



Half-yearly Economic Report 2011

Government of the Hong Kong
Special Administrative Region

HALF-YEARLY ECONOMIC REPORT 2011

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy expanded solidly by 5.1% in the second quarter of 2011 over a year earlier, notwithstanding a more challenging external environment. This, while representing a moderation from the exceptionally strong growth of 7.5% in the first quarter, still marked the sixth consecutive quarter of above-trend year-on-year economic growth.*
- *The global economy was subject to an increased level of uncertainty in the second quarter. Apart from the repercussions of Japan's earthquake and nuclear incident, the unsteady US economic recovery, re-intensification of the eurozone sovereign debt problem, and policy tightening in Asia were also contributory.*
- *Total exports of goods slowed considerably to show virtually little change in real terms from a year earlier in the second quarter, due partly to the temporary disruptions to regional supply chains arising from the Japan incident, and also partly to slower demand growth in many export markets. Exports of services stayed relatively resilient, attaining appreciable growth on the back of thriving inbound tourism and active cross-border financing, fund-raising and other commercial activities.*
- *Domestic demand strengthened in the second quarter, providing the major impetus to overall economic growth. Private consumption expenditure grew robustly further, supported by sanguine consumer sentiment and improving income conditions. Overall investment spending regained strength, bolstered by the continued expansion in public building and construction works as well as a brisk rise-back in private machinery and equipment investment after a brief relapse in the first quarter.*
- *Job creation gathered pace alongside the solid economic growth, pushing total employment to an all-time high and absorbing most of the increase in labour force. The seasonally adjusted unemployment rate stood at 3.5% in the second quarter, only slightly above the post-1997 low of 3.3% in mid-2008. Thanks to a relatively tight labour market, wages and earnings continued to rise.*
- *The local stock market drifted lower during the second quarter, amid growing uncertainties in the external environment. Residential flat prices rose further during the quarter, although property trading turned quieter amid more cautious market sentiments.*

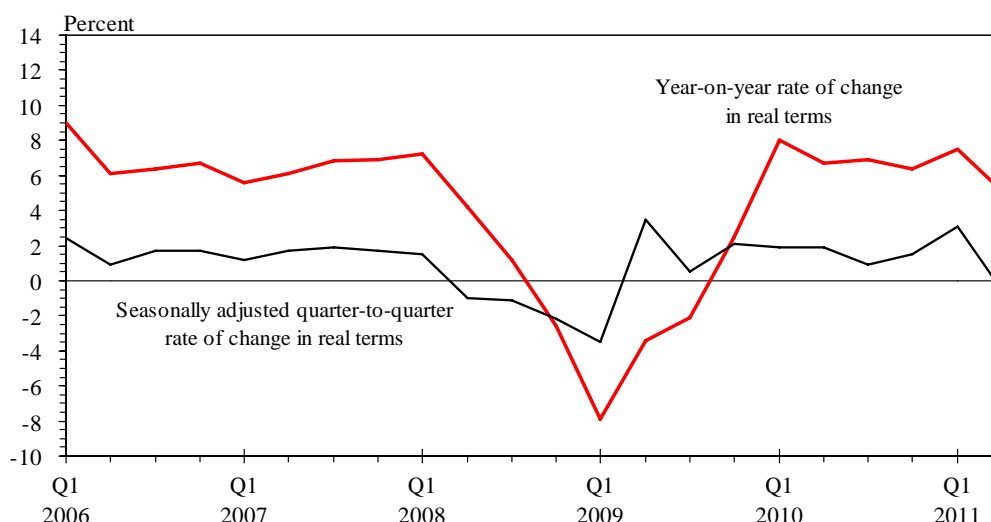
- *Inflationary pressures increased in the second quarter, against the background of rising import prices and sustained economic upturn. Underlying consumer price inflation rose to 5.0% in the second quarter, mainly driven by higher food prices and private residential rentals.*

Overall situation

1.1 The Hong Kong economy grew solidly in the second quarter of 2011, despite increased uncertainties in the external environment. The external and domestic sectors showed diverse developments. Merchandise exports saw a marked deceleration, amid the disruptions to regional supply chains caused by the Japan incident, re-intensification of the eurozone sovereign debt problem, slow recovery in the US, and policy tightening in Asia. Exports of services were more resilient, supported mainly by the expansion of inbound tourism, financial and commercial activities. Meanwhile, domestic demand was robust, on the back of sanguine consumer and business sentiments, as well as improving job and income conditions. However, inflation went up further amid rising import prices and stronger local cost pressures. While the local stock market drifted lower during the quarter, residential property prices rose to new highs. The Government stepped up efforts in increasing land supply and containing excessive credit growth to forestall the risks of macroeconomic and financial instability.

1.2 In the second quarter of 2011, the *Gross Domestic Product* (GDP)⁽¹⁾ grew by 5.1% in real terms over a year earlier, following the strong growth of 7.5% in the first quarter (revised from the earlier estimate of 7.2%) and marking the sixth straight quarter that growth exceeded the average annual growth of 4.0% over the past ten years. In the first half of 2011, real GDP expanded by 6.3% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP however contracted slightly by 0.5% in the second quarter, due to the setback in merchandise trade. Yet, this had also to be viewed against the exceptionally strong growth of 3.1% in the first quarter (revised from the earlier estimate of 2.8%).

Diagram 1.1 : The economy grew solidly in the second quarter, despite increased uncertainties in the external environment



The external sector

1.3 Exports of goods slackened noticeably in the second quarter, dragged by the temporary disruptions to the global and regional supply chains arising from the Japan incident and also by slowing growth momentum in many export markets. Specifically, exports to the US fell back in the second quarter after five consecutive quarters of appreciable growth. Growth in exports to the EU also relapsed to a small decline, despite the robust performance of exports to Germany, which accounted for around one-fourth of total exports to the region. As to the Asian markets, exports to Japan plunged in the aftermath of the March earthquake, which had dealt a severe blow to the Japanese economy. While exports to the Mainland saw a moderate decline, those to many other Asian and emerging markets continued to post appreciable growth. Overall, *total exports of goods* remained virtually unchanged in real terms in the second quarter over a year earlier, in stark contrast to the 16.8% surge in the first quarter.

1.4 *Exports of services* fared relatively better in the second quarter, up 7.8% in real terms over a year earlier, albeit moderated from the 9.3% growth in the first quarter. Exports of travel services provided the main impetus, driven by the strong increase in total visitor arrivals. Exports of financial and other business services also grew robustly further, bolstered by buoyant fund-raising, cross-border financing and other commercial activities. However, exports of trade-related services (comprising mainly offshore trade activities) and transportation services showed more moderate growth, mirroring the rather sluggish performance of merchandise trade and cargo flows.

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

	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>				<u>2011</u>	
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	0.7	6.2	7.4 (0.7)	4.1 (1.3)	5.3 (1.8)	8.1 (3.7)	8.0 (1.0)	9.2 (2.3)
Government consumption expenditure	2.3	2.7	3.3 (0.9)	2.7 (0.8)	3.2 (0.9)	1.6 (-0.8)	2.6 (1.8)	1.4 (-0.6)
Gross domestic fixed capital formation	-3.9	7.8	8.2	15.8	-0.3	8.6	-0.3	8.1
<i>of which :</i>								
Building and construction	-5.5	6.6	-7.1	13.2	9.6	11.3	16.0	-2.4
Machinery, equipment and computer software	-3.0	5.9	11.5	15.9	-7.3	6.4	-12.1	17.4
Total exports of goods	-12.7	17.3	21.6 (6.2)	20.2 (3.9)	20.8 (1.8)	8.2 (-3.5)	16.8 (14.4)	0.3 (-11.1)
Imports of goods	-9.5	18.1	28.3 (7.5)	23.4 (3.3)	16.7 (-0.6)	7.5 (-2.3)	12.6 (12.0)	2.6 (-5.9)
Exports of services	0.3	15.0	18.4 (4.1)	17.5 (2.2)	15.8 (2.2)	9.3 (0.3)	9.3 (4.1)	7.8 (1.0)
Imports of services	-4.9	10.4	11.2 (2.2)	11.9 (2.4)	10.8 (1.0)	7.7 (1.7)	5.8 (0.6)	2.9 (-0.4)
Gross Domestic Product	-2.7	7.0	8.0 (1.9)	6.7 (1.9)	6.9 (0.9)	6.4 (1.5)	7.5 (3.1)	5.1 (-0.5)
<i>Change in the main price indicators (%)</i>								
GDP deflator	-0.6	0.5	0.9 (1.1)	-1.9 (-2.4)	1.7 (2.3)	1.1 (0.2)	1.2 (1.0)	4.6 (1.1)
Composite CPI								
Headline	0.5	2.4[@]	1.9 (0.8)[@]	2.6 (0.5)[@]	2.3 (-2.2)[@]	2.7[@] (3.7)[@]	3.8[@] (1.8)[@]	5.2[@] (1.8)[@]
Underlying[^]	1.0	1.7[@]	0.8 (0.5)[@]	1.5 (0.5)[@]	2.0 (0.4)[@]	2.4[@] (1.0)[@]	3.7[@] (1.8)[@]	5.0[@] (1.8)[@]
<u>Change in nominal GDP (%)</u>	-3.3	7.5	8.9	4.7	8.7	7.6	8.7	9.9

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.

([@]) By reference to the new 2009/10-based CPI series.

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

The domestic sector

1.5 The domestic sector showed strong growth momentum, becoming the major driving force of overall economic expansion in the second quarter. Local consumer spending stayed robust, thanks to sanguine consumer sentiment and continued improvement in income conditions. *Private consumption expenditure* grew markedly by 9.2% in real terms in the second quarter over a year earlier, further to the 8.0% growth in the first quarter. *Government consumption expenditure* also increased modestly by 1.4% in real terms over a year earlier.

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)
2010	Annual	8.7	3.8	28.3	14.5	4.7	5.5	25.6	6.2
	H1	8.3	3.3	28.5	13.6	4.9	4.3	26.8	5.7
	H2	9.1	4.3	28.1	15.3	4.5	6.6	24.6	6.8
	Q1	9.2	3.9	30.1	14.6	5.5	4.9	19.0	7.4
	Q2	7.4	2.9	26.8	12.6	4.3	3.7	36.9	4.1
	Q3	8.9	4.1	27.9	14.9	5.1	10.2	39.3	5.3
	Q4	9.2	4.5	28.4	15.7	4.0	3.1	12.7	8.1
2011	H1	9.9	1.2	34.1	22.2	3.4	2.1	14.1	8.6
	Q1	8.9	3.6	24.2	19.2	3.5	2.2	10.8	8.0
	Q2	10.9	-0.8	45.5	25.2	3.4	2.0	17.8	9.2

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 grew markedly further amid improving job and income conditions

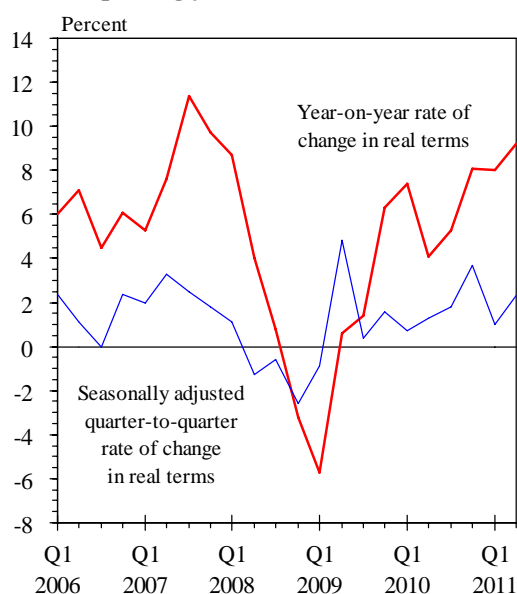
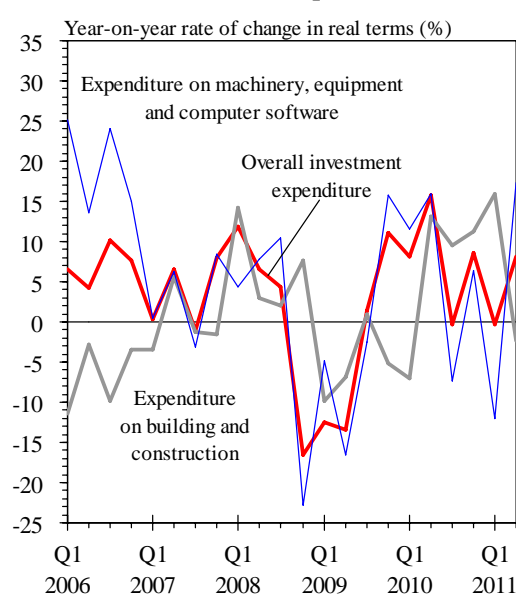


Diagram 1.3 : Investment spending bounced back strongly after the temporary dip in the first quarter



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* rebounded significantly in the second quarter, by 8.1% in real terms over a year earlier, after dipping temporarily by 0.3% in the first quarter. The reversal was mainly driven by the sharp rise-back in private machinery and equipment acquisition, by 18.0% year-on-year in the second quarter, after a brief relapse in the first quarter. Indeed, business sentiments remained generally positive among large enterprises, as evidenced by the latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in June and early July. However, the views of small and medium-sized enterprises (SMEs) tended to be more cautious in the more recent months (see **Box 1.1** for details of the consultation on SMEs). Meanwhile, overall building and construction expenditure relapsed to a modest decline of 2.4% in real terms in the second quarter. While public sector expenditure on building and construction still expanded at a double-digit pace even against a higher base of comparison, private sector construction activity declined further in the quarter.

Box 1.1

Diffusion indices on small and medium-sized enterprises (an update)

To gain a better understanding of the current situation of business receipts, employment and credit access for 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 *First Quarter Economic Report 2011*.

From June 2011 onwards, the SMEs surveyed were asked to compare their business and employment situation with that in the previous month *under the current economic conditions in general*, rather than focusing solely on the impact of the financial tsunami. Thus the industry coverage and questionnaire design for the exercise have been revised accordingly. Specifically, three sectors (viz. travel agents, financing institutions, and insurance agents and brokers) are dropped from the exercise, whilst questions on access to credit have been modified to gauge SMEs' views as to whether the current and expected credit access situation are "easy", "fair" or "tight", rather than in respect of a comparison with the normal times. The sample size of the panel is consequently reduced to around 410.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts and employment versus the preceding month. Given the changes in questions and sample, the results regarding their views on business receipts and employment in the latest two rounds of the exercise are not strictly comparable with those in the preceding rounds. The findings should also be interpreted with considerable caution given the coverage and nature of the consultation exercise. Nevertheless, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs surveyed, as depicted by the set of diffusion indices, showed that the overall situation tapered somewhat in recent months (**Table 1**). In June and July 2011, a slightly larger proportion of SMEs in most of the seven sectors surveyed reported some deterioration in business receipts, conceivably still affected by the Japan incident and increased uncertainties in the external environment amid the unsteady US recovery and the lingering eurozone sovereign debt problem. Among them, the real estate sector saw notable declines in the past few months, as property transactions shrank especially after the further Government measures announced in early June. Yet the overall index rose back somewhat in July. Separately, the results of the consultation indicated that SMEs' employment situation held largely stable in recent months in overall terms (**Table 2**).

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

Box 1.1 (Cont'd)

Specifically for import and export firms, their views on new export orders were sought separately to gauge the export performance. The diffusion index on new export orders came down successively to 47.8 in June 2011, before rising back somewhat to 48.7 in July, conceivably reflecting some fading out of the dampening effects of the Japan incident. We will continue to monitor how the repercussions of the Japan incident, slowing growth momentum around the globe and policy tightening in Asia would impact regional demand and Hong Kong's external trade in the months ahead.

Credit access situation remained good in recent months, with only 1.6% of SMEs reporting tight current access to credit in July 2011 and a similar proportion of SMEs expecting tight credit access in the coming month, thanks to the accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

Table 1 : Diffusion indices[^] on business receipts

	<u>2011</u>						
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>							
Restaurants	50.0	50.0	49.1	50.0	50.0	48.3	50.0
Travel	48.3	48.3	48.3	50.0	51.7	--	--
Real estate	60.6	52.9	48.5	45.6	41.2	33.8	42.9
Retail trade	50.0	48.3	50.4	50.0	49.5	45.1	49.1
Wholesale trade	50.0	50.0	52.8	50.0	50.0	50.0	45.0
Insurance	60.5	57.9	57.9	50.0	52.8	--	--
Business services	51.6	48.5	47.0	48.5	50.0	46.8	43.3
<i>External segments</i>							
Import/export trades	49.2	50.0	50.0	50.0	49.1	46.1	47.9
Logistics	50.0	52.8	50.0	50.0	50.0	47.4	47.5
Financing institutions	50.0	48.7	52.6	52.6	47.4	--	--
All the above sectors*	50.4	49.8	50.0	49.7	49.1	45.7	47.4

Notes: (^) The diffusion index is computed by adding the percentage of SMEs reporting "up" to one half of the percentage of SMEs reporting "same." A diffusion index reading above 50 indicates that the business condition is generally favourable, whereas an index below 50 indicates otherwise. Respondents were requested to exclude seasonal effects in reporting their views.

(--) Not applicable.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Box 1.1 (Cont'd)**Table 2 : Diffusion indices on employment situation**

	<u>2011</u>						
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
<i>Local segments</i>							
Restaurants	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Travel	50.0	50.0	50.0	50.0	51.7	--	--
Real estate	50.0	50.0	50.0	48.5	50.0	50.0	54.3
Retail trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Insurance	55.3	52.6	52.6	50.0	50.0	--	--
Business services	50.0	50.0	50.0	51.5	51.5	50.0	50.0
<i>External segments</i>							
Import/export trades	50.0	50.0	50.0	50.0	50.0	49.6	49.6
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Financing institutions	52.6	53.8	52.6	51.3	50.0	--	--
All the above sectors*	50.1	50.1	50.1	50.1	50.1	49.8	50.1

Notes: (--) Not applicable.

(*) Weighted average using total number of SMEs in individual sectors as weights.

Table 3 : Diffusion index on current new export orders

	<u>2011</u>						
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>
Import and export trades	49.2	50.0	50.0	50.0	49.1	47.8	48.7

Table 4 : Percentage of SMEs reporting tight current access to credit

	<u>2011</u>						
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u> [#]	<u>Jun</u>	<u>Jul</u>
All selected sectors*	2.8	2.8	3.2	3.2	3.2	1.6	1.6

Notes: (*) Weighted average using total number of SMEs in individual sectors as weights.

(#) Prior to June 2011, the question posed to the SMEs was framed in relation to the normal situation.

The labour sector

1.7 The demand for labour stayed fairly strong in the second quarter. The implementation of statutory minimum wage from 1 May might have encouraged more people to seek jobs in light of the better income prospects. Together with the entry of a new batch of graduates and school leavers, the total labour force saw a faster increase during the quarter. This notwithstanding, the sustained brisk expansion of the local economy had transpired into vibrant job creation, thereby pushing the total employment to an all-time high, which in turn helped to absorb most of the additional workforce. As a result, the *seasonally adjusted unemployment rate* only inched up to 3.5% in the second quarter from 3.4% in the first quarter, and was still near the post-1997 low of 3.3% in mid-2008. The *underemployment rate* likewise stayed low at 1.8%. Reflecting the generally sanguine business sentiment, corporate hiring activity thrived and led to a further notable increase in job vacancies. Meanwhile, labour wages and earnings rose further.

The asset markets

1.8 The *local stock market* exhibited wider fluctuations along with other major overseas markets during the second quarter. Having fared strongly in April, the stock market drifted lower as market sentiments were dented by the re-intensification of sovereign debt problems in the eurozone, the worse-than-expected performance of the US economy, and further policy tightening in the Mainland. The Hang Seng Index (HSI) dropped notably to 21 600 on 20 June, the lowest level in the first half of 2011, before rebounding somewhat to close the month of June at 22 398, down 4.8% from end-March this year and 2.8% from end-2010. Notwithstanding increased market volatilities, fund-raising activity continued apace during the second quarter. Yet average daily turnover of the stock market shrank somewhat in the second quarter over the preceding quarter.

1.9 *Residential property market* saw mixed developments in the second quarter. While overall flat prices rose by a further 4% between March 2011 and June 2011, cumulating to a 14% increase during the first half of 2011, transactions in the second quarter fell by 9% over the preceding quarter, as potential flat buyers turned more cautious in view of more stringent mortgage loan terms offered by banks, further Government measures to stabilise the housing market (see *paragraph 3.6* for details), and heightened uncertainties in the external environment. Thanks to the still-low mortgage interest rates and rising household incomes, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households,

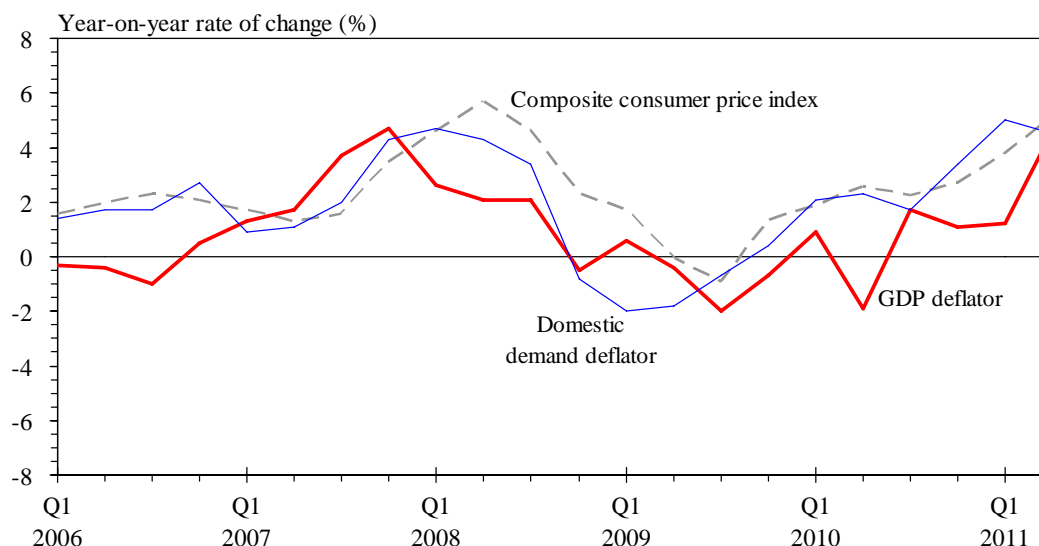
excluding those living in public housing) was 47% in the second quarter, still below the long-term average of 51% over 1990-2009. Meanwhile, flat rentals also went up further, by 4% during the second quarter, while office and shop rentals rose even faster, by 5% and 6% respectively.

Inflation

1.10 *Consumer price inflation* went up further in the second quarter. Indeed, inflationary pressures picked up on a global scale in the second quarter, even in the developed economies where growth pace was only moderate. Although global food and commodity prices had stabilised somewhat during the quarter, they remained elevated amid abundant liquidity and a weaker US dollar. This, coupled with elevated inflation in import sources, pushed up Hong Kong's imported inflation. Locally, the feed-through of higher private residential rentals became increasingly evident. In general, domestic cost pressures increased, on the back of strong economic growth over the past year or so. The relatively tight labour market and the one-off effect from the implementation of statutory minimum wage were also relevant. *Headline consumer price inflation* rose from 3.8% in the first quarter to 5.2% in the second quarter. Netting out the effect of the Government's relief measures, *underlying consumer price inflation* went up from 3.7% to 5.0%.

1.11 The *GDP deflator* rose by 4.6% in the second quarter over a year earlier, reflecting the further increase in domestic prices as well as a stable terms of trade.

Diagram 1.4 : Inflation went up further on the back of rising import prices and sustained economic upturn



GDP by major economic sector

1.12 With the economy sustaining strong momentum on entering 2011, activity across many major sectors expanded robustly further. In the first quarter of 2011, the net output of the services sector as a whole leaped by 7.1% in real terms over a year earlier, similar to the brisk growth of 7.0% in 2010. Among the major services sectors, import/export, wholesale and retail trades saw the fastest growth in net output, bolstered by flourishing trade flows, buoyant consumption demand, and rapid expansion of inbound tourism. This was followed by financing and insurance, transportation and storage, professional and business services, and accommodation and food services, thanks to vibrant commercial and trading activities as well as sanguine consumer sentiment. However, real estate activity, mainly reflecting the net output of private sector developers, shrank further after recording a modest decline for 2010 as a whole. As for the secondary sector, manufacturing output increased by 3.5% in the first quarter, while construction output expanded notably further by 22.2%, mainly due to the intensification of public sector works.

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

	<u>2010</u>	<u>2010</u>				<u>2011</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	3.5	0.4	2.2	5.4	5.7	3.5
Construction	15.8	2.7	21.3	20.2	19.8	22.2
Services ^(b)	7.0	8.4	6.1	7.3	6.4	7.1
Import/export, wholesale and retail trades	15.6	22.4	17.9	15.9	9.1	14.0
Import and export trade	15.4	23.3	18.3	15.7	7.7	13.7
Wholesale and retail trades	16.5	18.3	15.8	16.6	15.7	15.9
Accommodation and food services	7.3	8.8	10.0	6.8	4.1	2.6
Transportation, storage, postal and courier services	8.8	6.7	12.6	9.6	6.6	9.2
Transportation and storage	7.8	5.3	11.4	8.5	6.2	9.0
Postal and courier services	27.0	34.9	35.0	31.3	11.7	12.4
Information and communications	1.6	1.9	1.7	2.1	0.8	1.8
Financing and insurance	7.9	9.1	1.3	7.0	13.8	12.8
Real estate, professional and business services	2.7	3.0	2.0	1.3	4.5	1.3
Real estate	-1.7	-1.9	-2.7	-3.1	0.9	-1.3
Professional and business services	7.2	8.6	6.9	5.7	7.5	3.8
Public administration, social and personal services	2.5	3.1	2.1	3.1	1.8	2.2

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.

The above statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 and the series has been backcasted to 2000.

Some highlights of economic policy

1.13 Hong Kong has been leveraging on its competitive advantage as a financial, trade and transport centre to tap the ample business opportunities arising from the Mainland's rapid economic development and to gain a firmer footing in the international arena. Further economic and trade ties have been fostered with overseas and regional markets, including the signing of a free trade agreement with the European Free Trade Association in June, and the planned establishment of the Hong Kong Economic, Trade and Cultural Office in Taiwan later this year. The renminbi (RMB) business has continued to grow at a rapid pace. Total RMB deposits in Hong Kong amounted to RMB553.6 billion at end-June, more than six times the level a year ago. The total RMB remittance for cross-border trade settlement likewise surged by over 28 times to RMB804.0 billion in the first half of 2011 over a year earlier. Both developments have strengthened the position of Hong Kong as the premier offshore RMB business centre for the Mainland.

1.14 In face of an exceptionally unstable global macroeconomic environment, the Government is firmly committed to meeting the challenges associated with higher inflation and surging local property prices, which will impact the economy and people's livelihood. In order to ensure the healthy and stable development of the property market, the Government has stepped up its efforts in increasing land supply and implementing macro-prudential measures. The Hong Kong Monetary Authority announced in April to enhance its monitoring of authorized institutions' business plans and funding strategies for the rest of this year, and in June further tightening measures on mortgage lending, with a view to safeguarding the stability of the local banking system (see *paragraph 3.6* for details). The successive measures should have built in a sufficiently large buffer to help mitigate the extent of macro-economic adjustments when global liquidity is eventually withdrawn. Meanwhile, the launch of inflation-linked retail bonds (iBond) in July offered an alternative investment channel for the community to mitigate the impact of rising inflation.

1.15 In addition, the Government will continue to strive to uphold Hong Kong's institutional strengths, raise the quality of human capital, consolidate the existing pillar industries, develop new growth engines and explore emerging markets. The completion of the planned large-scale infrastructure projects, together with the sustained heavy investment in human capital, will enhance Hong Kong's productive capacity and long-term competitiveness. The infrastructure projects will also render additional growth impetus to the Hong Kong economy during their construction stage. Indeed, Hong Kong is ranked the world's most competitive economy, together with the US, for the first time

in the World Competitiveness Yearbook 2011 released by the International Institute for Management Development (IMD). IMD particularly acknowledges Hong Kong's strengths in "government efficiency" and "business efficiency", and further recognises that Hong Kong strikes a sound balance between the two pillars.

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 its main components.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *External trade slowed in the second quarter of 2011, after the stronger-than-expected growth in the first quarter. The level of uncertainty in the external environment apparently increased in the second quarter, given the repercussions from Japan's incidents, deepening concerns about the European sovereign debt crisis, fragile recovery in the US, and policy tightening in Asia.*
- *Merchandise exports fell slightly in the quarter⁽¹⁾, as the temporary disruptions to the regional supply chains arising from Japan's earthquake and nuclear incident weighed on regional trade flows, and as many export markets saw a varying degree of moderation in economic growth.*
- *Exports of services were more resilient, still showing notable growth in the second quarter. Exports of travel services surged further, reflecting vibrant inbound tourism. Exports of financial and other business services continued to benefit from the expansion of cross-border financing, fund-raising and commercial activities. However, exports of trade-related services and transportation services only showed moderate growth, along with the slower expansion of merchandise trade flows in the region.*
- *Hong Kong achieved some ground-breaking developments in relation to overseas markets during the second quarter. Specifically, Hong Kong and members of the European Free Trade Association (EFTA), namely Iceland, Liechtenstein, Norway and Switzerland, signed a Free Trade Agreement (FTA), the first FTA with European economies, to promote trade and investment. Hong Kong and Shenzhen also jointly promoted the dual location advantages to German enterprises. The second quarter saw a fresh high of overseas and Mainland companies establishing or expanding their business operations in the city. To enhance our role as a hub for trade, finance and business, Hong Kong will continue to deepen its economic and trade ties with the Mainland and other economies.*

Visible trade

Total exports of goods

2.1 Hong Kong's merchandise exports showed a slight decline in the second quarter of 2011, after the spectacular performance in the first quarter. *Merchandise exports* (comprising re-exports and domestic exports) fell marginally by 0.4% in real terms in the second quarter over a year earlier, in contrast to the 17.7% growth in the first quarter. The slowdown was the combined result of the disrupted regional supply chains in the aftermath of the Japan incident, which dealt a temporary blow to trade flows of electronic products, and of the sluggish or slower growth in many export markets. On a seasonally adjusted basis, merchandise exports fell sharply by 12.6% in the second quarter from the preceding quarter.

2.2 The level of uncertainty in the trading environment apparently increased in the second quarter. Apart from the repercussions of the Japan incident, the persistently high unemployment and depressed housing market continued to put a drag on the US economy. In Europe, the sovereign debt problem deepened during the quarter, and concern about contagion to larger European countries increased. There were also renewed concerns about the fiscal health of the US and Japan. Meanwhile, the elevated global food and commodity prices, as well as the geopolitical tensions in the Middle East and North Africa, continued to pose a threat to the global economy. In emerging Asia, while economic conditions were still strong, successive policy tightening to rein in inflation had led to some activity deceleration. In recognition of the increasing challenges, the International Monetary Fund (IMF) in its June *World Economic Outlook Update* slightly revised down its projected global economic growth for 2011 as a whole to 4.3%⁽²⁾, from its previous forecast of 4.4%.

2.3 *Re-exports*⁽³⁾, the mainstay of overall merchandise exports and accounting for 97.9% of total exports by value, remained virtually unchanged in real terms from a year earlier in the second quarter, after the 18.2% increase in the first quarter. *Domestic exports*, which constitute the remaining share of total exports, declined by 16.0% in the second quarter, further to the 4.1% decline in the first quarter.

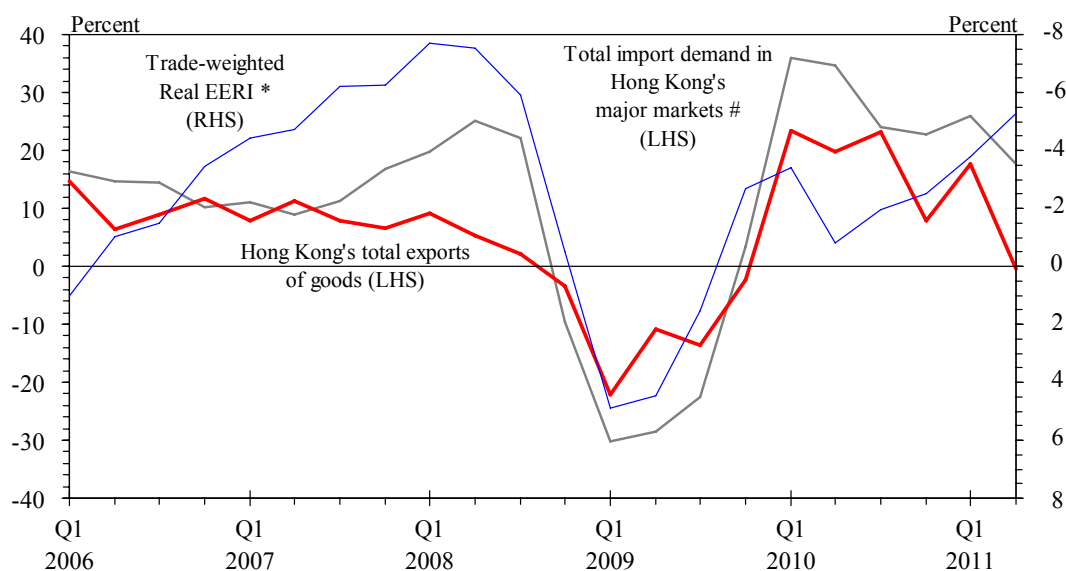
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

	<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
2010 Annual	22.8	18.1	4.7	22.8	18.1	4.6	20.4	15.5	5.5
H1	25.1	21.4	3.4	25.1	21.4	3.4	22.7	18.5	4.7
H2	20.8	15.3	5.8	20.9	15.4	5.8	18.4	13.0	6.2
Q1	26.0	23.4	(6.7)	26.1	23.5	(6.5)	23.1	20.2	(17.0)
Q2	24.3	19.7	(3.6)	24.4	19.7	(3.7)	22.4	17.0	(-3.3)
Q3	27.8	23.2	(1.9)	27.9	23.4	(2.0)	20.2	14.9	(-4.4)
Q4	14.4	7.9	(-4.1)	14.3	7.9	(-4.3)	16.7	11.1	(3.2)
2011 H1	15.4	7.8	8.1	15.6	8.3	8.1	6.2	-10.4	6.5
Q1	24.6	17.7	(16.3)	24.9	18.2	(16.6)	11.9	-4.1	(0.4)
Q2	7.7	-0.4	(-12.6)	7.9	*	(-12.6)	1.2	-16.0	(-14.7)

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

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

**Diagram 2.1 : Merchandise exports fell marginally in the second quarter
(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 second quarter of 2011 is based on statistics for April and May 2011.

Diagram 2.2 : Both re-exports and domestic exports slowed in the second quarter

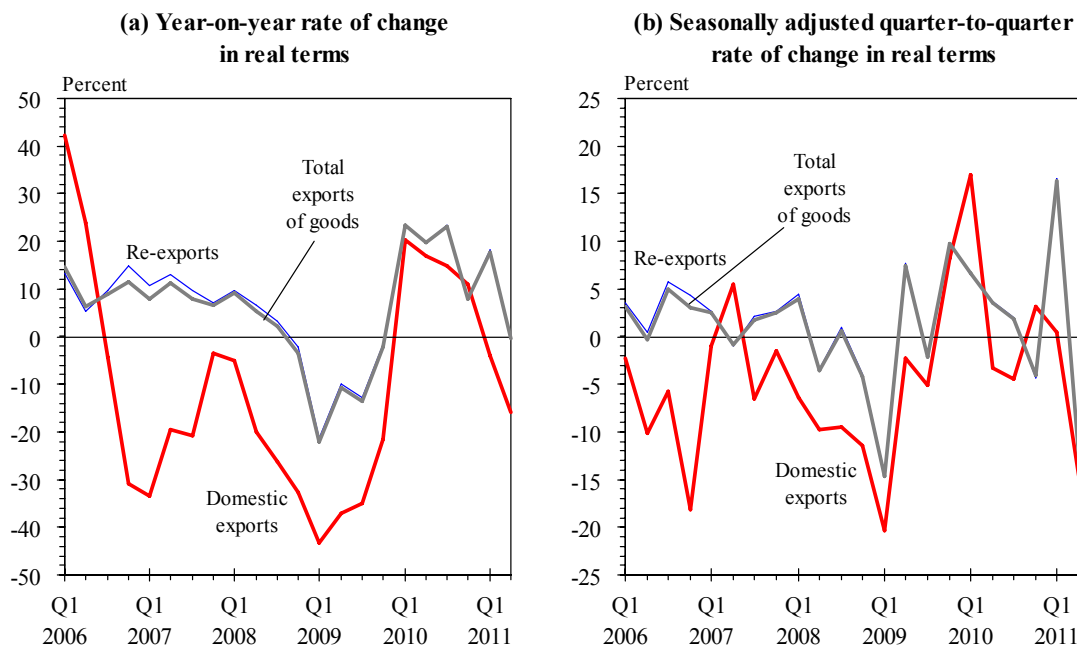
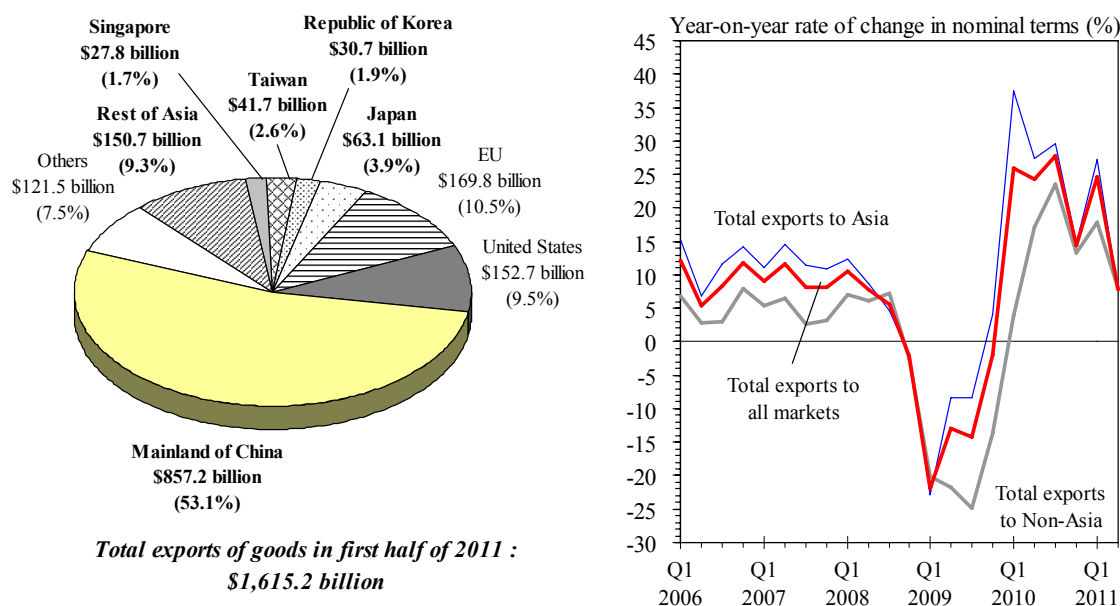


Diagram 2.3: Asian markets continued to feature prominently in Hong Kong's exports



**Table 2.2 : Total exports of goods by major markets
(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>
2010	Annual	20.0	14.5	6.6	15.5	21.1	23.0	18.1
	H1	24.4	13.8	5.0	20.7	30.9	41.6	17.8
	H2	16.3	15.1	8.0	11.2	13.2	9.5	18.3
	Q1	32.1	6.7	-0.6	15.1	37.9	59.8	16.9
	Q2	18.8	19.9	10.4	26.2	24.9	28.1	18.6
	Q3	26.3	19.7	15.8	15.4	13.1	17.6	22.2
	Q4	7.0	10.4	1.0	7.4	13.4	2.8	14.7
2011	H1	8.1	-3.9	2.5	-1.4	12.0	19.3	15.1
	Q1	20.8	7.0	6.4	3.2	14.8	20.5	21.7
	Q2	-2.3	-12.4	-0.9	-5.7	9.4	18.2	9.0

2.4 The Asian markets continued to outperform the developed markets in the second quarter, although the disruptions to regional supply chains caused by the Japan incident conceivably led to a sharp slowdown in Hong Kong's exports of raw materials and capital goods to some of these markets. While total exports to Japan fell by 5.7% in real terms in the second quarter over a year earlier and those to the Mainland by 2.3%, total exports to such other Asian markets as Singapore, Korea and Taiwan still recorded appreciable growth ranging from 9-19%. The stronger performance of these Asian markets was partly underpinned by their solid domestic demand, as manifested by the notable growth in Hong Kong's exports of consumer goods to these markets in the second quarter. Improved price competitiveness of Hong Kong's exports amid a weaker US dollar also contributed.

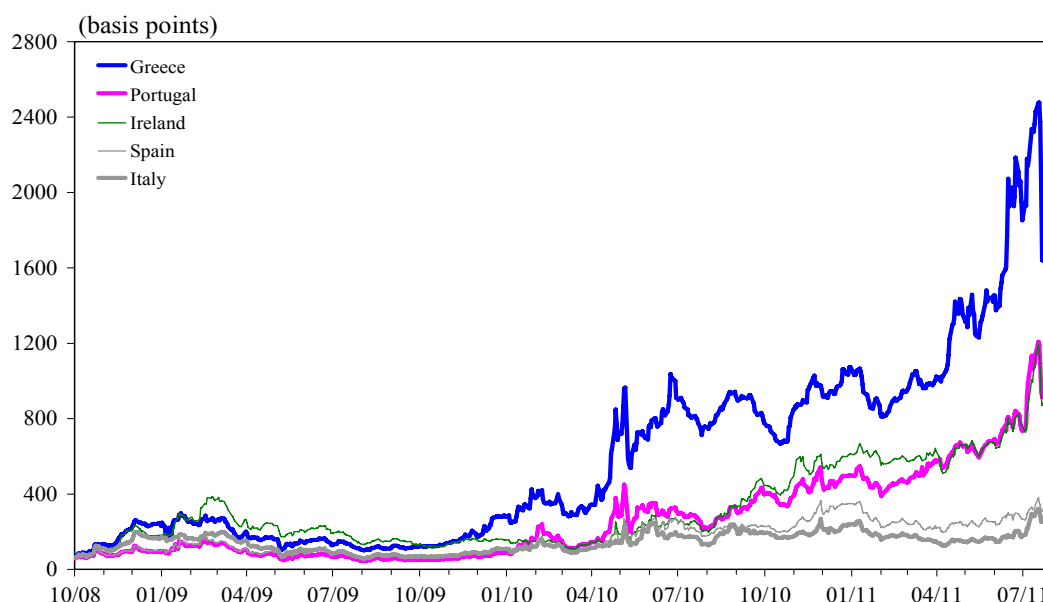
2.5 In the US and Europe, owing to their sluggish income growth in the second quarter and to some extent the disruptions to global supply chains, Hong Kong's total exports to both the US and the EU relapsed to declines. Yet reflecting the uneven pace of growth within Europe, while exports to the UK and the Netherlands continued to decline, those to Germany expanded notably further and rendered a cushion to the overall performance of the EU market. By the second quarter, exports to the US and Europe were still below their pre-crisis levels. The fragile recovery of the US economy and the lingering sovereign debt problem in the eurozone would continue to affect Hong Kong's export performance in these markets.

Box 2.1

An update on the eurozone sovereign debt situation

The eurozone sovereign debt problem worsened noticeably during the second quarter, posing a threat to the global economy (see **Box 2.2** of the *2010 Economic Background and 2011 Prospects* for earlier developments). In April 2011, Portugal became the third country to seek financial aid from the European Union (EU) and International Monetary Fund (IMF). Thereafter concerns over a possible Greek debt restructuring intensified, pushing the credit default swap (CDS) spreads on the more vulnerable countries (i.e. Greece, Ireland and Portugal) to all-time highs, virtually shutting them off from private funding in the capital markets (**Chart 1**). This in turn prompted further credit rating actions (notably, the downgrading of Portugal and Ireland to junk status and trimmed outlook on Italy), which generated a vicious cycle and drove up their bond yields further, making these countries' debt burdens even more difficult to re-finance (**Table 1**).

Chart 1: CDS spreads on selected eurozone countries rose to new highs in July



The intensification of the sovereign debt problem sent another shockwave to the global financial markets in the second quarter. Markets were concerned about the fiscal sustainability of the highly-indebted eurozone economies, and whether the eurozone governments could come up with a credible medium-term plan to resolve the crisis. While the Greek parliament's passage of an austerity bill in late June enabled it to receive another aid tranche to tide it over till end-August, the decision on a second bailout for Greece to meet its funding needs up till 2014 had been held up for some time by differing views about the extent of voluntary rollover of Greek debt by private bondholders or buyback by EU governments and the bailout fund. Finally, EU leaders agreed on a new bailout for Greece on 21 July, comprising a €109 billion package from the EU and IMF and voluntary contribution of some €50 billion from the private sector during 2011-14 through bond exchange and buy-back. The European Central Bank (ECB) also expressed willingness to accept Greek bond as collateral for its fund provision even if Greece were to be placed on selective default by rating agencies.

Box 2.1 (Cont'd)**Table 1 : Summary of more recent events and credit rating actions**

1 Apr	Fitch downgraded Portugal's rating to BBB-, outlook negative;
	Standard and Poor's (S&P) downgraded Ireland's rating to BBB+
5 Apr	Moody's downgraded Portugal's rating to Baa1, outlook negative
Early Apr	Portugal officially sought financial aid from the EU/IMF
14 Apr	Fitch downgraded Ireland's outlook to negative
15 Apr	Moody's downgraded Ireland's rating to Baa3, outlook negative
Mid Apr	Concerns over possible Greek debt restructuring intensified
9 May	S&P downgraded Greece's rating to B, outlook negative
Mid May	EU finance ministers endorsed a €78 billion bailout package to Portugal; EU and ECB at loggerheads over Greek "debt reprofiling" (maturity extension)
20 May	Fitch downgraded Greece's rating to B+, outlook negative;
	S&P trimmed Italy's outlook to negative
23 May	Fitch cut Belgium's credit outlook to negative
Late May	Greek government endorsed €6 billion budget cuts and committed to accelerate asset sales to raise €50 billion by 2015;
	Spain's ruling party suffered defeat in local elections
1 Jun	Moody's slashed Greece's rating to Caa1
Early Jun	Portugal's Social Democrats defeated the incumbent in general election;
	EU and IMF considered second aid package for Greece
13 Jun	S&P slashed Greece's rating to CCC
17 Jun	Moody's trimmed Italy's outlook to negative
Mid Jun	Greece reshuffled cabinet; Germany opened up to voluntary rollover of Greek debt; EU withheld €12 billion payment tranche in exchange for more austerity
29 Jun	Greek parliament passed a €28 billion austerity package and subsequently secured the next payment tranche from EU/IMF
4 Jul	S&P issued warning that debt rollover proposal could result in a selective default for Greece
5 Jul	Moody's cut Portugal's rating to Ba2 (junk), outlook negative
11 Jul	Concerns deepened over Italy's fiscal position
12 Jul	Moody's cut Ireland's rating to Ba1 (junk), outlook negative
13 Jul	Fitch cut Greece's rating to CCC
15 Jul	Stress test results of European banks were released. Eight out of 90 banks failed the test, with an overall tier 1 capital shortfall of €2.5 billion.
21 Jul	EU leaders agreed on a new bailout package for Greece
25 Jul	Moody's downgraded Greece's rating by three notches to Ca
27 Jul	S&P downgraded Greece's rating to CC, two levels above default;
	Moody's cut Cyprus' rating from A2 to Baa1, outlook negative
29 Jul	Moody's put Spain's Aa2 rating on review for a possible downgrade;
	S&P cut Cyprus' rating from A- to BBB+, outlook negative
Early Aug	CDS spreads on Italian and Spanish government bonds rose to new highs

Under the new bailout package, the near-term refinancing needs of Greece, Ireland and Portugal, will be relieved through lower interest rates (down 200 basis points to 3.5%) and extended maturities (to at least 15 years). Also, the increased flexibility of the European Financial Stability Facility (EFSF) to buy eurozone bonds on secondary markets and to lend money to finance bank recapitalizations is a clear attempt to stem the risk of contagion to other larger economies with fragile fiscal positions, notably Italy and Spain. Yet, markets may still be sceptical about the ability of the highly-indebted countries to bring down their debts to sustainable levels and to generate growth. As such, financial markets will likely be

Box 2.1 (Cont'd)

subject to bouts of gyrations as and when market sentiments shift. While Greece, Ireland and Portugal together account for only about 6% of the eurozone's GDP, Italy and Spain are the third and fourth largest economies respectively in the eurozone. For Italy, the gross public debt ratio is currently around 120% of GDP (*Table 2*), and the nation is also faced with the problem of anaemic growth. Indeed, to tackle the root problem of the crisis, the debt-ridden countries would need to undergo structural reforms to restore their competitiveness in order to generate enough growth to avert a ballooning of debt, in addition to pursuing austerity measures. But austerity and reform measures could be painful and meet with significant social and political resistance.

Table 2 : Economic and fiscal situations in selected European economies

	Real GDP		Fiscal balance			Government gross debt		
	<u>Growth</u>		<u>as % of GDP</u>			<u>as % of GDP</u>		
	<u>2010</u>	<u>2011(F)</u>	<u>2010</u>	<u>2011 (F)</u>	<u>2015 (F)</u> *	<u>2010</u>	<u>2011(F)</u>	<u>2015(F)</u> *
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Eurozone	1.7	2.0	-6.0	-4.3	n.a.	85.3	87.9	n.a.
Portugal	1.3	-1.5 [^]	-9.1	-5.6*	-5.8	93.0	90.6*	103.7
Italy	1.3	1.0	-4.6	-4.1	-3.1	119.0	120.6	118.7
Ireland	-1.0	0.5 [^]	-32.4	-10.8*	-4.3	96.2	114.1*	123.5
Greece	-4.5	-3.0 [^]	-10.5	-7.4*	-2.1	142.8	152.3*	149.4
Spain	-0.1	0.8	-9.2	-6.2	-4.6	60.1	67.5	74.1
World	5.1	4.3	-5.5	-4.6	n.a.	67.0	69.3	n.a.
Advanced economies	3.0	2.2	-7.5	-6.8	-3.4	96.8	101.9	106.6
Emerging economies	7.4	6.6	-3.7	-2.7	-1.4	35.3	34.6	31.2

Notes: 2010 figures for Europe are sourced from Eurostat; the rest from IMF's *World Economic Outlook (WEO) Update* and *Fiscal Monitor Update*, June 2011.

(*) Projected by the IMF in April 2011's *Fiscal Monitor*.

([^]) Sourced from IMF's *Regional Economic Outlook on Europe*, May 2011.

(n.a.) Not available.

The eurozone sovereign debt problem would remain a major source of downside risk to the global outlook, not least due to the drag on the eurozone's recovery stemming from fiscal consolidation across Europe. Although the eurozone economy expanded by a better-than-expected 0.8% quarter-to-quarter (2.5% year-on-year) in the first quarter of 2011, the recovery continued to proceed in a two-speed manner, characterised by a clear divergence between the vibrant core (Germany and France) and sluggish peripheral economies. With the re-intensification of the sovereign debt problem in the second quarter, growth in Hong Kong's exports to the EU market slowed visibly. In addition, if the eurozone debt problem were to worsen abruptly, there could be spillover to the global financial and banking systems through banks' exposures to debts of highly-indebted European countries, even though the exposure of Hong Kong's banks to such debts is not significant (Portugal, Ireland, Italy, Greece and Spain together accounting for only 1.3% of the total external claims of Hong Kong's banks at end-March 2011). Nevertheless, despite the increased challenges to the global economy, the still rather robust conditions in the Mainland and other Asian economies should continue to render support to the Hong Kong economy.

Diagram 2.4 : Exports to the Mainland declined in the second quarter, partly due to disruptions to regional supply chains

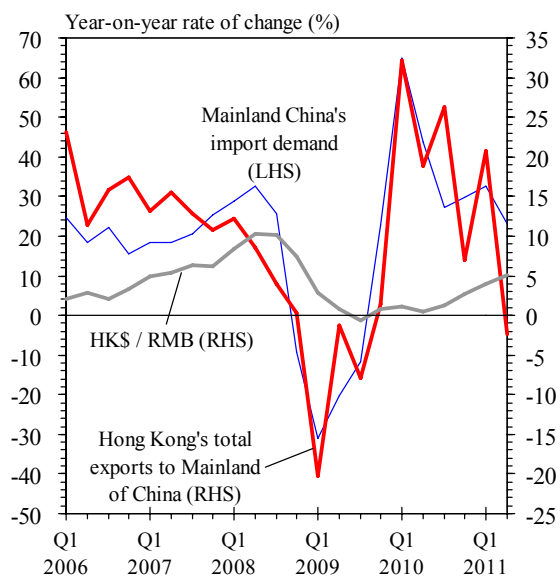


Diagram 2.5 : Exports to the EU weakened

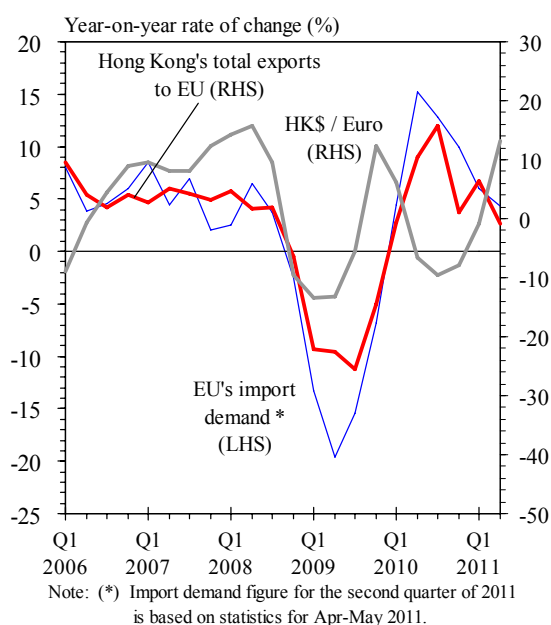


Diagram 2.6 : Exports to the US relapsed to a decline

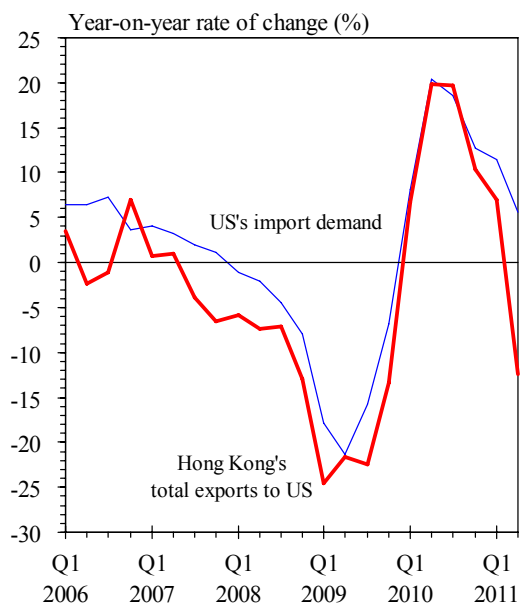


Diagram 2.7 : Exports to Japan were hit by the mega-earthquake

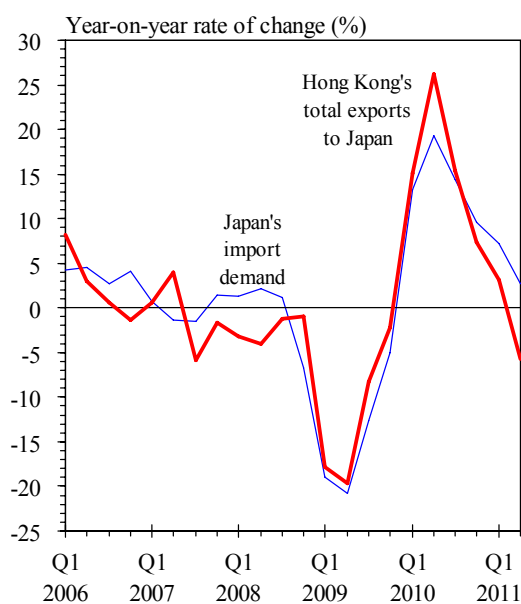


Diagram 2.8 : Exports to Singapore maintained solid growth

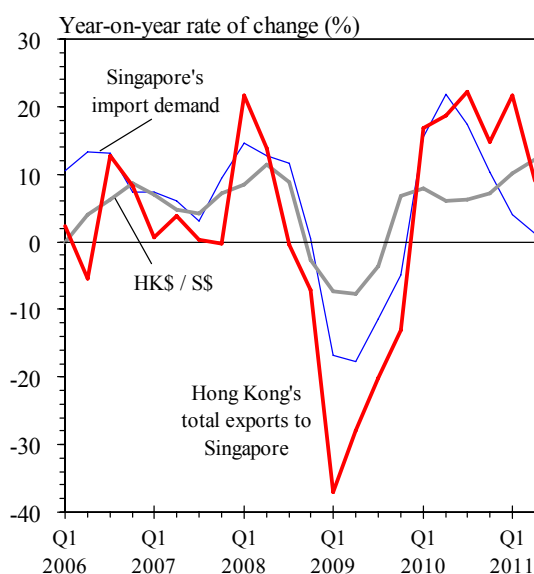
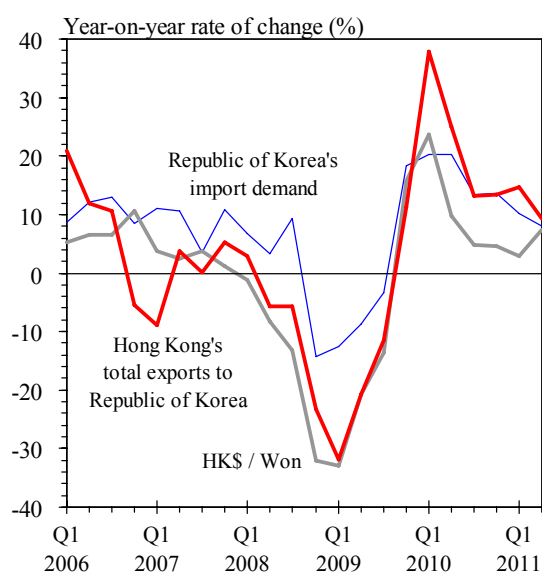


Diagram 2.9 : Exports to the Republic of Korea still showed appreciable growth



Imports of goods

2.6 Growth in *imports of goods* also narrowed visibly to 3.6% year-on-year in real terms in the second quarter, from 12.9% in the first quarter. In tandem with the slowdown in re-exports, import intake for subsequent re-exporting slowed more noticeably. Nevertheless, *retained imports*, which accounted for over one-fourth of total imports, grew strongly by 13.4% in real terms in the second quarter, following a 0.5% growth in the first quarter. In particular, retained imports of consumer goods leaped further in the second quarter, underpinned by buoyant local consumption and tourist spending. Retained imports of capital goods also regained strength, supported by the generally positive business sentiment. Meanwhile, retained imports of food and raw materials resumed positive growth, while those of fuels declined. After seasonal adjustment, retained imports grew by 13.3% in the second quarter over the previous quarter.

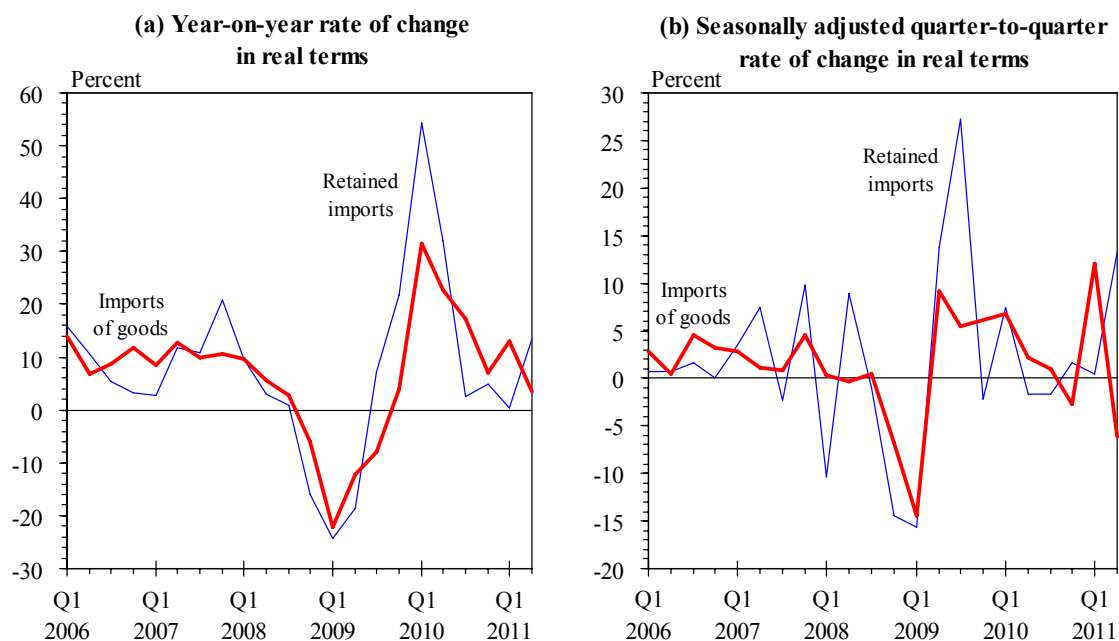
**Table 2.3 : Imports of goods and retained imports
(year-on-year rate of change (%))**

		<u>Imports of goods</u>			<u>Retained imports^(a)</u>			
		<u>In value terms</u>	<u>In real terms</u>	<u>Change In prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2010	Annual	25.0	18.6	6.4	27.3	19.7	8.2	
	H1	31.9	26.7	5.2	48.7	42.1	7.3	
	H2	19.4	12.0	7.7	11.7	3.8	9.5	
	Q1	34.3	31.4	(6.8)	56.0	54.2	(7.4)	3.1
	Q2	29.9	22.8	(2.2)	42.8	32.0	(-1.6)	11.4
	Q3	24.1	17.3	(1.0)	9.8	2.5	(-1.6)	9.4
	Q4	15.1	7.0	(-2.7)	13.6	5.0	(1.7)	9.6
2011	H1	15.0	7.9	8.4	13.4	7.1	9.4	
	Q1	20.6	12.9	(12.1)	9.5	0.5	(0.4)	12.6
	Q2	10.3	3.6	(-6.1)	16.8	13.4	(13.3)	6.5

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.

Diagram 2.10 : Imports moderated along with the slowdown in re-exports, but retained imports picked up notably



**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>
2010	Annual	22.5	11.6	15.5	31.3	13.9
	H1	40.1	17.9	22.8	160.1	20.5
	H2	10.0	5.9	9.6	-16.0	7.8
	Q1	48.7	28.6	21.2	344.4	-0.2
	Q2	32.9	8.5	24.2	70.8	42.6
	Q3	7.2	2.8	7.2	-18.1	14.6
	Q4	12.6	8.6	12.1	-13.9	1.4
2011	H1	27.7	-1.2	9.5	-8.6	-12.3
	Q1	20.4	-6.1	2.3	-22.6	4.6
	Q2	34.6	3.8	16.3	9.0	-25.0

Invisible trade

Exports of services

2.7 *Exports of services* maintained appreciable growth in the second quarter, up 7.8% in real terms over a year earlier, albeit slower than the 9.3% increase in the first quarter. Benefiting from the thriving inbound tourism, exports of travel services maintained double-digit growth. Exports of financial and other business services also rose notably further, on the back of active cross-border financing, fund-raising and other commercial activities. However, exports of trade-related services, comprising mainly offshore trade activities, and of transportation services showed more moderate growth, mirroring the rather sluggish performance of merchandise trade and cargo flows.

Diagram 2.11 : Trade-related and transportation services accounted for over half of service exports, reflecting Hong Kong's position as a trading hub

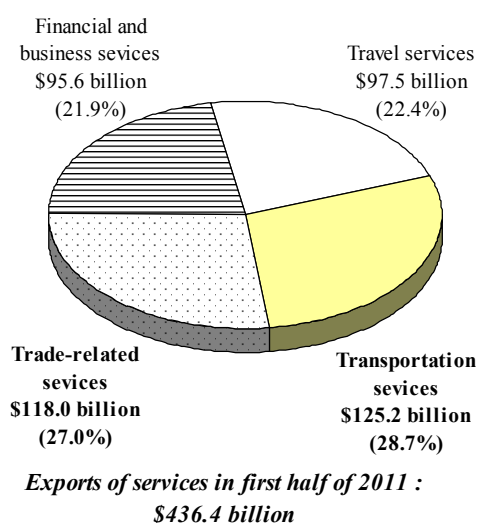
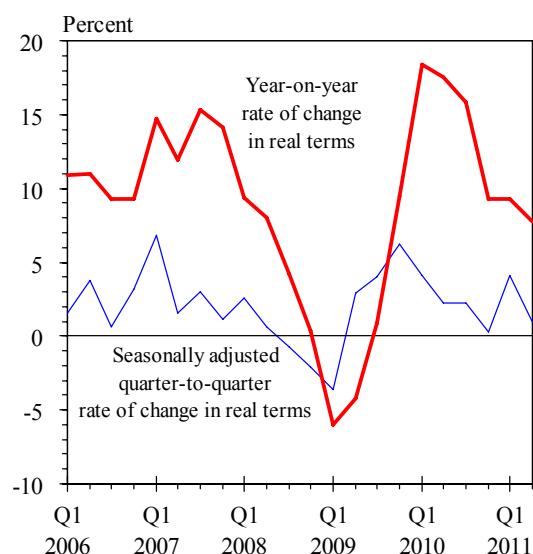


Diagram 2.12 : Exports of services showed notable growth in the second quarter



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

Of which :

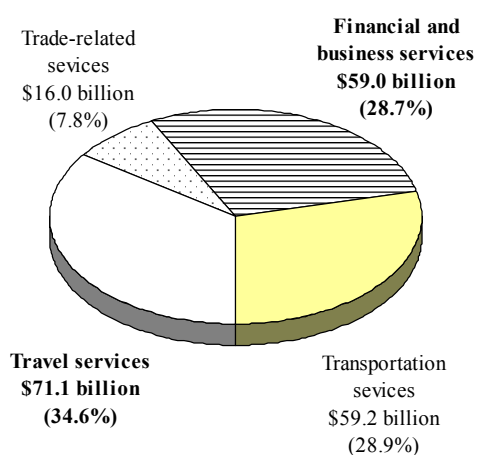
		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	Financial and business services
2010	Annual	15.0	14.3	10.0	25.7	12.8
	H1	18.0	19.4	14.1	26.9	16.0
	H2	12.5	11.0	6.4	24.7	9.9
	Q1	18.4 (4.1)	20.7	16.2	19.1	18.4
	Q2	17.5 (2.2)	18.1	12.3	37.0	13.2
	Q3	15.8 (2.2)	14.1	9.7	39.4	8.4
	Q4	9.3 (0.3)	8.3	2.8	12.7	11.3
2011	H1	8.6	7.4	2.3	14.1	12.4
	Q1	9.3 (4.1)	11.4	0.8	10.8	14.1
	Q2	7.8 (1.0)	3.4	3.7	17.9	10.1

- Notes : (a) Comprising mainly offshore trade.
 (b) Comprising mainly inbound tourism receipts.
 () Seasonally adjusted quarter-to-quarter rate of change.

Imports of services

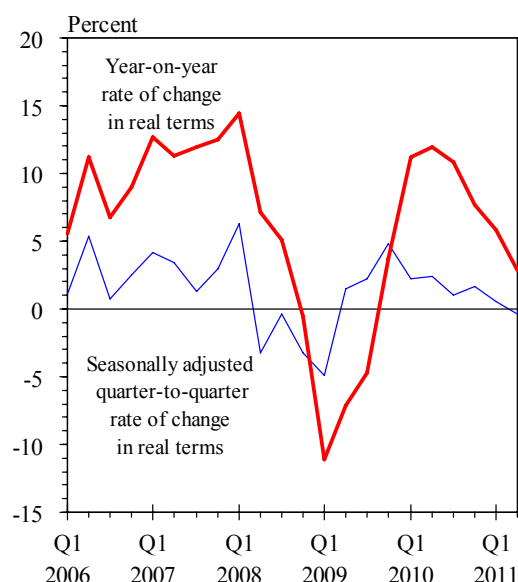
2.8 *Imports of services* grew moderately by 2.9% in real terms in the second quarter, following a 5.8% increase in the first quarter. Imports of trade-related services saw some deceleration, but still recorded a rather notable growth. Imports of financial and other business services grew solidly further, bolstered by thriving commercial activities despite increased financial market volatilities during the quarter. Imports of travel services grew steadily, amid improving income conditions of local residents. Imports of transportation services however saw only a small increase.

Diagram 2.13 : Travel services, financial and business services featured more prominently in imports of services



*Imports of services in first half of 2011 :
\$205.3 billion*

Diagram 2.14 : Imports of services grew moderately



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

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Financial and business services</u>
2010	Annual	10.4	6.5	12.1	15.8	11.9
	H1	11.6	4.9	14.3	21.0	15.6
	H2	9.3	8.1	10.0	12.5	8.7
	Q1	11.2	(2.2)	12.8	22.3	15.4
	Q2	11.9	(2.4)	15.6	19.7	15.8
	Q3	10.8	(1.0)	11.4	15.7	9.5
	Q4	7.7	(1.7)	8.5	9.9	8.1
2011	H1	4.3	3.5	2.5	9.0	6.0
	Q1	5.8	(0.6)	3.9	13.0	7.9
	Q2	2.9	(-0.4)	1.3	5.0	3.7

Notes : (+) Comprising mainly outbound travel spending.

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

Visible and invisible trade balance

2.9 With the surplus in the invisible trade account being outweighed by the deficit in the merchandise trade account, the combined visible and invisible trade balance recorded a deficit in the second quarter of 2011, at \$12.8 billion, equivalent to 1.2% of the total value of imports of goods and services. This was larger than the deficit of \$3.2 billion or 0.3% of the total value of imports of goods and services in the same quarter of last year. This was the second deficit in the visible and invisible trade account in more than ten years, reflecting in large part the headwinds faced by the external sector during the quarter, including the temporary disruptions to regional trade flows arising from the Japan incident, and the strong domestic demand.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2010	Annual	3,061	827	3,395	395	-334	432	98	2.6
	H1	1,414	377	1,599	183	-185	193	9	0.5
	H2	1,647	450	1,796	212	-149	238	89	4.4
	Q1	640	191	728	91	-88	99	12	1.4
	Q2	774	186	871	92	-97	94	-3	-0.3
	Q3	838	220	898	104	-60	116	56	5.6
	Q4	809	230	898	108	-89	122	33	3.3
2011	H1	1,631	436	1,850	205	-219	231	12	0.6
	Q1	796	221	890	103	-94	118	24	2.5
	Q2	835	216	960	103	-126	113	-13	-1.2

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

Other developments

2.10 Hong Kong and the member states of the European Free Trade Association (EFTA), namely Iceland, Liechtenstein, Norway and Switzerland, signed a Free Trade Agreement (FTA) on 21 June 2011, marking Hong Kong's first FTA with the European economies. It covers trade in services and goods as well as investment, and other trade-related issues such as protection of intellectual property. Traders and investors of both sides can enjoy preferential access to the respective markets under the FTA. The FTA is expected to come into force by mid-2012, and will serve to promote trade and investment liberalisation and enable our businesses to explore and expand their markets in Northern and Western Europe. EFTA is a promising market for Hong Kong's exports. Total bilateral merchandise trade between Hong Kong and the EFTA amounted to \$76 billion in 2010, having grown at an average annual rate of 13.8% during 2006 to 2010. The bilateral trade value expanded sharply further by nearly 50% in the first half of 2011 over a year earlier.

2.11 Invest Hong Kong and the Shenzhen Municipal People's Government co-organised a seminar in Munich, Germany on 9 June 2011 to jointly promote the dual location advantages to German enterprises. The unique advantages that Hong Kong offers as an ideal location for setting up regional operations with manufacturing facilities located over the border in Shenzhen were highlighted. At the end of 2009, Germany was the 14th major

source of inward direct investment (IDI) into Hong Kong, with an IDI stock of HK\$37.9 billion. Moreover, in the first half of 2011, 198 overseas and Mainland companies were assisted by Invest Hong Kong to set up or expand their business operations in Hong Kong, an all-time high since the establishment of Invest Hong Kong in 2000.

2.12 In addition to furthering our ties with the overseas markets, Hong Kong continued to uphold its policy objectives in promoting a free, open and stable trading system, as well as in deepening our regional linkages on the trade and economic fronts. For example, the Government plans to establish the Hong Kong Economic, Trade and Cultural Office in Taiwan within this year to promote long-term co-operation and exchange with Taiwan. Moreover, through the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) and other existing regional platforms, Hong Kong will continue to leverage on the Mainland's economic prowess and pursue mutually beneficial developments.

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 June, the IMF revised slightly downwards its projected global economic growth to 4.3% in 2011, while maintaining that for 2012 at 4.5%. Specifically, growth forecasts for the US in 2011 and 2012 were trimmed to 2.5% and 2.7% respectively. Meanwhile, the Japanese economy was projected to contract by 0.7% in 2011, before rebounding by 2.9% in 2012. Yet the weaker economic growth projected for the US and Japan in 2011 was partially offset by the faster rates of expansion projected for the eurozone, at 2.0% in 2011 and 1.7% in 2012.
- (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.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Summary

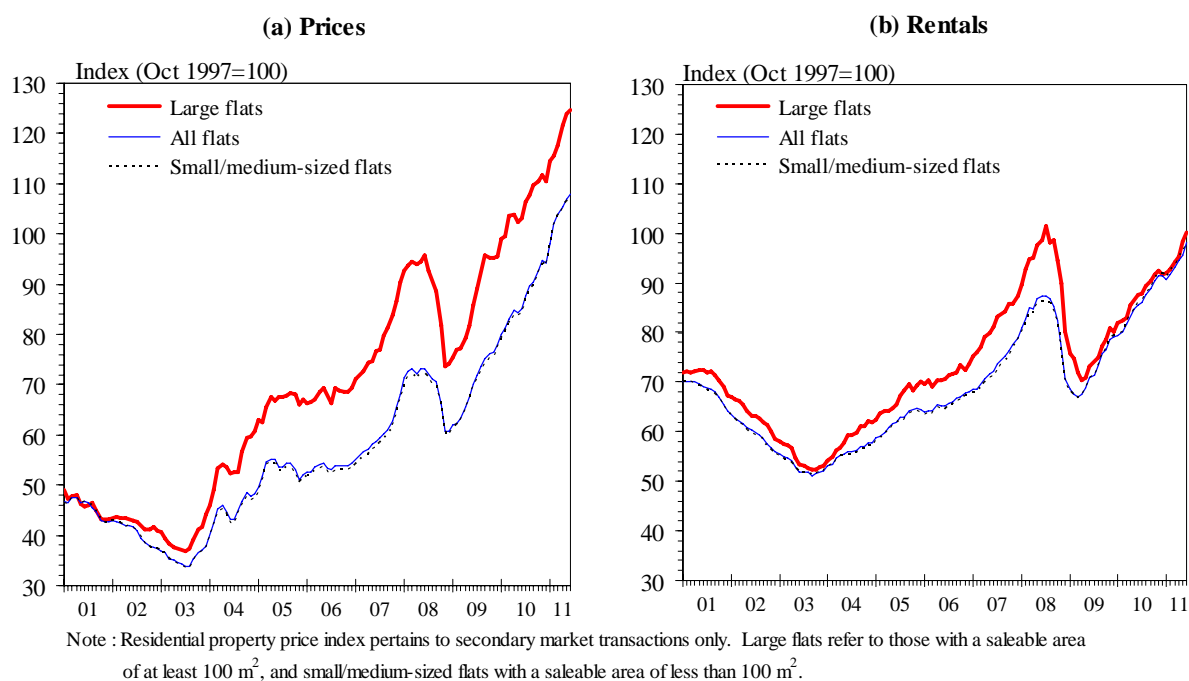
- *The residential property market stayed generally buoyant in the first half of 2011, though there have been some signs of cooling off since mid-June after the Government introduced the latest package of housing measures. Overall flat prices soared by another 14% during the first half. Yet trading activities dwindled following the announcement of the introduction of the Special Stamp Duty late last year.*
- *The Government has stepped up its efforts in ensuring a stable and healthy property market this year, through initiating the sale of more residential sites and announcing in advance quarterly land sale programmes. The Hong Kong Monetary Authority (HKMA) also further tightened its prudential measures on mortgage lending by the banks in June.*
- *Performance of inbound tourism stayed sturdy. Driven by the strong growth in Mainland visitors, total visitor arrivals jumped by another 14.7% in the first half of 2011.*
- *Following a strong recovery last year, the logistics sector put up a modest performance in 2011. Container throughput registered modest growth while air freight throughput retreated somewhat.*

Property

3.1 *The residential property market stayed generally buoyant in the first half of 2011. While transactions showed a distinct decline following the announcement of the introduction of the Special Stamp Duty (SSD) late last year, flat prices continued to rise, especially in the first few months, amid the ongoing low interest rates and solid economic growth. The earthquake and nuclear crisis in Japan in March dampened market sentiment somewhat, but the effects seemed to be short-lived. Most recently, the market has shown some signs of cooling off since mid-June after the Government stepped up its efforts in increasing land supply and further tightening the banks' mortgage lending standards. Also relevant were the successive rises in mortgage interest rates by the major banks since mid-March.*

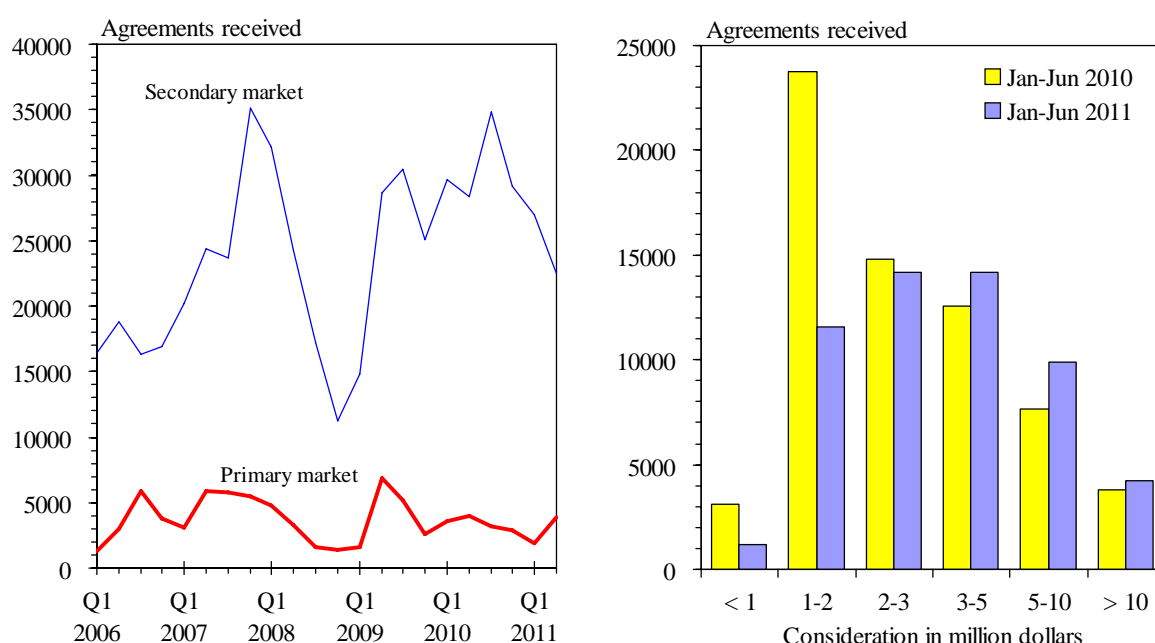
3.2 Overall flat prices soared by another 14% between December 2010 and June 2011, though the monthly increase tapered somewhat during the period. Prices of small/medium-sized flats and large flats registered similar gains of 14% and 13% respectively. Following the rally since early 2009, overall flat prices in June 2011 were already 7% higher than the 1997 peak, with prices of large flats exceeding the peak by an even sharper 25%.

Diagram 3.1 : Flat prices and rentals continued to surge



3.3 Trading activities shrank visibly following the announcement of the introduction of SSD in November last year. The number of sale and purchase agreements for residential property received by the Land Registry fell by 21% over the preceding half-year period or 16% over a year earlier to 55 207 in the first half of 2011. Compared with the preceding half-year period, secondary trading fell by a considerable 23%, and primary trading by a lesser 6%. In parallel, total consideration declined by 11% over the preceding half-year period to \$272.1 billion in the first half, though there was a 7% increase over a year earlier conceivably due to the surge in flat prices.

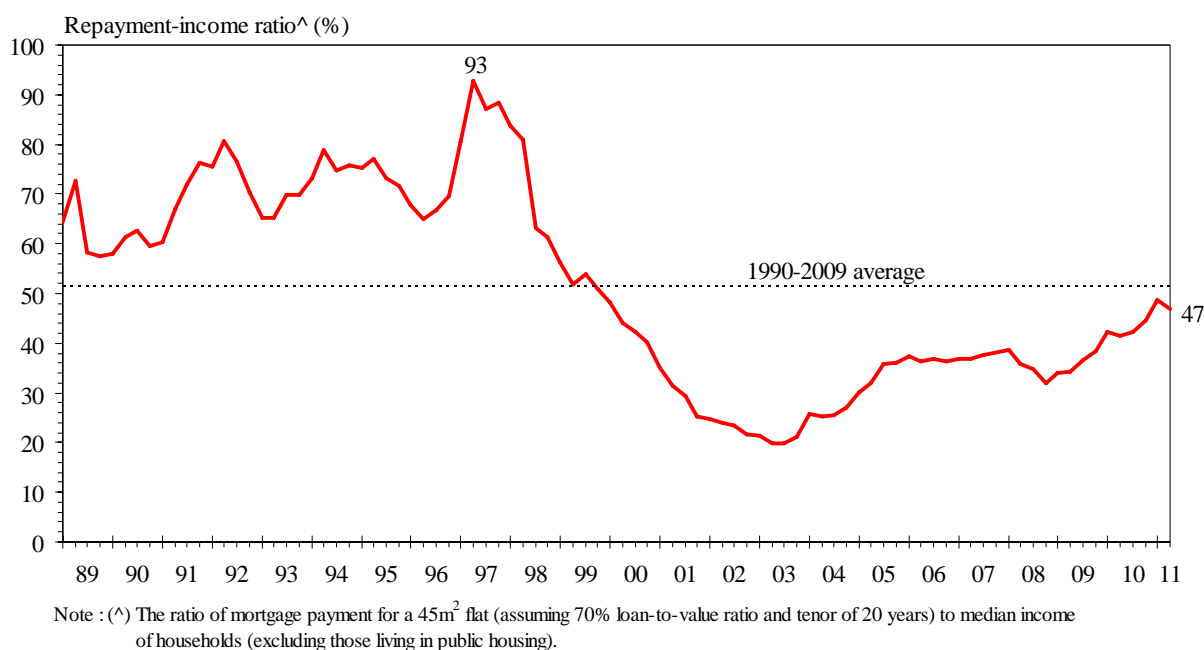
Diagram 3.2 : Trading in the residential property market dwindled



3.4 In the leasing market, overall flat rentals rose further by 6% between December 2010 and June 2011. After a modest start in the early months, the increase in flat rentals has accelerated of late, as conceivably more people shifted back from the sales market to the leasing market in face of the continued surge in flat prices. Analysed by size of flat, rentals of large flats and small/medium-sized flats rose by 9% and 6% respectively. Following the surge since 2009, flat rentals in June 2011 were only 3% below the 1997 peak. As a result of the faster increase in prices than in rentals, the average rental yield for residential property declined further from 3.5% in December 2010 to 3.3% in June 2011.

3.5 In parallel to the surge in flat prices, 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) deteriorated further from 45% in the fourth quarter of 2010 to around 47% in the second quarter of 2011, slightly lower than the long-term average of 51% over 1990-2009.

Diagram 3.3 : Home purchase affordability deteriorated further



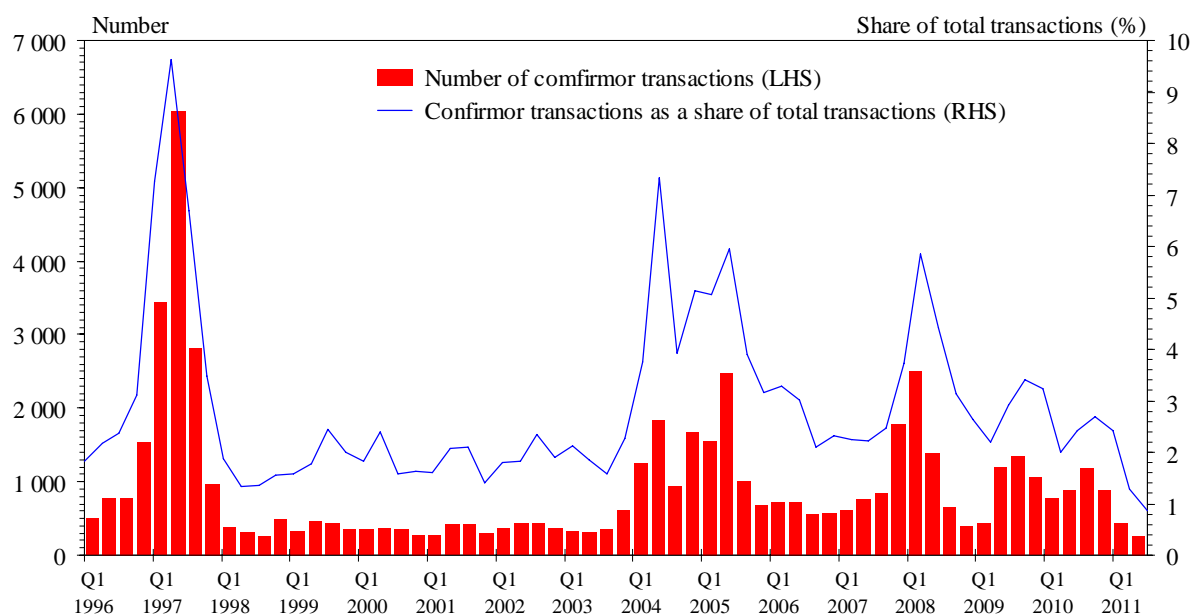
3.6 In order to ensure the healthy and stable development of the property market, the Government has introduced a series of measures since early 2010 along four directions, viz. raise flat supply through increasing the land supply, curb speculative activities, prevent excessive growth of mortgage lending and increase transparency of the property market⁽¹⁾, and has stepped up its efforts in the first half of 2011. In the 2011-12 Budget the Financial Secretary earmarked a total of nine residential sites for sale by government-initiated auction or tender. In April, the Government decided to designate another three residential sites for government-initiated sale and announced the land sale programme for the second quarter. The latest package of measures was announced on 10 June, which includes putting out seven residential sites on the Application List for government-initiated sale and the West Rail property development project at Nam Cheong Station for tender in the third quarter, and further tightening of mortgage lending standards⁽²⁾.

3.7 The various Government measures have achieved some positive results. Regarding *land supply*, housing land available in 2011/12, including government residential sites available for sale, projects from railway property developments and Urban Renewal Authority, lease modifications/land exchanges, and private redevelopment not subject to lease modification, can provide a total of 30 000 to 40 000 private residential flats. While the total supply of flats in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) declined from 59 000 units as estimated at

end-2010 to 56 000 units as estimated at end-June 2011, another 11 200 units could be added to the supply through the conversion of a number of residential sites into “disposed sites” and the completions of auction/tendering of some sites in the months ahead.

3.8 *Speculative activities* cooled down distinctly after the announcement of the introduction of SSD last November. Confirmor transactions plunged by 58% over a year earlier to 695 cases in the first half of 2011, and its share in total transactions shrank to a meagre 1%. As regards *mortgage lending*, in consequence of the tightening of lending standards by HKMA, the average loan-to-value ratio of new mortgages fell noticeably from 60.2% in 2010 to 56.1% in the first half of 2011. With a view to better managing credit risks, the major banks have tightened their mortgage lending terms and raised the margin for the HIBOR-based mortgage loans several times since March. *Market transparency* for transacted prices and transactions has improved after the promulgation of the guidelines for sales of first-hand uncompleted flats in April 2010. The Steering Committee on the Regulation of the Sale of First-hand Residential Properties by Legislation is making steady progress on its work, and will come up with practical legislative proposals in October 2011.

Diagram 3.4 : Speculative activities cooled down distinctly



Note : Confirmor transactions refer to resale before assignment.

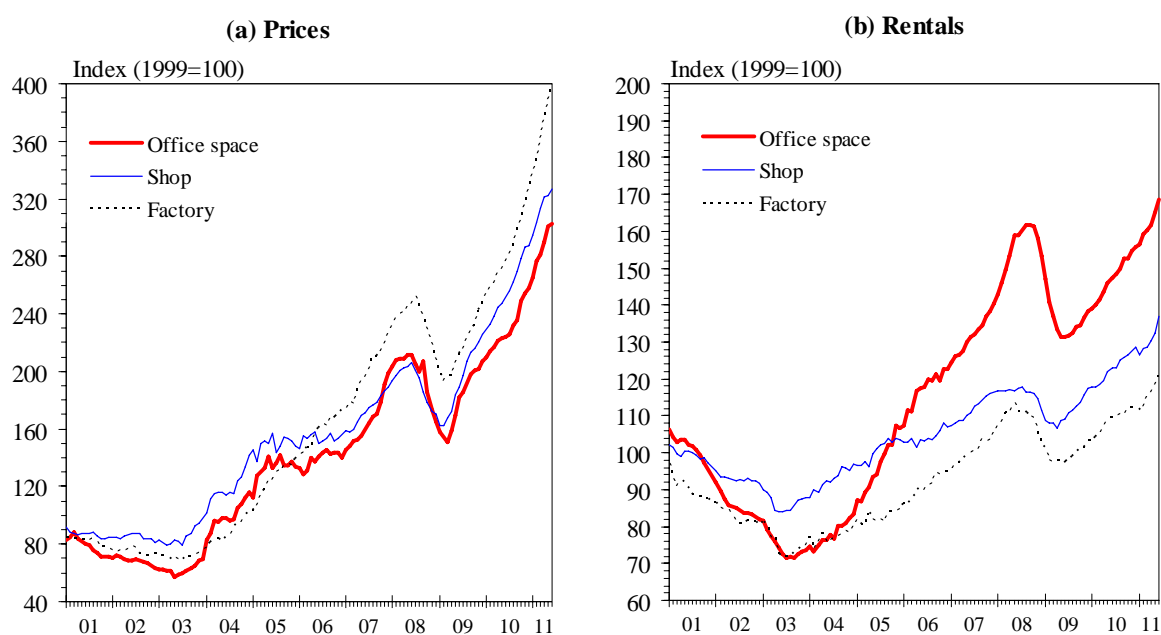
3.9 The *commercial and industrial property markets* also stayed buoyant. Between December 2010 and June 2011, sale prices of *office space* rose by a rampant 17%, with prices of Grade A, B and C office space surging by 12%, 20% and 21% respectively. Office rentals rose by a sharp 8%, with Grade A, B and C office space registering gains of 10%, 6% and 6% respectively. In

June, prices of office space have exceeded the recent peak in 2008 by a sharp 43% while rentals were 4% higher. Reflecting the more substantial rises in prices than in rentals, the respective average rental yields for Grade B and C office space declined further, from 3.5% and 3.8% in December 2010 to 3.2% and 3.3% in June 2011. Meanwhile, that for Grade A office space remained at 3.1%. Transactions for office space rose by 6% over the preceding half-year period or 24% over a year earlier to 2 050 cases in the first half.

3.10 Prices and rentals of *retail shop space* continued to rise, by 14% and 6% respectively in June 2011 over December 2010. Prices in June have exceeded the recent peak in 2008 by a rampant 59%, and rentals by 16%. The average rental yield for retail shop space fell further from 3.2% in December 2010 to 3.0% in June 2011. While trading retreated by 4% from the high base in the second half of 2010 to 4 010 cases in the first half of 2011, it was still 15% higher than a year earlier⁽³⁾.

3.11 For *flatted factory space*, sale prices in June 2011 soared by 22% over December 2010, while rentals also rose by a rapid 7%. The average rental yield dropped from 4.3% to 3.8% over the period. In June, prices of flatted factory space were sharply higher than the peak in 2008 by 58%, and rentals by a lesser 6%. As to trading activities, transactions for flatted factory space rose by 12% over the preceding half-year period or 44% over a year earlier to a record high of 5 170 cases in the first half.

Diagram 3.5 : Both prices and rentals of non-residential properties surged further



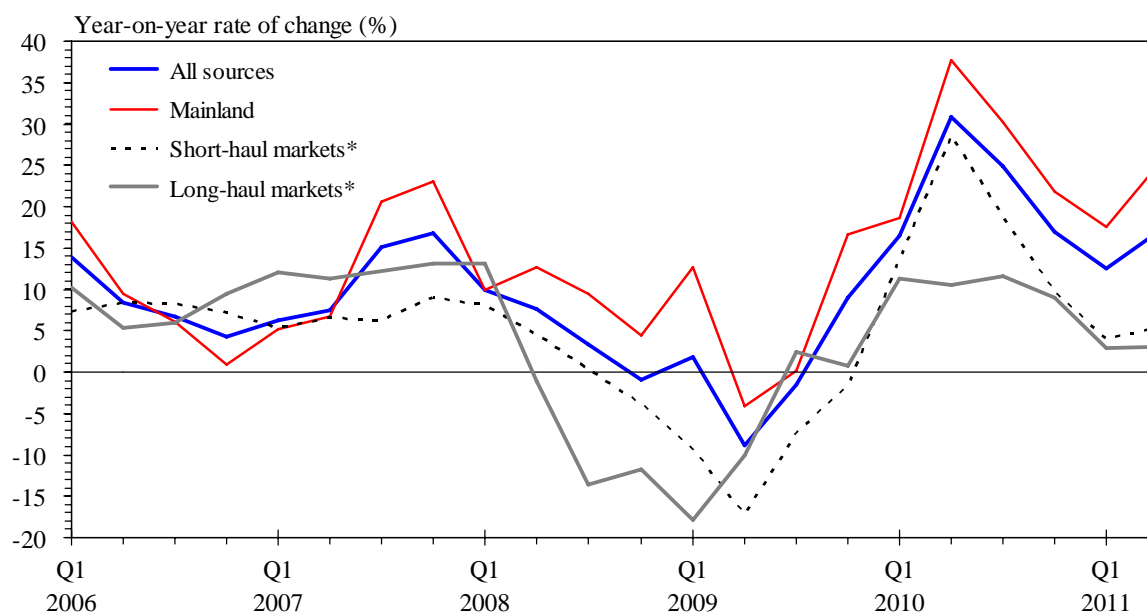
Land

3.12 The land sales market was active in the first half of 2011 upon the Government's proactive efforts to increase land supply. A total of nine residential sites, one business site and one hotel site were sold at the Government's initiative. Among the nine residential sites, six were sold by auction and the other three by public tender. The business site and the hotel site were sold by public tender. These eleven sites had a total area of about 8.15 hectares and fetched a total premium of about \$27 billion. In July, the tender exercises for another residential site in Tung Chung and three commercial sites in Sai Kung, Hung Hom and Kowloon Bay were closed, and that for a hotel and residential/commercial site with an area of 0.79 hectares in North Point commenced. Regarding exchange of land and lease modification, five and 28 sites were respectively approved in the first half.

Tourism

3.13 Performance of inbound tourism stayed sturdy in the first half of 2011, with the number of *incoming visitor arrivals* surging by another 14.7% over a year earlier to 19.3 million. This was mainly driven by the 21.1% surge in Mainland visitors to 12.7 million, which accounted for 65.7% of total visitors. Meanwhile, visitor arrivals from the short-haul markets and long-haul markets grew modestly by 4.8% and 3.0% respectively⁽⁴⁾. Analysed by length of stay, the number of same-day visitors soared by 22.6% while that of overnight visitors increased by 8.5%. As a result, the share of same-day visitors in total arrivals rose further from 43.8% in the first half of 2010 to 46.8% in the first half of 2011, while the share of overnight visitors declined from 56.2% to 53.2%.

Diagram 3.6 : Incoming visitor arrivals continued to show strong growth



Note : (*) See note (4) at the end of this chapter for the definition of short-haul and long-haul markets.

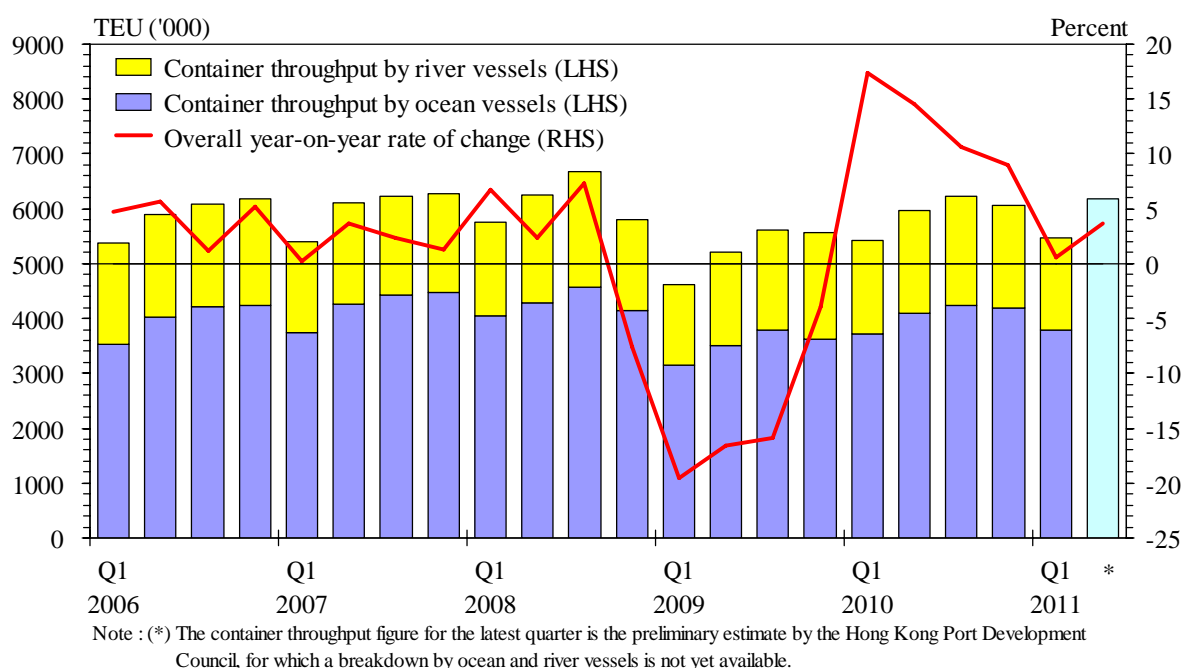
3.14 In parallel, the average hotel room occupancy rate rose from 84% a year earlier to 88% in the first half of 2011, and the average achieved hotel room rate by 16.8% over a year earlier to \$1,291⁽⁵⁾.

3.15 The Government published a paper on the review of the operation and regulatory framework of Hong Kong's tourism sector for public and trade consultation from late April to mid-July. The consultation paper sets out the merits and drawbacks, the estimated implementation timeframe and financial implications of four reform options. The Government has gathered views through different channels and forums during the consultation period, and is analysing in detail all the views collected to facilitate the formulation of reform proposals which are effective, practicable and able to sustain healthy development of the tourism sector. The proposal will be announced in the fourth quarter this year as planned.

Logistics

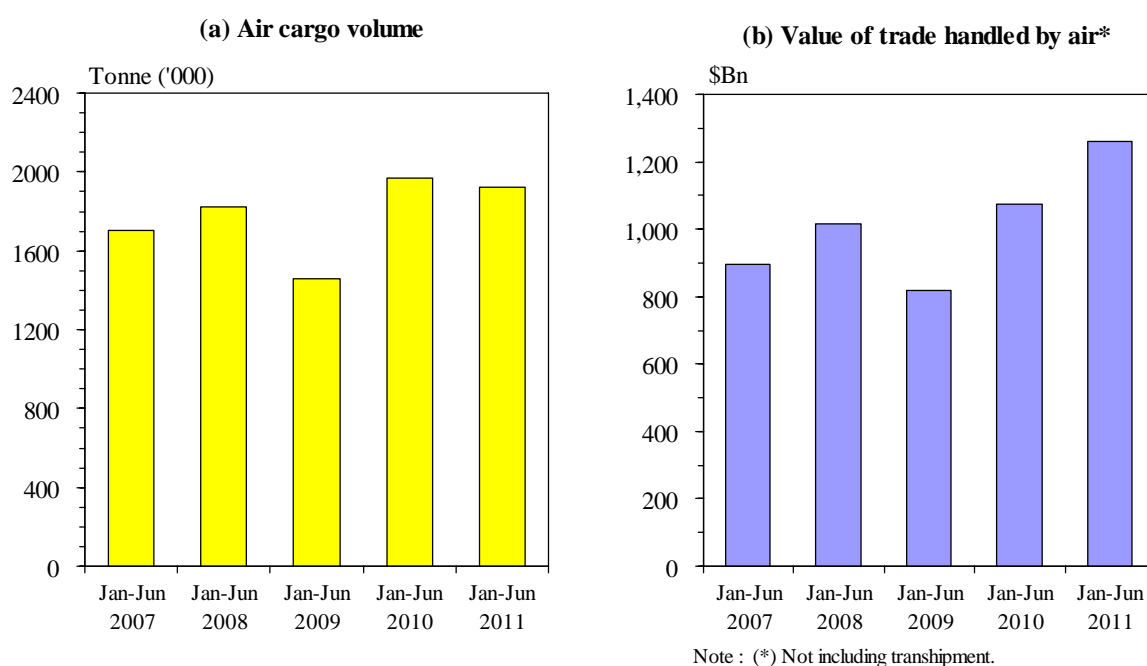
3.16 Following the strong recovery in 2010, the logistics sector put up a modest performance this year. *Total container throughput* edged up by 2.2% over a year earlier to 11.7 million TEUs in the first half. Over the period, the value of trade handled at the Hong Kong Port expanded distinctly by 14.0%, though its share in Hong Kong's total trade value declined from 27.0% to 26.7%.

Diagram 3.7 : Port container traffic showed modest growth



3.17 *Air freight throughput* declined slightly by 2.3% over a year earlier to 1.93 million tonnes in the first half, mainly reflecting the fall in the second quarter due to a high base of comparison. Yet the total value of trade by air leapt further by 17.3%, and its share in overall trade value rose further from 36.0% to 36.7%.

Diagram 3.8 : Air cargo edged down while the value of trade by air surged further



Transport

3.18 Traffic flows for most major modes of transport recorded steady growth in the first half of 2011. Air passenger traffic expanded by 5.7% over a year earlier to 25.8 million and water-borne passenger trips by 4.9% to 13.1 million. As to land-based cross-boundary traffic movements, average daily passenger trips increased by 3.9% to 509 600 while average daily vehicular movements edged down by 0.5% to 41 800.

3.19 In early June Airport Authority Hong Kong (AAHK) released the Hong Kong International Airport Master Plan 2030, which outlines the strategic directions of the future development of Hong Kong International Airport, i.e. maintaining the existing two-runway system or expanding into a three-runway system, for a three-month public consultation. Upon receiving the recommendation on the way forward from AAHK by the end of the year after the public consultation, the Government will carefully consider the recommendation, with a view to deciding the next stage of work.

Creativity and innovation

3.20 In June the Government introduced the Copyright (Amendment) Bill 2011 into the Legislative Council. The bill updates the copyright law to meet challenges posed by advances in information technology. It also aims at enabling co-operation between copyright owners and online service providers (OSPs) and facilitating reasonable use of copyright works in the digital environment. To these ends, the bill includes proposals on such areas as introducing a technology-neutral exclusive right for copyright owners to communicate their works through any mode of electronic submission, establishing a statutory “safe harbour” for OSPs as well as modifying existing and providing copyright exceptions.

Environment

3.21 In May the Government launched a three-month public consultation on the Extension of the Environmental Levy Scheme on Plastic Shopping Bags (the Levy Scheme). The Levy Scheme now covers some 3 000 major/chain supermarkets and other stores. Since its implementation in July 2009, the number of plastic shopping bags distributed by the registered retailers is estimated to have fallen by about 90%. In view of this achievement, the Government considers it appropriate to extend the scheme to cover all retailers

regardless of scale to induce further behavioural change and encourage waste reduction at source.

Notes :

- (1) See Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects for details of the measures.
- (2) On 10 June, HKMA announced the following measures to strengthen risk management in residential mortgage lending business :
 - (a) Lower the maximum loan-to-value (LTV) ratio for residential properties with a value at or above HK\$10 million and below HK\$12 million to 50% (for those with a value at or above HK\$12 million, the ratio has already been lowered to 50% in November 2010);
 - (b) Lower the maximum LTV ratio for residential properties with a value at or above HK\$7 million and below HK\$10 million to 60%, with the maximum loan amount capped at HK\$5 million;
 - (c) Lower the maximum LTV ratio for residential properties with a value below HK\$7 million to 70%, with the maximum loan amount capped at HK\$4.2 million;
 - (d) If the principal income of the mortgage loan applicant is not derived from Hong Kong, the applicable maximum LTV ratio will be lowered by at least 10 percentage points regardless of property types or values;
 - (e) Lower the maximum LTV ratio for properties under the net worth-based mortgage from 50% to 40%.
- (3) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-build office space.
- (4) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific.
- (5) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the first half of 2011. Yet the major banks have raised the margin for the HIBOR-based mortgage loans several times since March.*
- *The Hong Kong dollar spot exchange rate against the US dollar showed some fluctuations in the first half of 2011, along with the changes in external environment and thus international fund flows. Meanwhile, the Hong Kong dollar Effective Exchange Rate Indices softened further in parallel with the weakening of the US dollar against other major currencies.*
- *Partly driven by Mainland-related loan demand, total loans and advances continued to expand at a brisk pace. The Hong Kong Monetary Authority (HKMA) requested the banks to submit their business plans and funding strategies for the rest of 2011 for review in April and further tightened the prudential measures on mortgage lending in June, with a view to strengthening risk management.*
- *The local stock market exhibited substantial volatility in the first half of 2011. After significant ups and downs, the Hang Seng Index closed June 2.8% lower than at end-2010, and underperformed most major overseas markets. Meanwhile, trading and fund raising activities stayed generally active.*

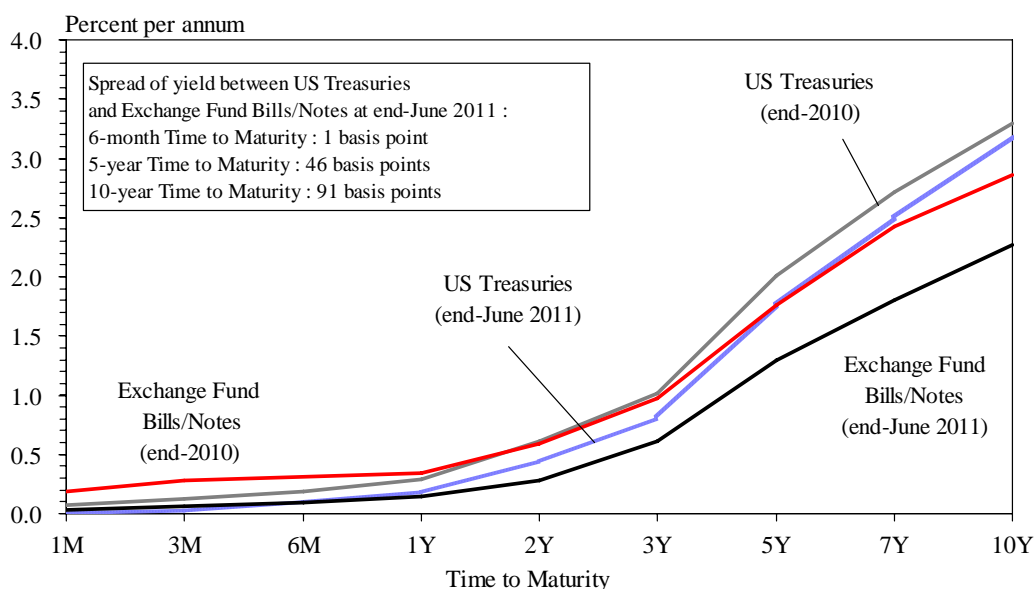
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the first half of 2011 amid the ongoing accommodative monetary policy in the United States. With the US Federal Funds Target Rate staying at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA remained unchanged at 0.5%⁽¹⁾. Meanwhile, the *Hong Kong dollar interbank interest rates* stayed low, with the overnight and the three-month HIBOR hovering at 0.13% and 0.33% respectively.

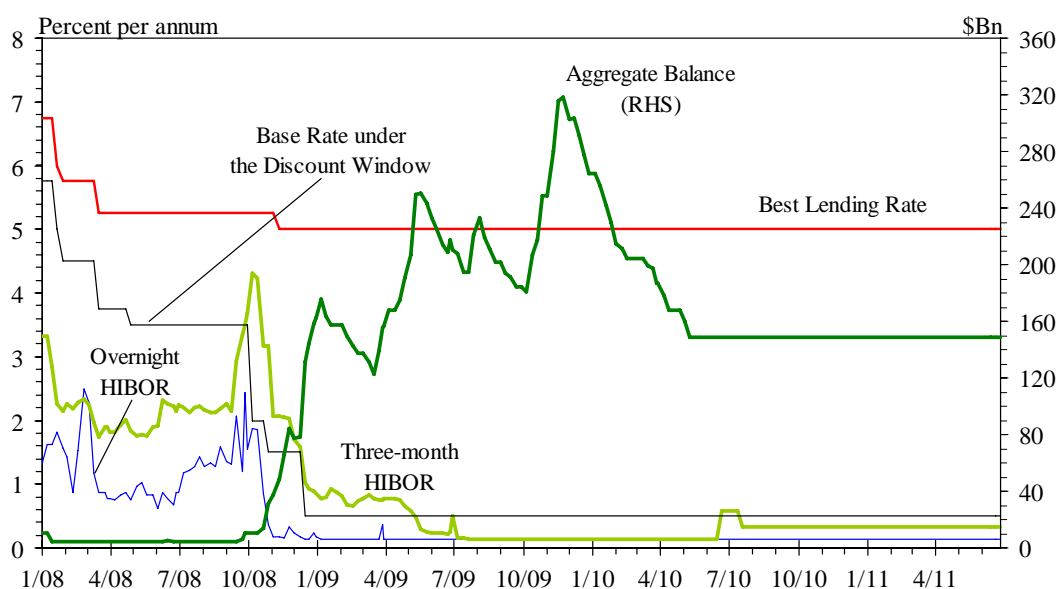
4.2 The differentials between the Hong Kong dollar interest rates and their US dollar counterparts were generally stable in the first half. The discount of the one-month HIBOR to the corresponding Euro-dollar deposit rate only edged up from eight basis points at end-2010 to nine basis points at end-June 2011, and that between the corresponding three-month rates from seven basis points to eight basis points. Over the same period, the *Hong Kong dollar yields* declined, particularly at the longer tenors, while the US dollar yield curve flattened. As a result, the yield spread between 6-month Exchange Fund Bills and US Treasury Bills turned from a premium of 12 basis points to a discount of one basis point, while the discount of 10-year Exchange Fund Bills and US Treasury Notes widened from 44 basis points to 91 basis points.

Diagram 4.1 : Hong Kong dollar yields declined, while the US dollar yield curve flattened



4.3 Interest rates at the retail level stayed generally low in the first half. The *Best Lending Rates* remained unchanged at 5.00% or 5.25%. The *average savings deposit rate*, and one-month and one-year *time deposit rates* quoted by major banks (which are for deposits of less than \$100,000) also remained at 0.01%, 0.01% and 0.15% respectively. Yet certain banks raised the rates for short-term time deposits of larger denomination in May and June, conceivably to attract funds for meeting the strong loan demand. As a result, the *composite interest rate*, an indicator of the average funding cost for banks, rose slightly from 0.21% at end-2010 to 0.31% at end-June 2011⁽²⁾. The major banks have also tightened their mortgage lending terms and raised the margin for the HIBOR-based mortgage loans several times since March, from 0.6-0.9% in early 2011 successively to 1.5-2.5% in June.

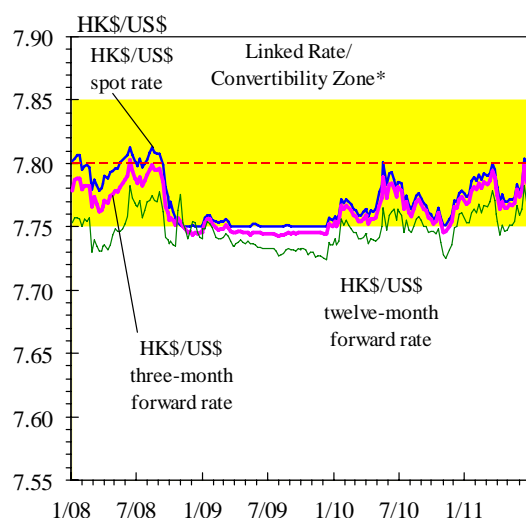
**Diagram 4.2 : Hong Kong dollar interest rates continued to stay low
(end for the week)**



4.4 The Hong Kong dollar showed some fluctuations against the US dollar in the first half, along with changes in the external environment and thus international fund flows. Taking the first half as a whole, the Hong Kong dollar spot exchange rate against the US dollar weakened from 7.775 at end-2010 to 7.782 at end-June 2011. Over the same period, the discount of the *3-month Hong Kong dollar forward rate* narrowed from 57 pips (each pip equivalent to HK\$0.0001) to 46 pips while that of the *12-month Hong Kong dollar forward rate* widened from 191 pips to 218 pips.

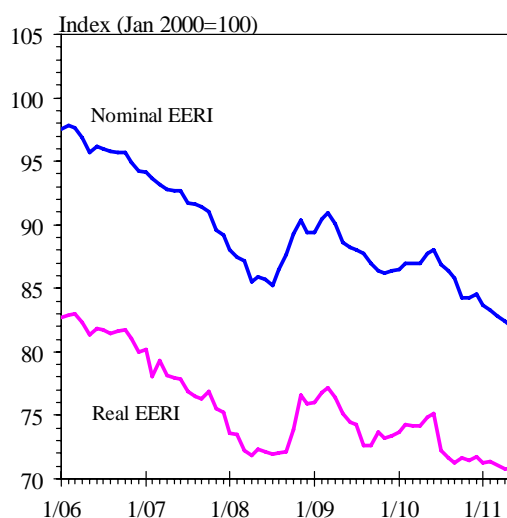
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rates against other currencies closely followed those of the US dollar. With the US dollar depreciating further against other major currencies, the trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices* decreased further by 3.3% and 1.5% respectively during the first half⁽³⁾.

Diagram 4.3 : Hong Kong dollar showed some fluctuations against the US dollar (end for the week)



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

Diagram 4.4 : Trade-weighted EERIs declined further alongside the weaker US dollar (average for the month)



Money supply and banking sector

4.6 The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) increased by 7.8% over end-2010 to \$773 billion at end-June 2011, while the broad money supply (HK\$M3) edged up by 0.8% to \$3,910 billion⁽⁴⁾. Meanwhile, *total deposits* with authorized institutions (AIs) expanded by another 5.4% to \$7,234 billion at end-June 2011. Among the total, foreign currency deposits surged by 11.5% while Hong Kong dollar deposits showed a marginal decline of 0.1%⁽⁵⁾.

Diagram 4.5 : Both HK\$M1 and HK\$M3 expanded in the first half of 2011

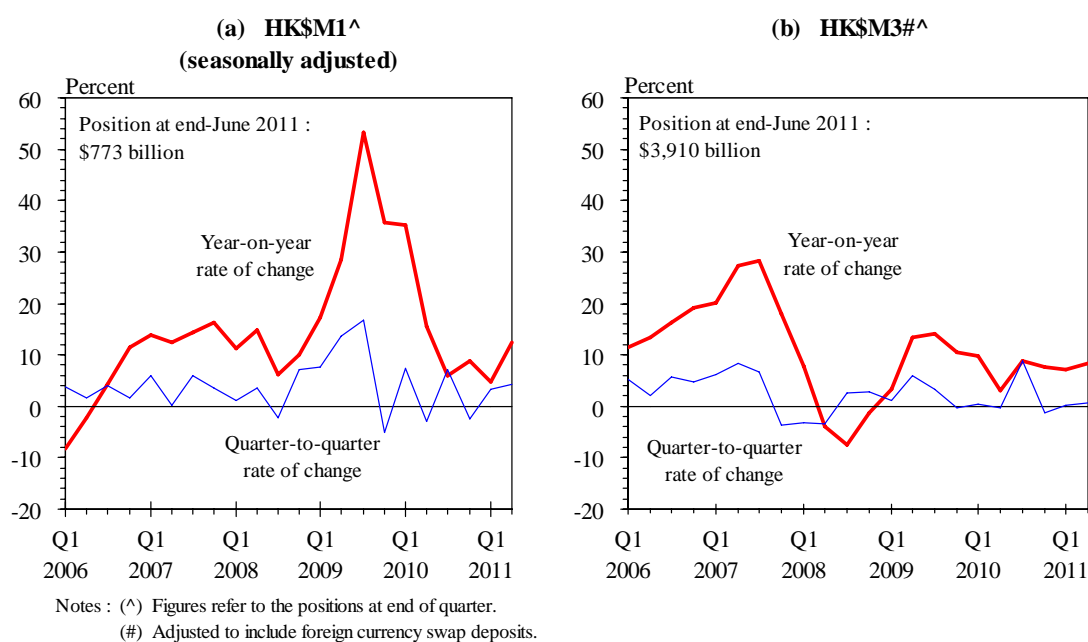


Table 4.1 : Hong Kong dollar money supply and total money supply

		<u>M1</u>		<u>M2</u>		<u>M3</u>	
% change during the quarter		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2010	Q1	7.4	4.7	0.4	-0.1	0.5	*
	Q2	-3.0	-4.3	-0.2	-0.3	-0.4	-0.4
	Q3	7.1	19.1	9.0	6.2	8.9	6.2
	Q4	-2.6	-5.4	-1.3	2.1	-1.4	2.1
2011	Q1	3.4	2.9	0.1	3.3	0.1	3.4
	Q2	4.3	4.4	0.8	3.4	0.7	3.4
Total amount at end-June 2011 (\$Bn)		773	1,094	3,900	7,625	3,910	7,648
% change from end-2010		7.8	7.5	0.9	6.8	0.8	6.9
% change over a year earlier		12.5	21.0	8.4	15.9	8.3	15.9

Notes : ([^]) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

(*) Change of less than 0.05%.

4.7 *Total loans and advances* surged by another 14.3% over end-2010 to \$4,834 billion at end-June 2011. Within the total, Hong Kong dollar loans rose by 7.9% to \$3,047 billion, while foreign currency loans soared by 27.3% to \$1,787 billion. Loans for use in Hong Kong grew by 12.2% to \$3,685 billion at end-June 2011, and loans for use outside Hong Kong by a much faster 21.7% to \$1,149 billion. Mainland-related loans were an important factor behind total loan growth, leading to fast growth in foreign currency loans and loans for use outside Hong Kong.

4.8 Among the loans for use in Hong Kong, loans to wholesale and retail trade and trade finance jumped by 36.7% and 31.8% respectively over end-2010, in tandem with the solid economic growth. Supported by a generally buoyant property market, loans for purchases of residential property and loans to building, construction, property development and investment also registered decent albeit decelerated increases of 5.5% and 6.5% respectively. Reflecting the sturdy growth in loans and a marginal decline in deposits, the Hong Kong dollar loan-to-deposit ratio rose further from 78.1% at end-2010 to 84.3% at end-June 2011, the highest level since late 2005.

4.9 With a view to strengthening risk management in the banking sector, in April the HKMA required the AIs to submit their business plans and funding strategies (particularly those related to loan and deposit growth, loan-to-deposit ratios and other relevant risk indicators) for the rest of 2011 for review. Subsequently in June the HKMA further tightened its prudential measures on mortgage lending by the banks⁽⁶⁾.

Table 4.2 : 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
2010	Q1	12.2	1.9	9.3	6.0	2.5	6.1	17.1	4.6	9.0	5.5
	Q2	19.8	9.8	15.5	5.7	2.6	13.0	87.9	7.4	14.3	8.8
	Q3	9.1	8.2	13.9	6.2	5.4	3.8	316.3	9.4	9.3	9.4
	Q4	6.8	7.8	7.7	2.6	3.0	1.6	-83.1	1.0	8.0	2.5
2011	Q1	13.0	7.3	17.4	4.3	2.4	12.9	25.7	7.1	8.5	7.4
	Q2	16.7	5.8	16.5	2.1	3.1	-1.4	9.5	4.8	12.2	6.5
Total amount at end-June 2011 (\$Bn)		361	188	318	893	840	262	25	3,685	1,149	4,834
% change from end-2010		31.8	13.6	36.7	6.5	5.5	11.3	37.7	12.2	21.7	14.3
% change over a year earlier		53.7	32.4	67.6	16.0	14.6	17.3	-3.0	24.0	43.6	28.1

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

(a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.

(b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.

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

4.10 Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying 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% at end-March 2011. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.11 Following the release of the Basel III rules text by the Basel Committee last December, the HKMA issued a circular to all AIs in January 2011 indicating its intention to fully implement Basel III in accordance with the Basel Committee's timetable, including the transitional arrangements⁽⁷⁾. The HKMA has started the preparatory work, particularly the necessary legislative processes and the policy frameworks for the new liquidity and countercyclical

capital buffer requirements. The HKMA has also commenced discussion with individual institutions on their plans to ensure compliance with Basel III, and will commence consultation with the industry on its detailed implementation proposals in the third quarter of 2011. The HKMA anticipates enactment of the Banking Amendment Bill in the Legislative Council's 2011-2012 session, followed by the amendments of the Banking (Capital) Rules and the Banking (Disclosure) Rules, for implementation of Basel III in phases at the beginning of 2013.

4.12 Based on the results of the Quantitative Impact Study on the Basel III consultative proposals conducted by the HKMA, AIs in Hong Kong are expected to have little difficulty in meeting the higher capital requirements, given that they are well-capitalised with common equity accounting for a major portion of their capital, and that most of the Basel III regulatory adjustments have been deducted from Tier 1 capital under Hong Kong's existing capital rules.

4.13 Asset quality of the local banking sector improved further. The ratio of classified loans to total loans declined from 0.77% at end-2010 to 0.66% at end-March 2011, and the delinquency ratio for credit card lending from 0.20% to a record low of 0.19%. The delinquency ratio for residential mortgage loans also stayed low at around 0.01% in the first half.

Table 4.3 : 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)
2010 Q1	97.08	1.72	1.20
Q2	97.50	1.53	0.96
Q3	97.72	1.43	0.84
Q4	97.95	1.28	0.77
2011 Q1	98.17	1.17	0.66

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".

4.14 Renminbi business in Hong Kong continued to expand. Following the expansion of the renminbi trade settlement scheme last year, the value of *cross-border renminbi trade settlement* in Hong Kong jumped 135% over the preceding half-year period to RMB804.0 billion in the first half. Alongside a diversified base of investors and issuers, total issuance of renminbi bond reached RMB42 billion in the first half, which already exceeded the total of last year.

4.15 Driven by the rise in renminbi receipts by corporate customers through trade settlement, *total renminbi deposits* soared from RMB314.9 billion at end-2010 to RMB553.6 billion at end-June 2011, and the share of renminbi deposits in total foreign currency deposits from 11.5% to 18.4%.

Table 4.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

As at end of period		Interest rates on ^(a)				Number of authorized institutions engaged in RMB business	Amount of cross-border RMB trade settlement ^(c) (RMB Mn)
		Demand and savings deposits (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Savings deposits ^(b) (%)	Three-month time deposits ^(b) (%)	
2010	Q1	44,609	26,145	70,755	0.46	0.68	73
	Q2	52,426	37,275	89,702	0.46	0.68	77
	Q3	71,947	77,378	149,326	0.46	0.68	92
	Q4	117,573	197,365	314,938	0.46	0.68	111
2011	Q1	137,454	313,965	451,419	0.46	0.66	118
	Q2	180,346	373,256	553,602	0.30	0.52	128
% change from end-2010		53.4	89.1	75.8	N.A.	N.A.	N.A.
% change over a year earlier		244.0	901.3	517.2	N.A.	N.A.	N.A.

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

The debt market

4.16 The Hong Kong dollar debt market grew mildly in the first half. Total issuance of Hong Kong dollar debt securities rose by 4.7% over a year earlier to \$1,025.7 billion. Exchange Fund papers, which accounted for 88.9% of the total, increased by 2.1%. Meanwhile, private sector debt issued by AIs and local corporations soared by 75.8% and 101.6% respectively. The total outstanding balance of Hong Kong dollar debt grew by 1.9% over end-2010 to a record level of \$1,269.7 billion at end-June 2011⁽⁸⁾, equivalent to 32.5% of HK\$M3 or 25.2% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁹⁾.

4.17 For the Government Bond (“GB”) Programme, tentative issuance schedule for institutional investors for March to August 2011, which includes a total worth of \$8.5 billion bonds with tenors ranging from two to ten years, was announced in January. Subsequently, two tenders were held under the issuance schedule in the first half of 2011, namely, tender for a new \$3.5 billion 2-year GB in March and tender for a re-opening of \$2.5 billion 5-year GB in May. The tenders were well-received by the market, registering bid-to-cover ratios of 3.89 and 3.29 respectively. A new \$2.5 billion 10-year GB is scheduled for tender in August. The total size of outstanding institutional GB reached \$30 billion at end-June and the daily turnover averaged at \$7.25 billion in the first half, equivalent to a turnover ratio of 27%⁽¹⁰⁾.

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

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New Issuance											
2010	Annual	1,816.8	11.2	18.5	1,846.4	85.0	13.4	50.8	149.2	0.3	1,996.0
	Q1	437.4	2.8	6.0	446.2	20.5	4.3	13.8	38.6	-	484.9
	Q2	456.5	3.6	4.5	464.6	17.9	3.2	8.7	29.8	0.3	494.6
	Q3	458.7	1.2	3.5	463.4	21.4	2.8	15.7	39.8	-	503.2
	Q4	464.1	3.6	4.5	472.3	25.2	3.2	12.6	41.0	-	513.3
2011	Q1	452.9	4.8	3.5	461.2	30.5	6.1	7.3	43.8	-	505.0
	Q2	459.4	4.4	2.5	466.4	37.1	9.0	5.6	51.7	2.6	520.7
During the first half of 2011		912.3	9.2	6.0	927.5	67.6	15.0	12.9	95.6	2.6	1,025.7
% change over a year earlier		2.1	45.7	-42.9	1.8	75.8	101.6	-42.7	39.7	731.7	4.7
Outstanding (as at end of period)											
2010	Q1	612.5	64.9	13.0	690.4	90.5	82.6	304.9	478.0	21.1	1,189.5
	Q2	651.4	61.9	17.5	730.8	93.8	84.1	290.3	468.2	18.4	1,217.4
	Q3	652.1	60.8	21.0	733.8	105.0	85.2	290.1	480.3	15.9	1,230.1
	Q4	653.1	60.6	25.5	739.2	122.1	84.9	283.9	490.9	15.5	1,245.7
2011	Q1	653.8	58.6	29.0	741.4	140.4	86.8	282.2	509.4	15.1	1,265.8
	Q2	654.4	52.6	31.5	738.5	153.3	93.0	267.5	513.8	17.4	1,269.7
% change from end-2010		0.2	-13.2	23.5	-0.1	25.6	9.6	-5.8	4.7	11.8	1.9
% change over a year earlier		0.5	-15.1	80.0	1.1	63.6	10.5	-7.9	9.7	-5.8	4.3

Notes : Figures may not add up to the corresponding totals due to rounding and may be subject to revisions.

(a) AIs : Authorized institutions.

(b) MDBs : Multilateral Development Banks.

N.A. Not available.

The stock and derivatives markets

4.18 The *local stock market* exhibited substantial volatility in the first half of 2011, affected very much by the sharp changes in external environment. The earthquake and nuclear incidence in Japan once sent the Hang Seng Index (HSI) down to 22 284 on 17 March. While the HSI subsequently rebounded to 24 396 on 8 April, renewed concerns about the European sovereign debt problems, decelerating recovery in the US and further tightening in the Mainland saw it plunge to a nine-month low of 21 560 on 20 June. At 22 398, the HSI closed end-June 2011 2.8% lower than at end-2010, and underperformed most major overseas markets. *Market capitalisation* stayed virtually unchanged at \$21.1 trillion, ranking the seventh largest globally and the third largest in Asia⁽¹¹⁾.

4.19 On the other hand, trading activities held firm. *Average daily turnover* in the securities market rose markedly by 15.3% over a year earlier to \$73.6 billion in the first half, though it was 0.7% lower than the high base in the preceding half-year period (**Box 4.1**). For *derivatives products*, average daily trading volume of futures and options rallied by 22.7% over a year earlier, with different products showing increases of various magnitude⁽¹²⁾. Trading of HSI options and stock options surged by 40.9% and 30.2% respectively, while trading of H-shares index futures and HSI futures recorded more moderate growth of 6.7% and 6.2%. Average daily trading value of securitised derivatives products jumped by 25.8%, among which trading of derivative warrants and callable bull/bear contracts leapt by 30.1% and 17.5% respectively.

Diagram 4.6 : The Hang Seng Index underperformed most major markets in the first half of 2011

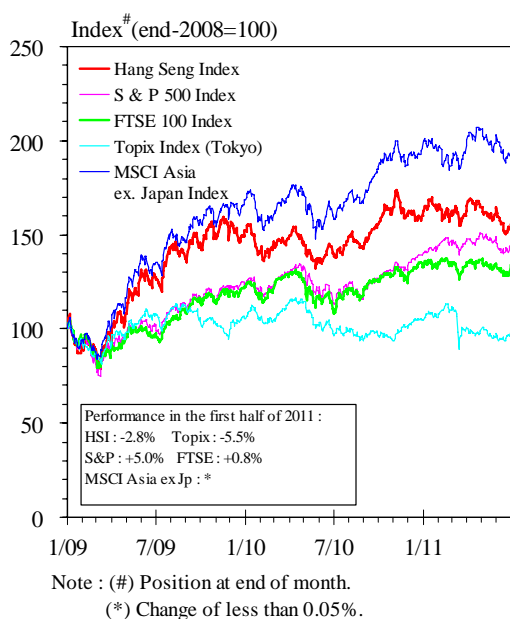


Diagram 4.7 : Trading activities held firm

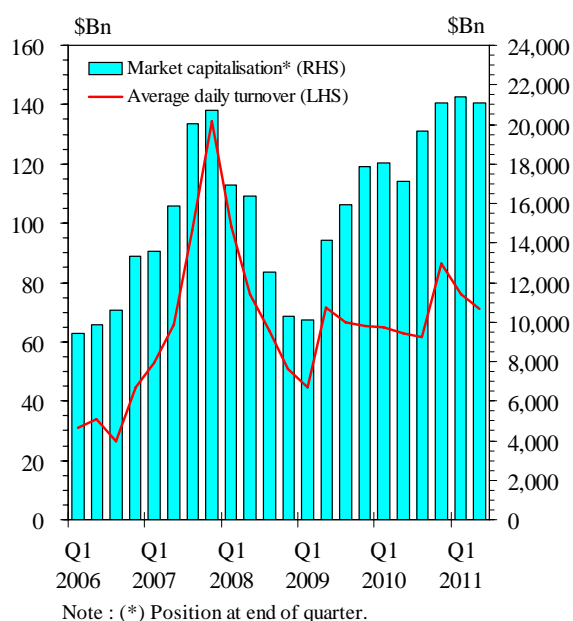


Table 4.6 : Average daily turnover of derivatives products of the Hong Kong market

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock options	Total futures and options traded*	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn) [^]
2010	Annual	84 803	34 335	50 120	246 474	467 961	10,813	5,845	16,658
	Q1	84 138	29 731	48 617	205 581	417 305	9,646	4,757	14,402
	Q2	83 863	32 252	53 719	237 708	461 361	8,972	4,994	13,966
	Q3	78 556	31 800	46 850	216 830	420 924	10,456	5,486	15,942
	Q4	92 688	43 352	51 470	324 534	571 079	14,010	8,039	22,049
2011	Q1	90 884	43 476	52 133	299 477	546 164	13,378	5,921	19,299
	Q2	87 592	43 806	57 151	276 966	531 141	10,786	5,523	16,308
% change in 2011 H1 over 2010 H1		6.3	40.9	6.7	30.2	22.7	30.1	17.5	25.8
% change in 2011 H1 over 2010 H2		4.3	16.3	11.1	6.7	8.8	-1.0	-15.3	-6.1

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.

4.20 After a weak start in the year, fund raising activities picked up in the second quarter of 2011. For the first half as a whole, *equity capital* raised through new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) surged by 81.1% over the low base in the first half of 2010 to \$304.3 billion, though it was 56.0% lower than the hectic level in the second half of 2010. Within the total, \$174.7 billion was equity fund raised through initial public offerings by 47 companies, a sharp 247% higher than a year earlier⁽¹³⁾.

4.21 Mainland enterprises continued to play a dominant role in the local stock market. At end-June, a total of 610 Mainland enterprises (including 164 H-share companies, 103 “Red Chips” companies and 343 private enterprises) were listed on the Main Board and GEM, representing 42% of the total number of listed companies and 56% of total market capitalisation. In the first half, Mainland-related stocks accounted for 65% of equity turnover and 40% of total equity fund raised in the Hong Kong stock exchange.

4.22 To strengthen the development of Hong Kong’s derivatives market, in May the Hong Kong Exchanges and Clearing Limited (HKEx) launched a consultation on the proposed introduction of after-hours futures trading (AHFT). It is proposed that HSI futures, H-shares index futures and gold futures be traded from 30 minutes after the close of the regular trading session (i.e. 4:45 pm for the index futures and 5:30 pm for gold futures) until 11:15 pm. Through expanding the trading hours to cover most of the business hours in both Europe and the US, AHFT would provide investors the opportunities to hedge or adjust their positions in response to the latest market developments. The consultation has ended in July, and HKEx will publish the consultation results in due course.

Box 4.1

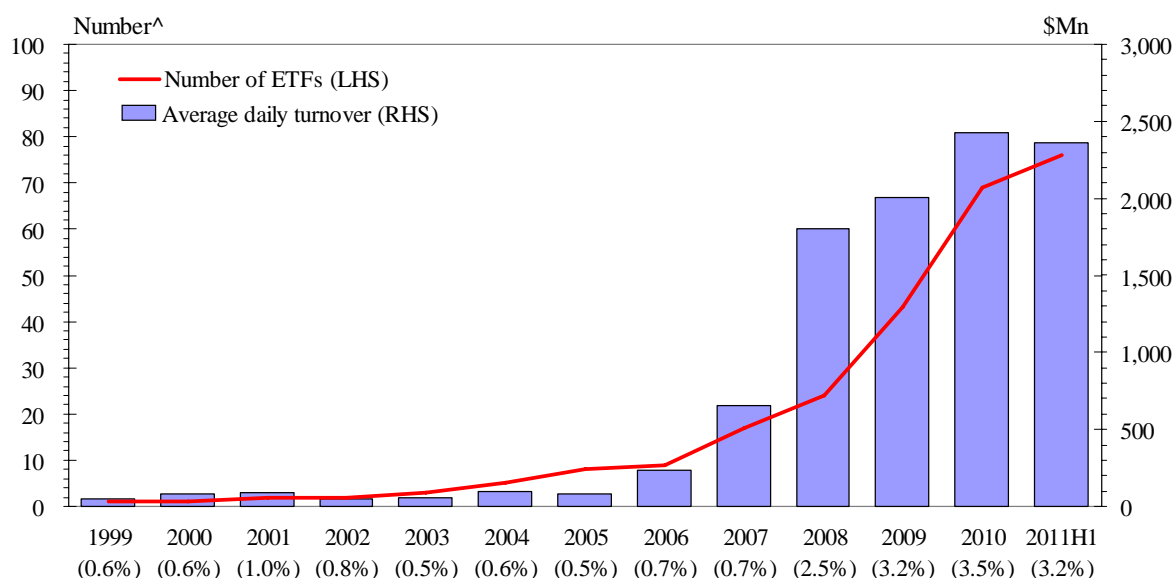
Development of Exchange-Traded Funds (ETFs) in Hong Kong

An exchange-traded fund (ETF) is a listed open-ended collective investment scheme which tracks the movement of a specific underlying benchmark (e.g. the Hang Seng Index or the price of gold). Given that they can be traded at a stock exchange, ETFs offer investors a liquid and convenient access to a specific sector, stock index or asset class. From a broader perspective, there are also views that ETFs which track a commonly-used market index could facilitate spot-futures arbitrage through reducing the total costs for replicating the index portfolio, and hence could potentially enhance efficiency of the stock market.

The first ETF in Hong Kong was listed in 1999, and was also the first ETF in Asia outside Japan. After a steady development during 2000-2006, the ETF market in Hong Kong has been expanding at a brisk pace since 2007. Taking advantage of the huge opportunities related to the Mainland market, several global ETF managers and issuers have set up and expanded their operation in Hong Kong. The number of ETFs has also witnessed a jump from only one at end-1999 to 69 at end-2010. For the first half of 2011, another seven ETFs were launched, bringing the number of ETFs in Hong Kong to 76 at end-June.

As to trading, ETFs have been gaining popularity among investors in Hong Kong. A survey by the Hong Kong Exchanges and Clearing Limited indicated that around 25% of retail investors have invested in ETFs in 2009⁽¹⁾. In 2010, turnover of ETFs amounted to over \$600 billion, accounting for 3.5% of total market turnover. During 2000-2010, average daily turnover of ETFs recorded a spectacular average annual growth of 42%. In consequence to these developments, Hong Kong has become the largest ETF market in terms of total turnover and third largest in terms of number in the Asia-Pacific region in 2010.

Number and average daily turnover of ETFs in Hong Kong



Notes : Figures in brackets represent the average daily turnover of ETFs in Hong Kong as a share of the total in the securities market.

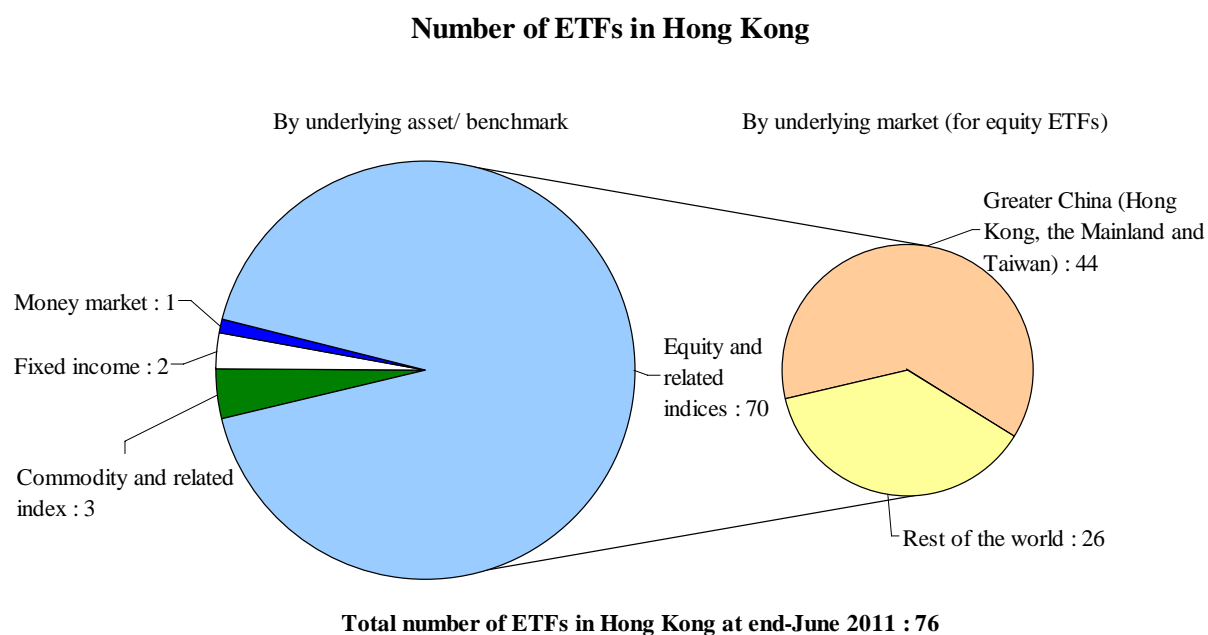
(^) Position at end of period.

Source : Hong Kong Exchanges and Clearing Limited (HKEx).

(1) “Retail Investor Survey 2009” published in March 2010.

Box 4.1 (Cont'd)

Most ETFs in Hong Kong have equity as the underlying benchmark. A total of 70 out of 76 ETFs at end-June 2011 were designed to track the performance of equity and related indices. Within this, 44 focused on the Greater China market (including Hong Kong, the Mainland and Taiwan), while the remaining 26 covered the rest of the world (e.g. India, Korea, the US). On the other hand, there were six ETFs on fixed income, money market, and commodities and related index.



Source: HKEx.

Looking ahead, Hong Kong would continue to leverage on its financial co-operation with the Mainland and unique role as an offshore renminbi centre for the further development of the ETF market. Specifically, with the signing of the Closer Economic Partnership Arrangement Supplement VI in May 2009 and Supplement VII in May 2010, ETFs on stocks in Hong Kong could be introduced in the Mainland. The Government has been closely liaising with the relevant Mainland authorities on the launch of cross-border ETFs.

Fund management and investment funds

4.23 The fund management business expanded further in the first half of 2011. Gross retail sales of *mutual funds* jumped by 66.3% over a year earlier to US\$21.1 billion⁽¹⁴⁾. Aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* rose by 5.2% over end-2010 to \$384 billion at end-June 2011⁽¹⁵⁾. Retail hedge funds continued to show solid performance⁽¹⁶⁾.

4.24 Following an earlier review by the Mandatory Provident Fund Schemes Authority, in June 2011 the Government proposed to amend the Mandatory Provident Fund Schemes Ordinance, including raising the monthly minimum relevant income level (Min RI) for MPF purposes from \$5,000 to \$6,500, and the monthly maximum relevant income level (Max RI) from \$20,000 to \$25,000⁽¹⁷⁾. The proposal to raise the Min RI would allow more people in the lower-income group to be spared from making mandatory contribution. It has been passed by the Legislative Council and will be effective for contribution periods commencing on or after 1 November 2011. Subject to the approval by the Legislative Council, the proposal to raise the Max RI will be effective for contribution periods commencing on or after 1 June 2012.

Insurance sector

4.25 The *insurance sector* continued to grow in the first quarter of 2011⁽¹⁸⁾. Gross premium income from long-term business surged by 32.1% over a year earlier, with non-linked and linked plans jumping by 28.7% and 40.4% respectively. For general business, gross premium income increased by 11.2% and net premium by 8.4%.

4.26 Following the earlier public consultation, in June the Government announced the detailed proposals on the establishment of an independent Insurance Authority (IIA), specifically on its functions, powers in terms of regulation of insurers, insurance intermediaries and insurance intermediary activities of banks, funding mechanism, governance and organisation. The Government has embarked on the next phase of engagement with the industry and stakeholders with a view to refining the proposals for drafting the legislative provisions by early 2012.

Table 4.7 : 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	
2010 Annual	31,361	21,927	2,615	38,673	20,015	92	230	59,010	90,371
Q1	9,230	6,460	559	8,729	4,002	33	54	12,818	22,048
Q2	7,385	5,279	714	11,074	4,515	30	55	15,674	23,059
Q3	7,756	5,498	439	9,689	4,155	11	65	13,920	21,676
Q4	6,990	4,690	903	9,181	7,343	18	56	16,598	23,588
2011 Q1	10,263	7,003	482	11,231	5,619	14	69	16,933	27,196
% change in 2011Q1 over 2010Q1	11.2	8.4	-13.8	28.7	40.4	-57.6	27.8	32.1	23.3

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

4.27 In June the Government introduced the Bill on disclosure of price sensitive information (PSI) and establishment of the Investor Education Council (IEC) to the Legislative Council. As regards PSI, the Bill proposes obliging listed corporations to disclose PSI as soon as reasonably practicable after it has become aware of the information. To streamline the process of enforcing this requirement, the Securities and Futures Commission (SFC) will be empowered to institute proceedings before the Market Misconduct Tribunal. As regards IEC, its proposed establishment as a wholly own subsidiary of the SFC aims to improve the financial literacy and capability of the general public and to assist them in making better financial decision.

4.28 In July a total worth of HK\$10 billion inflation-linked retail bond, or iBond, was open for subscriptions by Hong Kong residents. The iBond has a tenor of three years and bond holders will be paid interest once every six months at a rate linked to the inflation in Hong Kong, subject to a minimum rate of 1%. Responses to the iBond were up to expectation, with total applications of over 155 800 and total application amount of \$13.2 billion. The iBond was subsequently issued and listed on the Stock Exchange of Hong Kong on 28 July.

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) Authorized institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2011, there were 148 licensed banks, 20 restricted licence banks and 26 deposit-taking companies in Hong Kong. Altogether, 194 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) See note (2) at the end of Chapter 3 in this report for details of the measures.

- (7) Basel III tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6%. In addition, it requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% at times of excessive credit growth, both to be met by common equity. These reinforce the higher capital requirements for banks' trading, derivatives and securitisation activities under Basel II, which Basel Committee members including Hong Kong are expected to adopt by the end of 2011. Basel III also introduces two liquidity standards i.e. the Liquidity Coverage Ratio of at least 100% to promote short term liquidity resilience and the Net Stable Funding Ratio of above 100% to encourage more stable funding structures.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of 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.
- (10) Turnover ratio is defined as the average daily turnover of bonds divided by the average amount of bonds outstanding.
- (11) 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 5 August 2011), covering almost all globally recognised stock exchanges.
- (12) At end-June 2011, there were 57 classes of stock options contracts and 38 classes of stock futures contracts.
- (13) At end-June 2011, there were 1 284 and 164 companies listed on the Main Board and GEM respectively.
- (14) 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 authorized funds that have responded to the survey. At end-June 2011, the survey covered a total of 1 248 active authorized funds.
- (15) At end-June 2011, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 424 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 249 000 employers, 2.30 million employees and 241 000 self-employed persons have participated in MPF schemes.
- (16) At end-June 2011, there were 8 SFC-authorized retail hedge funds with combined net asset size of US\$1,015 million. The amount of net assets under management was 7.5% higher than the end-2010 level and more than six times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (17) "Relevant income", in the case of a relevant employee, refers to any wages, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance (including housing allowance or other housing benefit), expressed in monetary terms, paid by an employer

to an employee. It does not include any severance or long-service payments under the Employment Ordinance. The minimum relevant income refers to the level of relevant income below which an employee does not have to make mandatory contributions but their employer is still required to pay the mandatory contribution of 5% of the employee's relevant income. The maximum relevant income level refers to the level of relevant income above which mandatory contribution is not required to be made in respect of the excess relevant income.

- (18) At end-June 2011, there were 167 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 102 in general insurance business, and 19 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

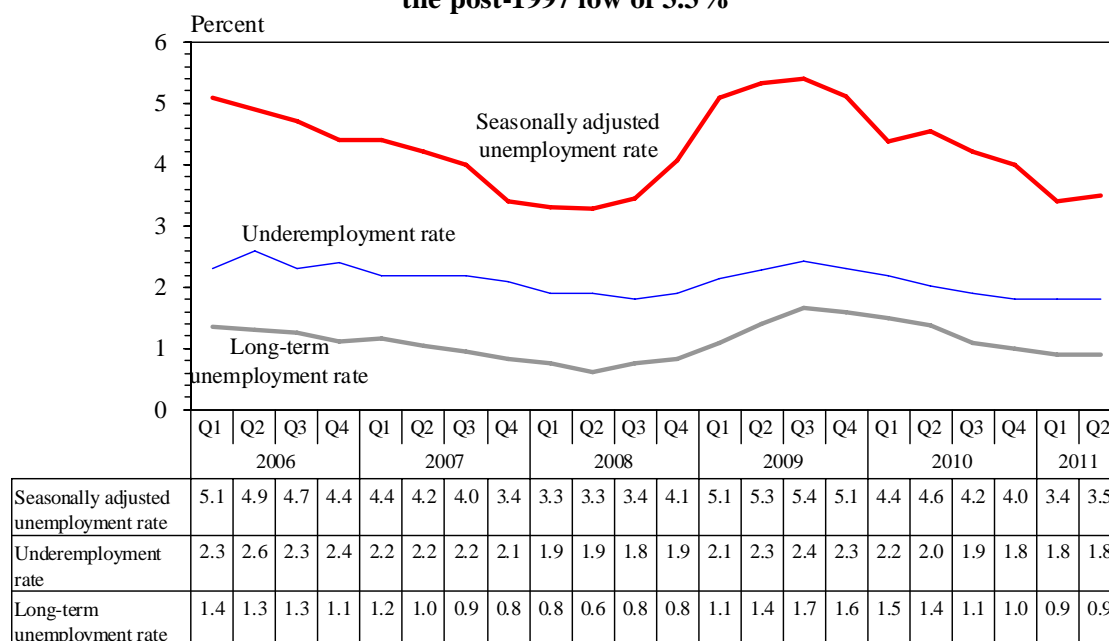
Summary

- *The labour market remained relatively tight in the second quarter of 2011, thanks to the solid pace of economic growth and strong hiring intentions in the corporate sector.*
- *Total employment kept growing apace during the second quarter. With a net creation of 33 300 new jobs, the overall employment size was boosted to a new record high of 3 610 600. This helped to cushion the impact of an upsurge in the labour supply, brought about by the entry of fresh graduates and school leavers as well as job-seekers induced by the recent implementation of statutory minimum wage (SMW).*
- *Consequently, unemployment rose only modestly over the quarter, with the seasonally adjusted rate edging up by 0.1 percentage point to 3.5% and the numbers unemployed by 12 300 to 136 800.*
- *Meanwhile, labour incomes continued to show broad-based improvements across most major economic sectors. Of particular note was that low-income workers generally enjoyed above-average pay hikes, presumably reflecting the impact of SMW.*

Overall labour market situation

5.1 The labour market remained relatively tight in overall terms, amid the sustained economic upturn. The seasonally adjusted *unemployment rate*⁽¹⁾ stood at 3.5% in the second quarter of 2011. Albeit marginally higher than 3.4% in the preceding quarter, this was still close to the post-1997 low of 3.3% in mid-2008. Meanwhile, the *underemployment rate*⁽²⁾ held steady at 1.8% in both quarters. These developments were encouraging, when viewed against the considerable spurt in labour force growth caused mainly by the entry of a new batch of fresh graduates and school leavers aged 15 - 24 and those job-seekers aged 50 or above conceivably induced by the implementation of SMW. Most of these newcomers were absorbed by the jobs created during the period, which greatly relieved the pressure on unemployment rate. As to labour wages and earnings, there were extensive and enlarged increases across nearly all segments of the workforce.

Diagram 5.1 : Unemployment rate, though edging up to 3.5%, was still close to the post-1997 low of 3.3%



Total employment and labour force

5.2 *Total employment*⁽³⁾ grew at a distinctly faster pace in the second quarter of 2011 than in the first, at 3.4% as against 2.3% on a year-on-year comparison. A broadly similar picture was observed on a seasonally adjusted quarter-to-quarter basis, with the respective growth figures of 1.2% and 0.6%. In absolute terms, the total number of employed persons reached an all-time high of 3 610 600, up notably by 33 300 over the quarter.

5.3 A breakdown by economic sector showed that while job gains occurred almost across the board, they were more noticeable in import/export trade and wholesale, foundation and superstructure, retail, and information and communications. Viewed from the perspective of occupation category, workers at the upper segment seemed to have benefited most from such a development, as manifested by a visible expansion of 48 100 in higher-skilled employment during the second quarter of 2011. Among them, associate professionals, and managers and administrators were the ones enjoying more notable job growth. By contrast, lower-skilled employment registered a reduction of 14 700. An analysis by other socio-economic attributes revealed that persons aged 25 - 34 and 50 or above as well as those with sixth form and post-secondary education generally experienced larger employment gains.

5.4 In terms of employment status, employees and self-employed persons both saw a pronounced expansion in their employment size, up by 15 600 and 13 100 respectively during the second quarter of 2011. Whereas the latest

increase in employees was essentially an extension of the uptrend established since late 2009, that in self-employment represented a reversal of the downtrend prevailing since early 2010. A breakdown by economic sector showed that the growth in employees was concentrated in foundation and superstructure; import/export trade and wholesale; and retail, while that in self-employment took place mainly in repair, laundry, domestic and other personal service activities; arts, entertainment and recreation; and information and communications.

5.5 When compared with June – August 2008, i.e. the period just before the outbreak of the global financial tsunami, both higher-skilled and lower-skilled workers posted substantial employment gains, up by 59 300 (4.6%) and 20 300 (0.9%) respectively in the second quarter. Taken together, the cumulative net increase in jobs from the pre-crisis level was 79 600 (2.3%), even though some job losses were still found in the externally-oriented sectors like import/export trade and wholesale, and manufacturing.

5.6 On the supply side, the *labour force*⁽⁴⁾ likewise exhibited an accelerated growth, from 1.2% year-on-year in the first quarter of 2011 to 2.3% in the second quarter. The seasonally adjusted data painted a similar picture, with virtually zero growth in the first quarter picking up to a 1.3% rise in the second. This was attributable partly to the entry of fresh graduates and school leavers into the labour market, although the impact was likely to be smaller this year due to the need for secondary five students to further their studies in secondary six under the new Secondary School System. Also contributed was an increased number of job-seekers aged 50 or above, conceivably induced by the SMW implemented in May this year.

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>
2010	Annual	3 653 700 (-0.6)	3 492 500 (0.4)	161 200	74 700
	Q1	3 657 300 (-0.7)	3 496 700 (0.1)	160 600	80 000
	Q2	3 664 000 (-0.7)	3 492 100 (0.2)	171 800	73 700
	Q3	3 682 500 (-0.3)	3 520 600 (1.1)	161 800	71 000
	Q4	3 700 000 (1.3)	3 563 700 (2.4)	136 300	67 000
2011	Q1	3 701 800 (1.2)	3 577 300 (2.3)	124 500	66 300
	<i>Three months ending</i>				
	Apr	3 717 500 (1.7)	3 585 500 (2.7)	131 900	68 900
	May	3 735 300 (2.2)	3 600 500 (3.4)	134 900	69 600
	Jun	3 747 400 (2.3)	3 610 600 (3.4)	136 800	66 200
		<1.3>	<1.2>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change for the second quarter of 2011.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Both total employment and the labour force registered accelerated increases in the second quarter of 2011

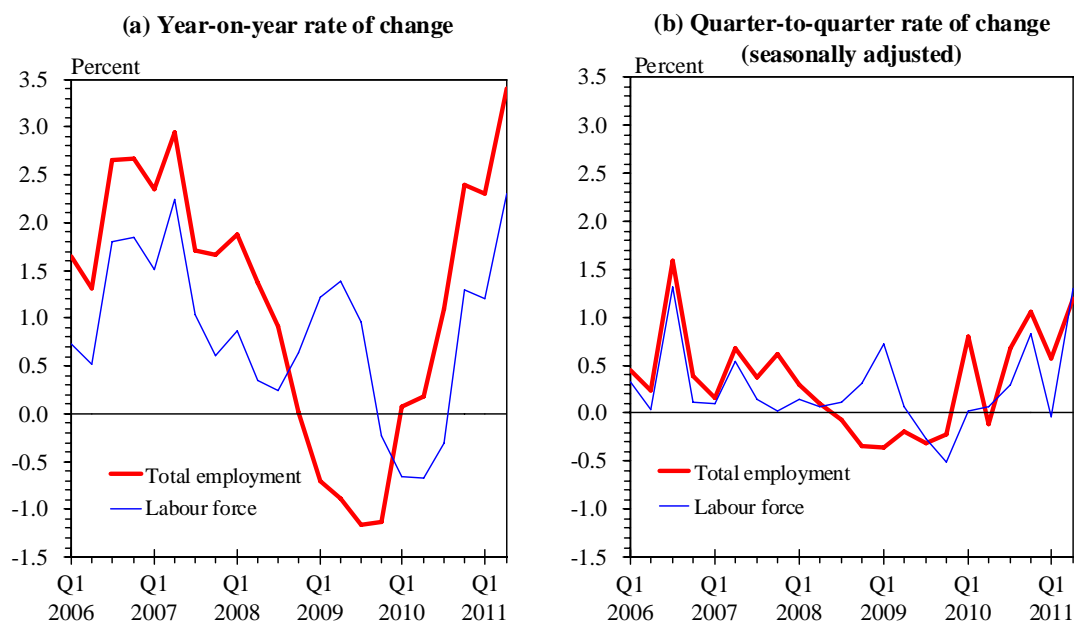


Table 5.2 : Labour force participation rates by gender (%)

		<u>Male</u>	<u>Female</u>	<u>Both genders combined</u>
2010	Q1	68.7	52.4	60.0
	Q2	68.6	52.4	59.9
	Q3	68.9	52.2	59.9
	Q4	68.9	52.6	60.1
2011	Q1	68.2	52.9	59.9
	Q2	68.9	53.3	60.5

Source : General Household Survey, Census and Statistics Department.

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011 Q2</u>
<u>Male</u>						
15-19	14.3	14.8	13.0	12.6	10.3	10.5
20-24	69.0	67.6	65.8	64.8	61.1	60.2
25-29	95.6	95.0	94.3	94.8	94.3	93.6
30-39	96.7	97.1	96.5	96.3	96.5	97.0
40-49	95.2	95.5	95.1	95.0	95.0	95.7
50-59	83.3	83.3	84.0	84.3	84.5	85.5
≥ 60	19.3	19.6	20.0	21.2	21.9	23.4
Overall	70.9	70.5	69.7	69.4	68.6	68.9
<u>Female</u>						
15-19	13.1	13.5	12.4	11.4	9.4	8.5
20-24	71.1	71.7	69.5	66.2	61.7	60.6
25-29	87.2	87.4	87.3	87.0	86.4	88.7
30-39	75.5	76.2	76.8	77.0	75.2	77.7
40-49	65.1	66.6	66.7	68.5	68.1	69.8
50-59	45.7	46.7	48.5	48.8	49.2	51.7
≥ 60	4.5	5.2	5.7	6.6	6.8	8.2
Overall	52.6	53.1	53.1	53.1	52.0	53.3
<u>Both genders combined</u>						
15-19	13.7	14.2	12.7	12.0	9.9	9.5
20-24	70.1	69.8	67.7	65.5	61.4	60.4
25-29	90.9	90.7	90.3	90.4	89.7	90.8
30-39	84.6	85.1	85.1	85.1	84.0	85.6
40-49	79.3	80.1	79.8	80.7	80.1	81.2
50-59	64.5	64.9	66.1	66.5	66.6	68.4
≥ 60	11.7	12.1	12.6	13.7	14.1	15.5
Overall	61.2	61.2	60.9	60.7	59.7	60.5

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.7 With most of the additional labour supply being absorbed into employment, the unemployment situation showed little change in overall terms. On a quarter-to-quarter comparison, the seasonally adjusted unemployment rate edged up by only 0.1 percentage point to 3.5% in the second quarter of 2011, while the number of unemployed persons (not seasonally adjusted) rose by 12 300 to 136 800. This partly reversed the downtrend in the quarterly unemployment figures evident over the past year. Yet for the seasonally adjusted rate, the latest figure of 3.5% was still broadly comparable to the post-1997 low of 3.3% as recorded in mid-2008, suggesting a near full-employment situation. When analysed by economic sector, human health activities, warehousing and support activities for transportation, and hotels, together with some *low-paying sectors*⁽⁵⁾ such as restaurants, local courier services, and real estate maintenance management, were the ones where larger increases in unemployment rate were found during the quarter.

5.8 In terms of occupation category, lower-skilled workers generally had higher unemployment rates. Among them, more noticeable rises in unemployment rate were seen among clerks, and craft and related workers. As regards other socio-economic attributes, persons aged 15 - 24 and 50 - 59 as well as those with non-degree post-secondary and upper secondary education were the groups with relatively greater increases in unemployment rate.

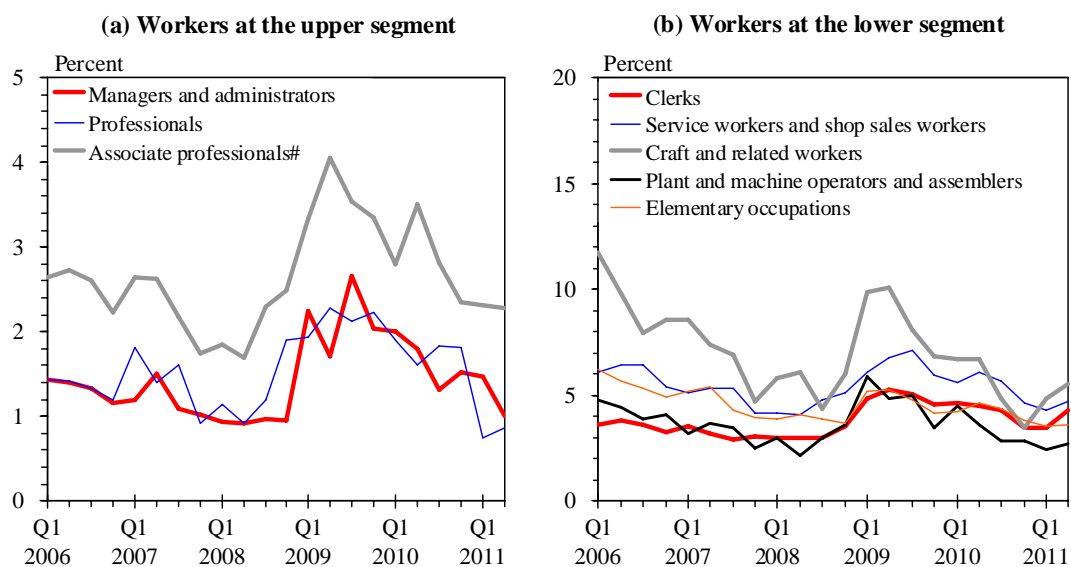
Table 5.4 : Unemployment rate by major economic sector

	<u>2010</u>				<u>2011</u>	
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Import/export trade and wholesale	4.3	4.5	3.8	3.8	3.2	3.4
Retail	5.1	6.0	5.7	4.9	4.4	4.3
Accommodation and food services	6.8	6.6	5.9	4.8	4.6	6.0
Transportation, storage, postal and courier services	4.1	3.8	3.6	3.3	3.0	3.4
Information and communications	4.5	4.7	3.6	3.9	2.6	2.9
Financing, insurance, real estate, professional and business services	3.4	3.8	3.3	2.9	2.8	2.9
Public administration, social and personal services	1.8	1.9	1.8	1.2	1.3	1.6
Manufacturing	4.5	5.9	4.0	3.7	3.8	3.2
Construction	8.0	7.6	6.6	4.8	6.2	5.6
Overall	4.4 (4.4)	4.7 (4.6)	4.4 (4.2)	3.7 (4.0)	3.4 (3.4)	3.6 (3.5)

Note : () Seasonally adjusted unemployment figures.

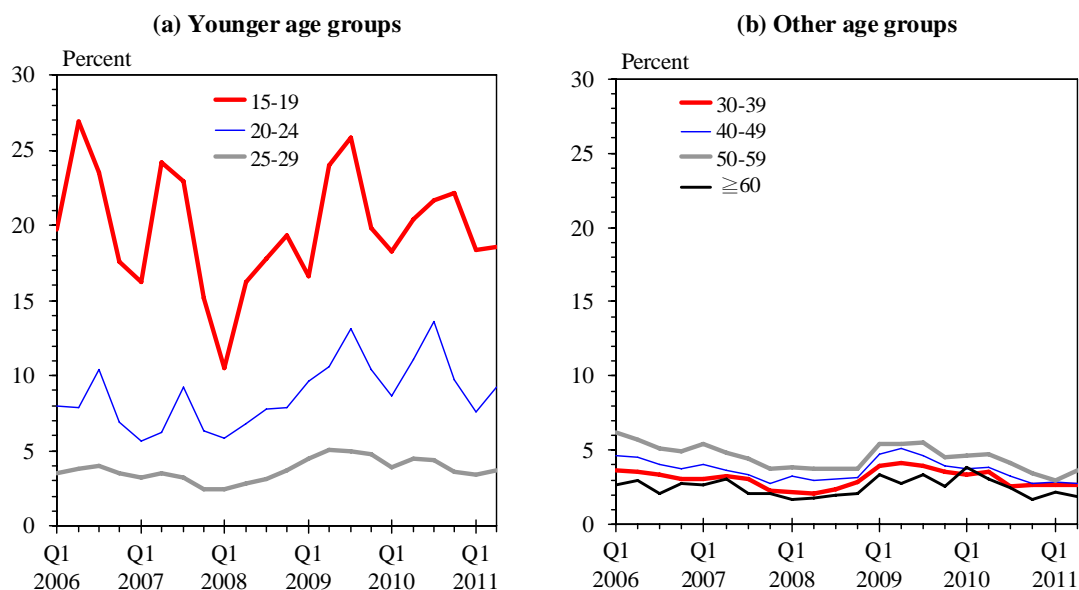
Source : General Household Survey, Census and Statistics Department.

Diagram 5.3 : The latest marginal increase in unemployment rate* occurred mainly among workers at the lower segment



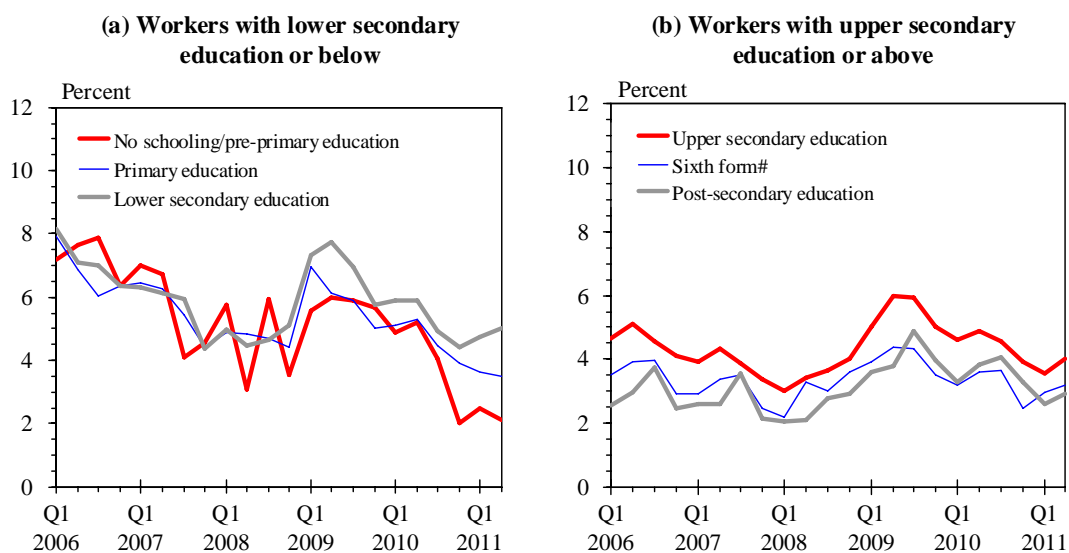
Notes : (*) Not seasonally adjusted, and not including first-time job-seekers and re-entrants into the labour force.
(#) Including technicians and supervisors.

Diagram 5.4 : The increase in unemployment rate* was more apparent among younger people aged 15-24



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

Diagram 5.5 : In terms of educational attainment, the unemployment* picture was mixed



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

(#) Including craft courses.

5.9 Long-term unemployment (i.e. unemployed for six months or longer), as an indicator of the intensity of the unemployment situation, remained at relatively low levels in the second quarter of 2011. Whilst the number of long-term unemployed persons rose slightly to 33 300 from 31 700 in the preceding quarter, the respective unemployment rate stayed static at 0.9%. Also deserving attention was that the share of dismissed or laid off workers among all the unemployed persons shrank further to 50.0%, from 54.1% in the preceding quarter and 55.8% a year earlier. When viewed in conjunction with the high level of job vacancies, this suggested that part of the recent rise in unemployment was plausibly frictional in nature, with the workers concerned taking temporary breaks, searching for or awaiting better employment terms and conditions in the relatively tight labour market.

Profile of underemployment

5.10 The underemployment situation held broadly stable in overall terms. In the second quarter of 2011, the underemployment rate was 1.8%, same as that in the first quarter. Likewise, the number of underemployed persons was almost unchanged at 66 200. Among the major economic sectors, whereas increases in underemployment rate were observed mainly in food and beverage service activities, and cleaning and similar activities, reductions were seen largely in decoration, repair and maintenance for buildings, and retail.

Profile of employment in establishments

5.11 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only after a considerable time lag, with the latest figures referring only to March or the first quarter of 2011. In view of this limitation, attempts have been made to bring the analysis more up-to-date, based on information supplied from supplementary sources.

5.12 In line with the corresponding data series compiled from the household survey, total employment in business establishments, having gone up by 2.2% year-on-year in December 2010, increased at an accelerated rate of 3.0% in March 2011. In absolute terms, the employment numbers reached an all-time high of 2 584 700. The latest employment gains, whilst occurring almost across the board, were most apparent in such sectors as construction (up 9.1% year-on-year), accommodation and food services (6.3%), financing, insurance, real estate, professional and business services (6.1%), and retail (4.5%). The manufacturing sector was again the notable exception, registering further job losses (down 6.1%). Analysed by establishment size, employment in small and medium-sized enterprises (SMEs)⁽⁶⁾ posted a year-on-year gain of 2.1% in March 2011, roughly the same as the 2.0% growth in December 2010. As regards large enterprises, there was a greater increase in March 2011 than in December 2010, at 3.7% as against 2.3%. This notwithstanding, the employment shares for SMEs and large enterprises showed little change at 47.8% and 52.2% respectively. Meanwhile, civil service employment remained on a steady growth path, with modest rises of 0.3% in December 2010 and 0.2% in March 2011 on a year-on-year basis.

Table 5.5 : Employment by major economic sector

	<u>2010</u>					<u>2011</u>
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Import/export trade and wholesale	563 800 (0.9)	564 300 (0.8)	562 200 (1.4)	563 700 (1.0)	564 900 (0.4)	565 000 (0.1)
Retail	243 100 (3.3)	240 600 (3.7)	240 800 (3.5)	242 700 (2.5)	248 300 (3.6)	251 300 (4.5)
Accommodation and food services	249 300 (3.4)	247 400 (3.8)	247 500 (3.6)	247 000 (2.8)	255 300 (3.3)	263 000 (6.3)
Transportation, storage, postal and courier services	160 300 (1.5)	159 400 (0.9)	160 400 (2.3)	160 000 (1.4)	161 500 (1.4)	162 100 (1.6)
Information and communications	88 300 (1.3)	87 400 (1.5)	88 400 (1.7)	88 400 (0.6)	88 900 (1.2)	89 300 (2.1)
Financing, insurance, real estate, professional and business services	609 100 (4.6)	596 300 (4.1)	604 600 (4.7)	612 300 (4.9)	623 300 (4.5)	632 900 (6.1)
Social and personal services	429 100 (3.5)	427 700 (5.1)	426 900 (3.7)	429 200 (2.9)	432 800 (2.4)	436 200 (2.0)
Manufacturing	119 400 (-4.5)	122 600 (-2.5)	119 800 (-3.9)	117 700 (-5.6)	117 600 (-5.9)	115 100 (-6.1)
Construction sites (manual workers only)	55 300 (9.6)	53 900 (3.8)	55 500 (13.4)	56 500 (17.8)	55 400 (4.3)	58 800 (9.1)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 528 800 (2.6)</i>	<i>2 510 300 (2.8)</i>	<i>2 517 000 (3.0)</i>	<i>2 528 700 (2.6)</i>	<i>2 559 200 (2.2)</i>	<i>2 584 700 (3.0)</i>
		<0.5>	<0.3>	<0.5>	<0.9>	<1.2>
<i>Civil service^(b)</i>	<i>156 500 (0.5)</i>	<i>156 600 (0.9)</i>	<i>156 300 (0.6)</i>	<i>156 400 (0.3)</i>	<i>156 700 (0.3)</i>	<i>156 900 (0.2)</i>

Notes : Employment figures enumerated from business establishments, as obtained from the Quarterly Survey of Employment and Vacancies, are somewhat different from those enumerated from households, as obtained from the General Household Survey. This is mainly due to difference in sectoral coverage : While the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

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

(b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in the 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.

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

Vacancies

5.13 Thanks to the sustained economic uptrend and positive hiring sentiments, the number of private sector vacancies surged by 24.4% over a year earlier to 57 200 in March 2011, the highest level since March 1997. This followed an already significant growth of 39.3% in December 2010. The latest increase in vacancies was widespread across many economic sectors, including manufacturing (up 52.7% year-on-year), transportation, storage, postal and courier services (52.4%), import/export trade and wholesale (26.5%), and accommodation and food services (26.0%). On a seasonally adjusted quarter-to-quarter comparison, there was also a notable gain of 3.6%.

5.14 Analysed by occupation category, an across-the-board increase in job vacancies was likewise observed. Vacancies for higher-skilled and lower-skilled workers leapt by 26.7% and 23.0% respectively in March 2011 over a year earlier, after soaring by 47.7% and 35.2% in December 2010. More pronounced increases were recorded for professionals (up 39.4%), workers in elementary occupations (26.5%), associate professionals (25.0%), and clerks (23.8%). In terms of establishment size, SMEs registered a year-on-year jump of 25.5% in vacancies in March 2011, broadly similar to the 27.7% leap in December 2010. As to large enterprises, the growth rate was equally impressive at 23.5% in March 2011, although it was slower than the 52.7% gain at end-2010.

5.15 Comparing the number of job vacancies with that of unemployed persons, the ratio continued to trend upward, rising from 35 job vacancies to 46 job vacancies per 100 job-seekers between December 2010 and March 2011. While the ratio for lower-skilled jobs climbed from 35 to 39, that for higher-skilled jobs rose even more from 64 to 93. Expressed as a percentage of total employment opportunities, the vacancy rate for private sector establishments went up to 2.2% in March 2011, from 1.8% a year ago. As for the civil service, the number of vacancies showed little change at 6 000 in March 2011, indicating that the Government was maintaining its staff recruitment at a steady pace.

Table 5.6 : Vacancies by major economic sector

	<u>Number of vacancies</u>						<u>Vacancy rate in Mar 2011 (%)</u>
	<u>Annual average</u>	<u>2010</u>				<u>2011</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Import/export trade and wholesale	6 500 (54.8)	6 600 (101.0)	6 100 (41.1)	7 000 (55.9)	6 500 (34.8)	8 300 (26.5)	1.4
Retail	4 900 (28.8)	4 900 (68.4)	4 400 (20.1)	5 600 (32.0)	4 900 (7.9)	6 000 (23.9)	2.3
Accommodation and food services	7 000 (29.9)	6 100 (18.8)	6 600 (47.9)	7 300 (2.9)	7 800 (65.4)	7 700 (26.0)	2.9
Transportation, storage, postal and courier services	2 000 (72.7)	1 700 (70.7)	2 000 (100.5)	2 100 (87.8)	2 100 (43.2)	2 500 (52.4)	1.5
Information and communications	2 300 (78.4)	2 200 (155.1)	2 300 (51.9)	2 600 (92.3)	2 100 (46.0)	2 700 (19.1)	2.9
Financing, insurance, real estate, professional and business services	12 400 (45.9)	11 800 (73.8)	12 200 (64.1)	12 900 (16.2)	12 700 (46.7)	14 100 (19.5)	2.2
Social and personal services	10 800 (38.1)	11 100 (55.2)	10 100 (19.3)	11 800 (45.8)	10 400 (34.6)	13 200 (19.9)	2.9
Manufacturing	1 500 (66.5)	1 500 (133.9)	1 400 (120.6)	1 600 (30.8)	1 600 (35.0)	2 400 (52.7)	2.0
Construction sites (manual workers only)	100 (347.3)	# (1 466.7)	100 (1 375.0)	100 (300.0)	100 (126.7)	100 (217.0)	0.3
<i>All establishments surveyed in the private sector^(a)</i>	<i>47 600 (43.5)</i>	<i>46 000 (65.4)</i>	<i>45 200 (43.4)</i>	<i>51 100 (31.7)</i>	<i>48 100 (39.3)</i>	<i>57 200 (24.4)</i>	<i>2.2</i>
		<i><15.5></i>	<i><2.7></i>	<i><5.3></i>	<i><11.4></i>	<i><3.6></i>	
<i>Civil service^(b)</i>	<i>5 700 (10.9)</i>	<i>5 300 (0.9)</i>	<i>5 700 (10.7)</i>	<i>5 900 (18.7)</i>	<i>5 900 (13.9)</i>	<i>6 000 (13.2)</i>	<i>3.7</i>

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

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

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

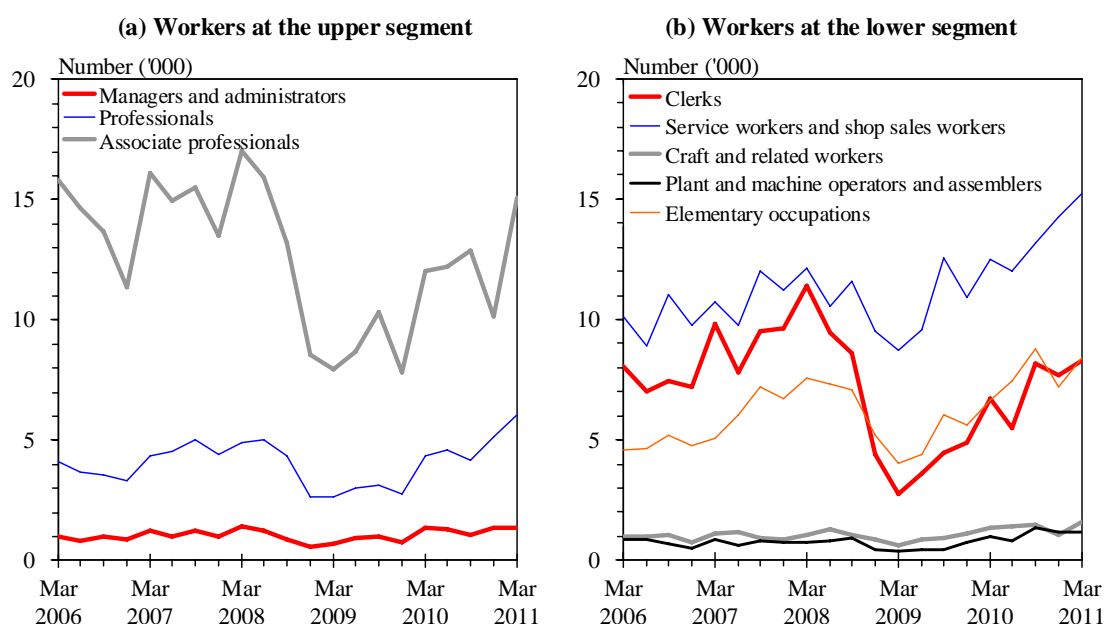
() % change over a year earlier.

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

(#) Less than 50.

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

Diagram 5.6 : Job vacancies continued to increase significantly on a broad front



5.16 The vacancy figures compiled by the Labour Department (LD) serve to supplement the analysis on the more recent job market development. In June 2011, around 73 600 private sector job vacancies were posted by the department, up by 20.0% over a year earlier, although there was a slight decrease of 1.0% in the average number of vacancies for the second quarter of 2011 as a whole when compared to the first quarter.

Wages and earnings

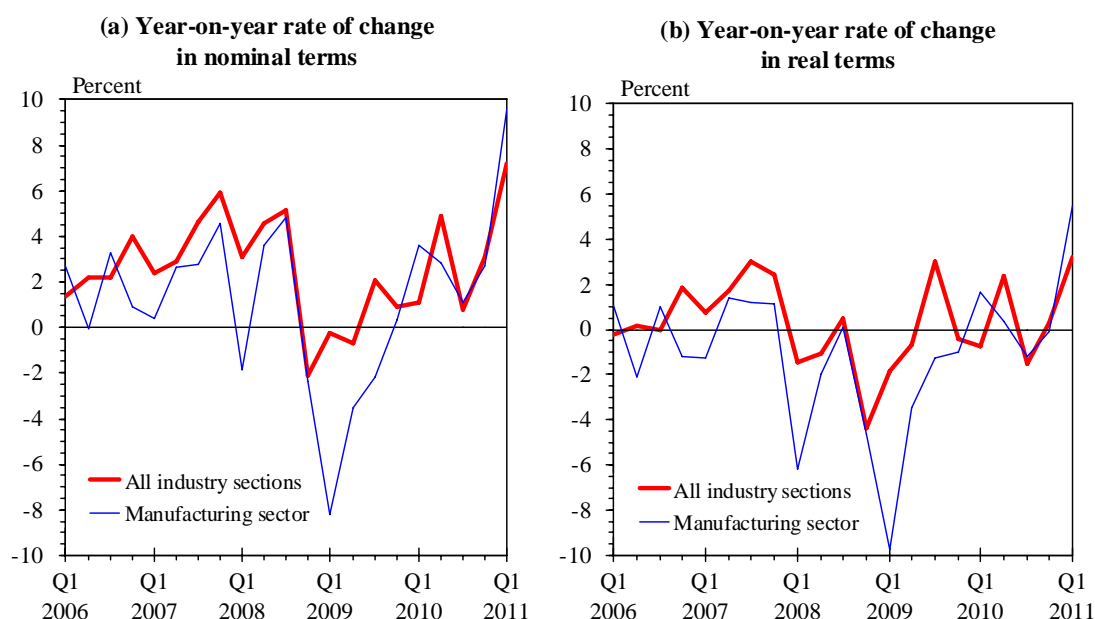
5.17 *Labour wages*, which measure regular payments to employees at the supervisory level or below, moved up by 4.9% year-on-year in March 2011, distinctly faster than the 3.3% rise in December 2010. After discounting for inflation⁽⁷⁾, wages in March 2011 registered a modest gain of 0.2% in real terms over a year earlier, as against virtually nil change in December 2010.

5.18 A breakdown by occupation category revealed that while wage hikes were common for workers at various levels, they were more noticeable among service workers (up 7.2% over a year earlier), supervisory and technical workers (5.7%) and miscellaneous non-production workers (4.1%). In terms of economic sector, upward adjustments in wages also took place across the board, with greater increases occurring in accommodation and food service activities, import/export, wholesale and retail trades, and professional and business services (up 6.5%, 5.8% and 5.7% respectively).

5.19 *Labour earnings*⁽⁸⁾, as measured by payroll per person engaged in the private sector including overtime and other irregular payments, exhibited a more visible rise of 7.2% in nominal terms in the first quarter of 2011 over a year earlier. This was in fact the largest increment recorded since 1997. On a seasonally adjusted basis, the increase was likewise respectable, at 4.8% over the preceding quarter. After discounting for the price effect, payroll rose by 3.2% and 2.6% in real terms on year-on-year and seasonally adjusted quarter-to-quarter bases respectively.

5.20 Analysed by economic sector, whereas extensive nominal pay hikes were seen across many major industry sections, more distinct rises were found in financial and insurance (up 16.5% year-on-year), import/export and wholesale trades (10.0%), manufacturing (9.6%), and accommodation and food services (9.6%). On the other hand, reductions in payroll were observed in professional and business services, and social and personal services, at 4.8% and 2.3% respectively.

Diagram 5.7 : Nominal and real payroll both showed enlarged increases in the first quarter of 2011



5.21 More recent data from the General Household Survey, whilst not strictly comparable to those from the business establishment surveys, indicated that the average monthly employment earnings of full-time employees⁽⁹⁾ (excluding foreign domestic helpers) went up by 4.0% year-on-year in the second quarter of 2011, following a rise of 6.9% in the preceding quarter. As for workers in the lowest decile group, their employment earnings had a larger increase of 10.0% in the second quarter over a year earlier, as against 6.2% in the first quarter. After discounting for inflation, the monthly employment earnings of full-time employees fell slightly by 1.1% in real terms in the second quarter, after a notable increase of 3.0% in the preceding quarter. As for workers in the lowest decile group, their real earnings rose in both periods, by 4.3% and 2.0% respectively.

Recent labour-related measures

5.22 To encourage job search and sustainable employment, LD launched a two-year Pilot Employment Navigator programme in December 2010. Under the programme, a cash incentive of up to \$5,000 will be payable to each unemployed person who has successfully found work after receiving the department's intensive employment consultation service. The programme will provide 11 000 places each year. Separately, LD will set up a pioneer one-stop employment and training centre in Tin Shui Wai by the end of 2011 to offer targeted assistance to job-seekers.

5.23 In a move to assist young people to find jobs, LD has set up two Youth Employment Resources Centres in 2007 and 2008 respectively, to provide one-stop advisory and support services on employment and self-employment to young persons aged 15 - 29. In addition, the Youth Pre-employment Training Programme (YPTP) and the Youth Work Experience and Training Scheme (YWETS) have been integrated and enhanced into a “through-train” programme – YPTP&YWETS, to provide seamless and comprehensive training and employment support to school leavers aged 15 - 24 with educational attainment at sub-degree level or below.

5.24 The SMW, with its initial hourly rate set at \$28, has taken effect from 1 May 2011. The SMW regime aims at providing a wage floor to forestall excessively low wages, but without unduly jeopardising labour market flexibility, economic competitiveness and employment opportunities for vulnerable workers. Wages payable to an employee in respect of any wage period should be no less than the SMW rate on average for the total number of hours worked in the wage period. LD has organised extensive publicity activities to promote the SMW and conducted proactive workplace inspections to enforce the statutory requirement. In addition, the department has enhanced its employment support services to assist job-seekers to find jobs. A dedicated employment hotline has been set up to provide employment assistance for needy workers displaced as a result of the implementation of SMW. Large-scale job fairs specifically for the low-paying sectors that are more likely to be affected by the implementation of SMW have been organised, in addition to mini-job fairs for employers of the catering and retail industries at the two industry-based Recruitment Centres and district-based job fairs in the 12 Job Centres.

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.

The seasonally adjusted series is compiled using the X-12 ARIMA method, which is a standard method applied in compiling seasonally adjusted statistical data series.

- (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) The low-paying sectors as identified by the Provisional Minimum Wage Commission include:
 - (i) retail
 - (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes. However, beverage serving places, event catering and other food service activities are not included.)
 - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations)
 - (iv) other low-paying sectors, namely
 - elderly homes
 - laundry and dry cleaning services

- hairdressing and other personal services
 - local courier services; and
 - food processing and production.
- (6) 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.
- (7) 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.
- (8) 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.
- (9) 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

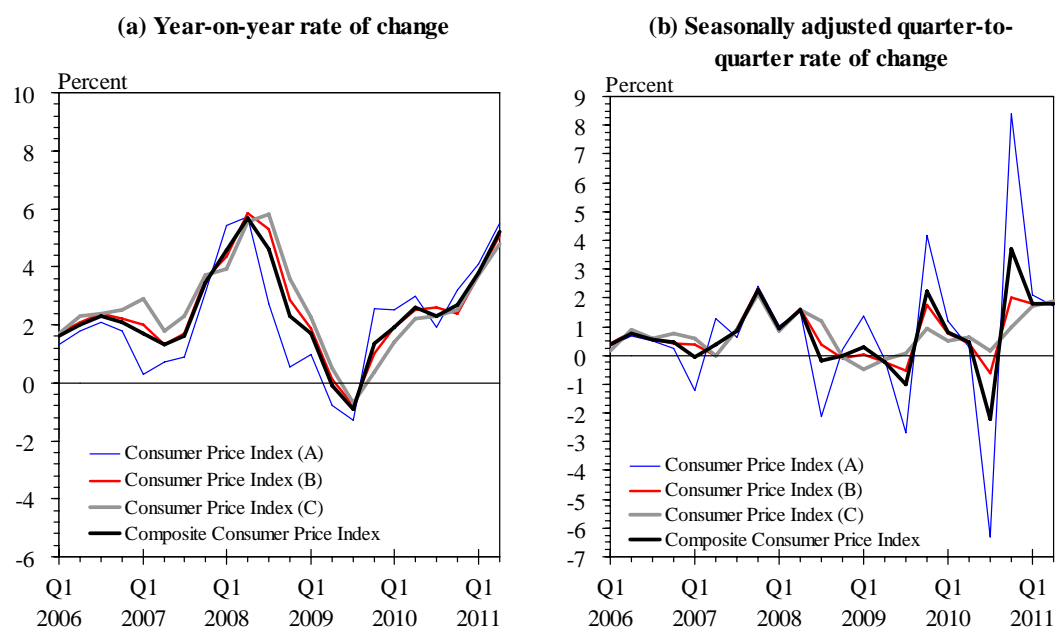
- *Inflation went up further amid rising import prices, which were in turn driven by global price movements. Stronger local cost pressures, a result of the brisk economic expansion, also contributed. The Composite Consumer Price Index⁽¹⁾ rose by 5.2% in the second quarter over a year earlier, up from 3.8% in the first quarter. Netting out the effects of Government's one-off relief measures to give a more accurate indicator of the inflation trend, the increase in the underlying Composite Consumer Price Index picked up from 3.7% to 5.0% over the same period.*
- *Consumer price inflation in the second quarter was mainly pushed up by food prices and private housing rentals. These two components together accounted for more than 70% of the year-on-year rate of increase in the Composite Consumer Price Index in the second quarter. Prices of many other items also saw faster increases.*
- *Domestically, pressures on business costs became increasingly visible on account of the sustained brisk economic expansion. Externally, import prices continued to increase notably, upon rising inflation in the supply sources and the still-elevated global food and commodity prices amid the liquidity glut. Indeed, inflationary pressures picked up on a global scale in the second quarter, even in the developed economies where growth pace was only moderate.*

Consumer prices

6.1 Inflation picked up further and remained a major challenge to the economy. In the second quarter, the appreciable increase in import prices continued to fuel local inflation, as global food and commodity prices stayed elevated on the back of abundant liquidity and a weaker US dollar. The rise in oil prices amid heightened geopolitical tensions in the Middle East and North Africa early in the quarter was also relevant. The further feed-through of higher private housing rentals after the surge last year was another major factor. Meanwhile, upward price pressures stemming from rising local business costs also turned more evident, in tandem with the sustained brisk economic expansion. The low unemployment rate, coupled with the one-off effect from the implementation of statutory minimum wage, also led to stronger local wage pressures.

6.2 Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite Consumer Price Index (Composite CPI), went up from 3.8% in the first quarter to 5.2% in the second quarter. Netting out the effects of Government's one-off relief measures, underlying consumer price inflation rose from 3.7% to 5.0% in the second quarter. For the first half of 2011 as a whole, headline and underlying consumer price inflation were 4.5% and 4.4% respectively. Hong Kong is not unique in facing higher inflation, which has become a common challenge to many Asian and emerging market economies with strong growth. Indeed, the elevated food and energy prices also resulted in higher inflation in the US and Europe in the second quarter, even though their growth pace was rather slow⁽²⁾.

Diagram 6.1 : Inflationary pressure turned more evident during the second quarter of 2011



Note : The year-on-year rates of change of the Consumer Price Indices from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the indices to maintain continuity.

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>			
2010	Annual	1.7 ^(b)	2.4 ^(b)	2.7 ^(b)	2.3 ^(b)	2.1 ^(b)
	H1	1.2	2.2	2.8	2.2	1.8
	H2	2.2 ^(b)	2.5 ^(b)	2.6 ^(b)	2.5 ^(b)	2.4 ^(b)
	Q1	0.8	1.9	2.5	1.9	1.4
	Q2	1.5	2.6	3.0	2.5	2.2
	Q3	2.0	2.3	1.9	2.6	2.3
	Q4	2.4	2.7	3.2	2.4	2.5
2011	H1	4.4	4.5	4.8	4.4	4.3
	Q1	3.7	3.8	4.1	3.7	3.7
	Q2	5.0	5.2	5.5	5.1	4.8

(seasonally adjusted quarter-to-quarter rate of change (%))

2010	Q1	0.5	0.8	1.2	0.7	0.5
	Q2	0.5	0.5	0.3	0.4	0.7
	Q3	0.4	-2.2	-6.3	-0.6	0.2
	Q4	1.0	3.7	8.4	2.0	1.0
2011	Q1	1.8	1.8	2.1	1.8	1.7
	Q2	1.8	1.8	1.7	1.8	1.9

- 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.
- (b) The year-on-year rates of change of the CPIs from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series. Splicing has been applied to the two sets of CPI series in order to obtain better estimates of the rates of change for the year 2010 and H2 of 2010.

6.3 Analysed by major components, food and housing remained the key drivers behind the rise in inflation in the second quarter, given their relatively large weightings in the consumption basket. Food prices (including charges at restaurants) and private housing rentals accounted for over 70% of the year-on-year rate of increase in the underlying Composite CPI in the second quarter, at 5.0%. Also, among the increase of 1.3 percentage points in underlying consumer price inflation between the first and the second quarters, private housing rentals contributed 0.6 percentage point and food prices 0.4 percentage point. The combined lifting effect of the other components, at 0.3 percentage point, was relatively moderate.

6.4 Prices of both meals bought away from home and other foodstuffs saw enlarged increases in the second quarter, due mainly to the further surge in imported food prices as well as increased pricing power of the retailers given a buoyant local consumption market. Meanwhile, the continued pass-through of rising market rentals contributed to a considerably faster increase in private housing cost. Apart from the surge in prices of alcoholic drinks and tobacco owing to the hike in cigarettes duty on 23 February, the pick-up in the year-on-year price increases of many other components were more moderate. Separately, prices of durable goods continued their secular downtrend.

Diagram 6.2 (a) : Prices of most components of the underlying Composite CPI showed faster increases

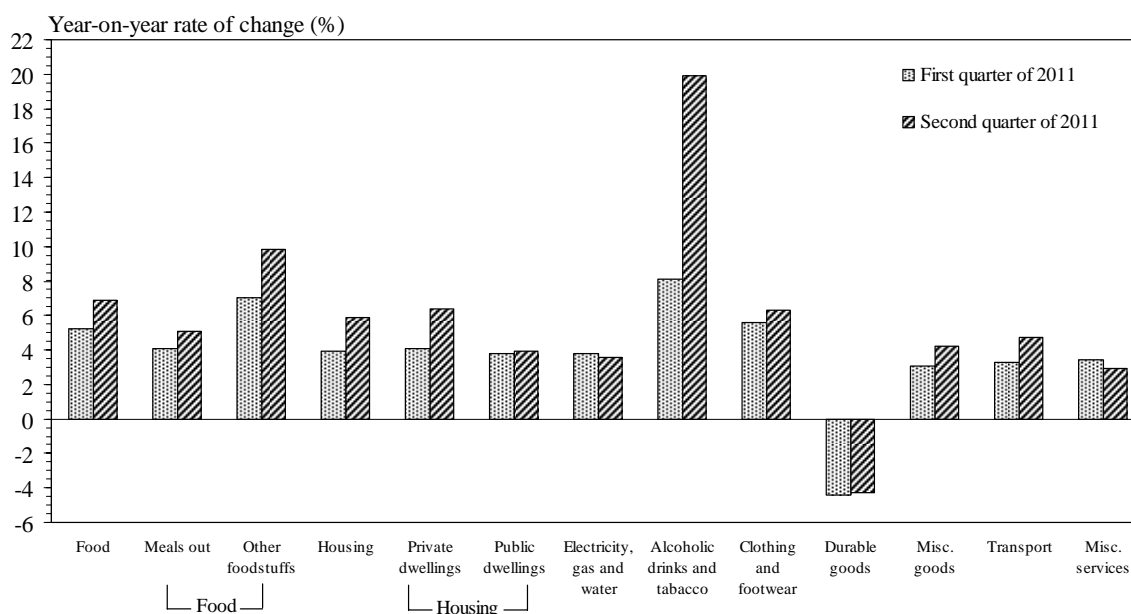
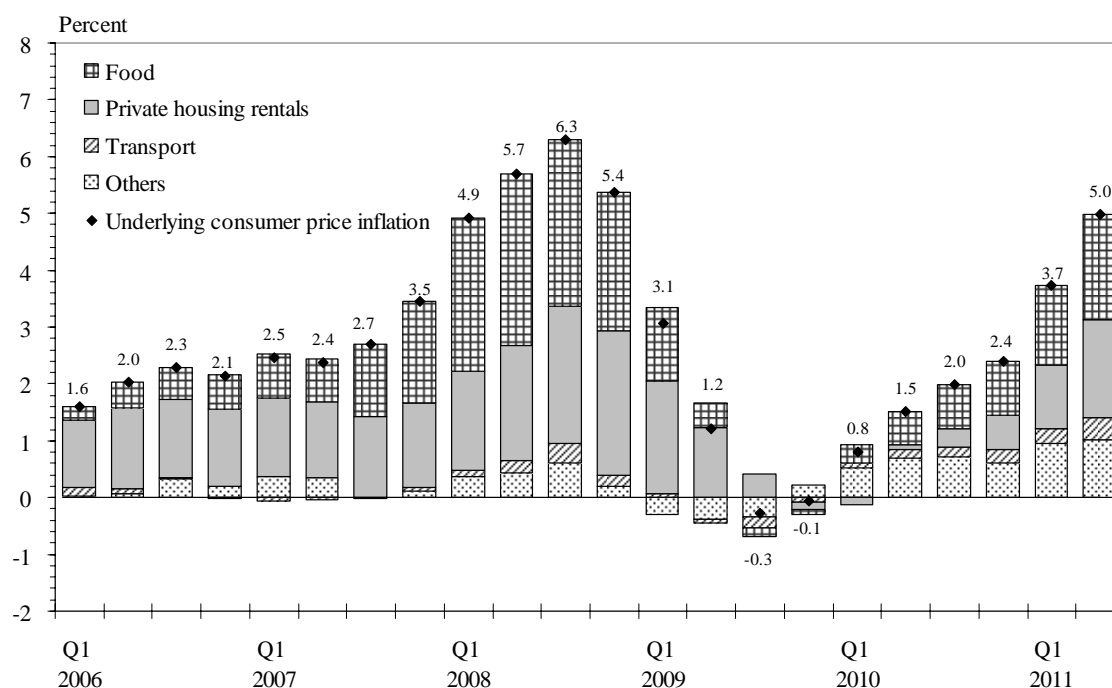


Diagram 6.2 (b) : Contribution to underlying consumer price inflation by major components



Note : The year-on-year rates of change of the Composite CPI from the fourth quarter of 2010 onwards are computed from the 2009/10-based series, and those before that from the 2004/05-based series.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2010</u>	<u>2011</u>	
		<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	27.45	3.6	5.2	6.9
<i>Meals bought away from home</i>	17.07	2.4	4.1	5.1
<i>Other foodstuffs</i>	10.38	5.6	7.0	9.8
Housing ^(a)	31.66	2.2 2.2 ^(b)	3.8 3.9 ^(b)	5.9 5.9 ^(b)
<i>Private dwellings</i>	27.14	2.2 2.2 ^(b)	4.1 4.1 ^(b)	6.5 6.4 ^(b)
<i>Public dwellings</i>	2.05	4.0 3.8 ^(b)	4.0 3.8 ^(b)	2.7 3.9 ^(b)
Electricity, gas and water	3.10	16.1 3.8 ^(b)	7.3 3.8 ^(b)	8.0 3.6 ^(b)
Alcoholic drinks and tobacco	0.59	0.5	8.1	19.9
Clothing and footwear	3.45	1.9	5.6	6.3
Durable goods	5.27	-5.0	-4.4	-4.3
Miscellaneous goods	4.17	2.5	3.1	4.2
Transport	8.44	3.0	3.3	4.7
Miscellaneous services	15.87	2.7 2.8 ^(b)	3.3 3.4 ^(b)	2.9 2.9 ^(b)
All items	100.00	2.7 2.4 ^(b)	3.8 3.7 ^(b)	5.2 5.0 ^(b)

Notes : The year-on-year rates of change in the Consumer Price Indices are computed from the 2009/10-based CPI series.

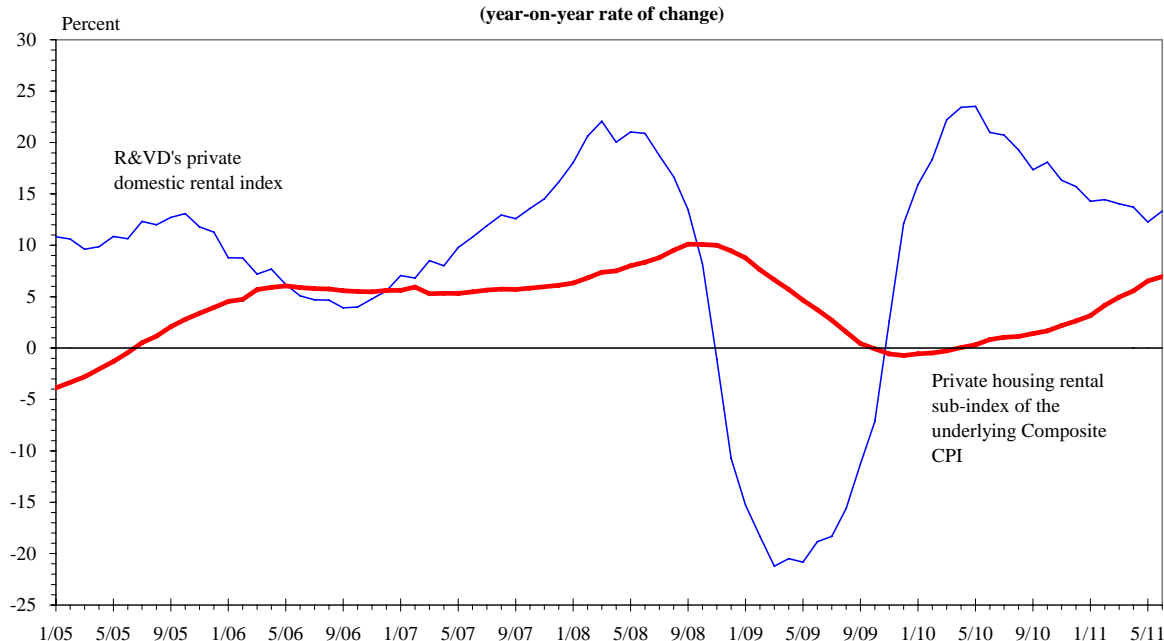
- (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings is slightly less than the weighting of the entire housing component.
- (b) Underlying rate of change after netting out the effect of Government's one-off relief measures.

Box 6.1

Relationship between the CPI's private housing rental sub-index and R&VD's private domestic rental index

The rental index for private domestic premises, as compiled by the Rating and Valuation Department (R&VD), covers the movements in rent for fresh lettings, exclusive of rates and other charges but inclusive of Government rent. On the other hand, the private housing rental sub-index of the Composite CPI tracks the fluctuations in average rent, including rates and government rent, paid by all private residential households. Among all kinds of residential leases it covers, existing rentals constitute a much larger share of the total tenancies of private dwellings, relative to the new and renewed lettings. Given the broader coverage of the Composite CPI's private housing rental sub-index, the leases thus comprise mostly tenancy agreements made some time ago with the terms and conditions expected to hold throughout the contractual period. As such, the private housing rental sub-index of the Composite CPI tends to be less directly susceptible to the latest changes in lease market conditions, or to be responsive only with a certain time lag, as compared to R&VD's private domestic rental index. Yet, past increases in market rentals will eventually be reflected in the new tenancies when the existing ones expire, thereby translating into increases in the private housing rental sub-index of the underlying Composite CPI.

**Movements in the private housing rental sub-index of the underlying
Composite CPI and in R&VD's private domestic rental index**
(year-on-year rate of change)

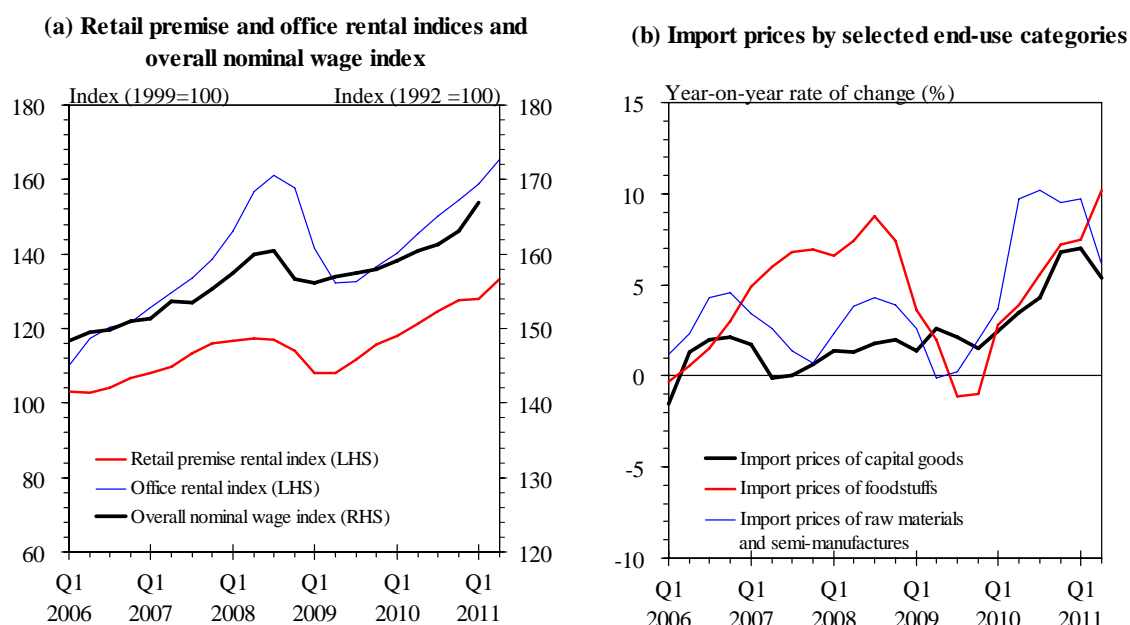


Inflationary pressures arising from the movements in private housing rentals have turned increasingly visible since late 2010. The private housing rental sub-index of the underlying Composite CPI rose by 6.4% year-on-year in the second quarter of this year, up visibly from 4.1% in the preceding quarter and 2.2% in the fourth quarter of last year. The rise in private housing costs in the Composite CPI over the past few quarters mirrored the progressive feed-through of the strong rise-back in market rentals since the second quarter of 2009 (*Chart*). On current trends, this feed-through process will likely further push up the rate of increase in private housing costs in the Composite CPI in the coming months.

Costs of factor inputs and import prices

6.5 Domestic cost pressures turned more apparent in overall terms, a natural consequence after the strong economic expansion over the past year or so. Rentals for retail premises and offices continued to trend upwards, though the feed-through to overall business costs was partially mitigated by the further expansion in business volume. As regards labour costs, with total employment reaching its all-time high and the one-off effect from the implementation of statutory minimum wage, upward pressures in unit labour cost had been increasingly felt of late.

Diagram 6.3 : Wages and rentals climbed up further alongside the solid economic expansion, while import prices stayed on an uptrend

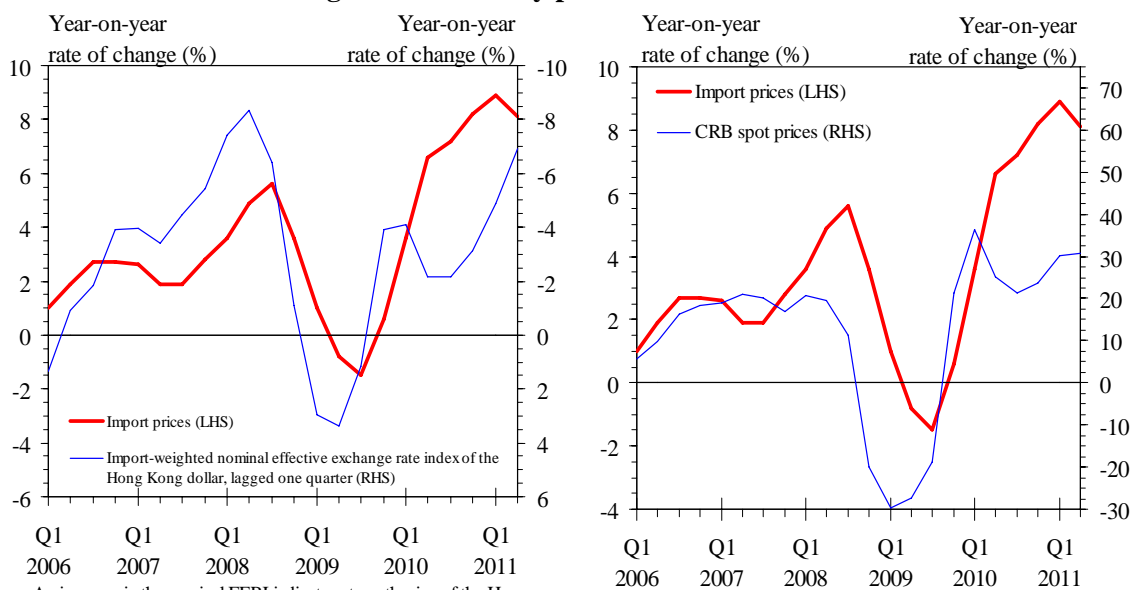


6.6 On the external front, the year-on-year increase in overall import prices stayed notable at 8.1% in the second quarter, mainly reflecting the still-elevated global food and commodity prices amid abundant liquidity and a weaker US dollar. According to the primary commodity indices compiled by the International Monetary Fund, global prices for food, beverages, industrial materials, agricultural raw materials and metals, though showed signs of stabilisation in the second quarter, remained distinctly higher than year-ago levels. Meanwhile, international oil prices rose notably further early in the quarter due to heightened geopolitical tensions in the Middle East and North Africa, and despite the subsequent ease-back, were still much dearer than a year ago. Against this background, notable increases in import prices were observed across all major end-uses in the second quarter, ranging from 5.4% for capital goods to 41.0% for fuels.

**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>
2010	Annual	5.0	4.6	8.3	20.8	4.3	6.4
	H1	3.4	2.4	7.0	35.0	3.0	5.2
	H2	6.6	6.5	9.8	10.6	5.5	7.7
	Q1	2.8	1.1	3.7	42.8	2.5	3.6
	Q2	3.9	3.7	9.7	27.7	3.5	6.6
	Q3	5.6	5.8	10.2	9.9	4.3	7.2
	Q4	7.2	7.3	9.5	11.7	6.8	8.2
2011	H1	8.9	8.9	7.6	33.1	6.1	8.4
	Q1	7.5	8.0	9.7	24.8	7.0	8.9
	Q2	10.2	9.7	6.1	41.0	5.4	8.1

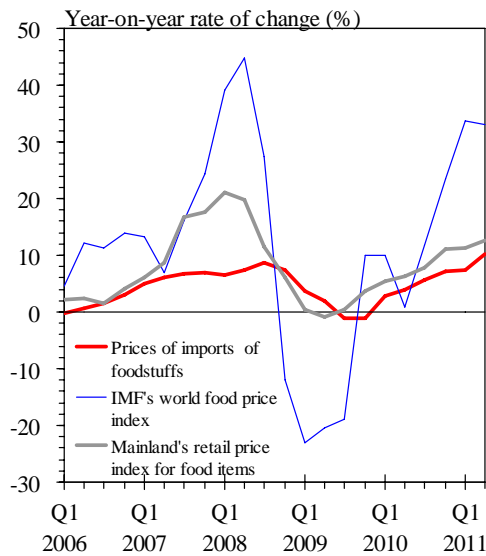
**Diagram 6.4 : Imported inflation remained notable amid the
still-elevated global commodity prices and a weaker US dollar**



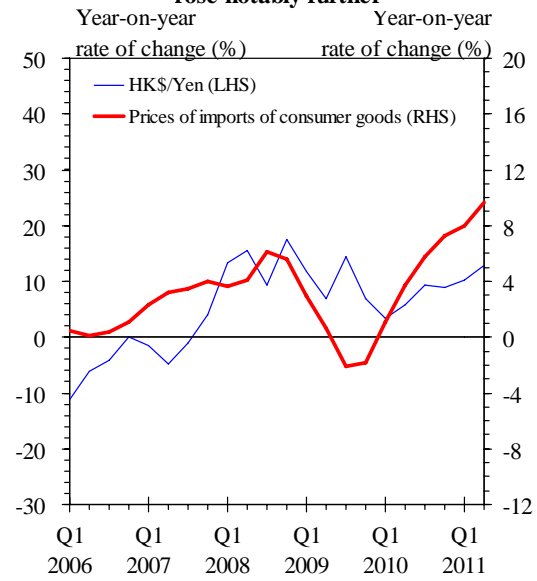
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

Diagram 6.5 : Import prices by end-use categories

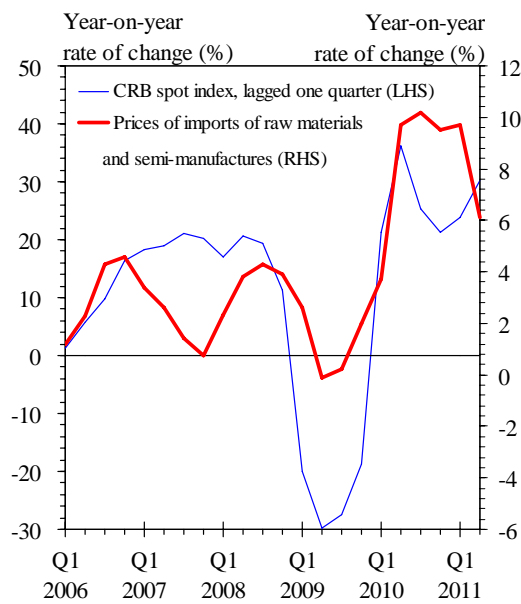
**(a) Import prices of foodstuffs
saw faster increase**



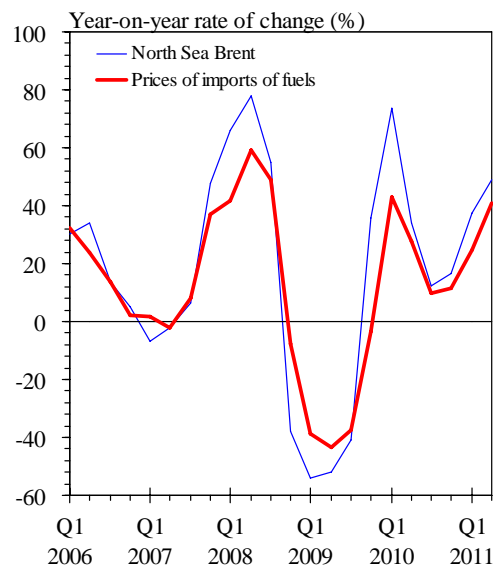
**(b) Import prices of consumer goods
rose notably further**



**(c) Import prices of raw materials moderated
somewhat in growth**



**(d) Geopolitical tensions in the Middle East and
North Africa continued to lift oil prices**



Output prices

6.7 Output prices, as measured by the *Producer Price Indices*⁽³⁾, stayed on an uptrend in the first quarter of 2011. Output prices for the manufacturing sector picked up further in the first quarter after a solid increase in 2010, reflecting stronger overseas demand as well as higher material costs. Among the service sectors, output prices for accommodation services and air transport both posted notable increases. The increases in output prices for land transport and courier services were however more moderate. Yet output prices for water transports reverted to a modest year-on-year decline in the first quarter of 2011, after the double-digit increase in 2010. Meanwhile, the perennial downtrend in output prices for telecommunications services continued under an environment of technological advancement and keen competition.

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

<u>Industry group</u>	<u>2010</u> <u>Annual</u>	<u>Q1</u>	<u>2010</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2011</u> <u>Q1</u>
Manufacturing	6.0	4.0	6.0	6.4	7.6	8.2
Selected services sector ^(a)						
Accommodation services	8.9	4.4	6.8	9.1	15.0	12.7
Land transport	1.3	0.1	0.9	2.2	1.9	1.6
Water transport	27.4	13.0	43.7	41.4	15.0	-2.3
Air transport	16.5	13.9	17.4	23.5	12.0	8.8
Telecommunications	-1.5	-2.3	-2.1	-1.3	-0.1	-0.6
Courier services	2.2	1.6	2.3	2.3	2.4	2.2

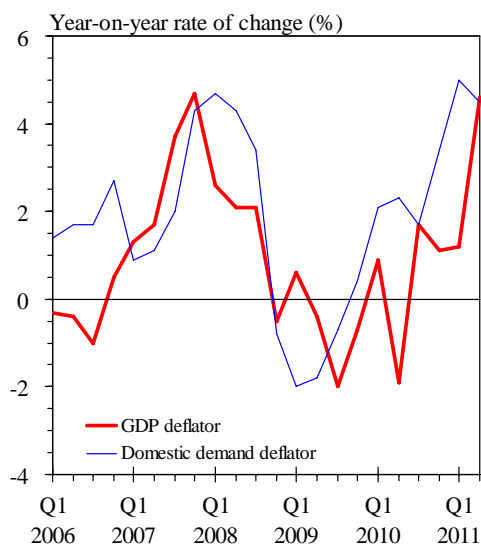
Notes : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

6.8 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 4.6% year-on-year in the second quarter of 2011, following an increase of 1.2% in the first quarter. The *terms of trade*⁽⁵⁾ showed no change from a year earlier, since import and export prices rose at nearly the same pace. Taking out the external trade components, the domestic demand deflator went up by 4.5% in the second quarter, further to a 5.0% increase in the preceding quarter.

Diagram 6.6 : GDP deflator

(a) Domestic demand deflator increased further in the second quarter of 2011



(b) Terms of trade held stable on a year-on-year comparison

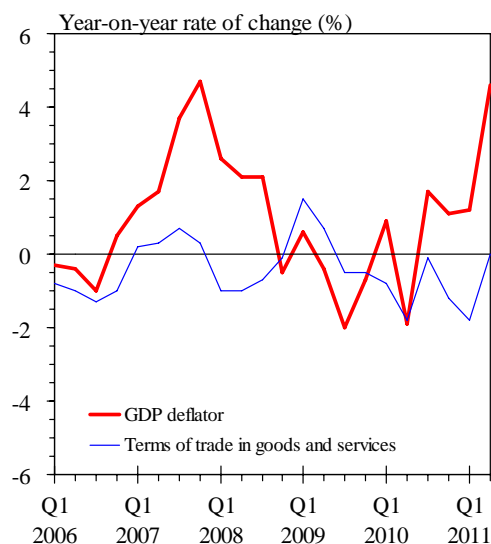


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

	<u>2010</u>	<u>2010</u>				<u>2011</u>	
	<u>Annual[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
Private consumption expenditure	0.9	0.4	0.2	0.6	2.2	3.6	5.0
Government consumption expenditure	0.3	-0.5	0.4	0.6	0.8	1.8	5.6
Gross domestic fixed capital formation	7.7	8.1	8.4	5.5	9.1	9.9	3.7
Total exports of goods	4.6	2.8	4.1	5.6	5.8	6.4	7.6
Imports of goods	6.3	3.8	7.2	6.4	7.8	8.5	7.5
Exports of services	7.4	4.8	10.0	7.6	7.5	5.9	7.6
Imports of services	5.1	7.4	4.8	4.0	4.9	6.0	8.8
Gross Domestic Product	0.5	0.9	-1.9	1.7	1.1	1.2	4.6
		<1.1>	<-2.4>	<2.3>	<0.2>	<1.0>	<1.1>
Total final demand	4.3	3.0	4.2	4.8	5.3	5.9	6.6
Domestic demand	2.3	2.1	2.3	1.7	3.4	5.0	4.5
Terms of trade in goods and services	-0.9	-0.8	-1.8	-0.1	-1.2	-1.8	*

Notes : Figures are derived based on the 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 within $\pm 0.05\%$.

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 2009/10-based CPIs are shown below:

	<u>Approximate proportion of households covered</u> (%)	<u>Average monthly expenditure range during Oct 2009 to Sep 2010</u> (\$)
CPI(A)	50	4,500 to 18,499
CPI(B)	30	18,500 to 32,499
CPI(C)	10	32,500 to 65,999

The weightings of the various components in the 2009/10-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	27.45	33.68	27.16	20.87
<i>Meals bought away from home</i>	17.07	19.23	17.90	13.55
<i>Other foodstuffs</i>	10.38	14.45	9.26	7.32
Housing	31.66	32.19	31.43	31.36
<i>Private dwellings</i>	27.14	24.78	28.13	28.45
<i>Public dwellings</i>	2.05	5.49	0.72	--
<i>Maintenance costs and other housing charges</i>	2.47	1.92	2.58	2.91
Electricity, gas and water	3.10	4.36	2.84	2.03
Alcoholic drinks and tobacco	0.59	0.91	0.56	0.29
Clothing and footwear	3.45	2.60	3.45	4.39
Durable goods	5.27	3.73	5.73	6.39
Miscellaneous goods	4.17	3.87	4.17	4.49
Transport	8.44	7.22	8.35	9.93
Miscellaneous services	15.87	11.44	16.31	20.25
All items	100.00	100.00	100.00	100.00

- (2) The table below presents the year-on-year rates (%) of consumer price inflation in selected economies.

	<u>2009</u>	<u>2010</u>	<u>2010</u>				<u>2011</u>	
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Selected developed economies								
US	-0.4	1.6	2.4	1.8	1.2	1.3	2.1	3.4
Canada	0.3	1.8	1.6	1.4	1.8	2.3	2.6	3.4
EU	1.0	2.1	1.7	2.0	2.1	2.5	2.9	3.2
Japan	-1.4	-0.7	-1.2	-0.9	-0.8	0.1	0.0	0.3
Major emerging economies								
Mainland China	-0.7	3.3	2.2	2.9	3.5	4.7	5.0	5.7
Russia	11.7	6.9	7.2	5.9	6.2	8.1	9.5	9.5
India	10.9	12.0	15.3	13.7	10.3	9.2	9.0	8.9
Brazil	4.9	5.0	4.9	5.1	4.6	5.6	6.1	6.6
Selected Asian economies								
Hong Kong	0.5	2.4	1.9	2.6	2.3	2.7	3.8	5.2
Singapore	0.6	2.8	0.9	3.1	3.4	4.0	5.2	4.7
Taiwan	-0.9	1.0	1.3	1.1	0.4	1.1	1.3	1.6
South Korea	2.8	3.0	2.7	2.6	2.9	3.6	4.5	4.2
Malaysia	0.6	1.7	1.4	1.6	1.9	2.0	2.8	3.3
Thailand	-0.8	3.3	3.7	3.2	3.3	2.9	3.0	4.1
Indonesia	4.8	5.1	3.7	4.4	6.2	6.3	6.8	5.9
Philippines	3.2	4.1	4.3	4.3	4.2	3.7	4.5	4.9
Vietnam	6.7	9.2	8.5	9.0	8.4	10.8	12.8	19.4
Macao	1.2	2.8	1.5	2.7	3.1	3.9	5.0	5.2

- (3) The Producer Price Index is designed to reflect changes in the prices of goods and services received by local producers. Producer prices refer to the transacted prices, net of any discounts or rebates allowed to the buyers. Transportation and other incidental charges are not included.
- (4) The implicit price deflators of GDP and its main expenditure components are derived by dividing GDP at current prices by the corresponding chained-dollar figures. The rate of change in the GDP deflator may differ substantially from that in the Composite CPI over the same time span. The Composite CPI covers consumer price inflation in particular. Yet the GDP deflator is a much broader measure of inflation for the entire economy, and takes into account all the price changes related to consumption, investment, exports and imports. Also, the rate of change in the GDP deflator may differ appreciably from that in the total final demand deflator, depending on the movement in the prices of final demand and imports. Likewise, the rate of change in the GDP deflator may differ appreciably from that in the domestic demand deflator, depending on the movement in the prices of imports and exports.
- (5) The terms of trade is defined as the ratio of the prices of total exports to the prices of total imports.

Statistical Appendix

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

	(\$Mn)					
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Private consumption expenditure	782,984	748,402	719,873	767,923	804,936	863,591
Government consumption expenditure	128,866	131,291	130,151	127,327	121,435	123,033
Gross domestic fixed capital formation	333,044	286,025	261,576	275,034	289,170	322,691
<i>of which:</i>						
Building and construction	142,659	131,757	116,628	107,692	105,993	106,268
Machinery, equipment and computer software	180,011	144,832	136,537	150,545	163,287	199,631
Changes in inventories	-4,060	5,660	9,111	7,076	-4,761	-2,129
Total exports of goods	1,480,987	1,562,121	1,749,089	2,027,031	2,251,744	2,467,357
Imports of goods	1,549,222	1,601,527	1,794,059	2,099,545	2,311,091	2,576,340
Exports of services	320,799	347,836	362,420	429,584	495,394	565,054
Imports of services	194,180	202,494	203,400	242,507	264,237	287,900
GDP	1,299,218	1,277,314	1,234,761	1,291,923	1,382,590	1,475,357
Per capita GDP (\$)	193,500	189,397	183,449	190,451	202,928	215,158
GNP	1,327,761	1,282,966	1,263,252	1,315,333	1,384,238	1,502,705
Per capita GNP (\$)	197,751	190,235	187,682	193,902	203,170	219,146
Total final demand	3,042,620	3,081,335	3,232,220	3,633,975	3,957,918	4,339,597
Total final demand excluding re-exports ^(a)	1,983,301	1,923,623	1,896,483	2,062,142	2,212,697	2,406,861
Domestic demand	1,240,834	1,171,378	1,120,711	1,177,360	1,210,780	1,307,186
Private	1,053,973	986,542	939,104	1,001,588	1,048,026	1,149,285
Public	186,861	184,836	181,607	175,772	162,754	157,901
External demand	1,801,786	1,909,957	2,111,509	2,456,615	2,747,138	3,032,411

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>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>		<u>2011</u>	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Private consumption expenditure	972,028	1,022,862	1,012,790	1,085,268	265,583	296,463	284,426	308,246
Government consumption expenditure	130,404	139,262	142,853	147,209	36,757	36,960	40,440	37,257
Gross domestic fixed capital formation	325,366	334,352	322,772	374,586	95,518	99,906	91,957	106,805
<i>of which:</i>								
Building and construction	111,776	127,312	123,798	144,118	37,017	37,447	39,709	40,921
Machinery, equipment and computer software	189,093	182,189	174,736	192,433	47,901	51,970	41,656	55,010
Changes in inventories	12,841	8,480	22,899	38,945	-5,801	8,787	9,695	6,432
Total exports of goods	2,698,850	2,843,998	2,494,746	3,061,252	838,073	808,741	795,731	834,799
Imports of goods	2,852,522	3,024,089	2,702,966	3,395,057	898,127	897,685	889,542	960,405
Exports of services	660,847	718,630	669,829	826,856	219,955	230,278	220,832	215,519
Imports of services	332,240	366,484	340,601	395,201	103,835	108,124	102,577	102,729
GDP	1,615,574	1,677,011	1,622,322	1,743,858	448,123	475,326	450,962	445,924
<i>Per capita GDP (\$)</i>	<i>233,266</i>	<i>240,339</i>	<i>231,638</i>	<i>246,733</i>	--	--	--	--
GNP	1,660,011	1,760,317	1,665,188	1,780,426	442,013	474,817	471,099	N.A.
<i>Per capita GNP (\$)</i>	<i>239,682</i>	<i>252,278</i>	<i>237,758</i>	<i>251,907</i>	--	--	--	--
Total final demand	4,800,336	5,067,584	4,665,889	5,534,116	1,450,085	1,481,135	1,443,081	1,509,058
Total final demand excluding re-exports ^(a)	2,660,146	2,805,196	2,656,255	3,028,725	761,956	819,440	789,384	826,824
Domestic demand	1,440,639	1,504,956	1,501,314	1,646,008	392,057	442,116	426,518	458,740
Private	1,278,479	1,329,853	1,317,516	1,441,256	341,154	388,696	365,774	407,696
Public	162,160	175,103	183,798	204,752	50,903	53,420	60,744	51,044
External demand	3,359,697	3,562,628	3,164,575	3,888,108	1,058,028	1,039,019	1,016,563	1,050,318

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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Private consumption expenditure	1.8	-0.9	-1.3	7.0	3.0	5.9
Government consumption expenditure	6.0	2.4	1.8	0.7	-3.2	0.3
Gross domestic fixed capital formation	2.6	-4.7	0.9	2.5	4.1	7.1
<i>of which:</i>						
Building and construction	-1.1	-1.3	-5.4	-10.7	-7.6	-7.1
Machinery, equipment and computer software	6.2	-7.6	7.0	10.3	12.8	19.2
Total exports of goods	-3.3	8.6	14.0	14.9	10.4	9.3
Imports of goods	-1.9	7.9	13.1	13.7	8.0	9.2
Exports of services	6.4	11.1	7.6	18.0	11.6	10.1
Imports of services	2.0	3.9	-2.2	14.6	7.8	8.1
GDP	0.5	1.8	3.0	8.5	7.1	7.0
<i>Per capita GDP</i>	-0.2	1.4	3.2	7.6	6.6	6.3
GNP	2.0	0.1	4.9	7.9	5.3	8.8
<i>Per capita GNP</i>	1.3	-0.3	5.1	7.0	4.8	8.1
Total final demand	-0.7	5.0	7.9	11.8	7.7	8.4
Total final demand excluding re-exports ^(a)	0.3	2.0	3.1	8.9	5.4	7.3
Domestic demand	0.9	-0.7	-0.2	5.0	1.6	6.0
Private	0.5	-1.0	-0.5	6.2	3.0	7.5
Public	3.3	1.1	1.4	-1.2	-6.2	-3.8
External demand	-1.7	9.0	12.8	15.4	10.6	9.4

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>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>		<u>2011</u>		Average annual rate of change:	
					Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2000 to 2010 [#]	5 years 2005 to 2010 [#]
Private consumption expenditure	8.5	2.4	0.7	6.2	5.3	8.1	8.0	9.2	3.3	4.7
Government consumption expenditure	3.0	1.8	2.3	2.7	3.2	1.6	2.6	1.4	1.8	2.0
Gross domestic fixed capital formation	3.4	1.0	-3.9	7.8	-0.3	8.6	-0.3	8.1	2.0	3.0
<i>of which:</i>										
Building and construction	-0.3	6.8	-5.5	6.6	9.6	11.3	16.0	-2.4	-2.7	-0.1
Machinery, equipment and computer software	3.0	-0.7	-3.0	5.9	-7.3	6.4	-12.1	17.4	5.0	4.6
Total exports of goods	7.0	1.9	-12.7	17.3	20.8	8.2	16.8	0.3	6.4	4.1
Imports of goods	8.8	1.8	-9.5	18.1	16.7	7.5	12.6	2.6	6.6	5.3
Exports of services	14.1	5.2	0.3	15.0	15.8	9.3	9.3	7.8	9.8	8.8
Imports of services	12.1	6.3	-4.9	10.4	10.8	7.7	5.8	2.9	5.6	6.2
GDP	6.4	2.3	-2.7	7.0	6.9	6.4	7.5	5.1	4.0	3.9
Per capita GDP	5.3	1.5	-3.0	6.0	--	--	--	--	3.4	3.2
GNP	7.4	4.5	-4.8	6.4	5.3	5.3	5.6	N.A.	4.2	4.3
Per capita GNP	6.3	3.7	-5.1	5.4	--	--	--	--	3.6	3.6
Total final demand	8.2	2.3	-6.9	13.7	13.0	7.2	10.4	3.4	5.6	4.9
Total final demand excluding re-exports ^(a)	7.9	1.8	-2.6	10.6	6.5	6.1	5.4	5.8	4.4	4.9
Domestic demand	7.9	1.6	0.8	7.2	-1.6	4.4	0.9	7.3	3.0	4.6
Private	9.0	1.5	0.3	6.7	-3.3	3.4	-0.8	7.8	3.2	4.9
Public	0.2	2.6	4.3	10.2	11.6	11.9	11.4	3.4	1.1	2.6
External demand	8.3	2.6	-10.1	16.8	19.7	8.4	15.1	1.7	7.0	5.0

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

	<u>2005</u>		<u>2006</u>		<u>2007</u>		<u>2008</u>		<u>2009[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	953	0.1	947	0.1	1,015	0.1	925	0.1	1,090	0.1
Manufacturing	39,143	2.9	39,303	2.7	31,729	2.0	30,993	1.9	28,227	1.8
Electricity, gas and water supply, and waste management	40,719	3.0	41,239	2.8	40,685	2.6	39,585	2.5	34,961	2.3
Construction	38,984	2.9	39,124	2.7	40,611	2.6	48,357	3.0	50,146	3.2
Services	1,239,446	91.2	1,332,191	91.7	1,466,109	92.8	1,473,037	92.5	1,436,427	92.6
<i>Import/export, wholesale and retail trades</i>	<i>355,185</i>	<i>26.1</i>	<i>361,169</i>	<i>24.9</i>	<i>374,614</i>	<i>23.7</i>	<i>393,914</i>	<i>24.7</i>	<i>365,880</i>	<i>23.6</i>
<i>Accommodation and food services</i>	<i>37,492</i>	<i>2.8</i>	<i>42,697</i>	<i>2.9</i>	<i>48,827</i>	<i>3.1</i>	<i>53,596</i>	<i>3.4</i>	<i>48,787</i>	<i>3.1</i>
<i>Transportation, storage, postal and courier services</i>	<i>115,311</i>	<i>8.5</i>	<i>116,104</i>	<i>8.0</i>	<i>119,728</i>	<i>7.6</i>	<i>98,245</i>	<i>6.2</i>	<i>99,048</i>	<i>6.4</i>
<i>Information and communications</i>	<i>44,813</i>	<i>3.3</i>	<i>48,243</i>	<i>3.3</i>	<i>50,873</i>	<i>3.2</i>	<i>48,258</i>	<i>3.0</i>	<i>46,808</i>	<i>3.0</i>
<i>Financing and insurance</i>	<i>172,108</i>	<i>12.7</i>	<i>228,178</i>	<i>15.7</i>	<i>304,764</i>	<i>19.3</i>	<i>255,586</i>	<i>16.0</i>	<i>235,581</i>	<i>15.2</i>
<i>Real estate, professional and business services</i>	<i>121,748</i>	<i>9.0</i>	<i>128,111</i>	<i>8.8</i>	<i>146,562</i>	<i>9.3</i>	<i>165,594</i>	<i>10.4</i>	<i>173,583</i>	<i>11.2</i>
<i>Public administration, social and personal services</i>	<i>243,792</i>	<i>17.9</i>	<i>245,295</i>	<i>16.9</i>	<i>254,391</i>	<i>16.1</i>	<i>269,601</i>	<i>16.9</i>	<i>279,453</i>	<i>18.0</i>
<i>Ownership of premises</i>	<i>148,997</i>	<i>11.0</i>	<i>162,393</i>	<i>11.2</i>	<i>166,352</i>	<i>10.5</i>	<i>188,244</i>	<i>11.8</i>	<i>187,286</i>	<i>12.1</i>
GDP at basic prices	1,359,245	100.0	1,452,803	100.0	1,580,148	100.0	1,592,897	100.0	1,550,851	100.0
Taxes on products	35,305	--	40,348	--	64,634	--	59,919	--	55,967	--
Statistical discrepancy (%)	-0.9	--	-1.2	--	-1.8	--	1.4	--	1.0	--
GDP at current market prices	1,382,590	--	1,475,357	--	1,615,574	--	1,677,011	--	1,622,322	--

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

The above statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 and the series has been backcasted to 2000.

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

(--) Not applicable.

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

	(%)									
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>		<u>2010</u>		<u>2011</u>
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Agriculture, fishing, mining and quarrying	-0.2	-3.3	-4.3	-17.0	-4.6	-4.8	-0.6	-7.8	-6.5	-13.2
Manufacturing	1.7	2.2	-1.4	-6.7	-8.3	3.5	2.2	5.4	5.7	3.5
Electricity, gas and water supply, and waste management	2.3	0.8	1.3	0.7	1.5	-0.1	0.3	-2.7	0.1	-3.0
Construction	-7.9	-9.4	-1.0	8.9	-7.6	15.8	21.3	20.2	19.8	22.2
Services	7.4	7.0	6.9	2.5	-1.6	7.0	6.1	7.3	6.4	7.1
<i>Import/export, wholesale and retail trades</i>	<i>14.7</i>	<i>8.6</i>	<i>6.1</i>	<i>6.8</i>	<i>-9.4</i>	<i>15.6</i>	<i>17.9</i>	<i>15.9</i>	<i>9.1</i>	<i>14.0</i>
<i>Accommodation and food services</i>	<i>6.2</i>	<i>9.7</i>	<i>10.7</i>	<i>1.7</i>	<i>-11.3</i>	<i>7.3</i>	<i>10.0</i>	<i>6.8</i>	<i>4.1</i>	<i>2.6</i>
<i>Transportation, storage, postal and courier services</i>	<i>7.0</i>	<i>6.5</i>	<i>5.2</i>	<i>2.5</i>	<i>-5.5</i>	<i>8.8</i>	<i>12.6</i>	<i>9.6</i>	<i>6.6</i>	<i>9.2</i>
<i>Information and communications</i>	<i>2.6</i>	<i>8.0</i>	<i>6.5</i>	<i>-1.5</i>	<i>0.9</i>	<i>1.6</i>	<i>1.7</i>	<i>2.1</i>	<i>0.8</i>	<i>1.8</i>
<i>Financing and insurance</i>	<i>11.8</i>	<i>19.6</i>	<i>17.7</i>	<i>-0.8</i>	<i>4.3</i>	<i>7.9</i>	<i>1.3</i>	<i>7.0</i>	<i>13.8</i>	<i>12.8</i>
<i>Real estate, professional and business services</i>	<i>4.6</i>	<i>2.3</i>	<i>6.5</i>	<i>1.7</i>	<i>1.7</i>	<i>2.7</i>	<i>2.0</i>	<i>1.3</i>	<i>4.5</i>	<i>1.3</i>
<i>Public administration, social and personal services</i>	<i>0.2</i>	<i>0.6</i>	<i>1.5</i>	<i>2.2</i>	<i>2.8</i>	<i>2.5</i>	<i>2.1</i>	<i>3.1</i>	<i>1.8</i>	<i>2.2</i>
<i>Ownership of premises</i>	<i>3.0</i>	<i>2.6</i>	<i>2.8</i>	<i>1.8</i>	<i>1.3</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>
Taxes on products	-1.5	7.7	24.9	-1.7	-4.6	6.2	-1.3	2.4	9.6	7.8
GDP in chained (2009) dollars	7.1	7.0	6.4	2.3	-2.7	7.0	6.7	6.9	6.4	7.5

Notes : The above statistics are compiled based on the Hong Kong Standard Industrial Classification (HSIC) Version 2.0 and the series has been backcasted to 2000.

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

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

	(\$Mn)								
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010[#]</u>		<u>2010</u>		<u>2011</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Current account ^(a)	178,166	199,279	229,506	139,249	108,244	8,119	43,253	25,984	37,323
Goods	-108,983	-153,672	-180,091	-208,220	-333,805	-97,172	-60,054	-88,944	-93,811
Services	277,154	328,607	352,146	329,228	431,655	93,935	116,120	122,154	118,255
Income	27,348	44,437	83,306	42,866	36,568	17,568	-6,110	-509	20,137
Current transfers	-17,353	-20,093	-25,855	-24,625	-26,174	-6,212	-6,703	-6,717	-7,258
Capital and financial account ^(a)	-209,935	-259,247	-231,162	-155,371	-137,410	7,152	-57,147	-50,493	-21,254
Capital and financial non-reserve assets (net change)	-163,199	-144,749	32,707	393,891	-66,324	12,650	-41,795	-20,432	-2,561
Capital transfers	-2,900	10,338	16,393	36,210	40,647	6,652	11,790	10,372	12,966
Financial non-reserve assets (net change)	-160,300	-155,086	16,314	357,680	-106,971	5,998	-53,585	-30,804	-15,527
<i>Direct investment</i>	635	-52,577	70,393	-89,900	-55,730	12,905	-30,102	-26,124	58,767
<i>Portfolio investment</i>	-207,879	-21,452	-295,148	-332,417	-472,875	-101,069	-105,652	-180,566	17,598
<i>Financial derivatives</i>	25,925	43,534	63,338	24,560	29,156	10,777	6,314	4,336	5,199
<i>Other investment</i>	21,019	-124,592	177,732	755,438	392,478	83,384	75,854	171,550	-97,091
Reserve assets (net change)	-46,735	-114,498	-263,869	-549,262	-71,086	-5,498	-15,352	-30,061	-18,694
Net errors and omissions	31,769	59,968	1,656	16,122	29,166	-15,271	13,895	24,509	-16,069
Overall balance of payments	46,735	114,498	263,869	549,262	71,086	5,498	15,352	30,061	18,694

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>		<u>2011</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Total exports of goods	2,467,357	2,698,850	2,843,998	2,494,746	3,061,252	838,073	808,741	795,731	834,799
Imports of goods	2,576,340	2,852,522	3,024,089	2,702,966	3,395,057	898,127	897,685	889,542	960,405
Visible trade balance	-108,983	-153,672	-180,091	-208,220	-333,805	-60,054	-88,944	-93,811	-125,606
	(<4.2>)	(<-5.4>)	(<-6.0>)	(<-7.7>)	(<-9.8>)	(<-6.7>)	(<-9.9>)	(<-10.5>)	(<-13.1>)
Exports of services	565,054	660,847	718,630	669,829	826,856	219,955	230,278	220,832	215,519
Imports of services	287,900	332,240	366,484	340,601	395,201	103,835	108,124	102,577	102,729
Invisible trade balance	277,154	328,607	352,146	329,228	431,655	116,120	122,154	118,255	112,790
	(96.3)	(98.9)	(96.1)	(96.7)	(109.2)	(111.8)	(113.0)	(115.3)	(109.8)
Exports of goods and services	3,032,411	3,359,697	3,562,628	3,164,575	3,888,108	1,058,028	1,039,019	1,016,563	1,050,318
Imports of goods and services	2,864,240	3,184,762	3,390,573	3,043,567	3,790,258	1,001,962	1,005,809	992,119	1,063,134
Visible and invisible trade balance	168,171	174,935	172,055	121,008	97,850	56,066	33,210	24,444	-12,816
	<5.9>	<5.5>	<5.1>	<4.0>	<2.6>	<5.6>	<3.3>	<2.5>	<-1.2>

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		<u>2011</u>	
							Q3	Q4	Q1	Q2
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All markets	9.4	9.2	5.1	-12.6	22.8	3,031,019	27.8	14.4	24.6	7.7
Mainland of China	14.2	13.2	4.7	-7.8	26.5	1,598,222	31.1	13.7	27.6	4.3
United States	2.9	-0.8	-2.4	-20.6	16.4	332,089	23.4	14.9	13.3	-3.1
Japan	1.6	-0.7	1.2	-10.0	17.2	127,647	18.4	12.8	11.3	2.0
Germany	4.0	7.2	15.8	-15.5	1.6	80,637	11.2	3.3	16.6	19.7
United Kingdom	6.3	1.7	0.7	-20.8	1.9	60,780	7.1	-0.3	-1.2	-1.9
Singapore	4.4	3.8	9.6	-23.6	20.7	50,978	26.0	16.9	23.8	13.8
Taiwan	3.3	1.6	3.8	-0.4	25.4	68,604	18.1	3.5	21.9	28.3
Republic of Korea	7.5	2.0	-6.4	-13.0	24.4	53,668	17.5	19.2	23.0	18.9
Rest of the world	8.5	13.2	11.3	-17.3	23.6	658,394	30.8	19.9	29.3	19.0

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		<u>2011</u>	
							Q3	Q4	Q1	Q2
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
All sources	11.6	10.3	5.5	-11.0	25.0	3,364,840	24.1	15.1	20.6	10.3
Mainland of China	13.7	11.5	6.1	-11.4	22.4	1,529,751	22.9	16.1	21.3	10.3
Japan	4.5	7.2	3.6	-20.6	30.4	308,161	25.2	12.9	15.3	-5.2
Singapore	21.9	18.2	0.1	-10.4	35.9	237,407	37.0	16.3	23.3	-0.1
Taiwan	15.9	5.2	-6.4	-8.5	28.0	224,761	20.3	4.8	13.6	-2.4
United States	3.6	12.3	8.6	-5.7	26.0	179,160	31.8	22.7	19.4	19.2
Republic of Korea	16.1	-0.2	-1.1	-12.7	29.8	133,714	22.9	6.1	29.0	6.6
Rest of the world	7.6	10.7	11.5	-7.6	23.0	751,885	22.2	16.5	21.6	23.1

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

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		<u>2011</u>	
							Q3	Q4	Q1	Q2
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Overall	14.3	9.4	5.3	-10.8	27.3	874,716	9.8	13.6	9.5	16.8
Foodstuffs	4.3	12.9	19.7	9.9	17.0	92,003	9.0	21.2	3.4	19.7
Consumer goods	3.1	11.4	9.0	-14.0	33.8	184,107	10.7	23.0	31.9	56.2
Raw materials and semi-manufactures	8.8	17.7	-4.5	-6.4	32.3	326,936	15.2	5.5	1.1	-2.4
Fuels	22.8	20.1	26.6	-18.4	33.8	116,156	26.2	12.6	28.6	12.4
Capital goods	33.2	-8.3	2.5	-18.7	12.9	154,753	-8.4	20.2	-11.0	16.6

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>		<u>2010</u>		<u>2011</u>	
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Exports of services	14.1	17.0	8.7	-6.8	23.4	826,856	24.7	17.5	15.7	16.1
Transportation	10.2	14.6	12.7	-18.4	28.0	235,047	26.3	20.9	8.2	13.1
Travel	12.9	18.7	11.1	6.7	35.4	172,271	50.7	22.9	18.8	27.9
Trade-related	9.9	11.6	8.5	-4.3	19.8	247,773	20.0	15.3	19.9	12.3
Other services	28.4	26.8	2.3	-4.0	12.8	171,765	9.4	12.0	16.9	13.9
Imports of services	9.0	15.4	10.3	-7.1	16.0	395,201	15.3	13.0	12.1	11.9
Transportation	10.9	20.4	13.5	-23.0	19.2	113,168	17.8	15.5	9.9	9.3
Travel	5.4	7.6	6.8	-3.1	11.7	135,661	13.8	10.1	9.7	12.8
Trade-related	12.6	15.9	10.6	0.5	23.5	33,362	24.0	18.9	23.1	13.5
Other services	11.2	21.2	11.0	6.8	16.3	113,010	11.9	12.2	14.3	13.6
Net exports of services	19.9	18.6	7.2	-6.5	31.1	431,655	34.5	21.9	18.9	20.1

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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>		<u>2011</u>	
						Q3	Q4	Q1	Q2
<u>('000)</u>									
All sources	25 251.1	28 169.3	29 506.6	29 590.7	36 030.3	9 319.9	9 854.4	9 708.0	9 623.2
Mainland of China	13 591.3	15 485.8	16 862.0	17 956.7	22 684.4	6 008.2	6 189.0	6 520.5	6 176.9
South and Southeast Asia	2 659.7	2 888.1	2 936.2	2 885.2	3 500.9	820.7	1 010.9	776.4	1 011.3
Taiwan	2 177.2	2 238.7	2 240.5	2 009.6	2 164.8	582.8	525.8	507.4	546.3
Europe	1 548.2	1 772.2	1 711.4	1 610.5	1 757.8	399.2	511.9	441.9	425.2
Japan	1 311.1	1 324.3	1 324.8	1 204.5	1 316.6	339.5	333.7	326.9	272.0
United States	1 159.0	1 230.9	1 146.4	1 070.1	1 171.4	280.4	325.4	279.4	311.5
Others	2 804.5	3 229.2	3 285.3	2 854.0	3 434.5	889.1	957.7	855.6	880.1
<u>(% change over a year earlier)</u>									
All sources	8.1	11.6	4.7	0.3	21.8	24.9	16.9	12.6	16.9
Mainland of China	8.4	13.9	8.9	6.5	26.3	30.2	21.8	17.5	25.1
South and Southeast Asia	10.2	8.6	1.7	-1.7	21.3	26.0	11.7	8.6	6.0
Taiwan	2.2	2.8	0.1	-10.3	7.7	7.1	0.5	-5.5	5.2
Europe	10.7	14.5	-3.4	-5.9	9.1	8.0	9.3	0.8	4.1
Japan	8.3	1.0	*	-9.1	9.3	2.2	2.4	-2.2	-12.0
United States	1.4	6.2	-6.9	-6.7	9.5	8.8	8.2	5.3	3.7
Others	11.2	15.1	1.7	-13.1	20.3	28.2	15.8	8.9	9.8

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

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

Table 12 : Property market

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Completion of new property by the private sector (<u>'000 m² of internal floor area</u>)							
Residential property ^(a) (in units)	26 262	31 052	26 397	26 036	17 321	16 579	10 471
Commercial property	208	304	417	371	145	291	368
<i>of which :</i>							
Office space	76	166	299	280	34	108	320
Other commercial premises ^(b)	132	138	118	91	111	183	48
Industrial property ^(c)	45	29	15	1	17	27	16
<i>of which :</i>							
Industrial-cum-office premises	14	0	15	0	4	0	0
Conventional flatted factory space	30	3	0	1	0	0	16
Storage premises ^(d)	0	27	0	0	13	27	0
Production of public housing (<u>in units</u>)							
Rental housing flats ^(e)	47 590	20 154	13 705	20 614	24 691	4 430	4 795
Subsidized sales flats ^(e)	25 702	1 072	320	0	0	0	2 010
Building plans with consent to commence work in the private sector (<u>'000 m² of usable floor area</u>)							
Residential property	1 002.5	790.0	1 038.4	530.0	550.7	706.7	956.1
Commercial property	265.0	365.3	200.0	161.3	481.9	468.4	327.5
Industrial property ^(f)	45.7	107.1	0.8	16.4	35.1	23.9	103.5
Other properties	75.0	109.3	444.2	407.1	408.0	199.2	207.7
Total	1 388.1	1 371.8	1 683.3	1 114.8	1 475.8	1 398.2	1 594.8
Agreements for sale and purchase of property (<u>Number</u>)							
Residential property ^(g)	69 667	72 974	71 576	100 630	103 362	82 472	123 575
Primary market	18 366	23 088	26 498	25 694	15 994	13 986	20 123
Secondary market	51 301	49 886	45 078	74 936	87 368	68 486	103 452
Selected types of non-residential properties ^(h)							
Office space	1 774	1 639	1 817	3 213	3 431	2 874	4 129
Other commercial premises	2 989	3 167	4 142	7 833	7 143	4 402	5 490
Flatted factory space	3 493	3 756	3 813	5 889	6 560	7 409	9 072

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u> Q3	Q4	<u>2011</u> Q1	Q2
Completion of new property by the private sector (^{'000 m²} of internal floor area)							
Residential property ^(a) (in units)	8 776	7 157	13 405	4 042	2 333	3 259	1 227
Commercial property	390	235	189	52	29	111	50
<i>of which :</i>							
Office space	341	151	124	34	24	87	48
Other commercial premises ^(b)	49	84	65	18	5	23	1
Industrial property ^(c)	78	3	21	21	0	30	49
<i>of which :</i>							
Industrial-cum-office premises	4	0	0	0	0	0	0
Conventional flatted factory space	70	3	21	21	0	30	2
Storage premises ^(d)	4	0	0	0	0	0	46
Production of public housing (in units)							
Rental housing flats ^(e)	22 759	19 021	6 385	0	0	13 672	N.A.
Subsidized sales flats ^(e)	2 200	370	1 110	0	0	0	N.A.
Building plans with consent to commence work in the private sector (^{'000 m²} of usable floor area)							
Residential property	530.0	546.8	586.5	239.3	111.9	163.1	66.6
Commercial property	147.7	178.3	156.3	28.5	0.6	44.8	14.5
Industrial property ^(f)	106.6	97.1	34.3	9.3	0.8	22.4	9.5
Other properties	212.8	253.2	459.2	193.4	79.8	67.4	86.4
Total	997.1	1 075.4	1 236.3	470.5	193.2	297.6	177.0
Agreements for sale and purchase of property (Number)							
Residential property ^(g)	95 931	115 092	135 778	38 080	32 069	28 848	26 359
Primary market	11 046	16 161	13 646	3 224	2 877	1 905	3 845
Secondary market	84 885	98 931	122 132	34 856	29 192	26 943	22 514
Selected types of non-residential properties ^(h)							
Office space	2 845	2 521	3 591	909	1 025	1 034	1 020
Other commercial premises	4 149	5 359	7 639	2 168	1 989	1 852	2 154
Flatted factory space	5 741	5 554	8 206	2 150	2 471	2 593	2 581

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.

N.A. Not yet available.

Table 13 : Property prices and rentals

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	78.7	69.9	61.6	78.0	92.0	92.7	103.5
Office space	78.7	68.4	62.5	99.3	133.0	139.3	165.5
Shopping space	86.8	85.0	85.5	119.3	149.3	153.5	172.5
Flatted factory space	82.0	74.8	71.7	88.6	125.0	158.5	199.5
Property rental indices ^(b) :							
Residential flats	95.4	83.4	73.6	77.7	86.5	91.6	101.8
Office space	101.0	85.4	74.6	78.1	96.4	117.4	131.9
Shopping space	99.4	92.9	86.4	92.8	100.5	104.3	111.8
Flatted factory space	90.3	82.7	74.9	77.3	82.6	91.0	100.5
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	-12.2	-11.2	-11.9	26.6	17.9	0.8	11.7
Office space	-12.5	-13.1	-8.6	58.9	33.9	4.7	18.8
Shopping space	-7.3	-2.1	0.6	39.5	25.1	2.8	12.4
Flatted factory space	-10.1	-8.8	-4.1	23.6	41.1	26.8	25.9
Property rental indices ^(b) :							
Residential flats	-2.8	-12.6	-11.8	5.6	11.3	5.9	11.1
Office space	2.5	-15.4	-12.6	4.7	23.4	21.8	12.4
Shopping space	-1.9	-6.5	-7.0	7.4	8.3	3.8	7.2
Flatted factory space	-5.3	-8.4	-9.4	3.2	6.9	10.2	10.4

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

(b) 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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>		<u>2011</u>	
				Q3	Q4	Q1 [#]	Q2 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	120.5	121.3	150.9	154.1	162.3	175.1	184.4
Office space	199.0	179.8	230.4	231.4	253.8	274.3	297.8
Shopping space	192.2	193.1	257.2	262.8	284.4	303.9	323.4
Flatted factory space	235.9	216.3	284.4	289.9	316.4	348.5	387.6
Property rental indices ^(b) :							
Residential flats	115.7	100.4	119.7	121.9	127.0	128.0	133.2
Office space	155.5	135.7	147.6	150.3	154.3	158.6	165.3
Shopping space	116.2	110.9	122.9	124.6	127.6	127.8	133.2
Flatted factory space	109.3	99.4	108.9	110.3	112.5	113.2	118.5
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	16.4	0.7	24.4	21.2	22.1	24.4	26.0
Office space	20.2	-9.6	28.1	20.8	25.0	28.5	33.6
Shopping space	11.4	0.5	33.2	27.6	28.9	30.0	30.4
Flatted factory space	18.2	-8.3	31.5	30.3	31.2	34.9	42.1
Property rental indices ^(b) :							
Residential flats	13.7	-13.2	19.2	19.2	16.7	14.3	13.1
Office space	17.9	-12.7	8.8	13.3	13.0	13.1	13.5
Shopping space	3.9	-4.6	10.8	11.6	10.4	8.2	9.6
Flatted factory space	8.8	-9.1	9.6	11.2	10.3	8.5	9.2

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

(+) Provisional figures.

Table 14 : Monetary aggregates

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	229,841	259,411	354,752	412,629	348,248	387,909	454,342
M2 ^(a)	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017
M3 ^(a)	2,016,635	2,004,225	2,122,861	2,219,557	2,345,838	2,795,545	3,300,500
Total money supply (\$Mn)							
M1	258,056	295,650	413,423	484,494	434,684	491,648	616,709
M2	3,550,060	3,518,326	3,813,442	4,166,706	4,379,057	5,054,332	6,106,348
M3	3,594,130	3,561,852	3,858,044	4,189,544	4,407,188	5,089,741	6,139,758
Deposit (\$Mn)							
HK\$	1,854,651	1,824,911	1,930,790	2,017,911	2,131,579	2,568,283	3,075,042
Foreign currency	1,551,852	1,492,631	1,636,227	1,848,145	1,936,322	2,188,993	2,793,856
Total	3,406,502	3,317,542	3,567,018	3,866,056	4,067,901	4,757,275	5,868,898
Loans and advances (\$Mn)							
HK\$	1,647,684	1,615,667	1,573,079	1,666,740	1,797,350	1,917,437	2,184,705
Foreign currency	537,301	460,659	462,000	488,964	514,637	550,392	776,971
Total	2,184,986	2,076,325	2,035,079	2,155,704	2,311,987	2,467,828	2,961,676
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	104.7	104.0	100.7	98.3	97.4	96.1	91.9
Import-weighted	105.1	104.7	101.6	99.2	98.1	96.8	92.5
Export-weighted	104.3	103.3	99.8	97.3	96.7	95.5	91.3
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	12.7	12.9	36.8	16.3	-15.6	11.4	17.1
M2 ^(a)	0.5	-0.7	6.2	4.8	5.5	19.2	18.1
M3 ^(a)	0.7	-0.6	5.9	4.6	5.7	19.2	18.1
Total money supply :							
M1	5.8	14.6	39.8	17.2	-10.3	13.1	25.4
M2	-2.7	-0.9	8.4	9.3	5.1	15.4	20.8
M3	-2.7	-0.9	8.3	8.6	5.2	15.5	20.6
Deposit							
HK\$	0.2	-1.6	5.8	4.5	5.6	20.5	19.7
Foreign currency	-7.4	-3.8	9.6	13.0	4.8	13.0	27.6
Total	-3.4	-2.6	7.5	8.4	5.2	16.9	23.4
Loans and advances							
HK\$	-0.3	-1.9	-2.6	6.0	7.8	6.7	13.9
Foreign currency	-33.6	-14.3	0.3	5.8	5.3	6.9	41.2
Total	-11.2	-5.0	-2.0	5.9	7.2	6.7	20.0
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	2.9	-0.7	-3.2	-2.4	-0.9	-1.3	-4.4
Import-weighted	3.5	-0.4	-3.0	-2.4	-1.1	-1.3	-4.4
Export-weighted	2.4	-1.0	-3.4	-2.5	-0.6	-1.2	-4.4

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate.

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)

	2008	2009	2010	2010 Q3	2010 Q4	2011 Q1	2011 Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	491,115	671,241	730,093	831,730	730,093	745,847	755,406
M2 ^(a)	3,239,857	3,587,717	3,866,791	3,919,053	3,866,791	3,869,020	3,900,006
M3 ^(a)	3,261,306	3,604,843	3,878,195	3,932,327	3,878,195	3,882,870	3,910,184
Total money supply (\$Mn)							
M1	645,833	901,819	1,017,227	1,075,764	1,017,227	1,047,137	1,093,570
M2	6,268,058	6,602,310	7,136,275	6,989,183	7,136,275	7,374,707	7,624,882
M3	6,300,751	6,626,843	7,156,264	7,010,353	7,156,264	7,399,123	7,648,016
Deposit (\$Mn)							
HK\$	3,033,980	3,373,595	3,617,183	3,680,087	3,617,183	3,607,198	3,615,010
Foreign currency	3,024,004	3,007,445	3,245,081	3,056,000	3,245,081	3,469,856	3,618,690
Total	6,057,984	6,381,040	6,862,265	6,736,087	6,862,265	7,077,054	7,233,699
Loans and advances (\$Mn)							
HK\$	2,354,755	2,401,323	2,824,445	2,856,271	2,824,445	2,945,472	3,047,223
Foreign currency	930,883	887,160	1,403,281	1,269,836	1,403,281	1,595,470	1,786,806
Total	3,285,638	3,288,483	4,227,726	4,126,107	4,227,726	4,540,942	4,834,029
Nominal Effective Exchange Rate Indices (Jan 2000 =100) ^{(b)(c)}							
Trade-weighted	87.1	88.2	86.2	86.4	84.4	83.3	82.0
Import-weighted	87.1	87.9	85.3	85.4	83.2	82.0	80.7
Export-weighted	87.2	88.5	87.2	87.5	85.7	84.7	83.5
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	8.1	36.7	8.8	19.8	8.8	4.6	12.5
M2 ^(a)	-1.3	10.7	7.8	8.9	7.8	7.4	8.4
M3 ^(a)	-1.2	10.5	7.6	8.7	7.6	7.2	8.3
Total money supply :							
M1	4.7	39.6	12.8	18.5	12.8	10.9	21.0
M2	2.6	5.3	8.1	5.3	8.1	11.8	15.9
M3	2.6	5.2	8.0	5.2	8.0	11.7	15.9
Deposit							
HK\$	-1.3	11.2	7.2	8.5	7.2	6.7	7.2
Foreign currency	8.2	-0.5	7.9	0.8	7.9	16.0	21.4
Total	3.2	5.3	7.5	4.9	7.5	11.1	13.9
Loans and advances							
HK\$	7.8	2.0	17.6	20.0	17.6	18.8	16.3
Foreign currency	19.8	-4.7	58.2	41.6	58.2	61.2	55.0
Total	10.9	0.1	28.6	25.9	28.6	30.9	28.1
Nominal Effective Exchange Rate Indices ^{(b)(c)}							
Trade-weighted	-5.2	1.3	-2.3	-1.4	-2.2	-4.0	-6.4
Import-weighted	-5.8	0.9	-3.0	-2.2	-3.1	-4.9	-6.9
Export-weighted	-4.5	1.5	-1.5	-0.5	-1.3	-3.2	-5.6

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

(b) Period average.

(c) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000.

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

	(%)							
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		<u>2011</u>
					Q2	Q3	Q4	Q1
Service Industry								
Import and export trade	8.1	7.4	-13.7	19.7	21.2	20.3	15.0	22.6
Wholesale	10.4	6.3	-12.6	25.0	28.6	24.8	16.8	21.7
Retail	12.8	10.6	0.6	18.3	16.9	17.9	19.4	21.0
Transportation	10.5	4.4	-19.9	24.5	34.6	32.4	15.0	13.4
<i>within which :</i>								
Land transport	3.7	2.2	-2.6	6.0	8.7	7.6	4.9	10.4
Water transport	16.8	6.1	-24.1	20.5	27.4	26.5	16.7	8.7
Air transport	7.3	3.5	-21.0	33.7	50.1	46.2	16.4	18.0
Warehousing and storage	15.9	6.6	1.4	9.5	11.1	5.4	6.4	10.7
Courier	5.5	2.1	-6.1	28.3	35.4	29.1	18.1	26.2
Accommodation	15.2	3.8	-17.4	25.3	32.3	25.2	26.5	23.3
Food services	13.4	13.1	0.6	5.1	4.4	5.2	5.6	5.8
Information and communications	8.4	6.0	-3.2	4.9	2.6	6.2	9.4	9.2
<i>within which :</i>								
Telecommunications	11.0	9.8	1.4	3.0	-1.1	5.3	10.9	8.0
Film entertainment	6.1	-0.7	-12.6	-6.4	-16.0	-3.8	-11.7	-17.0
Banking	38.3	-16.9	1.5	8.8	-0.3	9.3	20.0	23.0
Financing (except banking)	68.8	-19.4	-10.3	16.7	-2.7	-1.8	28.5	12.2
<i>within which :</i>								
Financial markets and asset management	71.7	-20.0	-11.7	15.3	-6.6	-5.5	28.4	12.3
<i>within which : Asset management</i>	56.8	-5.2	-12.1	28.4	26.5	17.1	19.8	24.5
Insurance	28.8	*	0.7	8.3	11.9	4.8	6.8	7.8
Real estate	39.5	-3.7	9.7	11.4	3.6	8.6	15.2	11.4
Professional, scientific and technical services	12.3	6.8	-0.5	13.9	15.1	11.2	13.4	10.5
Administrative and support services	11.5	9.4	-12.4	12.3	14.9	15.4	12.3	14.9
Service Domain								
Tourism, convention and exhibition services	18.9	10.1	3.2	30.6	41.0	43.3	19.7	17.8 ⁺
Computer and information technology services	6.8	5.3	-15.0	32.5	34.0	42.6	28.2	27.7

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 figure.

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

Table 16 : Labour force characteristics

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010⁺</u>	<u>2010</u>		<u>2011</u>	
						Q3 ⁺	Q4 ⁺	Q1 ⁺	Q2 ⁺
<u>(%)</u>									
Labour force participation rate	61.2	61.2	60.9	60.7	59.7	59.9	60.1	59.9	60.5
Seasonally adjusted unemployment rate	4.8	4.0	3.6	5.4	4.4	4.2	4.0	3.4	3.5
Underemployment rate	2.4	2.2	1.9	2.3	2.0	1.9	1.8	1.8	1.8
<u>('000)</u>									
Population of working age	5 832.2	5 928.4	5 993.9	6 056.6	6 122.9	6 145.4	6 156.4	6 174.9	6 193.6
Labour force	3 571.8	3 629.6	3 648.9	3 676.6	3 653.7	3 682.5	3 700.0	3 701.8	3 747.4
Persons employed	3 400.8	3 483.8	3 518.8	3 479.8	3 492.5	3 520.6	3 563.7	3 577.3	3 610.6
Persons unemployed	171.1	145.7	130.1	196.7	161.2	161.8	136.3	124.5	136.8
Persons underemployed	86.3	79.2	69.0	86.4	74.7	71.0	67.0	66.3	66.2
<u>(% change over a year earlier)</u>									
Population of working age	0.5	1.6	1.1	1.0	1.1	1.4	1.2	1.2	1.3
Labour force	1.1	1.6	0.5	0.8	-0.6	-0.3	1.3	1.2	2.3
Persons employed	1.9	2.4	1.0	-1.1	0.4	1.1	2.4	2.3	3.4
Persons unemployed	-13.4	-14.8	-10.7	51.2	-18.1	-22.7	-21.0	-22.5	-20.4
Persons underemployed	-10.4	-8.2	-12.9	25.2	-13.5	-20.4	-20.1	-17.2	-10.3

Note : (+) Provisional figures.

Table 17 : Employment in selected major industries

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>			<u>2011</u>	
						Jun	Sep	Dec	Mar	
Selected major industries	(% change)					(% change over a year earlier)				No.
Manufacturing	-3.2	-2.9	-3.5	-5.7	-4.5	-3.9	-5.6	-5.9	-6.1	115 135
Construction sites (manual workers only)	-10.8	-5.1	-1.5	2.2	9.6	13.4	17.8	4.3	9.1	58 807
Import and export trade	1.0	0.8	-0.3	-4.4	0.9	1.5	0.9	0.5	0.2	500 568
Wholesale	-4.2	-0.3	-2.7	-2.0	1.2	1.1	1.7	0.1	-0.3	64 387
Retail	3.1	2.1	2.8	-0.3	3.3	3.5	2.5	3.6	4.5	251 348
Food and beverage services	5.0	3.3	1.8	*	3.7	4.0	3.0	3.1	6.5	229 920
Accommodation services	8.0	5.4	3.1	-1.0	1.5	1.4	1.8	4.8	5.1	33 052
Transportation, storage, postal and courier services	1.6	2.5	3.5	1.1	1.5	2.3	1.4	1.4	1.6	162 053
Information and communications	1.4	2.2	3.6	-1.6	1.3	1.7	0.6	1.2	2.1	89 301
Financing and insurance	4.6	7.3	5.6	-0.5	4.8	4.7	6.0	5.8	6.4	198 643
Real estate	5.3	4.4	2.7	0.5	4.1	4.7	2.9	3.8	6.5	116 784
Professional and business services (excluding cleaning and similar services)	4.9	4.8	3.4	0.9	2.2	2.4	2.0	2.1	3.3	243 040
Cleaning and similar services	2.5	0.6	-1.7	6.7	13.7	13.9	16.1	10.6	15.0	74 405
Education	5.0	3.3	4.8	5.3	3.4	5.4	2.1	0.6	1.1	167 402
Human health services	3.7	5.5	5.1	3.8	3.0	2.2	2.7	2.9	3.2	95 078
Residential care and social work services	1.5	1.4	1.3	1.5	1.8	1.3	1.5	2.3	1.7	57 328
Arts, entertainment, recreation and other services	3.3	1.5	1.9	0.8	5.0	3.8	4.9	4.7	2.5	116 431
Civil Service ^(a)	-1.3	-0.4	0.1	1.1	0.5	0.6	0.3	0.3	0.2	156 886
Others ^(b)	-0.3	0.9	7.0	-1.0	3.1	2.2	7.4	1.8	1.8	10 970

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 2000.

(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 and gas supply, and waste management.

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

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		<u>2011</u>
						Jun	Sep	Dec	Mar
<u>(number)</u>									
Building sites									
Private sector	30 993	29 240	28 899	28 776	28 620	30 154	29 571	26 327	26 777
Public sector ^(a)	7 643	7 767	8 136	10 277	11 463	10 325	10 943	13 052	14 077
Sub-total	38 636	37 007	37 034	39 053	40 083	40 479	40 514	39 379	40 854
Civil engineering sites									
Private sector	1 569	1 674	1 686	1 618	1 544	1 665	1 873	1 002	1 068
Public sector ^(a)	12 661	11 504	10 703	9 831	13 714	13 379	14 115	15 044	16 885
Sub-total	14 230	13 178	12 388	11 449	15 258	15 044	15 988	16 046	17 953
Total	52 865	50 185	49 422	50 501	55 341	55 523	56 502	55 425	58 807
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.8	-5.7	-1.2	-0.4	-0.5	6.3	8.3	-11.6	-5.8
Public sector ^(a)	-24.6	1.6	4.7	26.3	11.5	11.1	14.7	16.9	22.1
Sub-total	-7.3	-4.2	0.1	5.5	2.6	7.5	10.0	-3.8	2.2
Civil engineering sites									
Private sector	-28.6	6.7	0.7	-4.0	-4.6	3.4	8.1	-40.2	-34.7
Public sector ^(a)	-17.7	-9.1	-7.0	-8.1	39.5	38.3	50.3	42.8	37.1
Sub-total	-19.0	-7.4	-6.0	-7.6	33.3	33.3	43.7	31.4	28.7
Total	-10.8	-5.1	-1.5	2.2	9.6	13.4	17.8	4.3	9.1

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

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

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

	(%)								
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>		<u>2010</u>		<u>2011</u>
Selected industry section						Q2	Q3	Q4	Q1
(in nominal terms)									
Manufacturing	1.7	2.5	0.9	-3.5	2.6	2.8	1.1	2.7	9.6
Sewerage, waste management and remediation activities	10.4	17.0	-8.6	2.1	-0.1	2.1	1.6	0.7	4.6
Import/export and wholesale trade	3.9	1.8	6.3	-1.6	2.6	2.7	0.5	4.9	10.0
Retail trade	2.1	2.6	8.1	-1.5	3.9	3.6	2.4	8.8	5.3
Transportation, storage, postal and courier services	3.0	3.9	-0.6	-0.2	3.4	6.6	3.6	1.7	8.3
Accommodation and food service activities	2.6	3.9	2.6	-0.6	3.3	3.8	3.0	2.0	9.6
Information and communications	0.6	-2.9	6.6	0.2	2.6	4.6	1.2	-0.5	3.8
Financial and insurance activities	10.0	9.8	9.0	-3.3	7.2	6.8	5.2	12.5	16.5
Real estate activities	-2.5	-0.4	8.0	-2.4	1.3	0.5	1.3	-0.1	4.7
Professional and business services	3.3	4.8	3.5	0.6	2.4	2.7	0.2	2.2	-4.8
Social and personal services	1.0	1.5	3.1	1.7	-2.4	-2.9	-2.4	-1.2	-2.3
All industries surveyed	2.4	4.0	2.6	0.5	2.4	4.9	0.8	3.1	7.2
(in real terms)									
Manufacturing	-0.3	0.5	-3.3	-4.1	0.3	*	-0.4	-0.1	5.5
Sewerage, waste management and remediation activities	8.2	14.8	-12.3	1.5	-2.3	-0.7	0.1	-2.0	0.7
Import/export and wholesale trade	1.8	-0.2	1.9	-2.3	0.2	-0.1	-1.1	2.1	5.9
Retail trade	0.1	0.6	3.6	-2.1	1.6	0.8	0.8	5.8	1.4
Transportation, storage, postal and courier services	0.9	1.9	-4.7	-0.8	1.1	3.7	2.0	-1.1	4.3
Accommodation and food service activities	0.6	1.8	-1.7	-1.2	1.0	0.9	1.4	-0.8	5.5
Information and communications	-1.4	-4.7	2.2	-0.4	0.3	1.8	-0.4	-3.2	*
Financial and insurance activities	7.9	7.7	4.6	-3.9	4.8	3.8	3.6	9.5	12.2
Real estate activities	-4.4	-2.3	3.5	-3.0	-1.0	-2.3	-0.3	-2.8	0.8
Professional and business services	1.3	2.8	-0.7	*	0.1	-0.1	-1.4	-0.5	-8.3
Social and personal services	-1.0	-0.5	-1.2	1.1	-4.6	-5.5	-3.9	-3.9	-5.9
All industries surveyed	0.4	1.9	-1.7	-0.1	0.1	2.0	-0.7	0.3	3.2

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 2009/10-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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2010</u>	<u>2011</u>
Selected industry section						Jun	Sep	Dec	Mar
(in nominal terms)									
Manufacturing	0.2	4.3	2.6	-1.2	-1.0	-1.0	-0.3	-1.0	3.0
Import/export, wholesale and retail trades ^(a)	1.1	2.3	3.6	-1.1	2.6	1.8	2.6	4.4	5.8
within which :									
Import/export and wholesale trades	1.0	2.8	3.1	-1.2	2.7	--	2.7	--	6.1
Retail trade	0.8	-1.7	4.9	-0.2	1.1	--	1.6	--	0.8
Transportation	0.1	1.5	1.8	*	1.1	0.8	1.0	1.5	2.0
Accommodation and food service activities	1.0	1.4	3.1	-2.3	2.5	2.6	2.3	3.4	6.5
Financial and insurance activities ^(b)	2.1	2.4	2.8	-0.5	3.0	2.8	3.0	2.2	5.0
Real estate leasing and maintenance management	2.3	1.4	2.7	-0.4	2.6	3.3	2.3	1.9	1.7
Professional and business services	2.4	4.8	4.9	0.8	3.4	3.7	3.1	3.6	5.7
Personal services	3.4	8.5	0.5	-0.7	3.4	3.1	2.8	4.4	3.6
All industries surveyed	1.7	2.6	3.4	-0.9	2.4	2.2	2.4	3.3	4.9
(in real terms)									
Manufacturing	-1.5	2.4	-0.1	-1.8	-3.7	-4.6	-1.3	-4.2	-1.7
Import/export, wholesale and retail trades ^(a)	-0.6	0.4	0.9	-1.7	-0.2	-1.9	1.5	1.0	1.0
within which :									
Import/export and wholesale trades	-0.7	1.0	0.4	-1.7	-0.1	--	1.6	--	1.3
Retail trade	-1.0	-3.5	2.2	-0.7	-1.6	--	0.5	--	-3.7
Transportation	-1.7	-0.4	-0.8	-0.5	-1.7	-2.9	*	-1.7	-2.7
Accommodation and food service activities	-0.8	-0.4	0.4	-2.8	-0.3	-1.1	1.2	0.1	1.7
Financial and insurance activities ^(b)	0.3	0.6	0.2	-1.0	0.2	-1.0	1.9	-1.0	0.2
Real estate leasing and maintenance management	0.6	-0.4	0.1	-1.0	-0.2	-0.5	1.2	-1.3	-2.9
Professional and business services	0.6	2.9	2.2	0.3	0.6	-0.1	2.0	0.3	0.9
Personal services	1.6	6.5	-2.1	-1.2	0.6	-0.8	1.8	1.1	-1.1
All industries surveyed	-0.1	0.7	0.7	-1.5	-0.4	-1.6	1.3	*	0.2

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 2009/10-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>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
GDP deflator	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3	2.9	1.5
Domestic demand deflator	-2.3	-4.9	-4.2	0.1	1.2	1.9	2.1	2.8
Consumer Price Indices ^(a) :								
Composite CPI	-1.6	-3.0	-2.6	-0.4	1.0	2.0	2.0	4.3
CPI(A)	-1.7	-3.2	-2.1	*	1.1	1.7	1.3	3.6
CPI(B)	-1.6	-3.1	-2.7	-0.5	1.0	2.1	2.2	4.6
CPI(C)	-1.5	-2.8	-2.9	-0.9	0.8	2.2	2.7	4.7
Unit Value Indices :								
Domestic exports	-4.7	-3.3	0.2	1.5	2.2	-2.1	0.8	5.1
Re-exports	-2.0	-2.7	-1.5	1.1	1.2	1.1	2.4	3.8
Total exports of goods	-2.3	-2.7	-1.4	1.2	1.3	1.0	2.3	3.8
Imports of goods	-3.1	-3.9	-0.4	2.9	2.7	2.1	2.3	4.4
Terms of Trade Index	0.9	1.2	-1.0	-1.7	-1.4	-1.1	0.1	-0.5
Producer Price Index for all manufacturing industries ^(b)	-1.6	-2.7	-0.3	2.2	0.8	2.2	3.0	5.6
Tender Price Indices :								
Public sector building projects	-8.5	-11.7	-0.3	-1.5	1.4	5.0	20.1	41.9
Public housing projects	-15.1	-9.6	-10.0	3.5	7.7	11.2	19.7	30.8

Notes : (a) The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same 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>2009</u>	<u>2010</u>	<u>2010</u>		<u>2011</u>		Average annual rate of change:	
			Q3	Q4	Q1	Q2	10 years 2000 to 2010	5 years 2005 to 2010
GDP deflator	-0.6 #	0.5 #	1.7 #	1.1 #	1.2 #	4.6 #	-1.1 #	0.8 #
Domestic demand deflator	-1.0 #	2.3 #	1.7 #	3.4 #	5.0 #	4.5 #	-0.2 #	1.6 #
Consumer Price Indices ^(a) :								
Composite CPI	0.5	2.4	2.3	2.7	3.8	5.2	0.4	2.2
CPI(A)	0.4	2.7	1.9	3.2	4.1	5.5	0.3	1.9
CPI(B)	0.5	2.3	2.6	2.4	3.7	5.1	0.5	2.3
CPI(C)	0.6	2.1	2.3	2.5	3.7	4.8	0.5	2.5
Unit Value Indices :								
Domestic exports	-0.2	5.5	5.7	6.7	6.7	6.4	0.4	1.8
Re-exports	1.2	4.6	5.2	6.5	7.6	8.7	0.9	2.6
Total exports of goods	1.1	4.7	5.2	6.5	7.6	8.6	0.9	2.6
Imports of goods	-0.1	6.4	7.2	8.2	8.9	8.1	1.3	3.0
Terms of Trade Index	1.3	-1.7	-1.9	-1.6	-1.2	0.5	-0.4	-0.4
Producer Price Index ^(b) for all manufacturing industries	-1.7	6.0	6.4	7.6	8.2	N.A.	--	3.0
Tender Price Indices :								
Public sector building projects	-15.9	12.5	12.4	14.4	12.3	N.A.	3.1	11.1
Public housing projects	-6.8	6.7	7.5	10.2	10.8	N.A.	2.9	11.6

Table 22 : Rates of change in Composite Consumer Price Index

(%)								
	Weight	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
All items	100.0	-1.6 (--)	-3.0 (--)	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)	2.0 (2.8)
Food	27.45	-0.8	-2.1	-1.5	1.0	1.8	1.7	4.3
<i>Meals bought away from home</i>	17.07	-0.3	-1.5	-1.5	0.2	0.9	1.3	2.5
<i>Food, excluding meals bought away from home</i>	10.38	-1.7	-3.1	-1.7	2.5	3.2	2.5	7.1
Housing ^(a)	31.66	-3.1	-5.7	-4.8	-5.2	0.1	4.7	2.0
<i>Private housing rent</i>	27.14	-2.9	-6.5	-6.3	-6.6	-0.1	5.6	4.0
<i>Public housing rent</i>	2.05	-8.3	-2.7	9.1	2.5	0.2	0.1	-17.7
Electricity, gas and water	3.10	-1.9	-7.0	1.4	11.4	4.1	2.1	-0.7
Alcoholic drinks and tobacco	0.59	3.3	2.4	0.1	*	0.4	-3.7	-1.2
Clothing and footwear	3.45	-4.6	0.7	-2.7	6.4	2.0	1.0	4.1
Durable goods	5.27	-7.1	-6.3	-6.4	-2.2	-3.2	-6.4	-4.7
Miscellaneous goods	4.17	1.3	1.7	2.3	3.6	1.5	1.7	2.5
Transport	8.44	0.4	-0.6	-0.4	0.4	1.4	0.7	-0.1
Miscellaneous services	15.87	0.5	-2.3	-3.2	-0.2	1.0	1.9	1.7

Notes : The year-on-year rates of change before October 2010 were derived using the index series in the bases periods at that time (for instance the 2004/05-based index series), compared with the index a year earlier in the same base period. The weights quoted in this table correspond to that in the 2009/10-based index series.

Figures in bracket represent the underlying rate of change after netting out the effects 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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2010</u>		<u>2011</u>		Average annual rate of change:	
					Q3	Q4	Q1	Q2	10 years 2000 to 2010	5 years 2005 to 2010
All items	100.0	4.3 (5.6)	0.5 (1.0)	2.4 (1.7)	2.3 (2.0)	2.7 (2.4)	3.8 (3.7)	5.2 (5.0)	0.4 (--)	2.2 (--)
Food	27.45	10.1	1.3	2.4	2.8	3.6	5.2	6.9	1.8	3.9
<i>Meals bought away from</i>	<i>17.07</i>	<i>5.9</i>	<i>1.6</i>	<i>1.7</i>	<i>1.9</i>	<i>2.4</i>	<i>4.1</i>	<i>5.1</i>	<i>1.1</i>	<i>2.6</i>
<i>Food, excluding meals bought</i> <i>away from home</i>	<i>10.38</i>	<i>16.8</i>	<i>0.9</i>	<i>3.5</i>	<i>4.1</i>	<i>5.6</i>	<i>7.0</i>	<i>9.8</i>	<i>2.9</i>	<i>6.0</i>
Housing ^(a)	31.66	4.1	3.7	0.4	-0.7	2.2	3.8	5.9	-0.5	3.0
<i>Private housing rent</i>	<i>27.14</i>	<i>6.8</i>	<i>3.6</i>	<i>0.9</i>	<i>1.2</i>	<i>2.2</i>	<i>4.1</i>	<i>6.5</i>	<i>-0.3</i>	<i>4.2</i>
<i>Public housing rent</i>	<i>2.05</i>	<i>-27.2</i>	<i>9.5</i>	<i>-7.8</i>	<i>-85.7</i>	<i>4.0</i>	<i>4.0</i>	<i>2.7</i>	<i>-4.9</i>	<i>-9.5</i>
Electricity, gas and water	3.10	-6.5	-25.3	43.3	43.1	16.1	7.3	8.0	0.8	0.3
Alcoholic drinks and tobacco	0.59	0.1	18.7	3.4	0.3	0.5	8.1	19.9	2.2	3.2
Clothing and footwear	3.45	0.8	2.7	1.8	1.7	1.9	5.6	6.3	1.2	2.1
Durable goods	5.27	-2.0	-3.0	-2.7	-2.5	-5.0	-4.4	-4.3	-4.4	-3.8
Miscellaneous goods	4.17	5.0	2.3	2.4	2.7	2.5	3.1	4.2	2.4	2.8
Transport	8.44	2.5	-0.9	2.0	2.1	3.0	3.3	4.7	0.5	0.8
Miscellaneous services	15.87	0.8	-2.1	2.0	2.5	2.7	3.3	2.9	*	0.8

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

	(%)						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Private consumption expenditure	-1.1	-3.6	-2.5	-0.3	1.8	1.3	3.7
Government consumption expenditure	1.1	-0.5	-2.6	-2.9	-1.4	1.0	2.9
Gross domestic fixed capital formation	-6.6	-9.9	-9.4	2.6	1.0	4.2	-2.5
Total exports of goods	-2.6	-2.9	-1.8	0.9	0.6	0.3	2.2
Imports of goods	-3.5	-4.2	-0.9	2.9	1.9	2.1	1.7
Exports of services	-4.3	-2.4	-3.1	0.5	3.3	3.6	2.5
Imports of services	-1.1	0.3	2.7	4.1	1.0	0.8	2.9
Gross Domestic Product	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3	2.9
Total final demand	-2.7	-3.6	-2.8	0.6	1.2	1.2	2.2
Domestic demand	-2.3	-4.9	-4.2	0.1	1.2	1.9	2.1

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

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

	(%)								
	<u>2008</u>	<u>2009[#]</u>	<u>2010[#]</u>	<u>2010</u>		<u>2011</u>		Average annual <u>rate of change:</u>	
				Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 2000 to 2010 [#]	5 years 2005 to 2010 [#]
Private consumption expenditure	2.8	-1.6	0.9	0.6	2.2	3.6	5.0	0.1	1.4
Government consumption expenditure	4.9	0.2	0.3	0.6	0.8	1.8	5.6	0.3	1.9
Gross domestic fixed capital formation	1.7	0.5	7.7	5.5	9.1	9.9	3.7	-1.2	2.2
Total exports of goods	3.4	0.5	4.6	5.6	5.8	6.4	7.6	0.5	2.2
Imports of goods	4.1	-1.3	6.3	6.4	7.8	8.5	7.5	0.9	2.6
Exports of services	3.4	-7.0	7.4	7.6	7.5	5.9	7.6	0.3	1.9
Imports of services	3.8	-2.3	5.1	4.0	4.9	6.0	8.8	1.7	2.0
Gross Domestic Product	1.5	-0.6	0.5	1.7	1.1	1.2	4.6	-1.1	0.8
Total final demand	3.2	-1.1	4.3	4.8	5.3	5.9	6.6	0.2	1.9
Domestic demand	2.8	-1.0	2.3	1.7	3.4	5.0	4.5	-0.2	1.6

