,935	-259,247	-231,162	-164,924	-30,212	-63,942	-42,123	-28,647
Capital and financial non-reserve assets (net change)	-171,752	-163,199	-144,749	32,707	384,338	38,688	79,154	64,502	201,995
Capital transfers	-4,939	-2,900	10,338	16,393	36,154	7,447	6,929	12,274	9,504
Financial non-reserve assets (net change)	-166,812	-160,300	-155,086	16,314	348,184	31,241	72,225	52,228	192,491
<i>Direct investment</i>	49,996	635	-52,577	70,393	-29,610	56,331	-73,027	-22,141	9,226
<i>Portfolio investment</i>	-245,017	-207,879	-21,452	-295,148	-342,329	74,899	-227,441	-75,181	-114,607
<i>Financial derivatives</i>	30,502	25,925	43,534	63,338	25,641	774	14,926	1,776	8,165
<i>Other investment</i>	-2,294	21,019	-124,592	177,732	694,483	-100,764	357,766	147,774	289,706
Reserve assets (net change)	-10,679	-46,735	-114,498	-263,869	-549,262	-68,900	-143,096	-106,625	-230,641
Net errors and omissions	25,498	31,769	60,087	3,037	23,237	-11,362	22,877	19,311	-7,589
Overall balance of payments	10,679	46,735	114,498	263,869	549,262	68,900	143,096	106,625	230,641

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[#]</u>	<u>2009[#]</u>		<u>2009</u>		<u>2010</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Total exports of goods	2,251,744	2,467,357	2,698,850	2,843,998	2,494,746	618,781	657,215	706,434	640,479
Imports of goods	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966	658,136	723,129	774,627	728,114
Visible trade balance	-59,347	-108,983	-153,672	-180,091	-208,220	-39,355	-65,914	-68,193	-87,635
	(<2.6>)	(<-4.2>)	(<-5.4>)	(<-6.0>)	(<-7.7>)	(<-6.0>)	(<-9.1>)	(<-8.8>)	(<-12.0>)
Exports of services	495,394	565,054	660,728	717,249	669,015	144,698	177,720	195,042	187,116
Imports of services	264,237	287,900	332,240	366,484	344,009	79,956	91,686	94,536	92,233
Invisible trade balance	231,157	277,154	328,488	350,765	325,006	64,742	86,034	100,506	94,883
	(<87.5>)	(<96.3>)	(<98.9>)	(<95.7>)	(<94.5>)	(<81.0>)	(<93.8>)	(<106.3>)	(<102.9>)
Exports of goods and services	2,747,138	3,032,411	3,359,578	3,561,247	3,163,761	763,479	834,935	901,476	827,595
Imports of goods and services	2,575,328	2,864,240	3,184,762	3,390,573	3,046,975	738,092	814,815	869,163	820,347
Visible and invisible trade balance	171,810	168,171	174,816	170,674	116,786	25,387	20,120	32,313	7,248
	<6.7>	<5.9>	<5.5>	<5.0>	<3.8>	<3.4>	<2.5>	<3.7>	<0.9>

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>			<u>2010</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	11.4	9.4	9.2	5.1	-12.6	2,469,089	-12.9	-14.3	-2.0	26.0
Mainland of China	14.0	14.2	13.2	4.7	-7.8	1,263,249	-5.3	-8.0	4.0	40.2
United States	5.6	2.9	-0.8	-2.4	-20.6	285,236	-21.5	-24.2	-15.5	4.4
Japan	10.3	1.6	-0.7	1.2	-10.0	108,869	-17.7	-7.6	-2.0	12.4
Germany	15.6	4.0	7.2	15.8	-15.5	79,342	-18.9	-22.5	-12.2	-10.5
United Kingdom	5.2	6.3	1.7	0.7	-20.8	59,671	-20.2	-25.2	-16.5	-2.1
Singapore	6.8	4.4	3.8	9.6	-23.6	42,252	-28.8	-20.3	-11.6	18.3
Taiwan	2.7	3.3	1.6	3.8	-0.4	54,713	-5.6	3.0	24.8	71.4
Republic of Korea	9.5	7.5	2.0	-6.4	-13.0	43,133	-21.1	-9.5	13.1	37.2
Rest of the world	13.3	8.5	13.2	11.3	-17.3	532,622	-20.5	-21.5	-6.3	16.6

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>			<u>2010</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	10.3	11.6	10.3	5.5	-11.0	2,692,356	-14.9	-10.4	3.4	34.3
Mainland of China	14.3	13.7	11.5	6.1	-11.4	1,249,374	-13.0	-11.9	-3.0	25.7
Japan	0.1	4.5	7.2	3.6	-20.6	236,369	-25.3	-16.0	*	57.4
Singapore	21.8	21.9	18.2	0.1	-10.4	174,659	-15.0	-6.7	7.4	49.0
Taiwan	9.4	15.9	5.2	-6.4	-8.5	175,649	-14.9	-5.6	20.4	62.0
United States	6.5	3.6	12.3	8.6	-5.7	142,137	-9.4	-11.9	9.6	24.8
Republic of Korea	2.6	16.1	-0.2	-1.1	-12.7	103,046	-26.8	-13.3	26.3	51.9
Rest of the world	8.4	7.6	10.7	11.5	-7.6	611,122	-13.0	-6.0	8.4	32.7

Notes : 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>			<u>2010</u>
							Q2	Q3	Q4	Q1
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Overall	7.3	14.3	9.4	5.3	-8.7	703,164	-22.7	-1.3	18.9	59.6
Foodstuffs	3.1	4.3	12.9	19.7	8.8	77,814	7.6	9.7	14.2	30.3
Consumer goods	5.5	3.1	11.4	9.0	-12.9	139,435	-26.9	-2.3	24.6	78.0
Raw materials and semi-manufactures	4.2	8.8	17.7	-4.5	-13.2	229,198	-30.9	0.7	19.2	90.6
Fuels	23.5	22.8	20.1	26.6	-18.4	86,854	-36.7	-24.2	19.3	34.7
Capital goods	10.8	33.2	-8.3	2.5	-1.9	165,355	-11.3	4.2	8.4	28.5

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[#]</u>	<u>2009[#]</u>		<u>2009</u>		<u>2010</u>	
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Exports of services	15.3	14.1	16.9	8.6	-6.7	669,015	-13.3	-7.6	5.8	23.5
Transportation	16.9	10.2	14.6	12.7	-13.6	194,342	-16.7	-15.1	-3.3	24.0
Travel	14.2	12.9	18.7	11.1	7.1	127,616	-4.4	0.2	17.6	25.1
Trade-related	10.7	9.9	11.6	8.5	-6.4	202,039	-11.5	-8.8	4.2	22.1
Other services	22.3	28.4	26.7	1.5	-7.7	145,018	-16.7	0.2	11.2	22.8
Imports of services	9.0	9.0	15.4	10.3	-6.1	344,009	-10.7	-5.9	7.9	18.5
Transportation	20.3	10.9	20.4	13.5	-14.0	106,033	-18.4	-13.5	-0.9	22.7
Travel	0.1	5.4	7.6	6.8	-1.3	123,716	-2.0	-1.5	11.3	10.4
Trade-related	12.8	12.6	15.9	10.6	-7.9	24,755	-13.3	-10.8	3.5	22.5
Other services	10.5	11.2	21.2	11.0	-1.6	89,505	-11.2	0.2	15.7	24.0
Net exports of services	23.6	19.9	18.5	6.8	-7.3	325,006	-16.2	-9.4	3.9	28.7

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>		<u>2010</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
All sources	23 359.4	25 251.1	28 169.3	29 506.6	29 590.7	6 293.1	7 463.2	8 430.7	8 624.7
Mainland of China	12 541.4	13 591.3	15 485.8	16 862.0	17 956.7	3 586.1	4 614.8	5 080.0	5 548.9
South and Southeast Asia	2 413.0	2 659.7	2 888.1	2 936.2	2 885.2	700.6	651.5	905.4	715.2
Taiwan	2 130.6	2 177.2	2 238.7	2 240.5	2 009.6	457.6	544.1	523.0	537.0
Europe	1 398.0	1 548.2	1 772.2	1 711.4	1 610.5	382.2	369.7	468.5	438.3
Japan	1 210.8	1 311.1	1 324.3	1 324.8	1 204.5	230.5	332.1	325.8	334.2
United States	1 143.1	1 159.0	1 230.9	1 146.4	1 070.1	268.4	257.8	300.7	265.2
Others	2 522.6	2 804.5	3 229.2	3 285.3	2 854.0	667.7	693.3	827.2	785.9
<u>(% change over a year earlier)</u>									
All sources	7.1	8.1	11.6	4.7	0.3	-8.9	-1.6	9.0	16.5
Mainland of China	2.4	8.4	13.9	8.9	6.5	-4.1	0.1	16.6	18.7
South and Southeast Asia	16.1	10.2	8.6	1.7	-1.7	-10.5	4.5	1.7	13.9
Taiwan	2.7	2.2	2.8	0.1	-10.3	-16.9	-11.2	-3.7	10.7
Europe	22.3	10.7	14.5	-3.4	-5.9	-7.4	5.0	-1.1	12.3
Japan	7.5	8.3	1.0	*	-9.1	-25.0	-1.1	-8.5	5.7
United States	8.7	1.4	6.2	-6.9	-6.7	-11.6	4.4	1.2	9.1
Others	20.6	11.2	15.1	1.7	-13.1	-17.7	-13.7	1.0	18.0

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>
Completion of new property by the private sector (<u>'000 m² of internal floor area</u>)							
Residential property ^(a) (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 ^(b)	64	132	138	118	91	111	183
Industrial property ^(c)	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 ^(d)	6	0	27	0	0	13	27
Production of public housing (<u>in units</u>)							
Rental housing flats ^(e)	40 944	47 590	20 154	13 705	20 614	24 691	4 430
Subsidized sales flats ^(e)	22 768	25 702	1 072	320	0	0	0
Building plans with consent to commence work in the private sector (<u>'000 m² of usable floor area</u>)							
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 ^(f)	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
Agreements for sale and purchase of property (<u>Number</u>)							
Residential property ^(g)	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 ^(h)							
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>		<u>2010</u>
				Q2	Q3	Q4	Q1
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	10 471	8 776	7 157	1 499	2 376	1 637	4 879
Commercial property	368	390	235	3	95	28	73
<i>of which :</i>							
Office space	320	341	151	1	58	25	64
Other commercial premises ^(b)	48	49	84	2	38	4	9
Industrial property ^(c)	16	78	3	3	0	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	16	70	3	3	0	0	0
Storage premises ^(d)	0	4	0	0	0	0	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	4 795	22 759	19 021	4 270	1 576	3 158	6 385
Subsidized sales flats ^(e)	2 010	2 200	370	0	0	370	0
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	956.1	530.0	546.8	92.7	141.9	184.3	139.1
Commercial property	327.5	147.7	178.3	76.6	17.1	42.8	95.0
Industrial property ^(f)	103.5	106.6	97.1	29.2	43.7	18.0	17.5
Other properties	207.7	212.8	253.2	20.7	102.4	66.2	39.7
Total	1 594.8	997.1	1 075.4	219.2	305.1	311.3	291.3
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	123 575	95 931	115 092	35 449	35 558	27 621	33 249
Primary market	20 123	11 046	16 161	6 829	5 140	2 590	3 567
Secondary market	103 452	84 885	98 931	28 620	30 418	25 031	29 682
Selected types of non-residential properties ^(h)							
Office space	4 129	2 845	2 518	613	752	849	850
Other commercial premises	5 490	4 149	5 353	1 340	1 792	1 643	1 730
Flatted factory space	9 072	5 741	5 548	1 249	1 780	1 908	1 813

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 ^(a)	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 ^(b) :							
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 ^(a)	-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 ^(b) :							
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[#]</u>	<u>2009</u>	<u>2010</u>		
				Q2	Q3	Q4 [#]	Q1 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	103.5	120.5	121.3	117.1	127.1	132.9	140.0
Office space	165.5	199.0	179.5	170.1	191.6	201.9	211.1
Shopping space	172.5	192.2	192.9	181.7	205.9	219.5	233.8
Flatted factory space	199.5	235.9	216.3	205.1	222.5	241.2	258.2
Property rental indices ^(b) :							
Residential flats	101.8	115.7	100.4	96.1	102.3	108.8	111.1
Office space	131.9	155.5	135.6	132.1	132.7	136.2	141.0
Shopping space	111.8	116.2	110.9	108.2	111.6	115.7	119.3
Flatted factory space	100.5	109.3	99.4	97.7	99.2	102.0	105.3
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	11.7	16.4	0.7	-7.0	3.2	23.1	29.6
Office space	18.8	20.2	-9.8	-19.2	-6.2	15.4	36.5
Shopping space	12.4	11.4	0.4	-11.0	6.2	26.4	42.2
Flatted factory space	25.9	18.2	-8.3	-16.1	-9.1	10.7	31.5
Property rental indices ^(b) :							
Residential flats	11.1	13.7	-13.2	-20.0	-15.1	2.1	17.8
Office space	12.4	17.9	-12.8	-15.8	-17.7	-13.6	-0.4
Shopping space	7.2	3.9	-4.6	-7.7	-4.5	1.4	10.3
Flatted factory space	10.4	8.8	-9.1	-12.7	-10.5	-3.5	6.7

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 ^(a)	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679
M3 ^(a)	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) ^{(b)(c)}							
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 ^(a)	3.4	0.5	-0.7	6.2	4.8	5.5	19.2
M3 ^(a)	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 ^{(b)(c)}							
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>		<u>2010</u>
				Q2	Q3	Q4	Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	454,342	491,115	671,241	581,965	694,046	671,241	713,252
M2 ^(a)	3,281,017	3,239,857	3,587,717	3,482,447	3,599,862	3,587,717	3,603,170
M3 ^(a)	3,300,500	3,261,306	3,604,843	3,500,873	3,616,373	3,604,843	3,623,214
Total money supply (\$Mn)							
M1	616,709	645,833	901,819	759,881	908,031	901,819	944,516
M2	6,106,348	6,268,058	6,602,310	6,485,032	6,638,110	6,602,310	6,596,941
M3	6,139,758	6,300,751	6,626,843	6,514,058	6,665,330	6,626,843	6,623,605
Deposit (\$Mn)							
HK\$	3,075,042	3,033,980	3,373,595	3,281,975	3,392,085	3,373,595	3,379,965
Foreign currency	2,793,856	3,024,004	3,007,445	2,991,979	3,032,220	3,007,445	2,990,665
Total	5,868,898	6,057,984	6,381,040	6,273,955	6,424,305	6,381,040	6,370,630
Loans and advances (\$Mn)							
HK\$	2,184,705	2,354,755	2,401,324	2,365,902	2,380,617	2,401,324	2,478,619
Foreign currency	776,971	930,883	887,160	837,383	896,774	887,160	990,000
Total	2,961,676	3,285,638	3,288,484	3,203,285	3,277,392	3,288,484	3,468,619
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	91.9	87.1	88.2	88.9	87.6	86.3	86.8
Import-weighted	92.5	87.1	87.9	88.6	87.3	85.9	86.2
Export-weighted	91.3	87.2	88.5	89.2	87.9	86.8	87.5
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	17.1	8.1	36.7	28.5	55.1	36.7	34.9
M2 ^(a)	18.1	-1.3	10.7	13.5	14.4	10.7	9.8
M3 ^(a)	18.1	-1.2	10.5	13.3	14.1	10.5	9.7
Total money supply :							
M1	25.4	4.7	39.6	24.3	51.9	39.6	36.8
M2	20.8	2.6	5.3	9.8	9.7	5.3	5.8
M3	20.6	2.6	5.2	9.6	9.4	5.2	5.7
Deposit							
HK\$	19.7	-1.3	11.2	14.2	15.2	11.2	9.8
Foreign currency	27.6	8.2	-0.5	5.6	4.5	-0.5	1.7
Total	23.4	3.2	5.3	10.0	9.9	5.3	5.8
Loans and advances							
HK\$	13.9	7.8	2.0	0.5	-0.7	2.0	6.7
Foreign currency	41.2	19.8	-4.7	-15.8	-12.9	-4.7	17.4
Total	20.0	10.9	0.1	-4.3	-4.3	0.1	9.5
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	-4.4	-5.2	1.3	3.7	1.4	-3.8	-3.9
Import-weighted	-4.4	-5.8	0.9	3.4	1.2	-3.9	-4.1
Export-weighted	-4.4	-4.5	1.5	4.1	1.6	-3.6	-3.4

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>2009</u>		
					Q1	Q2	Q3	Q4
Service Industry								
Import and export trade	10.3	8.1	7.4	-13.7	-24.2	-17.4	-14.8	2.2
Wholesale	7.9	10.4	6.3	-12.6	-25.7	-16.2	-11.4	2.6
Retail	7.2	12.8	10.6	0.6	-3.9	-5.1	-1.1	12.8
Transportation	10.0	10.5	4.4	-19.9	-23.0	-25.9	-25.6	-4.3
<i>within which :</i>								
Land transport	4.3	3.7	2.2	-2.6	-3.9	-6.0	-2.7	2.0
Water transport	16.4	16.8	6.1	-24.1	-26.1	-26.4	-28.7	-14.0
Air transport	6.8	7.3	3.5	-21.0	-25.5	-30.8	-28.8	2.0
Warehousing and storage	10.2	15.9	6.6	1.4	-6.8	-0.2	4.8	7.3
Courier	6.9	5.5	2.1	-6.1	-20.0	-17.1	-5.4	18.4
Accommodation	13.8	15.2	3.8	-17.4	-18.1	-27.8	-17.8	-7.4
Food services	9.6	13.4	13.1	0.6	1.4	-0.7	-0.3	2.0
Information and communications	6.1	8.4	6.0	-3.2	-5.1	-2.0	-4.9	-0.7
<i>within which :</i>								
Telecommunications	-0.7	11.0	9.8	1.4	7.3	1.2	-3.2	0.6
Film entertainment	1.7	6.1	-0.7	-12.6	-16.7	-19.7	-13.0	0.8
Banking	19.5	38.3	-16.9	1.5	-15.8	-0.3	-3.6	35.3
Financing (except banking)	47.9	68.8	-19.4	-10.3	-46.7	-19.2	5.4	45.3
<i>within which :</i>								
Financial markets and asset management	49.3	71.7	-20.0	-11.7	-51.5	-19.6	4.5	55.5
<i>within which : Asset management</i>	51.8	56.8	-5.2	-12.1	-46.7	-30.5	-0.3	55.2
Insurance	21.3	28.8	*	0.7	-10.1	-8.1	5.4	18.1
Real estate	-0.3	39.5	-3.7	9.7	-13.0	7.5	26.7	19.1
Professional, scientific and technical services	13.2	12.3	6.8	-0.5	-7.4	-3.4	2.7	5.8
Administrative and support services	20.9	11.5	9.4	-12.4	-16.4	-15.5	-15.2	-2.3
Service Domain								
Tourism, convention and exhibition services	14.1	18.9	10.1	-0.5 ⁺	1.4 ⁺	-10.0 ⁺	-5.5 ⁺	10.4 ⁺
Computer and information technology services	9.8	6.8	5.3	-15.0	-26.7	-12.9	-18.1	-0.2

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</u>	<u>2009</u>			<u>2010</u>
						Q2	Q3	Q4	Q1 ⁺
<u>(%)</u>									
Labour force participation rate	60.9	61.2	61.2	60.9	60.7	61.3	61.0	60.3	60.0
Seasonally adjusted unemployment rate	5.6	4.8	4.0	3.6	5.4	5.4	5.3	4.9	4.4
Underemployment rate	2.7	2.4	2.2	1.9	2.3	2.3	2.4	2.3	2.2
<u>('000)</u>									
Population of working age	5 800.7	5 832.2	5 928.4	5 993.9	6 056.6	6 050.1	6 069.9	6 087.8	6 099.4
Labour force	3 534.2	3 571.8	3 629.6	3 648.9	3 676.6	3 709.2	3 704.7	3 669.9	3 657.3
Persons employed	3 336.6	3 400.8	3 483.8	3 518.8	3 479.8	3 506.2	3 495.5	3 497.1	3 496.7
Persons unemployed	197.6	171.1	145.7	130.1	196.7	203.0	209.1	172.8	160.6
Persons underemployed	96.3	86.3	79.2	69.0	86.4	84.9	89.9	84.5	80.0
<u>(% change over a year earlier)</u>									
Population of working age	1.2	0.5	1.6	1.1	1.0	1.0	1.1	1.2	1.2
Labour force	0.6	1.1	1.6	0.5	0.8	2.0	1.3	0.2	-1.0
Persons employed	1.9	1.9	2.4	1.0	-1.1	-0.3	-0.8	-0.7	-0.3
Persons unemployed	-17.4	-13.4	-14.8	-10.7	51.2	67.7	56.5	22.4	-14.2
Persons underemployed	-15.7	-10.4	-8.2	-12.9	25.2	24.9	35.6	22.5	1.0

Note : (+) Provisional figures.

Table 17 : Employment in selected major industries

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>				
						Mar	Jun	Sep	Dec	No.
Selected major industries	(% change)					(% change over a year earlier)				
Manufacturing	-2.6	-3.2	-2.9	-3.5	-5.7	-7.0	-6.2	-5.0	-4.4	124 907
Construction sites (manual workers only)	-10.6	-10.8	-5.1	-1.5	2.2	2.8	-1.2	-0.4	7.5	53 154
Import and export trade	2.5	1.0	0.8	-0.3	-4.4	-4.7	-5.7	-4.3	-2.7	498 545
Wholesale	2.0	-4.2	-0.3	-2.7	-2.0	-3.1	-2.1	-2.2	-0.5	64 006
Retail	2.0	3.1	2.1	2.8	-0.3	-0.6	-1.5	-0.4	1.2	239 782
Food and beverage services	2.4	5.0	3.3	1.8	*	-0.4	-1.4	-1.7	3.3	215 186
Accommodation services	8.5	8.0	5.4	3.1	-1.0	2.7	-0.5	-4.1	-2.0	31 859
Transportation, storage, postal and courier services	3.2	1.6	2.5	3.5	1.1	1.6	-0.1	0.5	2.2	159 297
Information and communications	-0.7	1.4	2.2	3.6	-1.6	-0.9	-3.3	-2.2	0.1	87 847
Financing and insurance	4.9	4.6	7.3	5.6	-0.5	-0.6	-1.6	-2.3	2.4	185 614
Real estate	6.6	5.3	4.4	2.7	0.5	-1.2	-0.9	0.6	3.3	108 410
Professional and business services (excluding cleaning and similar services)	3.3	4.9	4.8	3.4	0.9	0.6	0.5	0.6	2.1	236 722
Cleaning and similar services	3.4	2.5	0.6	-1.7	6.7	0.1	2.7	7.5	16.5	65 630
Education	1.8	5.0	3.3	4.8	5.3	4.6	4.5	5.6	6.3	164 660
Human health services	1.7	3.7	5.5	5.1	3.8	3.0	4.9	3.9	3.2	91 537
Residential care and social work services	-0.4	1.5	1.4	1.3	1.5	0.6	0.5	1.7	3.2	56 125
Arts, entertainment, recreation and other services	18.1	3.3	1.5	1.9	0.8	0.6	1.2	-0.8	2.2	110 412
Civil Service ^(a)	-2.7	-1.3	-0.4	0.1	1.1	1.1	1.1	1.1	1.2	156 225
Others ^(b)	-6.9	-0.3	0.9	7.0	-1.0	-2.8	1.4	-4.4	1.9	10 957

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.

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

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		
						Mar	Jun	Sep	Dec
<u>(number)</u>									
Building sites									
Private sector	31 556	30 993	29 240	28 899	28 826	29 666	28 360	27 301	29 978
Public sector ^(a)	10 135	7 643	7 767	8 136	10 277	11 106	9 295	9 540	11 165
Sub-total	41 690	38 636	37 007	37 034	39 103	40 772	37 655	36 841	41 143
Civil engineering sites									
Private sector	2 198	1 569	1 674	1 686	1 618	1 453	1 610	1 733	1 675
Public sector ^(a)	15 378	12 661	11 504	10 703	9 831	9 719	9 677	9 391	10 536
Sub-total	17 576	14 230	13 178	12 388	11 449	11 172	11 287	11 124	12 211
Total	59 266	52 865	50 185	49 422	50 551	51 944	48 942	47 965	53 354
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-6.1	-1.8	-5.7	-1.2	-0.3	-0.8	-2.9	-3.5	6.4
Public sector ^(a)	-23.9	-24.6	1.6	4.7	26.3	30.8	30.9	23.7	20.9
Sub-total	-11.2	-7.3	-4.2	0.1	5.6	6.1	3.7	2.3	10.0
Civil engineering sites									
Private sector	-14.3	-28.6	6.7	0.7	-4.0	-12.3	-18.6	24.4	-2.3
Public sector ^(a)	-8.3	-17.7	-9.1	-7.0	-8.1	-7.2	-14.2	-12.5	2.1
Sub-total	-9.1	-19.0	-7.4	-6.0	-7.6	-7.9	-14.9	-8.3	1.5
Total	-10.6	-10.8	-5.1	-1.5	2.3	2.8	-1.2	-0.4	7.9

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**

	(%)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>		<u>2009</u>		
Selected industry section						Q1	Q2	Q3	Q4
(in nominal terms)									
Manufacturing	0.9	1.7	2.5	0.9	-3.5	-8.2	-3.5	-2.2	0.4
Sewerage, waste management and remediation activities	28.0	10.4	17.0	-8.6	2.1	1.6	12.7	1.2	-5.4
Import/export and wholesale trade	6.9	3.9	1.8	6.3	-1.6	-5.7	0.5	-0.2	-0.3
Retail trade	9.0	2.1	2.6	8.1	-1.5	0.4	-0.6	-4.7	-1.3
Transportation, storage, postal and courier services	5.2	3.0	3.9	-0.6	-0.2	0.6	-6.6	4.9	0.2
Accommodation and food service activities	2.0	2.6	3.9	2.6	-0.6	-2.3	-0.6	0.2	0.3
Information and communications	*	0.6	-2.9	6.6	0.2	-3.2	2.3	0.5	1.3
Financial and insurance activities	5.5	10.0	9.8	9.0	-3.3	-9.8	-0.2	0.6	-1.7
Real estate activities	5.7	-2.5	-0.4	8.0	-2.4	-14.2	-0.3	4.5	2.5
Professional and business services	2.5	3.3	4.8	3.5	0.6	-1.7	-2.9	4.6	2.7
Social and personal services	-3.2	1.0	1.5	3.1	1.7	6.8	2.2	-1.5	-0.4
All industries surveyed	3.5	2.4	4.0	2.6	0.5	-0.2	-0.7	2.1	0.9
(in real terms)									
Manufacturing	*	-0.3	0.5	-3.3	-4.0	-9.7	-3.5	-1.2	-1.0
Sewerage, waste management and remediation activities	26.8	8.2	14.8	-12.3	1.5	*	12.7	2.2	-6.6
Import/export and wholesale trade	5.9	1.8	-0.2	1.9	-2.2	-7.3	0.5	0.8	-1.7
Retail trade	8.0	0.1	0.6	3.6	-2.1	-1.3	-0.6	-3.8	-2.6
Transportation, storage, postal and courier services	4.2	0.9	1.9	-4.7	-0.7	-1.1	-6.6	5.9	-1.1
Accommodation and food service activities	1.0	0.6	1.8	-1.7	-1.2	-4.0	-0.6	1.2	-1.1
Information and communications	-0.9	-1.4	-4.7	2.2	-0.4	-4.8	2.3	1.4	*
Financial and insurance activities	4.5	7.9	7.7	4.6	-3.9	-11.3	-0.2	1.6	-3.0
Real estate activities	4.8	-4.4	-2.3	3.5	-3.0	-15.7	-0.3	5.5	1.2
Professional and business services	1.6	1.3	2.8	-0.7	*	-3.3	-2.9	5.6	1.3
Social and personal services	-4.1	-1.0	-0.5	-1.2	1.2	5.0	2.2	-0.5	-1.7
All industries surveyed	2.6	0.4	1.9	-1.7	*	-1.9	-0.7	3.0	-0.4

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**

	(%)								
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2009</u>			
Selected industry section						Mar	Jun	Sep	Dec
(in nominal terms)									
Manufacturing	1.6	0.2	4.3	2.6	-1.2	2.2	-2.1	-2.0	-2.9
Import/export, wholesale and retail trades ^(a)	1.6	1.1	2.3	3.6	-1.1	-1.1	-2.2	-1.8	0.7
<i>within which :</i>									
Import/export and wholesale trades	2.7	1.0	2.8	3.1	-1.2	-1.6	--	-1.5	--
Retail trade	0.8	0.8	-1.7	4.9	-0.2	7.0	--	-3.6	--
Transportation	1.2	0.1	1.5	1.8	*	-0.9	0.4	-1.1	1.7
Accommodation and food service activities	*	1.0	1.4	3.1	-2.3	-2.1	-3.5	-3.2	-0.2
Financial and insurance activities ^(b)	0.1	2.1	2.4	2.8	-0.5	0.1	-1.5	-2.5	2.1
Real estate leasing and maintenance management	0.5	2.3	1.4	2.7	-0.4	-0.9	-0.9	-1.0	1.2
Professional and business services	-1.9	2.4	4.8	4.9	0.8	1.0	-0.1	0.1	2.2
Personal services	2.4	3.4	8.5	0.5	-0.7	1.9	-0.9	-3.4	-0.1
All industries surveyed	1.1	1.7	2.6	3.4	-0.9	-0.9	-1.9	-1.8	0.8
(in real terms)									
Manufacturing	0.4	-1.5	2.4	-0.1	-1.6	1.6	-0.5	-2.8	-4.4
Import/export, wholesale and retail trades ^(a)	0.4	-0.6	0.4	0.9	-1.4	-1.6	-0.6	-2.5	-0.9
<i>within which :</i>									
Import/export and wholesale trades	1.5	-0.7	0.9	0.4	-1.5	-2.1	--	-2.2	--
Retail trade	-0.5	-0.9	-3.5	2.2	-0.5	6.5	--	-4.3	--
Transportation	*	-1.7	-0.4	-0.8	-0.3	-1.4	2.1	-1.8	*
Accommodation and food service activities	-1.3	-0.8	-0.4	0.4	-2.6	-2.6	-2.0	-3.9	-1.8
Financial and insurance activities ^(b)	-1.1	0.3	0.6	0.2	-0.8	-0.4	0.1	-3.3	0.5
Real estate leasing and maintenance management	-0.8	0.6	-0.5	0.1	-0.7	-1.4	0.7	-1.8	-0.4
Professional and business services	-3.0	0.7	2.9	2.2	0.5	0.5	1.5	-0.6	0.6
Personal services	1.2	1.6	6.5	-2.1	-1.0	1.4	0.7	-4.2	-1.7
All industries surveyed	-0.2	*	0.7	0.7	-1.3	-1.4	-0.3	-2.6	-0.8

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 ^(a) :								
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 ^(b)	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.

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

	(%)							
	<u>2008</u>	<u>2009</u>	<u>2009</u>			<u>2010</u>	<u>Average annual rate of change:</u>	
			Q2	Q3	Q4	Q1	10 years 1999 to 2009	5 years 2004 to 2009
GDP deflator	1.5 #	0.2 #	0.9 #	-1.0 #	0.2 #	0.9 #	-1.5 #	0.8 #
Domestic demand deflator	2.8 #	-0.2 #	-0.7 #	-0.2 #	1.2 #	2.7 #	-0.6 #	1.6 #
Consumer Price Indices ^(a) :								
Composite CPI	4.3	0.5	-0.1	-0.9	1.3	1.9	-0.2	1.9
CPI(A)	3.6	0.4	-0.8	-1.3	2.6	2.5	-0.2	1.6
CPI(B)	4.6	0.5	0.1	-0.8	1.0	1.9	-0.2	2.1
CPI(C)	4.7	0.6	0.5	-0.7	0.4	1.4	-0.2	2.2
Unit Value Indices :								
Domestic exports	5.1	-0.2	*	-2.2	-1.2	3.2	-0.2	1.1
Re-exports	3.8	1.2	0.8	0.3	0.9	2.8	0.4	1.9
Total exports of goods	3.8	1.1	0.8	0.2	0.8	2.8	0.4	1.9
Imports of goods	4.4	-0.1	-0.8	-1.5	0.6	3.6	0.7	2.3
Terms of Trade Index	-0.5	1.3	1.6	1.7	0.2	-0.8	-0.3	-0.4
Producer Price Index ^(b) for all manufacturing industries	5.6	-1.7	-3.0	-2.0	-0.3	N.A.	--	--
Tender Price Indices :								
Public sector building projects	41.9	-15.9	-24.7	-20.7	-12.3	N.A.	0.5	8.8
Public housing projects	30.8	-6.8	-11.3	-10.0	-4.4	N.A.	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>
All items	100.0	-3.8 (--)	-1.6 (--)	-3.0 (--)	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)
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 ^(a)	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>			<u>2010</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 1999 to 2009	5 years 2004 to 2009
All items	100.0	2.0 (2.8)	4.3 (5.6)	0.5 (1.0)	-0.1 (1.2)	-0.9 (-0.3)	1.3 (-0.1)	1.9 (0.8)	-0.2 (--)	1.9 (--)
Food	26.94	4.3	10.1	1.3	1.5	-0.5	-0.3	1.1	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>1.7</i>	<i>0.7</i>	<i>0.6</i>	<i>0.8</i>	<i>0.8</i>	<i>2.4</i>
<i>Food, excluding meals bought</i> <i>away from home</i>	<i>10.08</i>	<i>7.1</i>	<i>16.8</i>	<i>0.9</i>	<i>1.2</i>	<i>-2.3</i>	<i>-1.5</i>	<i>1.5</i>	<i>2.1</i>	<i>5.9</i>
Housing ^(a)	29.17	2.0	4.1	3.7	4.5	1.7	1.9	-0.1	-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>5.1</i>	<i>2.0</i>	<i>*</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>0.6</i>	<i>-7.0</i>	<i>45.4</i>	<i>0.6</i>	<i>-4.0</i>	<i>-8.0</i>
Electricity, gas and water	3.59	-0.7	-6.5	-25.3	-42.7	-26.1	32.3	61.1	-2.4	-5.9
Alcoholic drinks and tobacco	0.87	-1.2	0.1	18.7	22.6	22.9	22.0	13.1	1.8	2.6
Clothing and footwear	3.91	4.1	0.8	2.7	2.5	2.6	3.7	1.4	-0.1	2.1
Durable goods	5.50	-4.7	-2.0	-3.0	-3.3	-3.1	-2.8	-1.7	-4.6	-4.0
Miscellaneous goods	4.78	2.5	5.0	2.3	2.3	1.7	1.9	2.0	2.3	2.6
Transport	9.09	-0.1	2.5	-0.9	-0.7	-2.4	-1.0	1.1	0.4	0.7
Miscellaneous services	16.15	1.7	0.8	-2.1	-3.0	-2.8	-0.7	0.5	-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
Gross Domestic Product	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3
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[#]</u>	<u>2009[#]</u>	<u>2009</u>			<u>2010</u>	Average annual rate of change:	
				Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]	10 years 1999 to 2009 [#]	5 years 2004 to 2009 [#]
Private consumption expenditure	3.7	2.8	-1.5	-2.2	-2.5	*	0.6	-0.3	1.6
Government consumption expenditure	2.9	4.9	0.1	-0.9	-1.6	-0.6	-0.9	0.1	1.5
Gross domestic fixed capital formation	-2.5	1.9	3.9	4.5	7.9	5.0	11.0	-1.7	1.7
Total exports of goods	2.2	3.4	0.5	0.1	-0.9	0.9	2.8	*	1.4
Imports of goods	1.7	4.1	-1.3	-2.3	-2.1	-0.1	3.9	0.3	1.7
Exports of services	2.5	3.4	-7.0	-9.8	-8.4	-2.9	4.8	-0.4	1.1
Imports of services	2.9	3.8	-2.5	-6.0	-3.3	5.2	7.5	1.4	1.2
Gross Domestic Product	2.9	1.5	0.2	0.9	-1.0	0.2	0.9	-1.5	0.8
Total final demand	2.2	3.2	-0.9	-1.5	-1.9	0.4	3.1	-0.3	1.4
Domestic demand	2.1	2.8	-0.2	-0.7	-0.2	1.2	2.7	-0.6	1.6

