



2021 Economic Background and 2022 Prospects

Government of the Hong Kong
Special Administrative Region

***2021 ECONOMIC BACKGROUND
AND
2022 PROSPECTS***

OFFICE OF THE GOVERNMENT ECONOMIST
FINANCIAL SECRETARY'S OFFICE
GOVERNMENT OF THE
HONG KONG SPECIAL ADMINISTRATIVE REGION

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE IN 2021

Summary

- *The Hong Kong economy staged a visible recovery in 2021 after an extremely difficult year in 2020. The economy turned to strong year-on-year expansion of 7.8% in the first half of 2021 thanks to a sharp rebound of global demand, and posted further solid growth of 5.5% and 4.8% respectively in the third and fourth quarters as the local epidemic was well contained during the period. Yet the recovery was uneven, due mainly to the still frozen inbound tourism. For 2021 as a whole, the economy expanded by 6.4%, the fastest pace since 2010, though its size was still about 2% below that of 2018 after two years of severe recession.*
- *Hong Kong's total exports of goods surged in 2021, underpinned by the marked revival of import demand from major economies and vibrant regional trading and production activities. Exports to the Mainland, the US and the EU rose sharply, and those to other Asian markets also showed increases of varying degrees.*
- *Exports of services grew mildly in real terms in 2021. Exports of transport services rebounded thanks to vibrant regional trading activities and cargo flows, though scant cross-border passenger flows constrained the extent of revival. Exports of business and other services as well as financial services expanded alongside the global economic recovery. However, as inbound tourism was still frozen throughout 2021, exports of travel services stayed at a very low level.*
- *Domestic demand was on a recovery path in 2021. Private consumption expenditure rose appreciably thanks to the receding local epidemic, improving labour market situation and the roll-out of the Consumption Voucher Scheme, though outbound tourism remained severely hindered. Overall investment expenditure saw a double-digit rebound amid improved business outlook.*
- *The labour market was under notable pressure in early 2021, but improved continuously through the year. After reaching a 17-year high of 7.2% in December 2020 – February 2021, the seasonally adjusted unemployment rate fell successively to 3.9% in the fourth quarter of 2021. The underemployment rate also went down from the peak of 4.0% to 1.7%.*
- *The local stock market underwent a sharp correction in 2021, dampened by the prospective tightening of the US Fed's monetary policy, regulatory requirements in the Mainland, and uncertainties surrounding the global economic outlook. The Hang Seng Index (HSI) closed the year at 23 398, down by 14.1% from a year earlier. The residential property market was*

generally active in 2021, though turned somewhat quieter in the latter part of the year. Flat prices on average rose by 3% during the year, notwithstanding a modest decline after peaking in September.

- *Underlying consumer price inflation went up modestly over the course of 2021 alongside the economic recovery and higher import prices. Prices of some consumption items saw accelerated increases in the second half of the year, while the low bases of comparison for transport and meals out and takeaway food also contributed. Offsetting these developments were the softening of the private housing rental component and modest increase in basic food prices. For 2021 as a whole, underlying Composite Consumer Price Index (Composite CPI) inflation averaged 0.6%, down from 1.3% in 2020.*

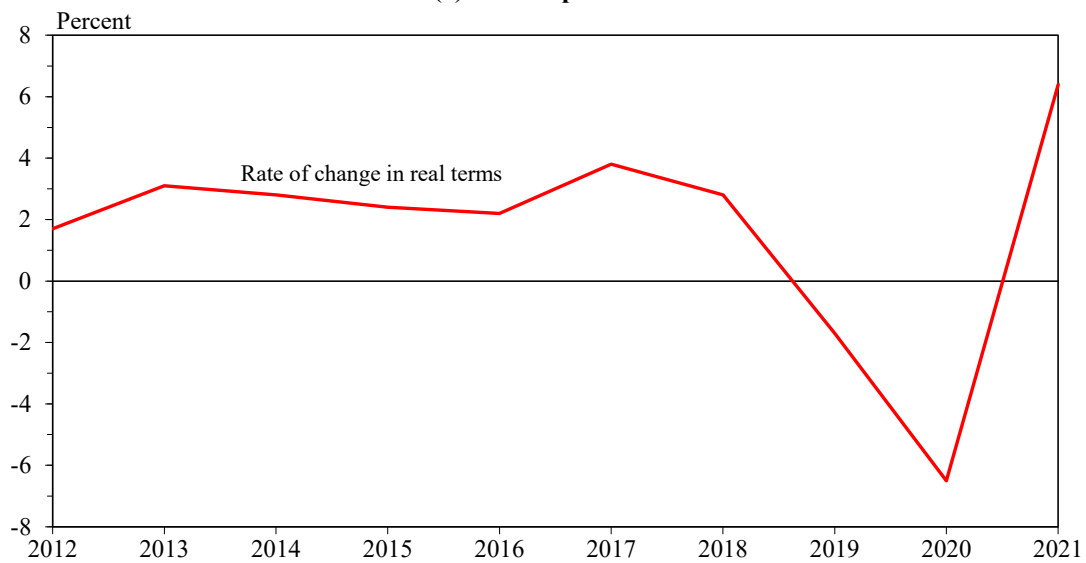
Overall situation

1.1 The Hong Kong economy staged a visible recovery in 2021, having experienced a deep recession in the previous two years. Led by a sharp rebound of global demand, the economy turned to robust year-on-year growth in the first half of 2021, and recorded further solid expansion in the second half of the year as the local epidemic was well contained. Hong Kong's total exports of goods surged in 2021, underpinned by the marked revival of import demand from major economies and vibrant regional trading and production activities. With frozen inbound tourism throughout the year, exports of services grew only mildly despite the revival of regional trade and cargo flows as well as increased cross-border commercial and financial services. As for domestic demand, private consumption expenditure rose appreciably thanks to the stable local epidemic situation, improving labour market situation and the roll-out of the Consumption Voucher Scheme. Overall investment expenditure saw a double-digit rebound amid improved business outlook. The labour market was under notable pressure in early 2021, but improved continuously through the year. Underlying consumer price inflation went up modestly over the course of the year alongside the economic recovery and higher import prices.

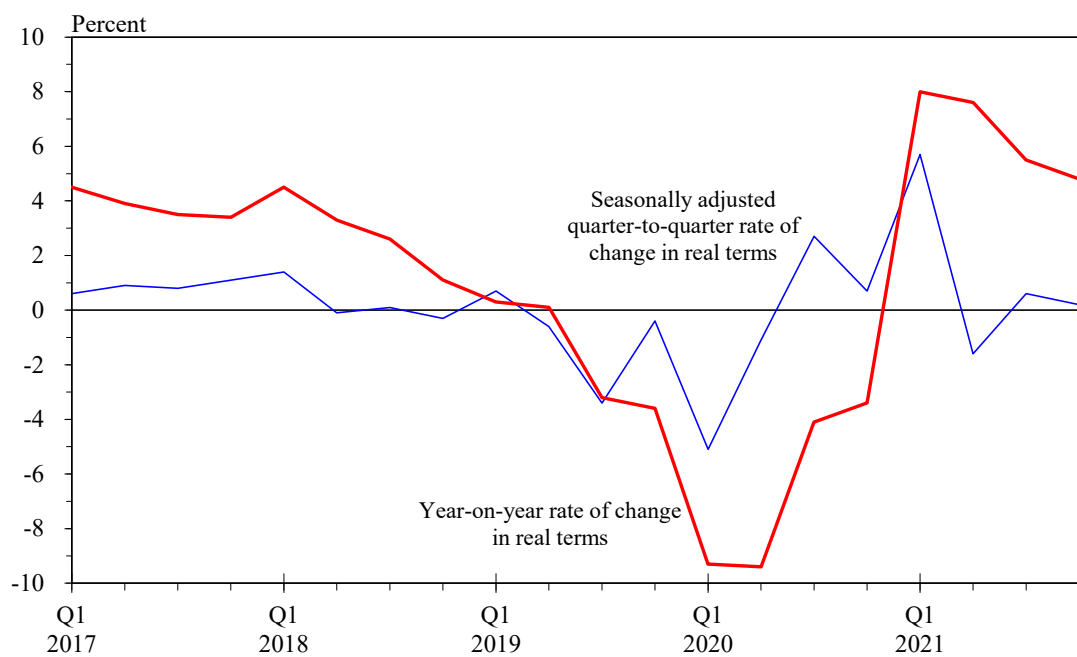
1.2 *Gross Domestic Product (GDP)*⁽¹⁾ expanded by 6.4% in real terms in 2021, having declined by 6.5% in 2020. Yet, it was still some 2% below the pre-recession level in 2018. As for the quarterly profile, real GDP resumed year-on-year growth of 8.0% in the first quarter after six consecutive quarters of contraction and grew further by 7.6% in the second quarter, 5.5% in the third quarter and 4.8% in the fourth quarter. On a seasonally adjusted quarter-to-quarter basis⁽²⁾, real GDP surged by 5.7% in the first quarter and receded by 1.6% in the second quarter, followed by expansions of 0.6% and 0.2% in the third and fourth quarters respectively.

Diagram 1.1 : The Hong Kong economy staged a visible recovery in 2021, reversing the declines in the previous two years

(a) Annual profile



(b) Quarterly profile



The external sector

1.3 *Total exports of goods* compiled under the GDP accounting framework surged by 19.0% in real terms in 2021, after declining by 1.4% in the preceding year. The strong performance was underpinned by the marked revival of import demand from major economies and vibrant regional trading and production activities. Total exports of goods posted an exceptionally strong year-on-year growth in the first quarter, and sustained notable increases in the remaining three quarters despite a progressively higher base of comparison.

1.4 Analysed by major market by reference to external merchandise trade statistics, exports to the US and the EU rebounded sharply in 2021, mainly supported by the strong revival of import demand for consumer goods and capital goods from these two markets alongside their economic recovery and the shift of demand towards consumption of goods from services. Exports to the Mainland soared thanks to its vibrant production activities and revived domestic demand. Exports to other major markets in Asia showed increases of varying degrees, with those to India, Korea and Taiwan recording the strongest gains.

1.5 *Exports of services* grew mildly by 1.1% in real terms in 2021, after plummeting by a record 34.8% in 2020. Exports of transport services rebounded thanks to vibrant regional trading activities and cargo flows, though scant cross-border passenger flows constrained the extent of revival. Exports of business and other services grew moderately alongside the global economic recovery. Exports of financial services increased further, supported by active cross-border financial and fund-raising activities. However, as inbound tourism was still frozen throughout 2021, exports of travel services remained at a very low level and plunged further by 44.1% for the year as a whole.

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

	<u>2020[#]</u>	<u>2021[#]</u>	<u>2020</u>				<u>2021</u>			
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>										
Private consumption expenditure	-10.5	5.6	-11.4 (-8.1)	-14.4 (-3.0)	-8.7 (2.1)	-7.3 (1.9)	2.5 (1.6)	7.5 (1.7)	6.8 (1.3)	5.8 (0.9)
Government consumption expenditure	7.9	4.6	9.5 (2.9)	9.8 (2.0)	7.0 (*)	5.5 (1.3)	6.4 (2.9)	2.9 (-1.1)	5.0 (2.0)	4.1 (0.5)
Gross domestic fixed capital formation	-11.3	10.1	-15.8	-21.3	-9.9	2.7	5.6	23.9	13.1	0.1
Building and construction	-9.3	0.3	-12.1	-6.7	-11.4	-6.6	-2.9	0.4	2.0	2.1
Costs of ownership transfer	-4.0	39.2	-33.6	-22.9	27.3	27.3	85.9	57.7	35.0	0.6
Machinery, equipment and intellectual property products	-15.9	16.7	-17.0	-38.1	-16.1	10.0	3.0	55.5	22.5	-2.6
Total exports of goods ^{&}	-1.4	19.0	-10.8 (-9.7)	-3.3 (7.3)	2.8 (5.4)	4.4 (3.6)	30.8 (11.3)	20.8 (-1.1)	14.2 (-0.2)	13.3 (2.9)
Imports of goods ^{&}	-3.2	17.6	-12.1 (-6.2)	-7.8 (3.2)	0.8 (5.3)	5.7 (5.7)	23.6 (7.4)	21.9 (1.7)	16.9 (1.0)	9.9 (-0.5)
Exports of services ^{&}	-34.8	1.1	-33.9 (-11.5)	-44.0 (-16.4)	-32.4 (0.2)	-27.9 (-2.6)	-9.1 (11.8)	3.5 (-5.1)	5.4 (1.4)	6.9 (-0.8)
Imports of services ^{&}	-32.2	1.7	-21.6 (-20.0)	-41.9 (-21.5)	-33.8 (6.9)	-31.5 (2.7)	-11.3 (2.7)	10.7 (-1.4)	6.0 (1.8)	4.6 (1.4)
Gross Domestic Product	-6.5	6.4	-9.3 (-5.1)	-9.4 (-1.1)	-4.1 (2.7)	-3.4 (0.7)	8.0 (5.7)	7.6 (-1.6)	5.5 (0.6)	4.8 (0.2)
<i>Change in the main price indicators (%)</i>										
GDP deflator	0.6	0.5	2.6 (0.6)	0.5 (-1.0)	0.2 (-0.1)	-1.0 (-0.3)	-0.8 (0.5)	0.4 (0.3)	1.1 (0.5)	1.4 (0.1)
Composite CPI										
Headline	0.3[@]	1.6[@]	2.0 (-0.7)[@]	1.3 (0.7)[@]	-1.7 (-2.2)[@]	-0.6[@] (1.6)[@]	1.2[@] (1.1)[@]	0.8[@] (0.3)[@]	2.3[@] (-0.8)[@]	2.0[@] (1.4)[@]
Underlying[^]	1.3[@]	0.6[@]	2.9 (0.8)[@]	1.8 (*)[@]	0.3 (-0.6)[@]	0.3[@] (0.1)[@]	-0.2[@] (0.3)[@]	0.3[@] (0.4)[@]	1.1[@] (0.3)[@]	1.2[@] (0.3)[@]
Change in nominal GDP (%)	-6.0	7.0	-6.9	-8.9	-3.8	-4.4	7.1	8.0	6.6	6.3

Notes : Figures are subject to revision later on as more data become available. The 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 this category due to the presence of considerable short term fluctuations.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised figures.

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

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

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

(@) By reference to the new 2019/20-based CPI series. Splicing has been applied to the new and old sets of CPI series in order to obtain better estimates of the rates of change for the year 2020.

The domestic sector

1.6 Domestic demand was on a recovery path in 2021. *Private consumption expenditure* rose appreciably by 5.6% in real terms in 2021, after the steepest ever annual decline of 10.5% in 2020. Consumption-related activities revived steadily alongside the receding local epidemic and improving labour market situation. The roll-out of the Consumption Voucher Scheme rendered further support in the second half of the year. Yet, outbound tourism remained severely hindered amid the evolving global pandemic. Meanwhile, *government consumption expenditure* rose by 4.6% in real terms in 2021, further to the 7.9% increase in 2020.

**Table 1.2 : Consumer spending by major component^(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)
2020	Annual	-13.9	-16.6	-13.4	-29.9	-8.0	-77.8	-89.6	-10.5
	H1	-18.8	-19.4	-28.3	-41.0	-9.0	-69.0	-87.4	-12.9
	H2	-8.5	-13.3	2.1	-15.5	-6.9	-86.4	-93.4	-8.0
	Q1	-19.0	-19.5	-31.5	-43.8	-7.2	-44.5	-79.5	-11.4
	Q2	-18.6	-19.3	-23.9	-38.1	-10.8	-91.3	-96.4	-14.4
	Q3	-10.5	-14.3	-4.8	-19.3	-8.0	-86.0	-96.2	-8.7
	Q4	-6.6	-12.3	7.9	-12.0	-5.9	-86.9	-89.9	-7.3
2021	Annual	5.9	-4.4	18.9	12.8	4.5	-40.0	-43.6	5.6
	H1	5.4	-8.3	28.7	15.8	3.1	-59.5	-65.3	5.0
	H2	6.4	-0.2	11.6	9.9	6.0	3.7	27.2	6.3
	Q1	3.7	-9.3	35.8	12.3	0.3	-76.6	-76.8	2.5
	Q2	7.2	-7.5	20.1	19.1	6.0	40.3	9.1	7.5
	Q3	6.9	-1.1	11.9	10.6	6.8	1.7	17.4	6.8
	Q4	6.0	0.7	11.4	9.4	5.2	5.6	31.6	5.8

- Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending.
(b) Private consumption expenditure is obtained by deducting visitor spending from total consumer spending in the domestic market, and adding back residents' expenditure abroad.

Diagram 1.2 : Private consumption expenditure rose appreciably in 2021

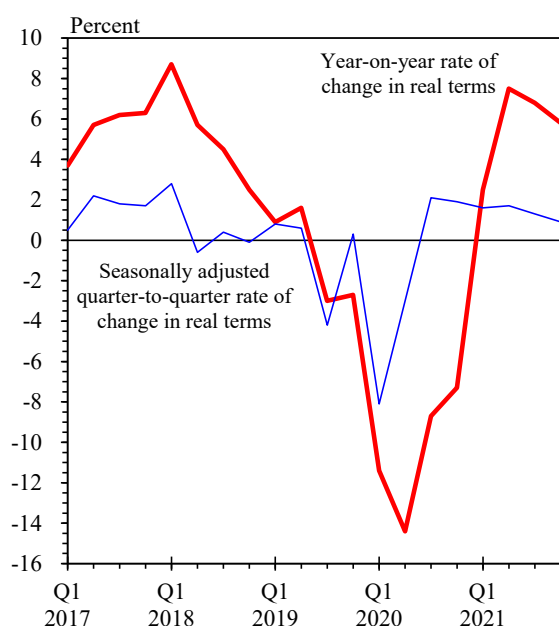
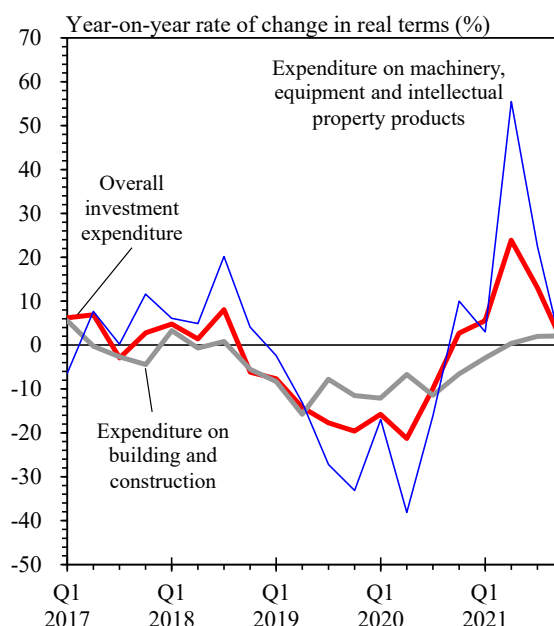


Diagram 1.3 : Overall investment spending saw a double-digit increase in 2021



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* bounced back by 10.1% in real terms in 2021 after an 11.3% decline in 2020. Expenditure on acquisitions of machinery, equipment and intellectual property products surged by 16.7%, as business outlook improved during the year amid the stabilised local epidemic situation and global economic recovery (see **Box 1.1**). Meanwhile, expenditure on building and construction expenditure recorded a mild increase of 0.3%, with the increase in public sector spending more than offsetting the slight decline in private sector spending. Separately, the costs of ownership transfer rebounded sharply in 2021, underpinned by visibly higher volumes of both residential and non-residential property transactions compared to the preceding year.

Box 1.1

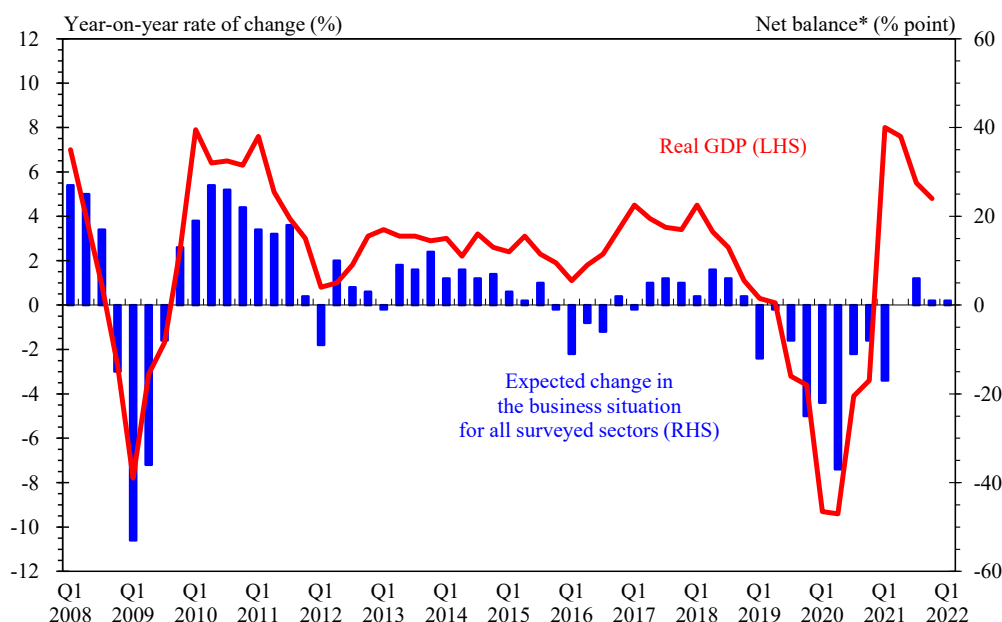
Business sentiment in Hong Kong

This box article gives a general overview of the prevailing business sentiment in Hong Kong, based on results from various surveys that are available in the public domain. Survey results generally indicated that business sentiment remained largely stable before the latest wave of epidemic, but weakened more recently as the worsened epidemic situation and tightened anti-epidemic measures in response have posed renewed pressures on economic activities.

According to the results of the Census and Statistics Department (C&SD)'s Quarterly Business Tendency Survey (QBTS)⁽¹⁾ conducted during 2 December 2021 to 11 January 2022, business sentiment among large enterprises in Hong Kong remained positive overall (**Chart 1**). The proportion of large enterprises expecting business situation to improve in the first quarter of 2022 over the fourth quarter of 2021 exceeded the proportion of those expecting the situation to worsen by 1 percentage point (i.e. a net balance of +1), same as the net balance in the previous round. However, it should be noted that the latest survey results largely reflected the situation in December 2021, and have not fully reflected the impact of the latest wave of local epidemic which intensified upon entering 2022.

Sentiment of large enterprises in different surveyed sectors was mixed (**Table 1**). The net balances for the “accommodation and food services” sector eased markedly albeit staying positive. Those for the “manufacturing”, “retail” and “information and communications” sectors turned negative, while those for “construction” and “transportation, storage and courier services” sectors worsened in the negative zone. Meanwhile, more respondents in the “import/export trade and wholesale”, “financing and insurance”, “real estate” and “professional and business services” sectors expected business situation to improve, and the corresponding net balances increased by varying degrees. Hiring sentiment among large enterprises held steady in overall terms (**Table 2**).

Chart 1 : Business sentiment among large enterprises stayed positive overall, though the impact of the latest wave of local epidemic has yet to be fully reflected



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

(1) The Quarterly Business Tendency Survey collected views from around 500-600 large establishments on their near-term business outlook. Respondents were asked to exclude seasonal influences in their responses.

Box 1.1 (Cont'd)

Table 1 : Expectations on business outlook of large enterprises in different sectors were mixed

QBTS: Expected changes in business situation						
	Net balance* (% point)					
	2020	2021				2022
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-8	-5	+14	+23	+14	-8
Construction	-19	-28	-13	-21	-6	-17
Import/export trade and wholesale	-7	-13	0	+8	0	+2
Retail	-5	-18	+5	+18	+9	-11
Accommodation and food services	+19	-44	+20	+33	+29	+2
Transportation, storage and courier services	-13	-39	-13	-18	-2	-7
Information and communications	0	-18	+5	+5	+5	-2
Financing and insurance	-13	-10	0	+6	-2	+5
Real estate	-12	-16	+4	+14	+7	+8
Professional and business services	+4	-13	-7	+7	-1	+3
All sectors above	-8	-17	0	+6	+1	+1

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

Table 2 : Hiring sentiment of large enterprises held steady in overall terms

QBTS: Expected changes in number of persons engaged						
	Net balance* (% point)					
	2020	2021				2022
	Q4	Q1	Q2	Q3	Q4	Q1
Manufacturing	-11	-3	+9	+10	+8	-4
Construction	-10	-16	-2	-11	+11	+8
Import/export trade and wholesale	-2	-16	-1	+2	-4	-2
Retail	-10	-20	-13	-5	-12	-5
Accommodation and food services	-2	-18	+11	+19	+18	+8
Transportation, storage and courier services	-8	-21	-12	-2	-3	+3
Information and communications	+8	-3	+2	-3	+6	-7
Financing and insurance	0	+6	+5	+10	+5	+9
Real estate	+5	-13	+9	+4	+5	+9
Professional and business services	-5	-4	-1	-2	-2	-5
All sectors above	-4	-11	-1	+2	+1	0

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

As for small and medium-sized enterprises (SMEs), C&SD compiles a set of diffusion indices on a monthly basis⁽²⁾ to gauge the general direction of change in their views on business situation versus the preceding month. The overall index on current situation fell sharply from 46.0 in December 2021 to 37.8 in January 2022 in tandem with the deteriorating local epidemic situation (**Chart 2a**), while the employment situation softened somewhat. Nonetheless, credit conditions remained largely accommodative. Separately, the Standard Chartered Hong Kong SME Leading Business Index⁽³⁾ was largely flat within the contractionary zone.

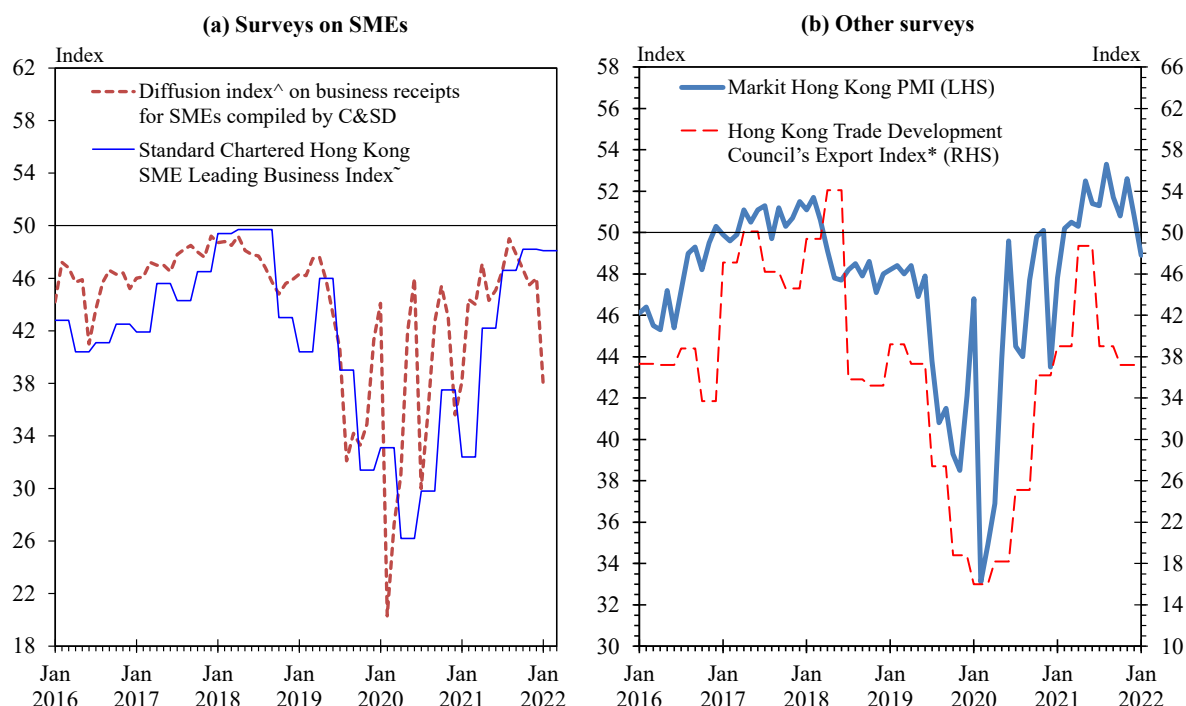
As for other surveys in the public domain, the Markit Purchasing Managers’ Index (PMI) of Hong Kong⁽⁴⁾, which gauges the performance of the private sector’s business activity, dipped to 48.9 in January 2022 after staying in the expansionary territory for eleven consecutive months, reflecting the impact of the latest wave of local epidemic. Separately, the Hong Kong Trade Development Council’s Export Index⁽⁵⁾ went further down from 39.0 in the third quarter of 2021 to 37.2 in the fourth quarter, signalling weaker exporters’ confidence due to uncertainties caused by the COVID-19 variants (**Chart 2b**). 32.5% of the traders surveyed identified the pandemic as the biggest threat to their businesses in the near term. Shuttering economic recovery (15.7%) and continued closure of borders (11.6%) are the second and third most identified concerns.

(2) It refers to the results from the Monthly Survey on the Business Situation of SMEs that solicits feedbacks from a panel sample of around 600 SMEs each month.

(3) Conducted independently by Hong Kong Productivity Council, the quarterly survey enables the public and SMEs to gain insights into the forthcoming business climate for better forward planning. The Overall Index comprises five areas, including local SMEs’ outlook on the “Recruitment Sentiment”, “Investment Sentiment”, “Business Condition”, “Profit Margin”, and “Global Economy” for the next quarter.

Box 1.1 (Cont'd)

Chart 2 : More recent surveys pointed to weakened business sentiment amid the latest wave of local epidemic



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.

(~) Launched in Q3 2012 and quarterly data.

(*) A reading above 50 indicates an upward trend and an optimistic outlook, while a reading below 50 indicates a downward trend and a pessimistic outlook.

It is worth noting that these surveys are essentially opinion-based, thereby unavoidably subject to various limitations (e.g. results are not directly comparable) and hence the results should be interpreted with care. Still, these survey findings taken together suggested that the latest wave of local epidemic and tightened anti-epidemic measures in response have weighed on business sentiment in Hong Kong. Looking ahead, the evolving pandemic still holds the key for business sentiment in the near term, though the latest measures under the Anti-epidemic Fund should provide some relief to the affected sectors. It remains crucial for the community to work together with the Government to contain the epidemic as soon as possible and abide by the anti-epidemic measures. The Government will closely monitor external and local developments.

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- (4) According to the press release by IHS Markit, the Markit Hong Kong PMI is compiled according to monthly replies to questionnaires sent to purchasing executives in around 400 companies. It is a composite index based on five individual indices with the following weights: New Orders (30%); Output (25%); Employment (20%); Suppliers' Delivery Times (15%); and Stocks of Purchases (10%), with the Suppliers' Delivery Times index inverted so that it moves in a comparable direction. Survey responses reflect the change, if any, in the prevailing month compared to the previous month.
- (5) The Hong Kong Trade Development Council's Export Index is designed to gauge the prospects of the near-term export performance of Hong Kong traders. The business confidence survey is conducted on a quarterly basis, with 500 participating Hong Kong traders from six major industry sectors interviewed, namely electronics, clothing, jewellery, timepieces, toys and machinery.

The labour sector

1.8 The labour market was under notable pressure in early 2021, but improved continuously through the year amid the sustained economic recovery and stable local epidemic situation. The Government's support measures, including the Consumption Voucher Scheme, also helped. After reaching a 17-year high of 7.2% in December 2020 – February 2021, the *seasonally adjusted unemployment rate* fell successively to 3.9% in the fourth quarter of 2021. The *underemployment rate* also went down from the peak of 4.0% to 1.7%. For 2021 as a whole, the unemployment rate averaged 5.2%, 0.6 percentage point lower than in 2020, and the underemployment rate averaged 2.5%, also lower by 0.8 percentage point. The unemployment rates of all major sectors saw visible declines in the fourth quarter of 2021 as compared with the high levels in early 2021. The unemployment rates of both lower-skilled workers and higher-skilled workers declined visibly. Reversing the general trend of deceleration in the past two years or so, nominal wages and labour earnings on average showed accelerated, albeit still modest, year-on-year increases in the second and third quarters of 2021. Median household income rebounded during 2021 from the low levels earlier, and showed a year-on-year increase in the fourth quarter of 2021, despite remaining below the pre-recession level in the second quarter of 2019.

The asset markets

1.9 The *local stock market* underwent a sharp correction in 2021. The HSI extended its rally in the fourth quarter of 2020 and reached a high of 31 085 on 17 February 2021. It then drifted lower and moved within a narrow range during the second quarter, before falling sharply through the rest of the year. Market sentiment was dampened by the prospective tightening of the US Fed's monetary policy, regulatory requirements in the Mainland, and uncertainties surrounding the global economic outlook amid the spread of more infectious COVID-19 variants and supply bottlenecks. The HSI plunged to 22 745 on 20 December before closing the year at 23 398, down by 14.1% from a year earlier. Trading was active for most of the year, with the average daily turnover soaring by 28.8% to \$166.7 billion in 2021. Fund raising activities were buoyant in the first half before retreating somewhat thereafter. For the year as a whole, total equity capital raised increased by 3.2% over the high level in 2020 to \$770.7 billion, though the amount of funds raised through initial public offerings (IPOs) shrank by 17.8% to \$328.9 billion. Hong Kong ranked fourth among stock exchange markets globally in terms of the amount of funds raised through IPOs in 2021. Meanwhile, loans for use in Hong Kong (including trade

finance) rose by 4.7% over a year earlier at end-2021.

1.10 The *residential property market* was generally active in 2021, though turned somewhat quieter in the latter part of the year. While the low interest rate environment, firm end-user demand and the local economic recovery continued to provide support in the first half, sentiment weakened thereafter amid the local stock market correction and growing concerns over possible interest rate hikes in the US. The number of transactions, in terms of the total number of sale and purchase agreements for residential property received by the Land Registry, surged by 24% to 74 297, the highest since 2012, and was well above the five-year average of 58 643 from 2016 to 2020. Flat prices on average rose by 3% during the year, notwithstanding a modest decline after peaking in September. The index of home purchase affordability remained elevated at around 74% in the fourth quarter, significantly above the long-term average of 47% over 2001-2020. Meanwhile, flat rentals in December 2021 on average were 3% higher than in December 2020, but still 9% below the peak in August 2019. As for commercial and industrial property, while prices and rentals of office space remained relatively soft, those of retail shop space and flatted factory space saw moderate increases.

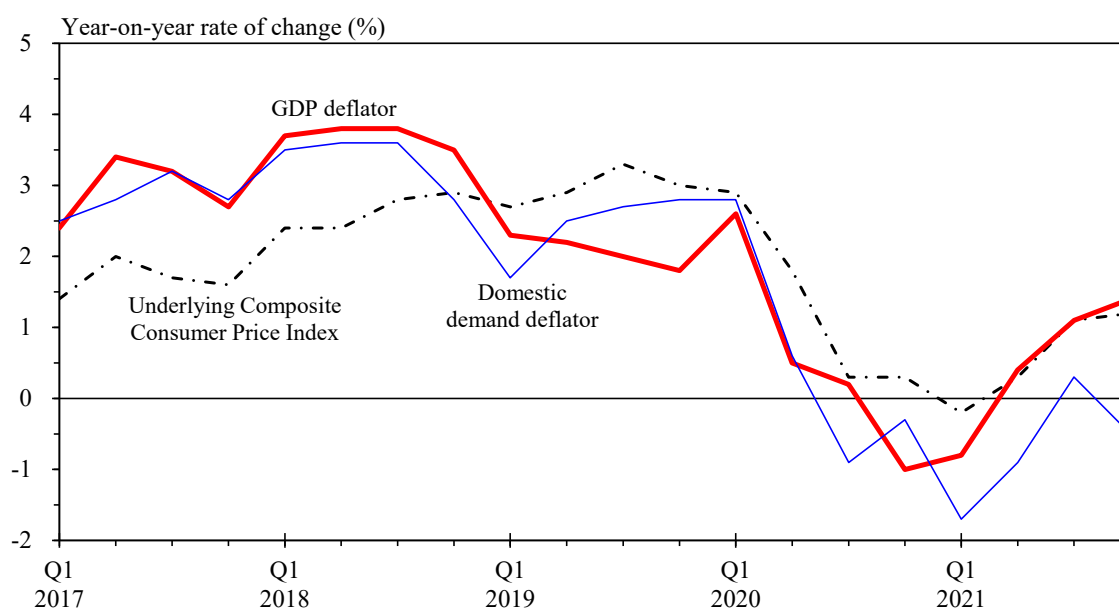
Inflation

1.11 Underlying consumer price inflation went up modestly over the course of 2021 alongside the economic recovery and higher import prices. Prices of some consumption items saw accelerated increases in the second half of the year amid the stabilised local epidemic situation and improved demand. The low bases of comparison for some items such as transport and meals out and takeaway food also contributed. Offsetting these developments were the softening of the private housing rental component and modest increase in basic food prices. Netting out the effects of the Government's one-off relief measures, *underlying Composite CPI* rose modestly by 0.6% in 2021, as compared to the 1.3% increase in 2020. Domestically, private housing rentals recorded decline through the year as the earlier retreat in fresh-letting residential rentals continued to feed through. On business costs, wage growth remained modest, while commercial rentals stayed soft. External price pressures increased visibly in 2021 under the combined effects of higher inflation in some major economies amid supply chain bottlenecks and strong demand revival, as well as the surges in shipping costs and international commodity and energy prices. Against this background, prices of overall merchandise imports rose visibly, particularly so in the second half of the year. In contrast, *headline Composite CPI inflation rate* rose from 0.3% in 2020 to 1.6% in 2021, mainly

reflecting the low base of comparison caused by the more sizeable Government's one-off relief measures in 2020 as compared to 2021.

1.12 As a broad measure of the overall change in prices in the economy, *GDP deflator* rose slightly by 0.5% in 2021, following an increase of 0.6% in 2020. The *terms of trade* improved as export prices rose faster than import prices. Taking out the external trade components, the domestic demand deflator declined by 0.7% in 2021, having increased by 0.5% in 2020.

Diagram 1.4 : Underlying consumer price inflation went up modestly over the course of 2021



Note : The year-on-year rates of change of the Composite Consumer Price Index from the fourth quarter of 2020 onwards are computed from the new 2019/20-based series, and those before are from the old 2014/15-based series.

GDP by major economic sector

1.13 The net output of the services sector grew further by 5.2% in real terms in the third quarter of 2021 over a year earlier, following visible increases of 6.7% in the first quarter and 6.6% in the second quarter. For the first three quarters combined, the services sector expanded by 6.1%, having contracted by 6.7% in 2020.

1.14 The net outputs of all major service sectors expanded in the third quarter alongside more entrenched economic recovery, though the low bases of comparison in many sectors also contributed. Specifically, thanks to the sustained revival of major economies and vibrant regional trading flows, the net output of import and export trade grew further, and that of transportation and storage continued to increase notably. The net output of wholesale and retail trades sustained an appreciable increase and that of accommodation and food services registered brisk growth, partly boosted by the Consumption Voucher Scheme. Meanwhile, the net outputs of professional and business services and public administration, social and personal services rose moderately. The net outputs of postal and courier services, financing and insurance as well as information and communications recorded growth of varying degrees. The net output of real estate, which covers activities of private sector developers and property agencies, saw further modest growth, as property transactions remained higher than a year earlier. As for the secondary sector, the net outputs of the construction sector and manufacturing sector grew further. Given the uneven nature of the economic recovery, the net outputs of wholesale and retail trades, transportation and storage, and accommodation and food services in the first three quarters of 2021 combined were still significantly lower than their pre-recession levels in the same period in 2018 by 53.6%, 34.8% and 42.4% respectively in real terms.

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

	<u>2020</u>	<u>2021</u>	<u>2020</u>				<u>2021</u>		
		<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	-5.8	5.4	-4.6	-5.1	-7.4	-6.1	2.6	5.6	7.6
Construction	-12.0	0.2	-15.3	-9.2	-14.7	-8.3	-2.0	0.8	2.1
Services ^(b)	-6.7	6.1	-8.9	-8.7	-5.3	-4.0	6.7	6.6	5.2
Import/export, wholesale and retail trades	-15.0	15.5	-22.7	-20.7	-10.6	-7.8	24.2	15.5	8.5
Import and export trade	-8.1	15.9	-13.8	-11.8	-5.0	-3.6	25.6	15.9	8.3
Wholesale and retail trades	-47.3	11.9	-60.1	-56.5	-41.9	-29.9	12.1	12.5	11.1
Accommodation ^(c) and food services	-44.8	17.5	-49.5	-44.7	-47.8	-35.6	-5.2	16.7	46.4
Transportation, storage, postal and courier services	-36.9	11.1	-29.9	-47.1	-38.8	-32.6	-0.6	18.7	19.1
Transportation and storage	-39.8	10.2	-31.4	-50.7	-42.0	-36.1	-3.8	19.4	20.2
Postal and courier services	10.5	19.8	-4.4	12.5	18.3	16.4	36.8	14.2	9.1
Information and communications	1.7	2.8	1.3	0.7	2.2	2.4	3.7	2.2	2.5
Financing and insurance	4.0	5.4	2.6	3.2	5.3	4.8	7.3	6.0	2.9
Real estate, professional and business services	-4.6	2.1	-5.4	-6.1	-4.0	-2.9	1.3	2.3	2.7
Real estate	-3.6	2.3	-8.5	-4.7	-1.0	0.6	2.5	2.2	2.1
Professional and business services	-5.4	1.9	-2.7	-7.2	-6.2	-5.5	0.3	2.3	3.3
Public administration, social and personal services	-2.3	3.4	-2.9	-3.1	-1.1	-2.1	2.1	4.3	3.8

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

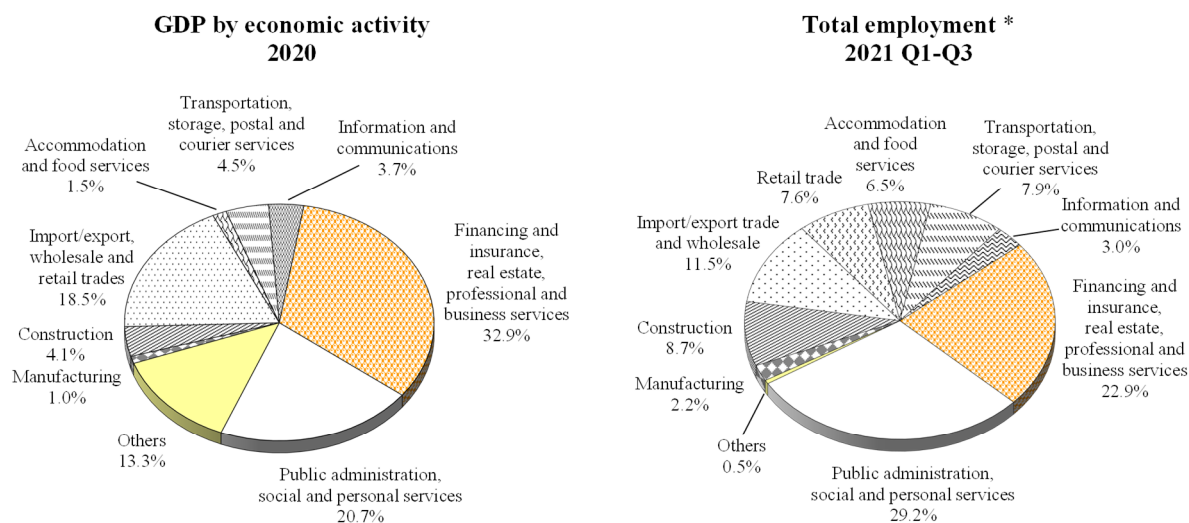
(a) The GDP figures shown in this table are compiled from the production approach, while those shown in Table 1.1 are compiled from the expenditure approach. For details, see Note (1) to this chapter.

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

(c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

1.15 The services sector is the mainstay of the Hong Kong economy, making up 93.5% of GDP in 2020 and providing 88.6% of total employment in the first three quarters of 2021. Hong Kong is a global centre for world trade, finance, transportation and business, located strategically at the doorstep of the Mainland's huge and vibrant economy, with a fine tradition of the rule of law and judicial independence, an unfettered flow of capital, people, goods and information, open and fair competition, a well-established and comprehensive financial network, superb transport and communications infrastructure, sophisticated support services, and a flexible labour market with a well-educated workforce and a pool of efficient and innovative entrepreneurs. With our unique advantages under “One Country, Two Systems” and strong competitive edges, Hong Kong's services sector is well positioned to take advantage of the opportunities presented by national development and the Eastward shift of global economic gravity. The Government also continues to act as a “facilitator” and “promoter” in developing our economy, enhance our institutional strengths, foster innovation and technology and other areas of growth potentials, remove supply bottlenecks, and assist the private sector and professional service providers to explore new market opportunities.

Diagram 1.5 : The services sector continued to be the key driver of the economy



Note : (*) Figures refer to the Composite Employment Estimates, which are compiled based on results of the General Household Survey and the Quarterly Survey of Employment and Vacancies. Figures are averages of the first three quarters of 2021.

Other economic developments

1.16 The “Outline of the 14th Five-Year Plan for National Economic and Social Development of the People’s Republic of China and the Long-Range Objectives Through the Year 2035” (the 14th Five-Year Plan) approved in March 2021 continues to support Hong Kong to maintain its status in the “four traditional centres”, namely international financial, transportation and trade centres as well as a centre for international legal and dispute resolution services in the Asia-Pacific region. Furthermore, it raises for the first time support for Hong Kong to enhance its status as an international aviation hub and develop into an international innovation and technology (I&T) hub, a regional intellectual property trading centre, and an East-meets-West centre for international cultural exchange.

1.17 The Chief Executive delivered the 2021 Policy Address in October 2021, putting forward initiatives in various aspects. In particular, the Northern Metropolis Development Strategy aims to transform the northern part of Hong Kong into a lively and attractive area providing more land for housing, technology development and other industries, facilitating the city’s development integration with Shenzhen and connection with the Guangdong-Hong Kong-Macao Greater Bay Area. Meanwhile, the Government will strive to boost Hong Kong’s competitiveness as the eight international centres or hubs as charted in the 14th Five-Year Plan. On I&T front, the Government proposes to set up an InnoLife Healthtech Hub in the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop and the areas around Lok Ma Chau/San Tin will be consolidated to form the San Tin Technopole. On financial sector development, the Government will step up efforts in further enhancing the listing regime, expanding offshore RMB business and growing a green and sustainable financial sector.

1.18 In the 2021-22 Budget (the Budget), the Financial Secretary rolled out large-scale counter-cyclical measures totalling over \$120 billion to support businesses, relieve people’s hardship and support employment. To alleviate the cash flow burden of borrowing enterprises and individuals suffering cessation of main recurrent incomes from employment during the pandemic, enhancements to the SME Financing Guarantee Scheme and a time-limited 100% Personal Loan Guarantee Scheme were introduced. To entrench the revival of consumption-related sectors, the Government launched the Consumption Voucher Scheme, and disbursed electronic consumption vouchers worth \$5,000 to each eligible applicant in batches from August 2021. The Budget also set out measures to help enterprises adapt to the economic “new normal” after the epidemic and better grasp the opportunities brought by the increasingly digital economy, and put

forward initiatives to support tourism and capture the huge development opportunities in various areas including financial services, innovation and technology, air cargo sector, cultural and creative industries, and infrastructure investment and construction industry.

1.19 In view of the local epidemic development, the Government rolled out relief measures under the fifth round of the Anti-epidemic Fund (AEF) in early January 2022, committing a total funding of about \$3,570 million. This round of measures provided support to premises and individuals directly affected by the tightening of social distancing measures announced in early January 2022, as well as trades which have not seen any business revival since the onset of the epidemic due to the as-of-yet resumed flow of people between Hong Kong and other places. The Government further announced in late January the introduction of the sixth round of AEF measures, involving a total funding of around \$27 billion (estimated as of 14 February), to provide the needed support to businesses and individuals hard hit by the pandemic and the prolonged tightening of social distancing measures, and also to provide allowance to dutiful frontline staff in recognition of their anti-epidemic work.

1.20 The Government published the “Report on Hong Kong’s Business Environment: A Place with Unique Advantages and Unlimited Opportunities” in September. The report reviewed and set out Hong Kong’s current business environment and advantages, and described the development opportunities available to Hong Kong under the country’s new phase and pattern of development. The Government will strive for institutional and policy innovation to assist local and overseas enterprises in Hong Kong to capitalise on the new potential to propel the Hong Kong economy up the value-added ladder. Reflecting Hong Kong’s favourable business environment and its prominent role as a conduit between the Mainland and the rest of the world, the number of business operations in Hong Kong with parent companies overseas or in the Mainland and the number of start-ups in Hong Kong reached all-time highs of 9 049 and 3 755 respectively in 2021.

1.21 Hong Kong’s economic fundamentals and competitiveness have been well recognised internationally. Hong Kong was once again ranked by the Fraser Institute as the world’s freest economy in the *Economic Freedom of the World 2021 Annual Report*, and was ranked seventh globally and second in Asia in the *World Competitiveness Yearbook 2021* published by the International Institute for Management Development (IMD). Furthermore, Hong Kong was ranked second globally in the IMD’s *World Digital Competitiveness Ranking 2021*, the highest ranking Hong Kong ever attained since the report was first published in 2017, and 14th globally in the *Global Innovation Index 2021*

published by the World Intellectual Property Organization. Hong Kong was also ranked 11th globally and first amongst Asian economies in the IMD's *World Talent Ranking 2021*. The Government is committed to further enhancing the competitiveness and vibrancy of the Hong Kong economy, and will strive to maintain Hong Kong's competitive advantages and at the same time step up investment in infrastructure and innovation and technology in order to add growth impetus to economic development.

Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.

CHAPTER 2 : ECONOMIC OUTLOOK FOR 2022 AND THE MEDIUM TERM

Summary

- *The global economy rebounded notably in 2021, despite the challenges from the emergence of more infectious COVID-19 variants, supply disruptions as well as surging energy and commodity prices. While the largely accommodative global monetary environment has contributed to the strong growth, some central banks began to tighten their policies towards the end of the year amid rising inflation.*
- *Looking ahead, the global economy should continue to recover in 2022, but probably at a more moderate pace. In late January, the International Monetary Fund (IMF) projected the global economy to grow by 4.4% in 2022 after a 5.9% expansion in 2021, and warned that the balance of risks remains tilted to the downside. The pandemic remains the most prominent threat. There are also other risk factors, including the lingering supply bottlenecks, monetary policy tightening by some major central banks, as well as the development of China-US relations and geopolitical tensions.*
- *Although the external environment is highly complicated, a further recovery across major economies will support production and trading activities in Asia as well as Hong Kong's exports of goods in 2022. Should the overall economic environment continue to turn better and regional trade flows remain active, exports of services will likely improve further, though the pace of recovery hinges critically on the state of cross-boundary travel.*
- *The performance of domestic demand in 2022 would hinge on the development of the local epidemic. If the recent wave can gradually abate and the situation remains stable during most of 2022, employment and income conditions will likely see further improvement, underpinning consumption sentiment. Business sentiment will likewise benefit. This, coupled with the Government's continued efforts in increasing housing supply, pursuing infrastructure investment projects and promoting innovation and technology, should help underpin investment demand.*
- *In sum, the Hong Kong economy is expected to expand further in 2022, but the pandemic remains a key source of uncertainty. Taking into account support from the Government's various measures, the Hong Kong economy is forecast to grow by 2% to 3.5% in 2022, following a 6.4% expansion in 2021.*
- *Underlying consumer price inflation will likely pick up further in 2022, but should remain moderate for the year as a whole. External price pressures*

are likely to persist for some time, as the global economy is expected to recover further and bottlenecks in global supply chains will take time to resolve. Domestic cost pressures would increase gradually alongside the further economic expansion. Yet, the modest rise-back of fresh letting residential rentals in the past year will take time to filter through to consumer price inflation. Underlying consumer price inflation is forecast at 2% in 2022, up from 0.6% in 2021.

- *The medium-term outlook for the Hong Kong economy is positive. The Eastward shift of global economic gravity will likely continue. Hong Kong, located strategically at the doorstep of the Mainland's huge and vibrant economy, is well-positioned to reap the enormous development opportunities brought about by this mega trend.*
- *Leveraging the Central Government's support and our unique advantages under "One Country, Two Systems", the Government is committed to promoting Hong Kong's further integration into the national development, while at the same time resolving the major bottlenecks of land and manpower supply, promoting innovation and technology, and investing in quality education and training. The Government stresses the importance of playing the role of a "facilitator" and "promoter" to keep connecting with the world to open up markets and explore business opportunities for our enterprises. Overall, the economy is forecast to grow at a trend rate of 3% per annum from 2023 to 2026. The trend rate of underlying consumer price inflation is forecast at 2.5% per annum over the medium term.*

Major external developments

2.1 The global economy staged a notable rebound in 2021. Mass vaccinations have provided a more conducive environment for economic activity. While strong policy support has also contributed to the strong economic growth, some central banks began to adopt a tighter monetary policy stance towards the end of the year in the face of rising inflation. Among the major economies, the Mainland economy grew further at a relatively fast pace in 2021. The economies of the US and the euro area rebounded visibly for the year as a whole, despite the challenges from the emergence of more infectious COVID-19 variants, supply disruptions as well as surging energy and commodity prices.

2.2 Looking forward, the global economy should continue to recover in 2022, but probably at a more moderate pace. In view of the threat of the Omicron variant since late 2021, restrictive measures have been tightened in some economies, which if persist for an extended period may pose a more visible drag on their growth. The lingering supply chain bottlenecks are another source of concern. Separately, monetary policy tightening by some major central banks, as well as the development of China-US relations and geopolitical tensions also warrant close attention.

Global economic outlook

2.3 The Mainland economy posted accelerated growth of 8.1% in 2021, thanks to strong export performance and the effective epidemic prevention and control which created favourable conditions for the revival of economic activities. Looking ahead into 2022, the economic development is subject to “triple pressures” stemming from demand contraction, supply shocks and weakening expectation. Yet, the fundamentals of the Mainland economy remain sound and resilient. A series of reform measures under the 14th Five-Year Plan have also been rolled out to promote high-quality economic development. These, together with the ample room for fiscal and monetary policy manoeuvring, would support the Mainland economy to sustain solid growth in 2022 and remain a major growth driver of the global economy.

2.4 As for other major economies, the US economy rebounded visibly by 5.7% in 2021, led by the sharp pick-up in private consumption amid strong policy support. The labour market showed notable improvement in tandem, laying a foundation for further economic growth this year. Yet, in response to higher and more broad-based inflation, the Federal Reserve (Fed) is expected to start raising interest rates and reducing the size of its balance sheet, though the pace of tightening is subject to huge uncertainty. Meanwhile, the fiscal policy support is envisaged to diminish in 2022. These policy factors, together with the evolving epidemic situation and supply chain bottlenecks, may weigh on the growth momentum. The development of China-US relations also warrants close attention.

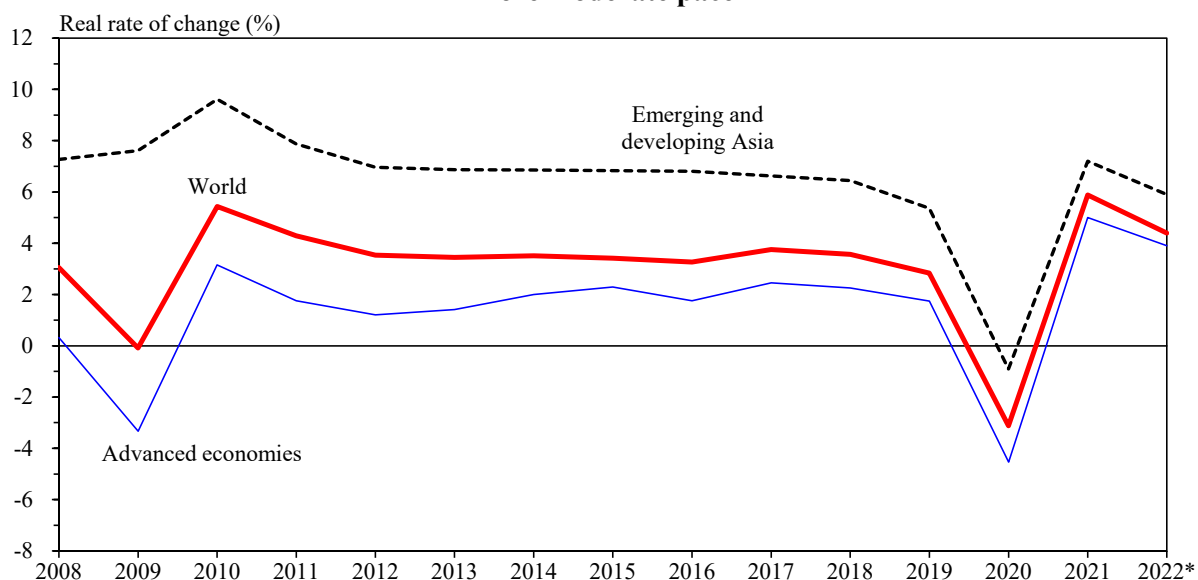
2.5 The euro area economy also saw a marked revival in 2021, though the resurgence of the epidemic in many European countries towards the end of the year posed renewed pressure on activity and sentiment. Looking ahead, the market expects the euro area economy to recover further in 2022 thanks to the support from still accommodative monetary policy and the Next Generation EU recovery fund. Yet, the evolving pandemic remains a threat to the economic outlook. Supply chain bottlenecks, elevated inflation and geopolitical issues are other major risk factors.

2.6 Japan’s economy only saw a moderate rebound in 2021, as the local state of emergency was in place during most of the year, dampening consumer and business sentiment. Looking ahead, provided that the epidemic situation in Japan stabilises, the economy is likely to show catch-up growth in 2022 on the back of supportive monetary and fiscal policies. For other high-income Asian economies, Singapore’s economy bounced notably in 2021 and Korea’s economy posted solid growth thanks to buoyant export performance. These economies

should continue to recover in 2022 barring any sharp deterioration in their epidemic situations.

2.7 As for emerging market economies in Asia, their recovery paces were uneven in 2021, reflecting the difference in local epidemic developments and resultant restrictive measures. In India, as the number of infection cases receded substantially after peaking in May 2021, the recovery momentum picked up again thereafter. Meanwhile, economies of Indonesia, Malaysia, the Philippines and Thailand showed rebounds of varying degrees in 2021 as trading and production activities stayed buoyant in the region. Yet, Vietnam's economic growth moderated somewhat in 2021 due to the surge of infection cases in the second half of the year. Separately, non-Asian emerging market economies bounced back strongly in general in 2021. Looking ahead, if the global economic recovery continues and barring any sharp relapse of local epidemic, Asian emerging market economies are likely to see broader based recovery in 2022 on the back of improving external and domestic demand. Yet, higher inflation stemming from rising food, energy and commodity prices, and the possible tightening in monetary policy, may dampen economic activity to some extent. Individual emerging market economies with weaker fundamentals may also face significant pressures when global liquidity conditions tighten.

Diagram 2.1 : The global economy should continue to recover in 2022, but probably at a more moderate pace



Source : IMF World Economic Outlook Update, January 2022.

Note : (*) Forecasts from the IMF.

2.8 In late January, the IMF forecast that the global economy would grow further by 4.4% in 2022 after an estimated rebound of 5.9% in 2021. Growth in the advanced economies was forecast to moderate from 5.0% in 2021 to 3.9% in 2022, while that in emerging market economies from 6.5% to 4.8%. Among the emerging market economies, those in Asia were projected to see their growth moderating from 7.2% to 5.9%, but this is faster than the growth of the advanced economies and non-Asian emerging market economies. The IMF also warned that the balance of risks remains tilted to the downside, with the global economic growth depending critically on several factors including the pandemic development, the impact of less accommodative monetary policy in the US on global financial conditions, and the persistence of supply chain disruptions.

Table 2.1 : Growth forecasts for major economies in 2022

	2022			
	<u>2021*</u>	<u>IMF*</u>	<u>UN@</u>	Private sector <u>forecast</u>[^]
	(%)	(%)	(%)	(%)
World (PPP ^{##} weighted)	5.9	4.4	4.2	-
Advanced economies	5.0	3.9	-	-
US	5.7 [#]	4.0	3.5	3.7
Euro area	5.2 [#]	3.9	4.0	3.9
UK	7.5 [#]	4.7	4.5	4.3
Japan	1.7 [#]	3.3	3.3	2.8
Emerging market and developing economies	6.5	4.8	-	-
Emerging and developing Asia	7.2	5.9	-	-
Mainland China	8.1 [#]	4.8	5.2	5.0
India [~]	9.0	9.0	6.5	8.0
ASEAN-5 ^{\$}	3.1	5.6	-	-
Middle East and Central Asia	4.2	4.3	-	-

Notes : (*) IMF World Economic Outlook Update, January 2022.
 (@) United Nations World Economic Situation and Prospects, January 2022.
 (^) Average forecasts as at February 2022.
 (-) Not available.
 (#) Actual figures.
 (##) PPP refers to purchasing power parity.
 (~) India's GDP growth refers to fiscal year.
 (\$) Includes Indonesia, Malaysia, the Philippines, Thailand and Vietnam.

Monetary conditions and exchange rate movements

2.9 The global monetary environment remained largely accommodative in 2021. The People's Bank of China cut the reserve requirement ratios of financial institutions twice by a total of one percentage point in the second half of 2021 and lowered various policy rates in January 2022 to support the real economy. Yet, amid rising inflation some central banks began to tighten their policies towards end of the year. While the Fed maintained the target range for the federal funds rate at record low of 0.00%-0.25%, it has started to reduce asset purchases since November 2021 and is expected to raise interest rates soon. The ECB maintained its policy rates at historic lows, but has announced to gradually reduce its net asset purchases in 2022. In Asia, the Bank of Japan kept its policy rates at record lows, but central banks of Singapore and Korea have already shifted to a tightened policy stance. A number of central banks in the emerging markets, notably Brazil and Russia, have raised their policy rates to contain inflation. The global monetary environment in general is expected to turn less accommodative in 2022.

2.10 After staying range-bound in the first half of 2021, the US dollar strengthened against many major currencies in the second half, with the exception of the renminbi (RMB), due to the Fed's tapering decision. The Hong Kong dollar closely follows the movements of the US dollar under the Linked Exchange Rate System, with the nominal trade-weighted effective exchange rate index in December 2021 falling by 1% from a year earlier.

2.11 The RMB appreciated by 3% year-on-year against both the US dollar and Hong Kong dollar respectively in December 2021. The RMB also appreciated against a basket of major currencies. According to the Bank for International Settlements, the effective exchange rate index of the RMB appreciated by 8% over the period.

2.12 The direction of exchange rate movements in 2022 will, as always, be subject to various uncertainties, including the pandemic development and recovery pace in major economies, and their monetary and fiscal policy responses, as well as geopolitical developments. Hong Kong's export performance in 2022, as in previous years, will likely hinge more on global demand conditions than on exchange rate movements.

Diagram 2.2 : The direction of exchange rate movements in 2022 will, as always, be subject to various uncertainties

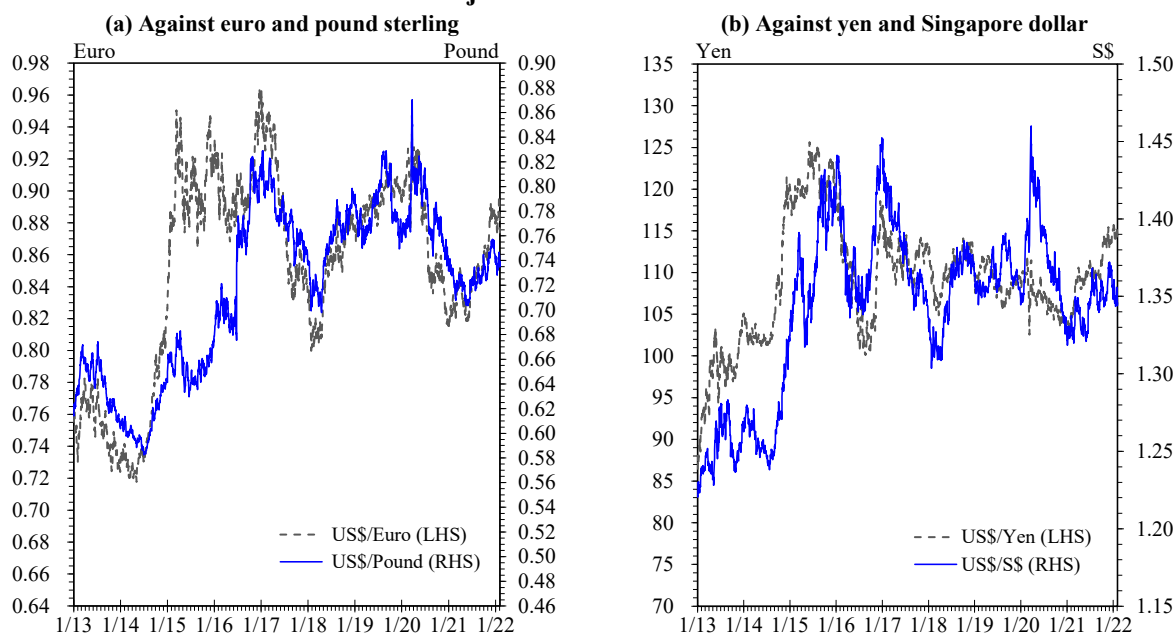
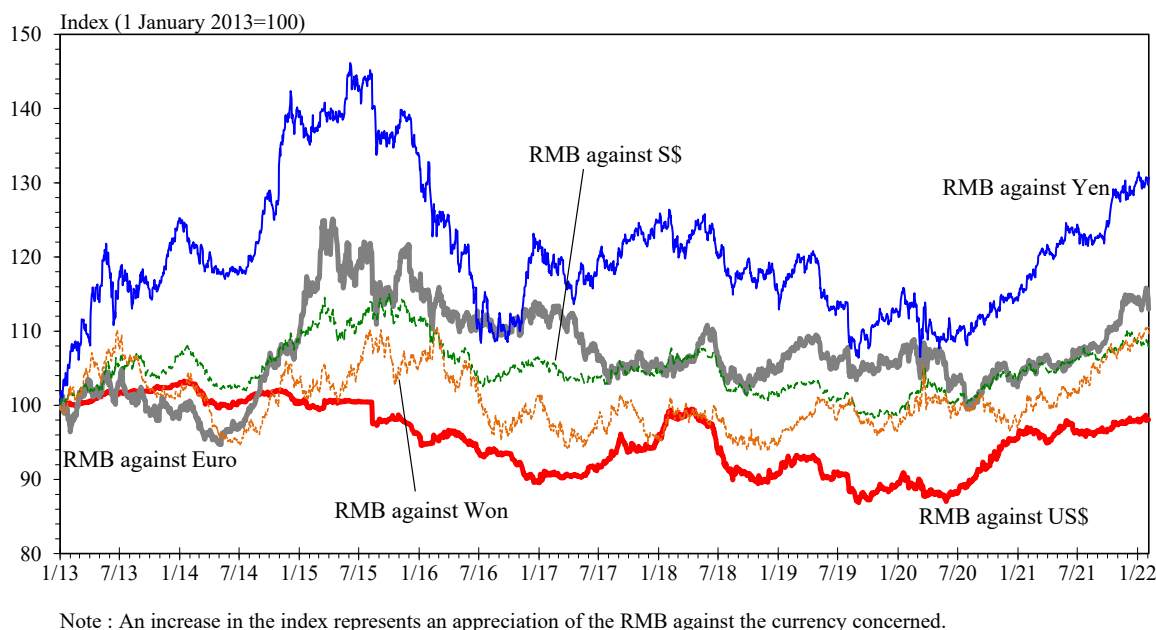


Diagram 2.3 : The RMB exchange rate should be able to maintain stability at a reasonable level



World inflation and global commodity prices

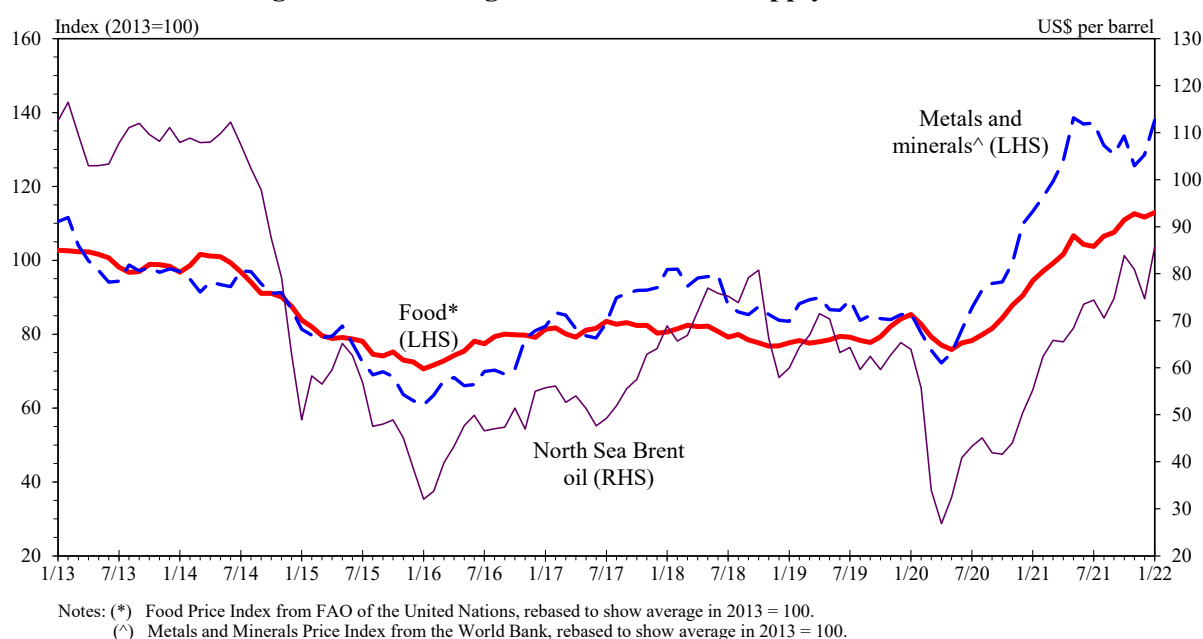
2.13 Global inflation picked up notably in 2021 amid the strong revival of demand, supply bottlenecks in many places, as well as surging international commodity and energy prices. Looking ahead, the outlook for global inflation in 2022 will continue to hinge on how these factors unfold amid the evolving COVID-19 pandemic as well as the effectiveness of monetary policy responses in containing price pressures (see **Box 2.1**). In late January, the IMF forecast

that the inflation rate in advanced economies would accelerate from 3.1% in 2021 to 3.9% in 2022, while that in the emerging market economies was projected to increase from 5.7% to 5.9%.

2.14 In 2021, international crude oil prices sustained its visible rebound since April 2020 thanks to the revival of economic activities worldwide and production cuts in oil-producing economies. While crude oil prices retreated somewhat amid the spread of the Omicron variant towards the end of 2021, the price level in December 2021 was still markedly higher than the year-ago level. Metal prices were also on a general uptrend in 2021 amid the strengthening global demand and supply disruptions in some key producers. Global food prices, according to the Food and Agriculture Organization (FAO) of the United Nations, likewise stayed on the rise in 2021.

2.15 Looking ahead, the outlook for international commodity prices remains highly uncertain. For international oil prices, while the outlook would hinge on the pace of global economic growth, various supply-side factors such as the production decisions of oil-producing economies and geopolitical tensions would also be relevant. Moreover, international food and commodity prices are sensitive to unpredictable short-term supply shocks stemming from factors such as adverse weather conditions.

Diagram 2.4 : The outlook for international commodity prices in 2022 hinges on the pace of the global economic growth and various supply-side factors



Box 2.1

Inflation outlook of Hong Kong's major import sources for 2022

Inflation picked up successively in some major economies in 2021 alongside the economic recovery, supply bottlenecks, and surging international commodity and energy prices. The prospect of global inflation in 2022 will continue to hinge on how these factors unfold amid the evolving COVID-19 pandemic. This box article reviews the recent inflation situation in Hong Kong's major import sources and examines their near-term inflation outlook.

Inflation expectation in the US

In the US, core personal consumption expenditure (PCE) inflation, the Federal Reserve (Fed)'s preferred measure of inflation after excluding the food and energy components, surged over the course of 2021, from 1.5% at the beginning of the year to 4.9% in December, the highest since September 1983 and notably above the Fed's 2% target. This was attributable to the strong revival of demand and pandemic-induced supply bottlenecks. Looking ahead into 2022, the inflation outlook will depend on the extent of easing in supply bottlenecks, and various projections generally pointed to slower inflation toward the end of the year. For example, the median projection made by the Federal Open Market Committee's (FOMC) members in December 2021 suggested that core PCE inflation would moderate to 2.7% in the fourth quarter of 2022. Based on the First Quarter 2022 Survey of Professional Forecasters conducted by the Federal Reserve Bank of Philadelphia, private sector forecasters generally expected that core PCE inflation would ease gradually throughout 2022, reaching 3.1% in the fourth quarter (*Chart 1*).

Inflation expectation in the euro area

In the euro area, core consumer price inflation picked up visibly in the second half of 2021 and reached record high of 2.6% in December. It averaged 1.5% for 2021 as a whole, up from 0.7% in the preceding year. Going forward, it is generally envisaged that core inflation in the euro area should remain largely contained in 2022. According to the European Central Bank (ECB)'s staff macroeconomic projections in December 2021, core inflation would recede from its peak in late 2021 and average 1.9% for 2022 as a whole, as price pressures should ease on account of the assumed gradual resolution of supply bottlenecks starting from the second quarter. Meanwhile, respondents to the ECB's Survey of Professional Forecasters for the first quarter of 2022 on average expected that core inflation would be 2.0% in 2022 (*Chart 2*).

Chart 1: Inflation forecast in the US

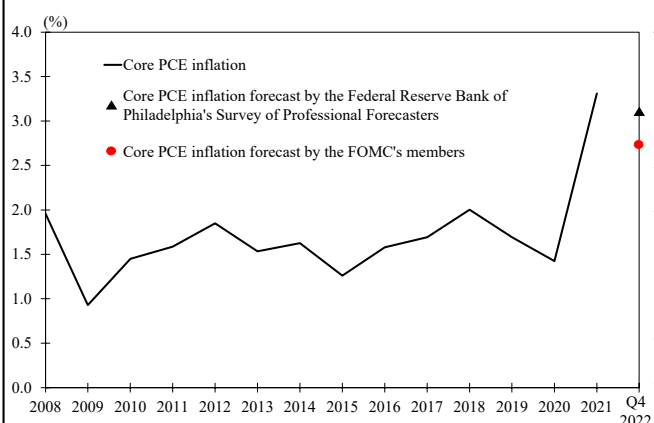
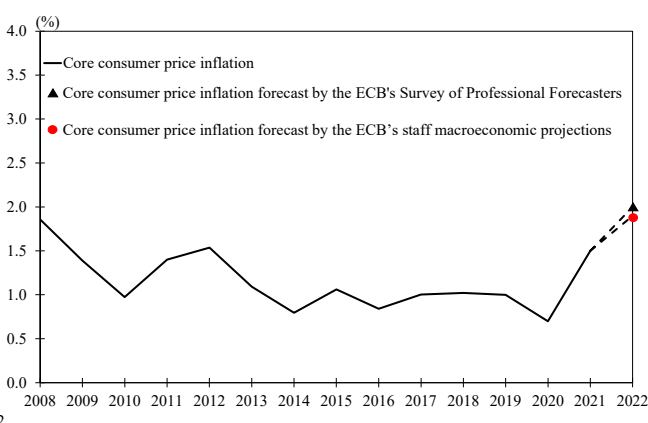


Chart 2: Inflation forecast in the euro area



Sources: The Federal Reserve, the Federal Reserve Bank of Philadelphia, the European Central Bank.

Box 2.1 (Cont'd)

Inflation expectation in the Mainland

In the Mainland, consumer price inflation remained modest at 0.9% in 2021 despite the faster increase in prices of non-food items in the second half of the year. Looking ahead into 2022, the authority's pledge to ensure stable food supply should help keep food inflation contained, though weather conditions are always a source of uncertainty. The deceleration in producer prices since October 2021, if sustained, might also help lessen the price pressure at the consumer level. The Chinese Academy of Social Sciences in December 2021 projected that consumer price inflation in the Mainland would increase to a moderate level of around 2.5% in 2022. The Asian Development Bank (ADB) in December 2021 forecast that consumer price inflation in the Mainland would pick up to 2.1% in 2022 (*Chart 3*). Meanwhile, the latest forecasts by private sector analysts also suggested that consumer price inflation in the Mainland for 2022 as a whole should be around 2.2%.

Inflation expectation in Japan

In Japan, consumer prices (excluding fresh food) declined modestly further by 0.2% in 2021, mainly due to the reduction in mobile phone charges since the second quarter of the year. Going forward, the Bank of Japan (BoJ) in January 2022 projected consumer prices (excluding fresh food) to rise back by 1.1% for the fiscal year 2022 along with the economic recovery and the abatement of the drag from the mobile phone charges reduction (*Chart 4*). Meanwhile, according to the Tankan survey conducted by the BoJ in December 2021, enterprises generally forecast a modest annual increase of 1.1% in general prices for the coming 12 months. On balance, inflation pressures in Japan should remain mild in 2022.

Chart 3: Inflation forecast in the Mainland

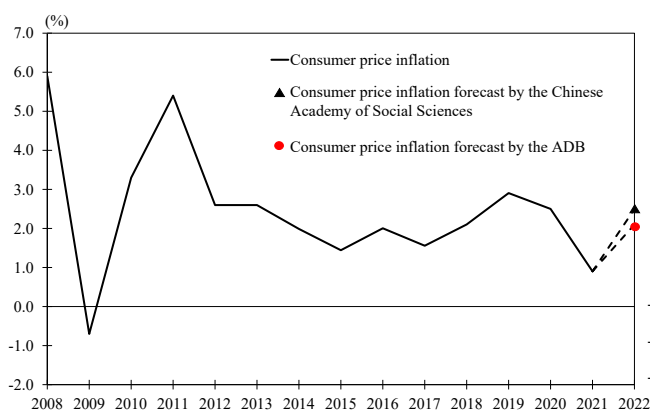
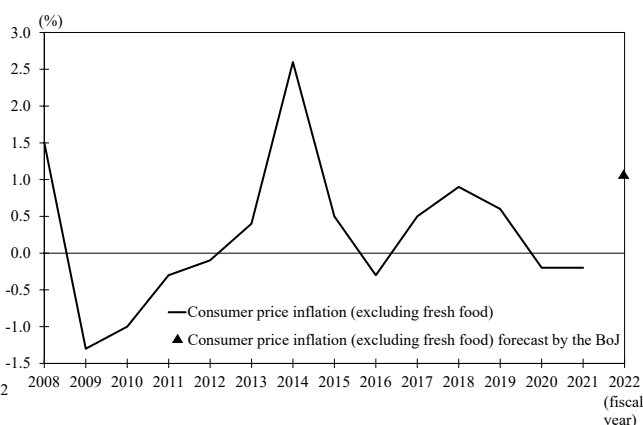


Chart 4: Inflation forecast in Japan



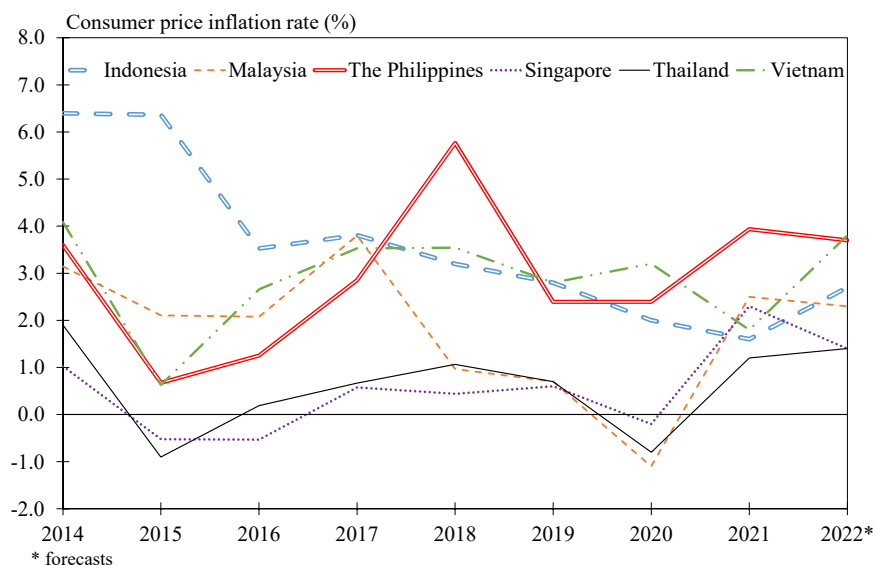
Sources: The Chinese Academy of Social Sciences, the Asian Development Bank, the Bank of Japan.

Inflation expectation in ASEAN economies

Consumer price inflation in ASEAN economies generally went up in 2021 alongside their economic rebound. Looking ahead into 2022, inflation pressures in these economies are expected to be broadly stable. According to the ADB's forecast made in December 2021, consumer price inflation in Indonesia, Thailand and Vietnam would increase to 2.7%, 1.4% and 3.8% respectively, while those in Malaysia, the Philippines and Singapore would ease to 2.3%, 3.7% and 1.4% respectively (*Chart 5*).

Box 2.1 (Cont'd)

Chart 5: Inflation forecasts in selected ASEAN economies



Source: The Asian Development Bank.

Conclusion

According to the latest forecasts for 2022 by various official authorities, international organisations or private analysts, inflation pressures in the US and the euro area were projected to ease back from their multi-year highs, and those in the Mainland, Japan and many ASEAN economies were projected to be largely contained. That said, the actual inflation outturn in Hong Kong's major import sources this year hinges critically on the pandemic development, which is still subject to high uncertainty at this juncture, and its impacts on the global recovery pace and supply chains. Meanwhile, movements of exchange rates and international food and commodity prices could also affect Hong Kong's imported inflation. The Government will continue to closely monitor the various external developments and their possible impacts on inflation in Hong Kong.

Outlook for the Hong Kong economy in 2022

2.16 The global economy recovered strongly in 2021 and the growth path down the road will continue to depend crucially on the development of the pandemic and how supply chain bottlenecks in various places unfold. The ongoing spread of the Omicron variant in many economies and the restrictive measures in place may constrain the pace of revival in the near term. However, provided that the pandemic situation gradually improves and supply chain disruptions begin to ease later this year, the global economy should be able to gather steam again. This, together with the envisaged steady expansion of the Mainland economy, will render support to production and trading activities in Asia as well as Hong Kong's exports of goods in 2022. That said, the development of China-US relations, the pace of monetary policy tightening by some major central banks, and geopolitical tensions still warrant attention.

Diagram 2.5 : The global economic recovery should continue to support Hong Kong's exports of goods in 2022

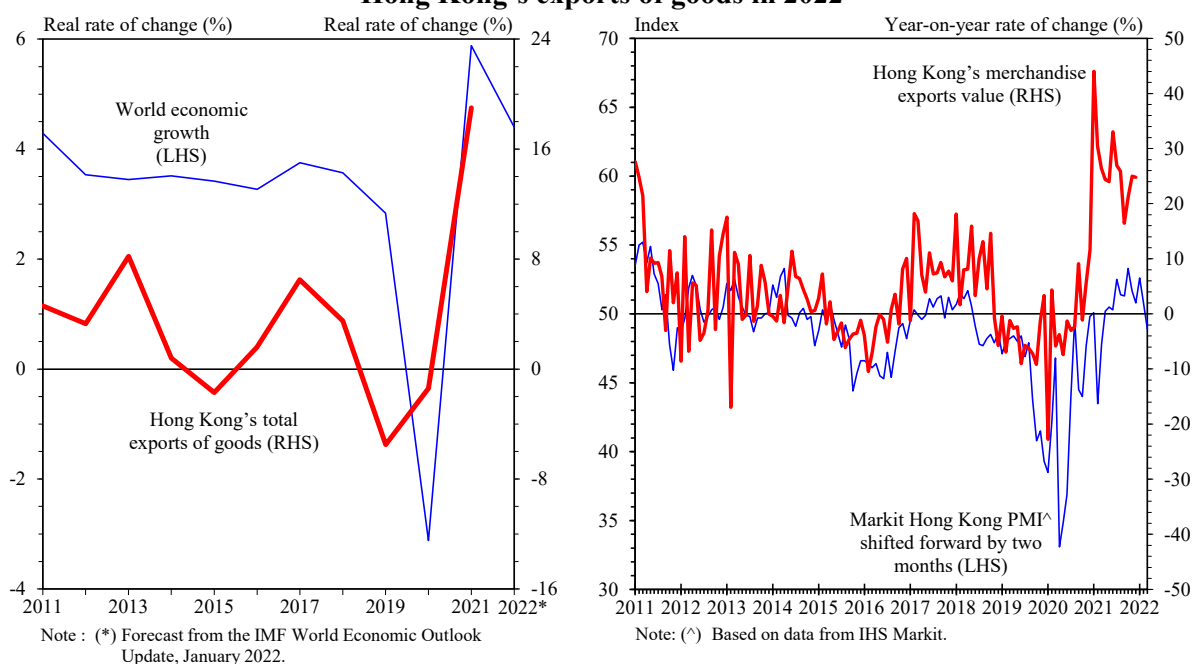
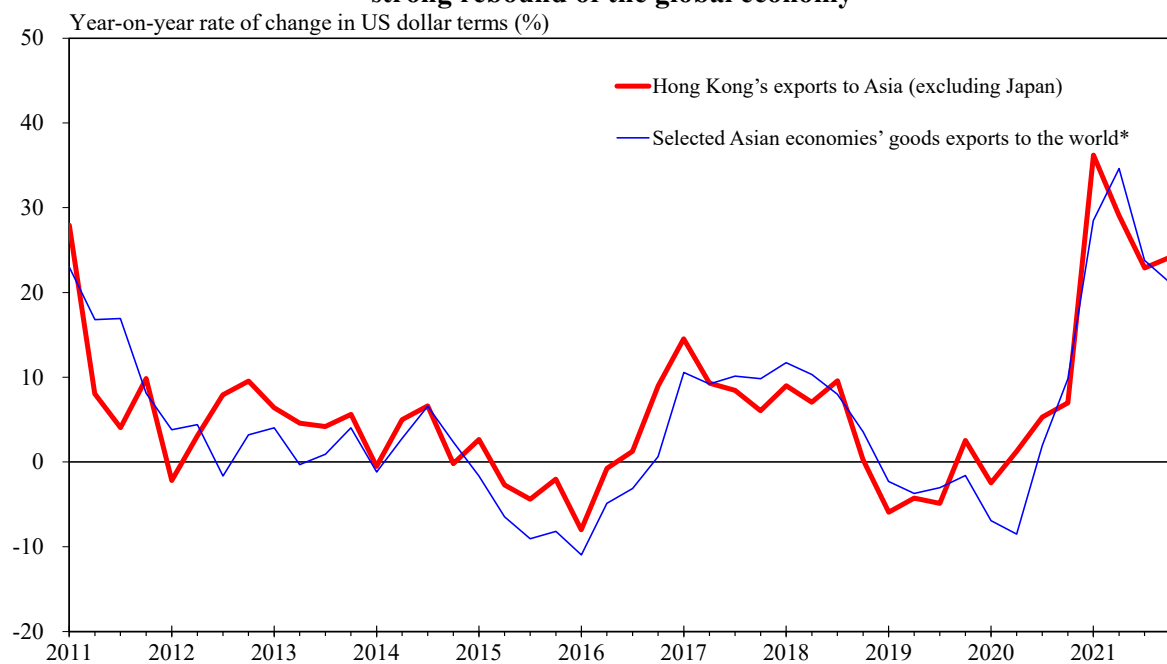


Diagram 2.6 : Regional trade flows turned vibrant in 2021 alongside the strong rebound of the global economy



Note : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.

2.17 Exports of services resumed a mild increase in 2021 alongside improved global economic conditions, but their recovery remained uneven. In particular, travel and cross-boundary passenger transport services remained in the doldrums as inbound tourism was frozen throughout the year. Looking into 2022, should the overall economic environment continue to turn better and regional trade flows remain active, exports of services will likely improve further. However, the pace of recovery will hinge critically on the state of inbound tourism, which should see some improvement if cross-boundary travel, especially with the Mainland, can be resumed in an orderly manner later this year.

2.18 Domestic demand regained momentum in 2021, thanks to the stable local epidemic situation during most of the year, improved business outlook, better labour market conditions and the Consumption Voucher Scheme. Looking ahead into 2022, the performance of domestic demand would hinge on the development of the local epidemic. Various restrictive measures in place will inevitably continue to pose pressures on economic activities and weigh on sentiment. Yet, as long as the recent wave of infections can gradually abate and the situation remains stable afterwards, employment and income conditions will likely see further improvement, supporting consumption sentiment. It is thus essential for the community to work together with the Government to contain the epidemic and abide by the anti-epidemic measures. A stable epidemic situation will also be favourable to business sentiment. This, coupled with the Government's continued efforts in increasing housing supply, pursuing infrastructure investment projects and promoting innovation and technology, should help underpin investment demand. The Government's relief measures and policy initiatives as unveiled in the 2022-23 Budget will also give support to the local economy.

Diagram 2.7 : Both private consumption expenditure and total employment resumed growth over the course of 2021 alongside the local economic recovery

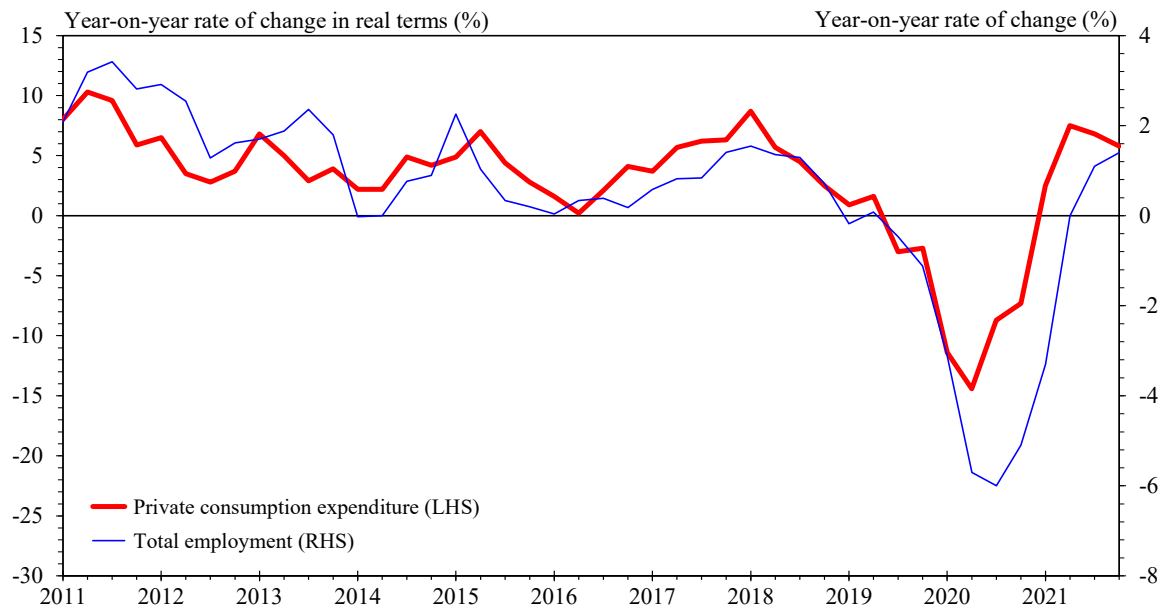


Diagram 2.8 : Private consumption expenditure in 2021 was affected more by the epidemic than by wealth effects

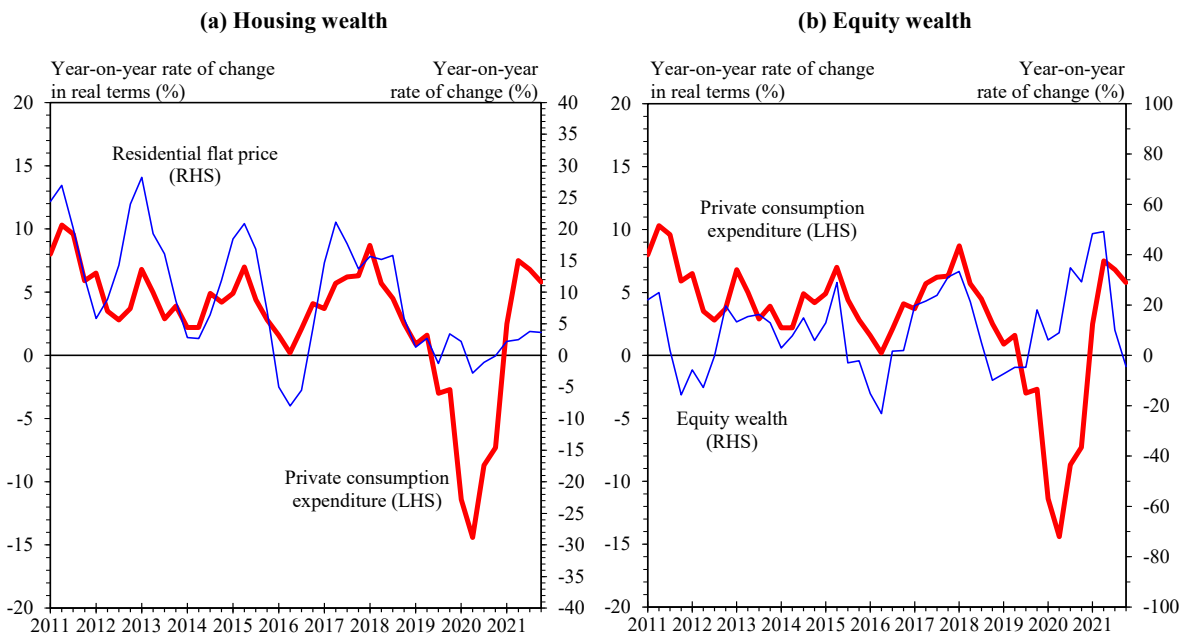
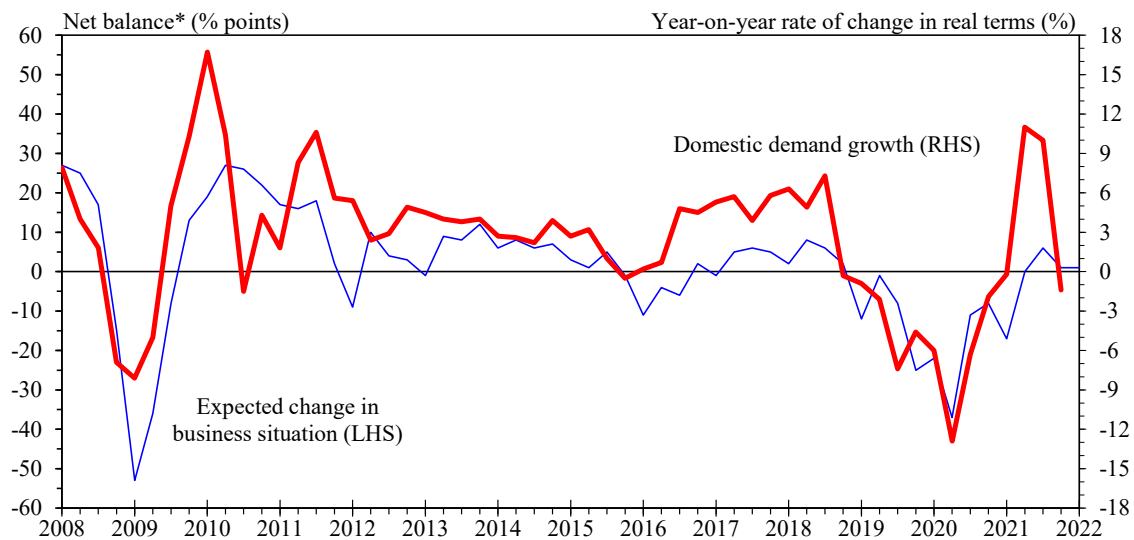
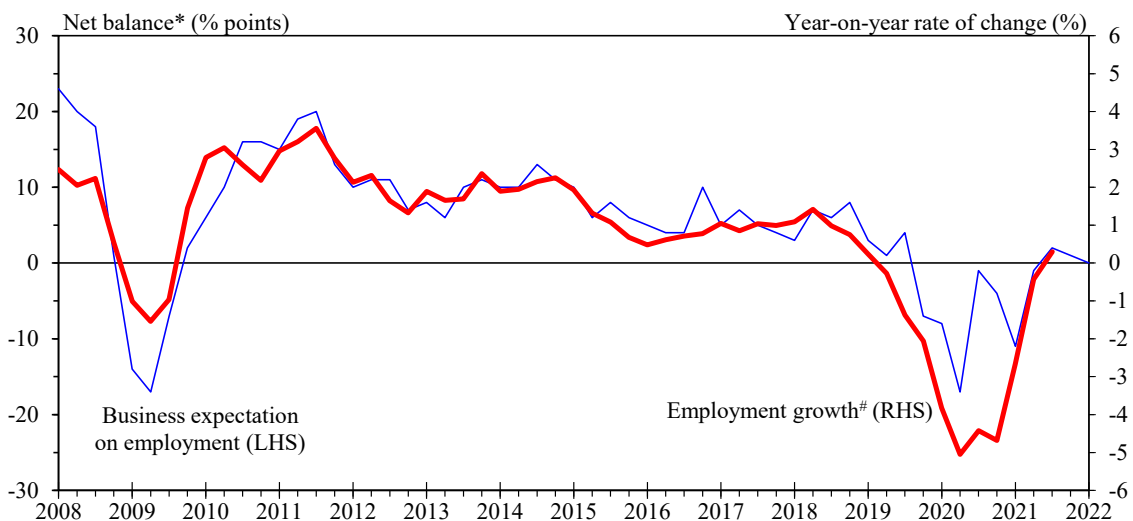


Diagram 2.9 : Business sentiment improved over the course of 2021



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

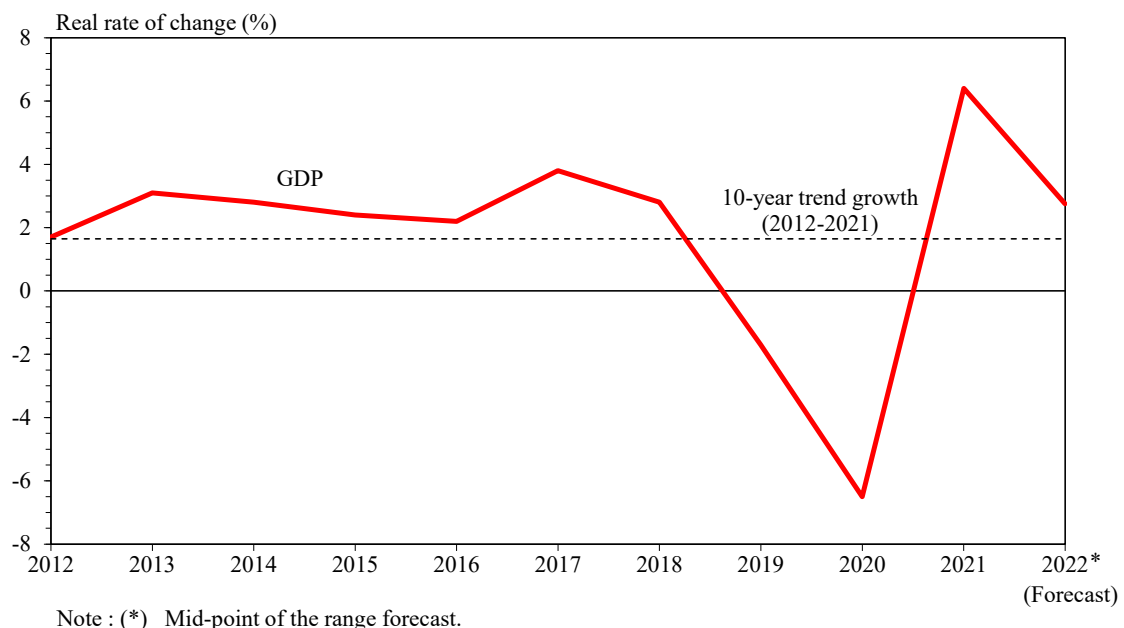
Diagram 2.10 : Overall hiring sentiment held largely stable before the latest wave of local epidemic



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

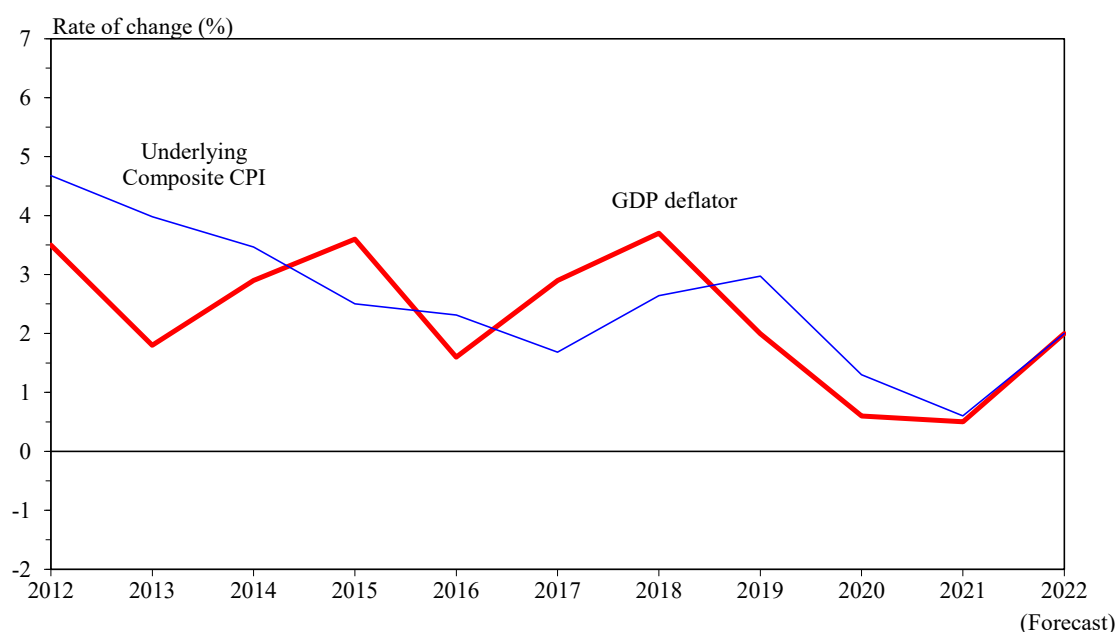
2.19 In sum, the Hong Kong economy is expected to expand further in 2022, but the pandemic remains a key source of uncertainty. Overall, taking into account the supporting effects from the Government's various measures, the Hong Kong economy is forecast to grow by 2% to 3.5% in 2022, following a 6.4% expansion in 2021. The forecast is predicated on the assumptions that the latest wave of local epidemic can be gradually put under control and people flows with the Mainland could be resumed in a gradual and orderly manner later this year, and that there is no abrupt deterioration of the external environment. The growth outturn could be worse than forecast if the threat of Omicron and other new variants pose a more severe drag on global growth, and the recent wave of local epidemic turns out to be more protracted, resulting in a much weaker economic sentiment and a setback to the resumption of cross-border travel. On the other hand, it would be near the upper end if more widespread vaccination across the globe helps reduce the threat of variants and allows a stronger global economic recovery, while cross-border travel resumes at a faster pace. The Government will stay vigilant to developments. For comparison, the latest forecasts by private sector analysts for Hong Kong's economic growth in 2022 range from 1.5% to 4.1%, averaging around 2.6%, and the IMF forecast 3.0% in January 2022.

Diagram 2.11 : The Hong Kong economy is forecast to grow by 2-3.5% in 2022



2.20 Underlying consumer price inflation in Hong Kong went up modestly over the course of 2021. Looking ahead, underlying consumer price inflation will likely pick up further in 2022, but should remain moderate for the year as a whole. External price pressures are likely to persist for some time, as the global economy is expected to recover further and bottlenecks in global supply chains will take time to resolve (See **Box 2.1**). Domestically, commercial rentals and labour costs should increase gradually alongside the further economic expansion, but should remain in check given that there is still some slack in the economy. Meanwhile, fresh letting residential rentals are already higher than a year earlier, though the impact of firmer fresh letting residential rentals in the past year on consumer prices will take time to surface. Overall, underlying consumer price inflation is forecast at 2% in 2022, up from 0.6% in 2021. For reference, the latest forecasts for consumer price inflation in 2022 by private sector analysts average 2.0%, and the IMF forecast 2% in January 2022. The GDP deflator is forecast to rise by 2% in 2022, on par with underlying consumer price inflation.

Diagram 2.12 : Underlying consumer price inflation is forecast to go up to 2% in 2022



Forecast rate of change in 2022 (%)

Gross Domestic Product (GDP)

<i>Real GDP</i>	2 to 3.5
<i>Nominal GDP</i>	4 to 5.5
<i>Per capita GDP in real terms</i>	1 to 2.5
<i>Per capita GDP at current market prices</i>	HK\$398,800 – 404,500 (US\$51,100 – 51,900)

Underlying Composite Consumer Price Index **2**

GDP Deflator **2**

Forecast on Hong Kong's real GDP growth in 2022 recently made by other selected parties

	(%)
Asian Development Bank (December 2021)	3.4
IMF (January 2022)	3.0
Average forecast by private sector analysts [#]	2.6

Note : (#) Real GDP growth forecasts by private sector analysts fall between 1.5% and 4.1%.

Medium-term outlook for the Hong Kong economy

2.21 Looking beyond the prevailing difficulties and uncertainties, the medium-term outlook for the Hong Kong economy is positive. The Eastward shift of the global economic gravity will continue and Asia will be a major engine of global economic growth, fuelled by the huge growth potential of emerging market economies, especially the Mainland. Hong Kong, located strategically at the doorstep of the Mainland's huge and vibrant economy, is well-positioned to reap the enormous development opportunities brought about by this mega trend.

2.22 Our country's economy will continue to forge ahead steadily and move towards high-quality development in the years to come, providing the strongest support for Hong Kong's prosperity and development. The National 14th Five-Year Plan provides a clear orientation on the direction of Hong Kong's development, and the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) has become a major regional strategy during the 14th Five-Year Plan period, representing the best entry point for Hong Kong to participate in the national development. Under the country's "dual circulation" development pattern, Hong Kong, leveraging the Central Government's support, our unique advantages under "One Country, Two Systems" and strong competitive edges in high value-added professional and business services, can develop synergies with Mainland cities in the GBA to yield mutual benefits and actively help the Mainland economy to move towards high-end and high value-added development. Meanwhile, Hong Kong can further expand the huge business opportunities in the Mainland and develop new economic bright spots.

2.23 As a small and open economy, Hong Kong must prepare itself to adapt to the evolving global economic landscape. Amid rising protectionism and trade barriers, the Government is keen to foster closer commercial, trade and investment relations with developing Asian economies. In this connection, Hong Kong is also seeking to join the Regional Comprehensive Economic Partnership as soon as possible.

2.24 Major advanced economies are expected to return to growth rates on par with their potential as the pandemic subsides. Their growth prospects will depend on their efforts to mitigate policy uncertainties, address structural issues and handle higher debt burdens after rolling out unprecedented relief packages in response to the COVID-19 pandemic. In the medium term, the growth of the US economy is expected to moderate towards its long-run potential, and its outlook will also depend on the pace of monetary policy normalisation and support from fiscal policy. The euro area economy is likely to revert back to its

modest underlying trend growth, as high government debts in some member economies will likely restrain its growth prospects. Meanwhile, EU-UK economic relations in the post-Brexit era warrant monitoring. For Japan, the economy is envisaged to attain modest growth in the medium term, as its growth potential would be capped by structural issues such as population ageing and elevated public debts (See **Box 2.2**).

2.25 The relationship between our country and some Western countries especially the US will remain a source of uncertainty over the medium term. While the US administration acknowledged the importance of maintaining a healthy bilateral relationship, it has imposed various restrictions on some Chinese companies over the past year or so. As the Mainland and the US are the two largest economies in the world as well as Hong Kong's major trading partners, evolving China-US relations will inevitably sway economic and financial market sentiment from time to time. Geopolitical tensions in various parts of the world as well as the impacts of climate change also warrant concern.

2.26 Locally, the implementation of the National Security Law and the improvement to our electoral system have restored social stability and business confidence, creating a favourable environment for economic recovery and ushering in greater opportunities for development. The revival of inbound tourism will likely support further catch-up growth, though the pace of recovery is fraught with uncertainties. Meanwhile, the planned vast infrastructure spending, if realised, should also provide additional impetus to economic growth in the coming years.

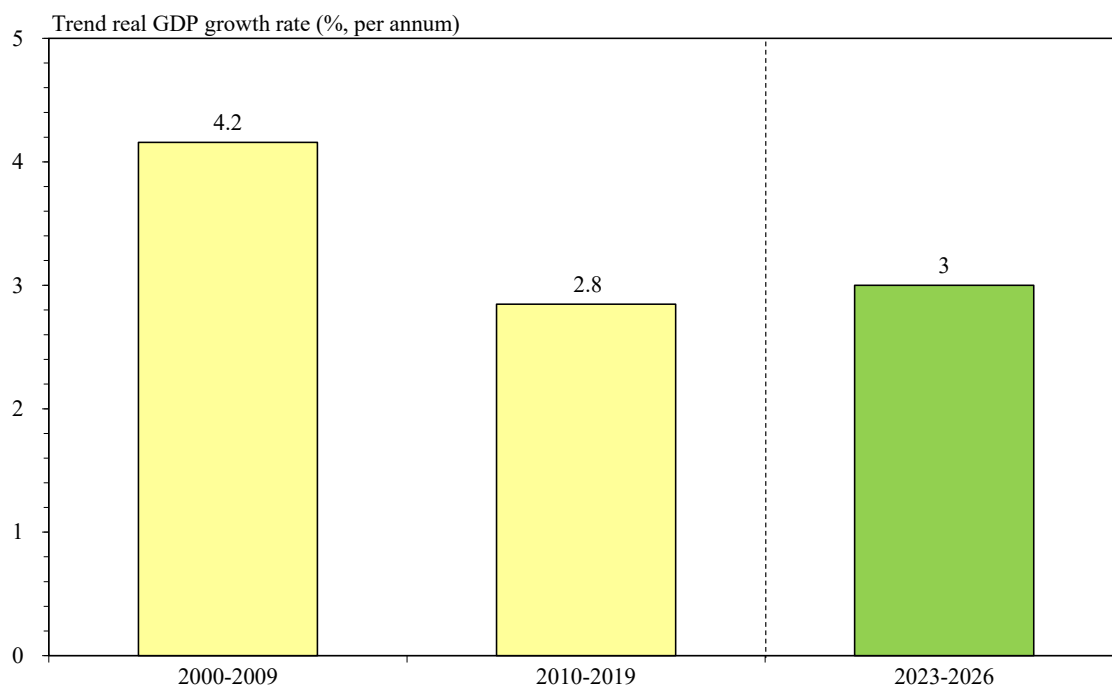
2.27 Over the medium term, the Government will strive to leverage our unique advantages under "One Country, Two Systems", support Hong Kong to integrate proactively into the national development and seize the opportunities from the development of GBA and the Belt and Road Initiative. Meanwhile, the Government is committed to resolving the major bottlenecks of land and manpower supply, promoting innovation and technology, and investing in quality education and training. The Government stresses the importance of playing the role of a "facilitator" and "promoter" to keep connecting with the world to open up markets and explore business opportunities for our enterprises.

2.28 Having considered these external and domestic factors, the Hong Kong economy is expected to grow by 3% per annum from 2023 to 2026. While this is slightly below the assumed trend growth of 3.3% per annum for 2022 to 2025 as put out a year earlier in the 2021-22 Budget, this is still above the trend growth of 2.8% during the decade before the COVID-19 pandemic. This reflects that besides the aforementioned positive factors, the economy

should show further catch-up growth considering the expected revival of inbound tourism.

2.29 The inflation outlook for Hong Kong in the medium term will hinge on both external and domestic developments. Externally, the waves of de-globalisation and protectionism will likely continue in the post-pandemic world, potentially adding to external price pressures. The sharp rebound in global commodity prices and the supply bottlenecks have pushed up inflation in our major import sources, and there is a possibility that medium-term inflation expectations in these economies could firm up. Locally, thanks to the productivity gains unleashed by the Government's persistent efforts in promoting innovation and technology, nurturing human capital, attracting talents from around the world and stepping up land and housing supply, local cost pressures should stay largely in check. However, international food and commodity prices as well as exchange rate movements could be volatile amid the complicated external and monetary environment. Taking these factors into account, the trend rate of underlying consumer price inflation in Hong Kong from 2023 to 2026 is forecast at 2.5% per annum.

Diagram 2.13 : Medium-term trend growth forecast at 3% per annum



Note : The Hong Kong economy plunged into the deepest recession on record amid the outbreak of the pandemic in 2020 and rebounded sharply in 2021, in stark contrast to the growth trend in the pre-pandemic years. Hence, the 10-year trend growth for the period 2010 – 2019, instead of 2011 – 2020 or 2012 – 2021, is used to better illustrate the underlying growth trajectory in recent years.

Box 2.2

Medium-term economic outlook of major economies

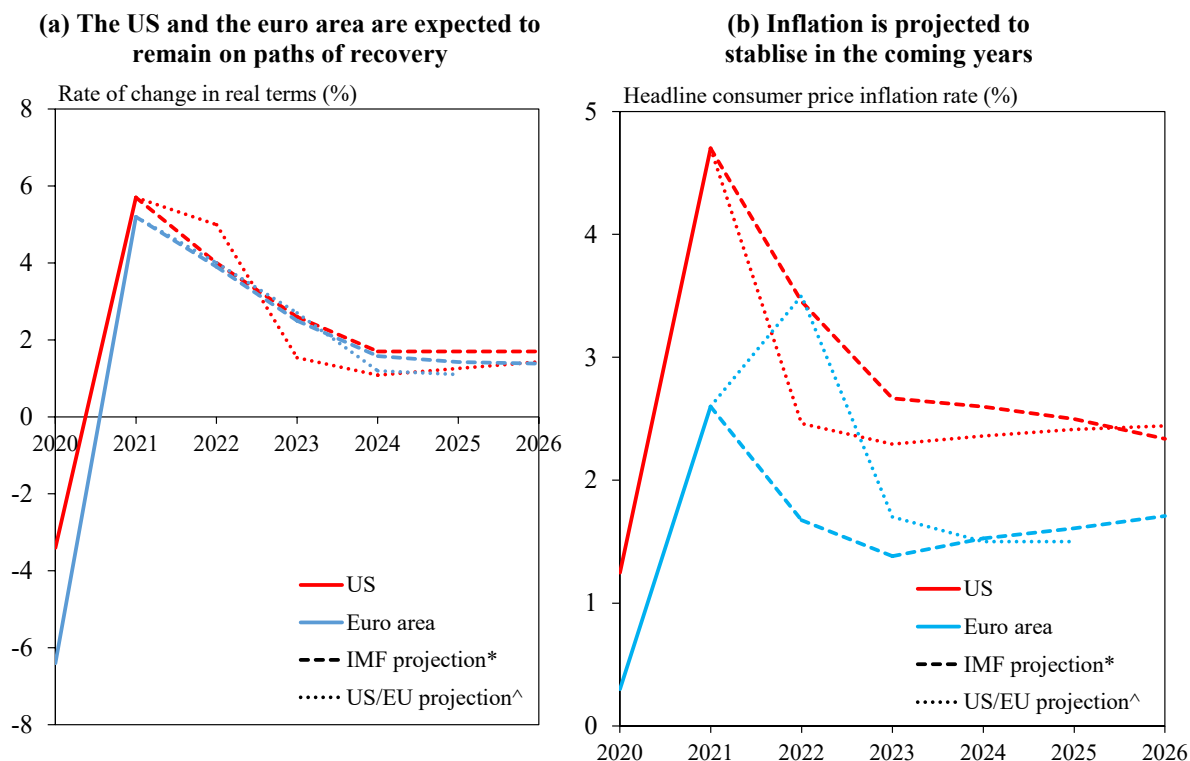
The global economy was dealt a severe blow by the COVID-19 pandemic, contracting by 3.1% in 2020 according to the International Monetary Fund (IMF), the worst recession since the Great Depression in the 1930s. Major economies deployed large-scale fiscal and monetary policy measures to alleviate the economic pains and financial market strains. In 2021, the threat of the pandemic receded alongside the availability of vaccines and governments became more experienced at handling the spread of the virus, enabling global economy to bounce back more notably, by 5.9%. Yet, with the emergence of more contagious variants in many places, particularly Omicron, the pandemic development remains fluid and continues to weigh on the pace of economic revival. Inflation has also been higher and more broad-based than expected. Meanwhile, the path of monetary policy tightening by major central banks, geopolitical tensions, and other longer-term headwinds such as population aging and elevated public debts, constitute other sources of uncertainty surrounding the outlook for major economies over the next few years.

The Mainland economy showed vibrant growth of 8.1% in 2021, despite some moderation in the second half of the year. With the ample room for policy manoeuvring, the Mainland economy is expected to attain further solid growth in 2022. In the medium term, the new development pattern of “dual circulation” with an emphasis on domestic circulation should render support to domestic demand and open up new room for investment across different sectors, particularly those related to innovation and technology. Structural reforms implemented by the Mainland authorities should help further enhance economic fundamentals and foster the transition towards high-quality development. The IMF forecast that the Mainland economy will grow by 4.8% in 2022 and 5.1% per annum in 2023-2026. This puts the Mainland on track to exceed the World Bank’s threshold for high-income economies in the coming years. The IMF expected consumer price inflation in the Mainland to average 1.8% in 2022 and 2.0% per annum in 2023-2026.

The US economy rebounded strongly in 2021. The labour market likewise saw significant improvement, which should render support to private consumption in the near term. Nonetheless, it remains to be seen whether pandemic-induced supply bottlenecks will persist, which may constrain the strength of economic revival. Fiscal and monetary policy support is also expected to diminish relative to last year amid elevated inflation and increasing resistance to new fiscal measures. The IMF forecast that the US economy will grow by 4.0% in 2022. Beyond 2022, economic growth of the US is likely to moderate further alongside the normalisation of monetary policy, though infrastructure plans could provide some boost to productivity. The IMF forecast that the US economy will grow at an average annual rate of 1.9% in 2023-2026, while the US Congressional Budget Office (CBO) projected 1.3% (*Chart 1*). Inflation, currently running hot, is expected to recede as supply catches up with demand. The IMF and CBO expected inflation to fall back to 2.3% and 2.4% respectively by 2026.

Box 2.2 (Cont'd)

Chart 1 : GDP and inflation projections for the US and the euro area



Sources: (*) IMF World Economic Outlook October 2021 and January 2022 update.

(^) Congressional Budget Office 10-Year Economic Projections, July 2021; European Commission Winter 2022 Economic Forecast; European Commission Debt Sustainability Monitor 2020.

The euro area economy also saw a visible recovery in 2021. While further growth is expected for 2022 amid support from still-accommodative monetary policy and the Next Generation EU recovery fund, the pace of recovery will hinge crucially on the development of the pandemic and how supply bottlenecks in raw materials and transportation evolve. For the medium term, Next Generation EU grants and loans should provide some boost to the outlook. Meanwhile, the European Central Bank considered that monetary accommodation would still be needed to attain its 2% inflation target over the medium term. Overall, economic growth in the euro area will likely gradually converge to its long-run potential in coming years. The IMF forecast that the euro area economy will grow by 3.9% in 2022 and 1.7% per annum in 2023-2026. The European Commission projected average annual growth of 3.3% in 2022-2023, falling to 1.1% by 2025. Both institutions expect inflation to recede in the short run, then pick up to closer to 2% toward the end of the projection period (*Chart 1*).

Box 2.2 (Cont'd)

In Asia, Japan's economic recovery was comparatively modest in 2021 as the epidemic relapsed, fiscal stimulus faded and exports were affected by supply chain disruptions. Japan's economy should show some catch-up growth in 2022, while the Bank of Japan noted in January that short-term inflation expectations had picked up and headline consumer price inflation was likely to increase moderately in the short run, reflecting the rise in energy prices. In the medium term, structural issues such as population ageing and elevated public debt continue to pose challenges, while inflation is expected to pick up further. The IMF forecast that Japan's economy will grow by 3.3% in 2022 and 0.9% per annum in 2023-2026. The IMF expected inflation in Japan to pick up to 0.5% in 2022 and average 0.9% in 2023-2026. In developing Asian economies, trading and production activities generally continued to recover, though some economies were more affected by the pandemic. Nevertheless, if the epidemic is put under control, domestic demand and regional trade flows should revive further and support solid growth over the medium term. The IMF forecast that ASEAN-5 economies⁽¹⁾ will grow by 5.6% in 2022 and also 5.6% per annum in 2023-2026, notably above the average of advanced economies, while consumer price inflation is expected to average 2.8% over the same period.

While major economies are expected to stay on their growth paths over the medium term, the shift in monetary policy stances of advanced economies in response to elevated inflation is likely to induce some ripple effects across the global economy. Higher interest rates will strain public finances, especially for economies that have borrowed heavily in foreign currencies. Some developing economies might be subject to higher financial uncertainty, especially if major central banks tighten their monetary policy stances more quickly than anticipated. Moreover, though some fiscal consolidation is expected in the coming few years, post-pandemic debt burdens will remain elevated. Notwithstanding these challenges, the Mainland and other Asian economies are expected to sustain relatively faster growth and remain important growth drivers for the global economy over the medium term.

(1) Indonesia, Malaysia, the Philippines, Thailand, and Vietnam.

CHAPTER 3 : THE EXTERNAL SECTOR

Summary

- *The global economy recovered notably in 2021 thanks to the roll-out of mass vaccinations and in some economies strong policy support. Many major economies, including the Mainland, the US and the euro area, saw visible rebound. Yet, the COVID-19 pandemic remained a threat, and the emergence of the Omicron variant towards the end of the year forced many governments to re-tighten anti-epidemic measures. This, together with bottlenecks in production and transportation as well as rising energy and commodity prices, constrained the growth pace of some major economies lately.*
- *Hong Kong's merchandise exports surged by 19.9% in real terms⁽¹⁾ in 2021. The strong performance was underpinned by the marked revival of import demand from major economies and vibrant regional trading and production activities. Exports to the Mainland, the US and the EU rose sharply, and those to other Asian markets also showed increases of varying degrees. Merchandise exports in 2021 surpassed the high recorded in 2018 by 13.1% in real terms.*
- *Exports of services grew mildly by 1.1% in real terms in 2021. Exports of transport services rebounded thanks to vibrant regional trading activities and cargo flows, though scant cross-border passenger flows constrained the extent of revival. Exports of business and other services as well as financial services expanded alongside the global economic recovery. However, as inbound tourism was still frozen throughout 2021, exports of travel services stayed at a very low level.*
- *The Government continued to strengthen Hong Kong's economic links with the Mainland, signing a Memorandum of Understanding (MOU) with the Ministry of Commerce on enhancing exchanges and co-operation in promoting high-quality development of overseas Economic and Trade Co-operation Zones (ETCZs). The Central Government's promulgation of the Qianhai Plan will also foster Hong Kong-Shenzhen co-operation and drive development in the Guangdong-Hong Kong-Macao Greater Bay Area. The Government also made further progress in enhancing trade and investment relations with other economies, and continued to expand its tax treaty network.*

Goods trade

Total exports of goods

3.1 Hong Kong's *merchandise exports* surged by 19.9% in real terms in 2021, after declining slightly by 0.8% in the preceding year. The robust performance was underpinned by the marked revival of import demand from major economies and vibrant trading and production activities in the region. Merchandise exports volume posted an exceptionally strong year-on-year growth of 32.0% in the first quarter, and sustained notable increases of 21.1%, 15.7% and 14.0% in the remaining three quarters despite a progressively higher base of comparison. Merchandise exports in 2021 surpassed the high recorded in 2018 by 13.1% in real terms.

3.2 The global economy staged a notable recovery in 2021 thanks to the roll-out of mass vaccinations around the world and strong fiscal and monetary support in many major economies. Yet, the global economic conditions were still affected by the evolving COVID-19 pandemic. The emergence of the more infectious Omicron variant in the latter part of the year forced some governments to re-impose targeted lockdowns and tighten other anti-epidemic measures. Supply chain bottlenecks and transportation disruptions turned more evident in various places during the year. These developments, together with elevated energy and commodity prices, constrained the growth of some economies.

3.3 Among the major economies, the Mainland economy saw accelerated growth of 8.1% in 2021 on the back of robust exports and notable revival of production activity, surpassing the official growth target of 6% as announced in March 2021. The US economy rebounded visibly by 5.7% thanks to the strength of private consumption. The economy of the euro area likewise bounced back by 5.2%, though elevated energy prices, supply chain bottlenecks and the rapid spread of the Omicron variant restrained recovery momentum towards the end of the year. Other Asian economies generally showed visible growth amid vibrant regional trading and production activities, though the resurgence of the pandemic hindered the revival of activity in some economies. The International Monetary Fund estimated that the global economy rebounded by 5.9% in 2021, having shrunk by 3.1% in the previous year.

3.4 Major central banks generally maintained accommodative monetary policies for most of 2021, but their policy stances diverged somewhat towards the end of the year amid rising inflation pressure. While the US Federal Reserve (Fed) kept the target range for the federal funds rate unchanged at 0-0.25%, it has

started to taper asset purchases since November 2021. The Fed is expected to raise interest rates after the asset purchase programme ends in March 2022. The European Central Bank maintained its policy rates at record lows and announced to gradually reduce its net asset purchases in 2022, while the Bank of England raised its policy rate to 0.25% in December 2021 and further to 0.5% in February 2022. In Asia, the People's Bank of China cut the reserve requirement ratios of financial institutions twice in the second half of 2021, releasing over RMB 2 trillion worth of liquidity to support the economy, and lowered various policy rates in January 2022. The Bank of Japan kept its policy rates at record lows, but central banks of Korea and Singapore started to tighten their monetary policies in the second half of the year. A number of central banks in the emerging markets, notably Brazil and Russia, raised their policy rates during the year to contain inflation. On the fiscal front, the US rolled out a package of economic stimuli worth around US\$1.9 trillion in March 2021. This was followed by the passage of a US\$1 trillion infrastructure plan in November (see *Box 3.1*). Meanwhile, the European Commission began to disburse payments under "Next Generation EU" to member states in June 2021 to finance crisis responses and support economic recovery.

3.5 While China-US economic relations remained tense in 2021, high-level dialogues continued as both sides sought to address various issues of bilateral relationship and trade arrangements. Separately, Hong Kong filed its first and second submissions in May and November respectively to the panel established by the World Trade Organization (WTO) Dispute Settlement Body to consider the dispute in respect to the US' revised requirement on origin marking for Hong Kong products. On Brexit, the EU-UK Trade and Cooperation Agreement became fully effective in May. Upon the UK's request, the European Commission later proposed bespoke arrangements to address Brexit-related problems regarding the movement of goods from Great Britain to Northern Ireland, though the discussion on outstanding issues did not have much progress.

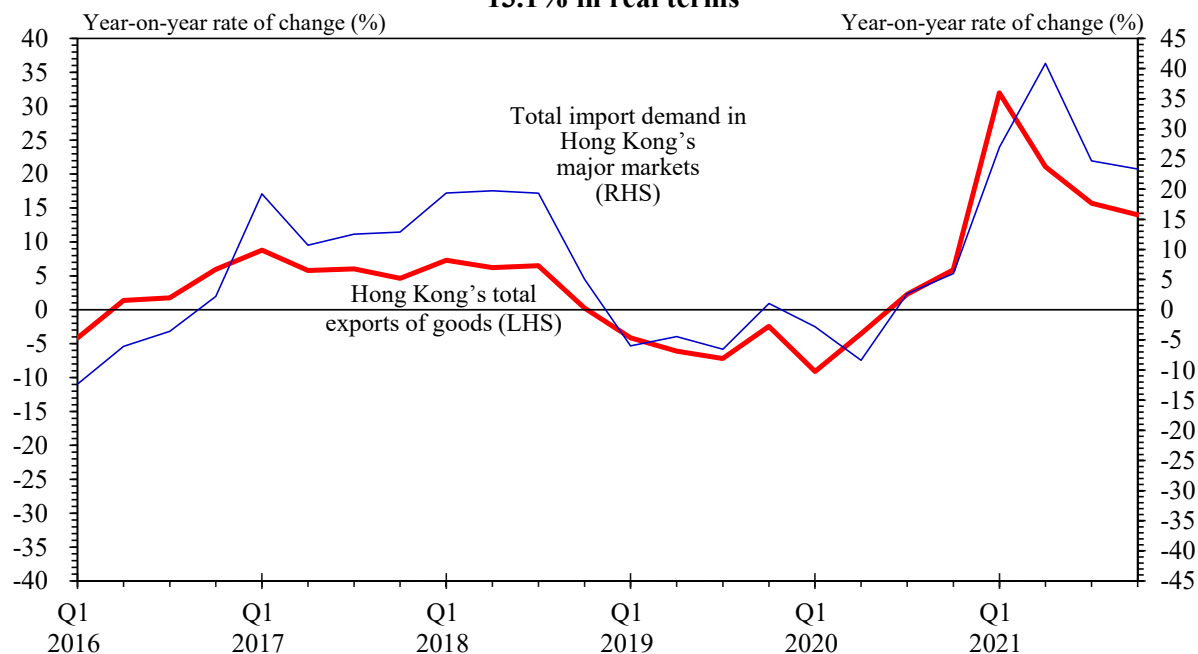
**Table 3.1 : Total exports of goods
(year-on-year rate of change (%))**

		<u>In value terms</u>	<u>In real terms</u> ^(a)		<u>Change in prices</u>
2020	Annual	-1.5	-0.8		-0.6
	Q1	-9.7	-9.1	(-8.3)	-0.7
	Q2	-4.3	-3.5	(5.2)	-1.0
	Q3	1.3	2.3	(5.2)	-0.7
	Q4	5.3	5.9	(4.6)	-0.1
2021	Annual	26.3	19.9		5.4
	Q1	33.2	32.0	(14.3)	1.0
	Q2	27.2	21.1	(-4.2)	5.0
	Q3	22.7	15.7	(1.0)	6.1
	Q4	23.8	14.0	(1.9)	9.0

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

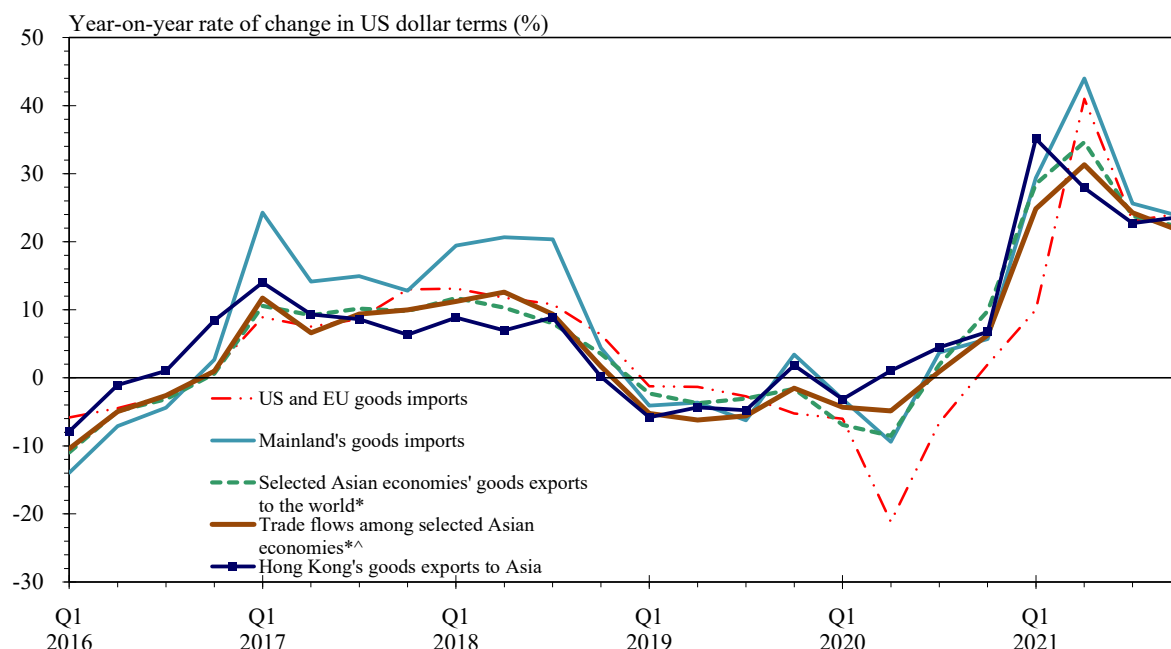
- (a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

Diagram 3.1 : Merchandise exports in 2021 surpassed the high recorded in 2018 by 13.1% in real terms



Note : 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 Asia, the United States and the European Union taken together.

Diagram 3.2 : Regional trade flows stayed vibrant through 2021 alongside the marked revival of import demand from the major economies



Notes : (*) "Selected Asian economies" include the Mainland of China, Hong Kong, Singapore, Korea, Taiwan, Japan, Indonesia, Malaysia, Thailand and the Philippines.
(^) The trade flows were measured by the sum of the individual economies' exports of goods to the other nine economies within the "selected Asian economies".

Diagram 3.3 : Exports to the Mainland soared in 2021, and those to other Asian markets saw increases of various degrees

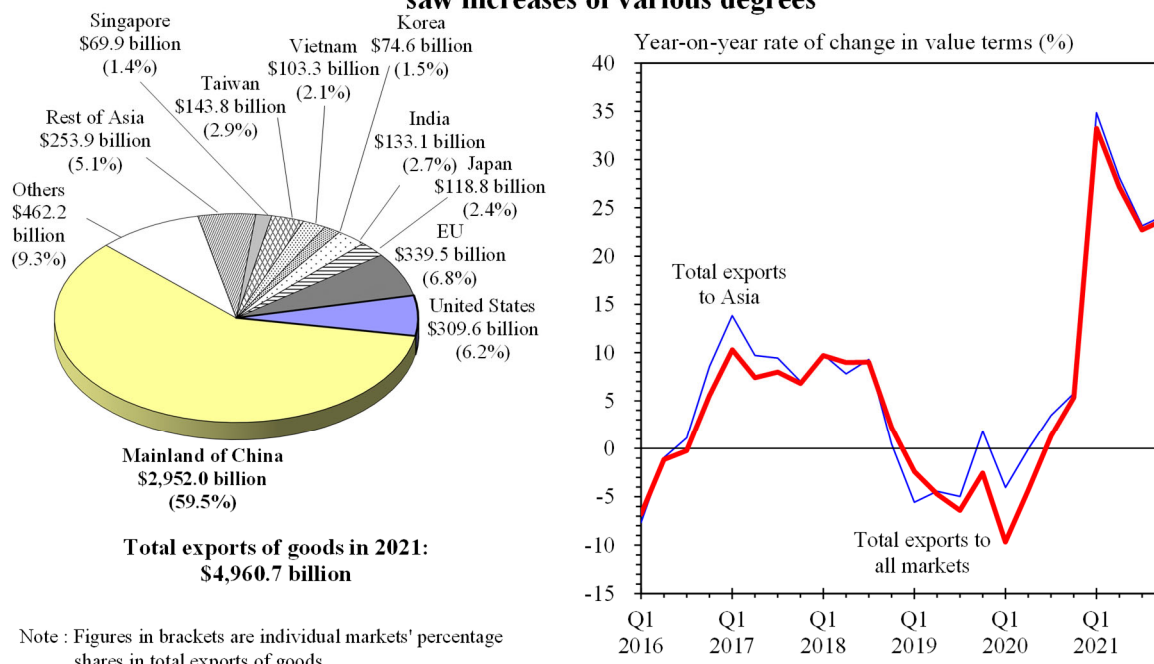


Table 3.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))

	Annual	2020				Annual	2021			
		Q1	Q2	Q3	Q4		Q1	Q2	Q3	Q4
Mainland of China	5.1	-2.2	5.8	7.2	8.3	17.7	37.5	18.8	11.4	8.5
United States	-12.5	-25.9	-17.5	-8.7	1.2	20.5	21.4	17.4	19.8	23.2
European Union [#]	-7.3	-24.4	-9.0	-4.1	9.0	19.9	26.0	10.2	22.5	21.4
India	-15.5	-0.1	-43.3	-6.7	-11.9	32.6	21.3	48.9	20.9	47.1
Japan	-7.2	-15.7	-1.6	-13.6	2.4	7.2	7.9	-1.2	16.9	6.2
Taiwan	11.3	0.7	20.2	5.5	18.8	35.0	44.6	28.3	36.8	32.3
Vietnam	9.8	5.4	-1.2	13.5	20.3	19.7	32.9	22.8	3.5	23.1
Singapore	-16.6	-14.8	-23.1	-11.5	-16.4	17.4	-2.2	14.3	34.4	23.2
Korea	-5.9	-8.9	-10.8	-7.5	4.0	41.0	33.9	28.6	56.9	44.3
Overall [*]	-0.8	-9.1	-3.5	2.3	5.9	19.9	32.0	21.1	15.7	14.0

Notes : (*) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

([#]) Exports to the EU exclude those to the UK, as the UK formally withdrew from the EU on 31 January 2020. Taking the UK and the EU together, exports increased by 25.0% in real terms for 2021 as a whole.

Box 3.1

Recent fiscal and monetary policy developments in the US

After taking office in early 2021, the Biden administration proactively introduced a number of fiscal initiatives to provide further relief for those hard-hit by the COVID-19 pandemic, as well as to enhance infrastructure, healthcare system and environmental protection. While the proactive fiscal policy should help fuel economic recovery and enhance long term productivity, there are concerns that they may add to the risk of enlarging the government deficit and debt. On monetary policy, having updated its strategy in August 2020 to provide more room to pursue expansionary policy, the Federal Reserve (Fed) continued to keep interest rates low and maintain asset purchases in 2021, partly contributing to the robust economic performance in the year. However, recent concerns over inflation have led the Fed to alter its super-loose policy stance. This box article provides a brief update on developments of fiscal and monetary policies in the US over the past year, and examines their potential implications.

Fiscal policy

The Biden administration unveiled the US\$1.9 trillion (nearly 9% of GDP) American Rescue Plan in January 2021, which was then passed by Congress and signed into law in March. The Plan featured around US\$1 trillion in relief for individuals, including US\$1,400 per-person stimulus cheques for eligible persons, extended unemployment benefits and enhanced tax credits. The direct relief underpinned strong personal consumption expenditure in the first half of 2021, which grew by 9.5% in real terms on a seasonally adjusted annualised basis. The Plan also included US\$350 billion in emergency funding for state and local governments and US\$160 billion in direct expenditures to contain the spread of COVID-19 by distributing vaccines and extending COVID testing. According to the Congressional Budget Office (CBO), most of the outlays would be incurred in the first two years (around 60% in 2021 and 30% in 2022).

Following the passage of the American Rescue Plan Act, the Biden administration introduced the American Jobs Plan, an initially US\$2 trillion proposal for investment in infrastructure, R&D, manufacturing and workforce development over a number of years. After months of negotiations, the plan was scaled down to about US\$1 trillion amid concerns over the cost, and was passed by Congress and signed into law in November 2021 as the Infrastructure Investment and Jobs Act. The final bill included about US\$550 billion (about 3% of US GDP) of new federal funding to enhance infrastructure in the US, such as roads, bridges, water, energy transmission and high-speed broadband, while the remainder would be allocated to pre-existing infrastructure programmes such as the highway trust fund. In contrast to the American Rescue Plan, anticipated outlays under the Infrastructure Investment and Jobs Act are spaced out over a longer time frame. The CBO estimated that a cumulative 90% of outlays would take place by 2029.

Parallel to the infrastructure bill, President Biden proposed the US\$1.75 trillion Build Back Better Act in October 2021. The proposal focuses on social and climate spending on various items over ten years, including US\$555 billion on clean energy and climate investments, US\$400 billion on child care and preschool, and US\$165 billion on health care. The spending would be partially offset by additional revenue from increases in taxes on corporations and high-income earners. The legislation was passed by the House in November 2021 and sent to the Senate for consideration. As of mid-February 2022, the bill was still under debate and hence details of the final package were not yet clear.

Box 3.1 (Cont'd)

Looking ahead, the fiscal initiatives under the American Rescue Plan have largely expired, and the appetite for additional measures amid rising inflation appears weak, especially in the Senate. Hence, direct fiscal support is likely to abate in 2022. However, the OECD pointed out in December 2021 that earlier stimulus cheques, supplementary unemployment benefit payments and expanded benefit coverage have resulted in significant accumulated savings that will continue to support the recovery.

Monetary policy

In response to the pandemic, the Fed has adopted a highly accommodative monetary policy stance since 2020. In March 2020, the Fed slashed the target range for the federal funds rate to 0.00% to 0.25% and embarked on programme of quantitative easing. In August 2020, the Fed adopted a new monetary policy strategy, expressly noting that following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. In December 2020, the Fed said that it would maintain its purchases of Treasury securities and agency mortgage-backed securities at no less than US\$120 billion per month.

Supported by the strong fiscal stimulus as well as accommodative monetary policy, the US economy staged a notable rebound in 2021. However, disruptions to supply chains caused by the pandemic became increasingly apparent. This coupled with the surge in demand for goods has led to rising concerns over inflation. The concerns intensified when both core consumer price index (CPI) inflation (excluding food and energy) and core personal consumption expenditure (PCE) inflation exceeded 3% starting from the second quarter of 2021 (**Chart 1a**). Meanwhile, the labour market showed continuous improvement, with the unemployment rate easing from 6.4% at the start of 2021 to 4.6% in October (**Chart 1b**). These developments led the Fed to start to reduce the pace of its asset purchases in November 2021.

Chart 1a : Inflation rate shot up

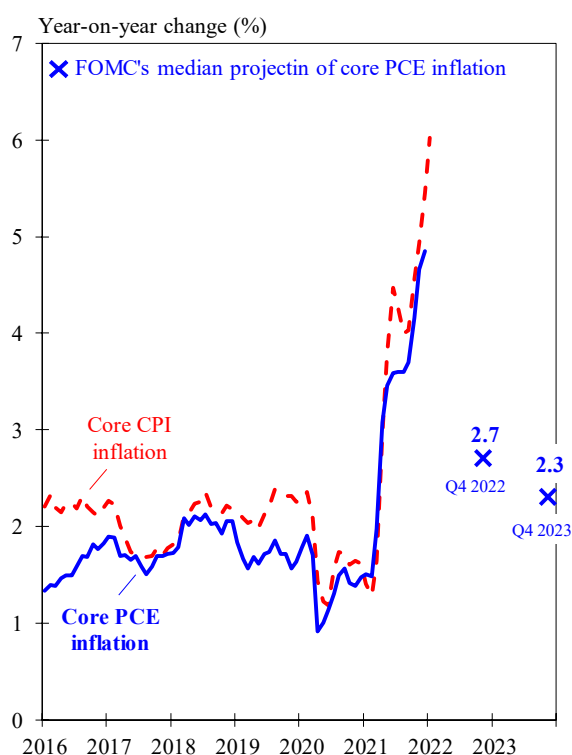
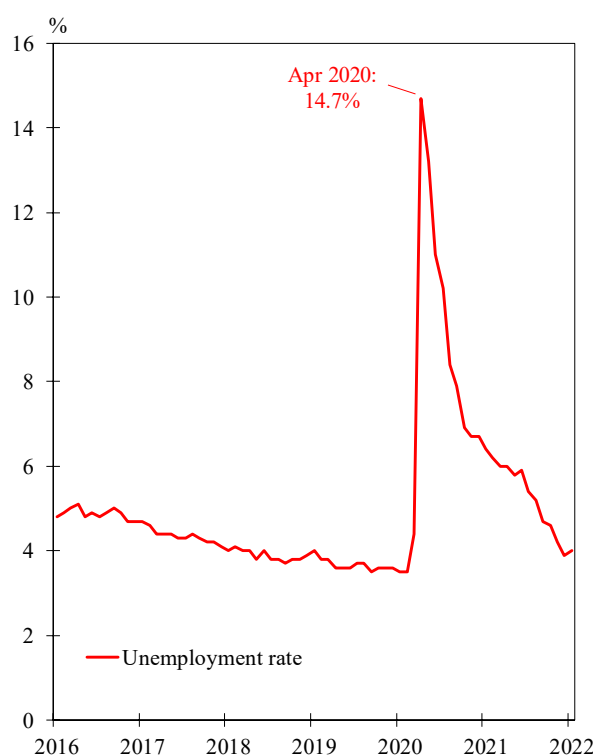


Chart 1b : Unemployment rate declined noticeably



Source: US Bureau of Labour Statistics, Bureau of Economic Analysis and Federal Reserve.

Box 3.1 (Cont'd)

By November 2021, the unemployment rate fell further to 4.2%, while core PCE inflation hit 4.7%, the highest since 1989. At its meeting in December, the Federal Open Market Committee (FOMC) noted that inflation was more persistent and widespread than previously anticipated, and revised its forecast of core PCE inflation for Q4 2022 and Q4 2023 to 2.7% and 2.3%, up from 2.3% and 2.2% as projected in September⁽¹⁾. Against this backdrop, the Fed decided to reduce its asset purchases at a faster pace, with a view to bringing them to a close by March 2022. At its meeting in January, the Fed noted that it will soon be appropriate to raise the target range for the federal funds rate. On the other hand, while the Fed has not made decisions regarding the specific timing, pace, or other details on how it will shrink its balance sheet, it stated that this will occur after the process of raising interest rates has begun. As of mid-February, markets expect US interest rates to rise by at least 150 basis points over the course of 2022.

Potential implications

While an acceleration of the Fed's tapering and forthcoming interest rate increases may help contain inflation, it may also hurt economic sentiment and thus economic growth. It may also magnify the prevailing uncertainties brought by the evolving COVID-19 pandemic, as tensions could arise between keeping prices under control and providing support to the economy. In January 2022, Fed Chair Jerome Powell warned that, as entrenched inflation could jeopardise the economic expansion, the Fed would have to act to ensure that inflation did not become an even more serious problem. On the other hand, monetary policy tightening by the Fed may also cause volatility in financial markets. Emerging market economies with weak fundamentals may face higher risks of currency depreciation and capital outflows. In the longer term, higher interest rates will increase debt service burdens, creating the need for fiscal consolidation.

On fiscal policy, though accumulated savings from past initiatives are still likely to provide some support in the near term, the effect will dissipate gradually over time. In the longer term, infrastructure investment and certain kinds of social spending may bode well for the US' potential output. For example, enhanced infrastructure may help boost productivity, while improved child care services, if enacted, may help boost labour force participation. However, it will take time for supply-side effects to materialise. Moreover, increases in fiscal spending will also put upward pressure on the government deficit and debt in the longer term. According to the latest CBO projection, federal budget deficit will rise from US\$980 billion (4.6% of GDP) in 2019 (before the pandemic), to about US\$1.86 trillion (5.5% of GDP) in 2031, while the federal debt held by the public will rise from 79% of GDP in 2019 to 106% of GDP in 2031, surpassing its historical high in 1946. This projection has not yet taken into account the effects of the Infrastructure Investment and Jobs Act and Build Back Better Act. Should government debt continue to rise, it may cause further volatility in financial markets. It would also complicate efforts to fight inflation, as monetary tightening would increase the government's debt servicing costs.

In 2022, the US administration and the Fed will have to thread the needle between continuing to fight the pandemic and keeping inflation under control. After that, fiscal consolidation in an era of higher interest rates will pose a continuing challenge. As the performance of the US economy and its policy responses carry significant implications for the global and local economy, the Government will closely monitor the developments.

(1) In February 2022, the private sector forecast that core PCE inflation will be 3.9% and 2.3% in 2022 and 2023 respectively.

3.6 Analysed by major market, exports to the US and the EU rebounded sharply in 2021, mainly supported by the strong revival of import demand for consumer goods and capital goods from these two markets alongside their economic recovery and the shift of demand towards consumption of goods from services. Exports to these markets posted double-digit growth in all the four quarters despite the gradual waning of low-base effect. Re-exports of Mainland origin to the US and the EU, including those affected by US additional tariffs⁽²⁾, rose significantly in tandem.

3.7 Exports to Asian markets showed a stellar performance in 2021. Exports to the Mainland soared thanks to its vibrant production activities and revived domestic demand. Exports to other major markets in Asia showed increases of varying degrees, with those to India, Korea and Taiwan recording the strongest gains.

Diagram 3.4 : Exports to the Mainland soared

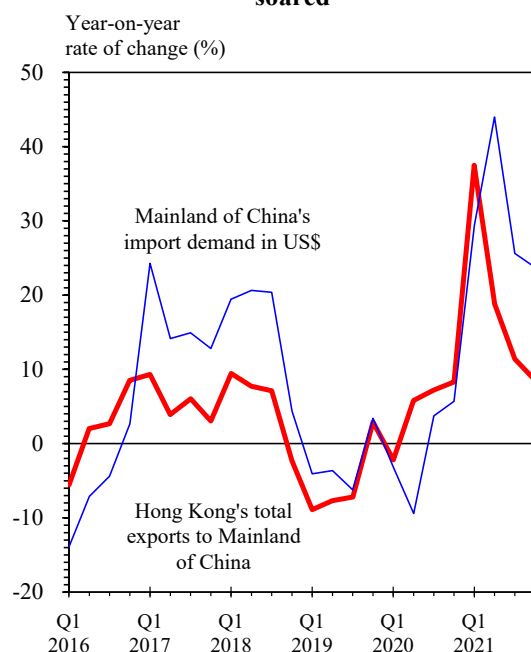


Diagram 3.5 : Exports to the EU rebounded sharply

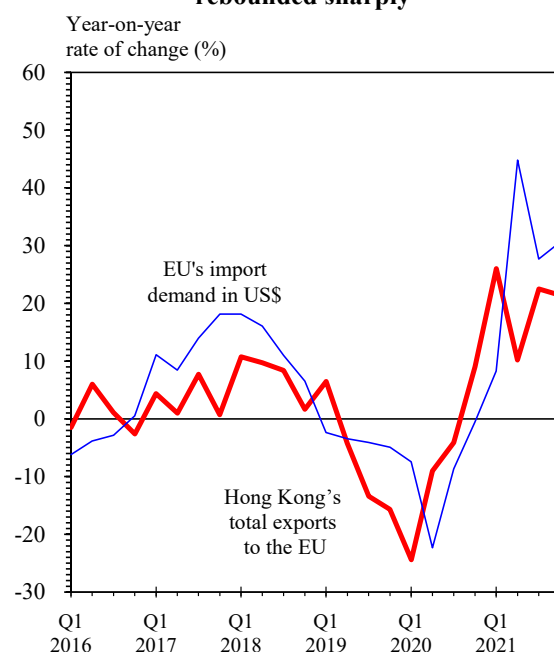


Diagram 3.6 : Exports to the US displayed strength through the year

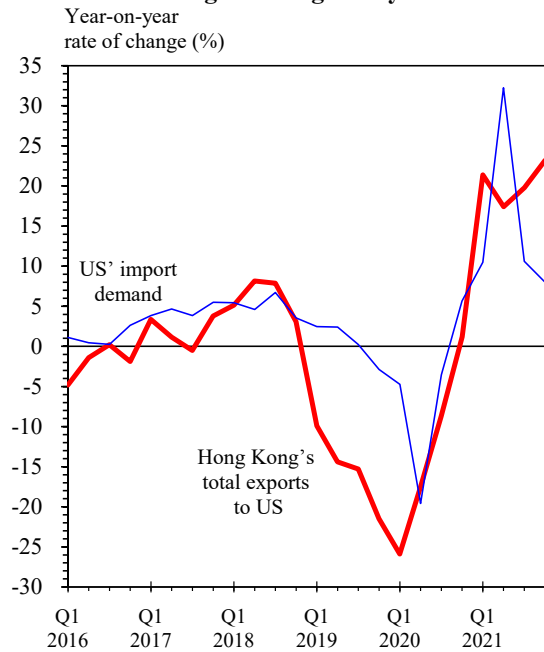


Diagram 3.7 : Exports to Japan improved

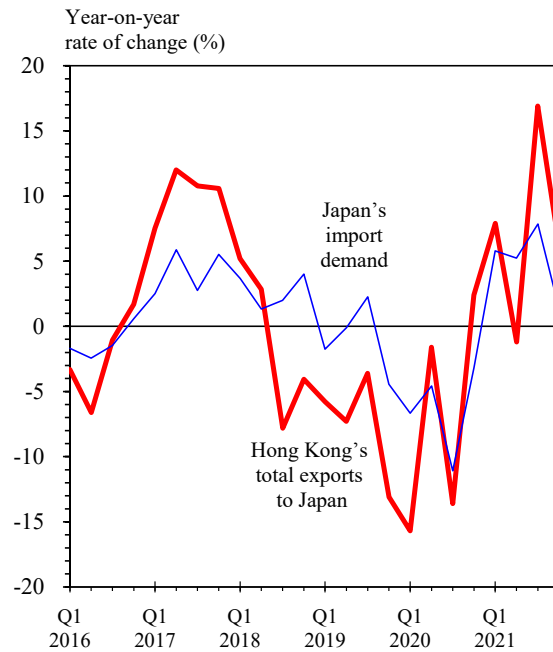


Diagram 3.8 : Exports to India staged a strong rebound

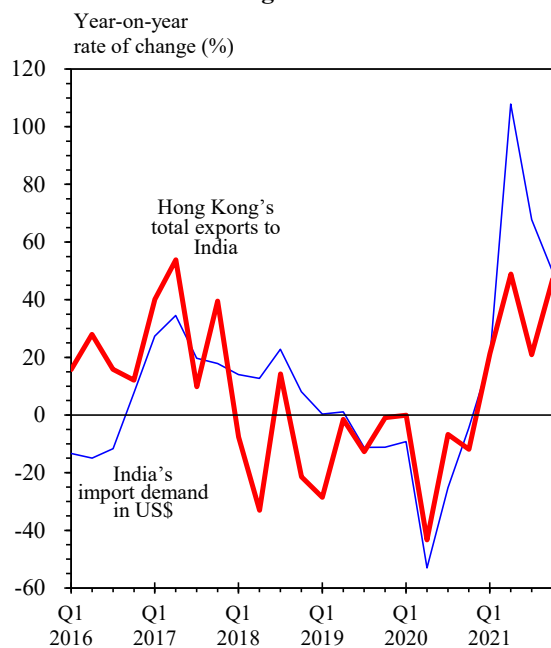


Diagram 3.9 : Exports to Taiwan grew markedly

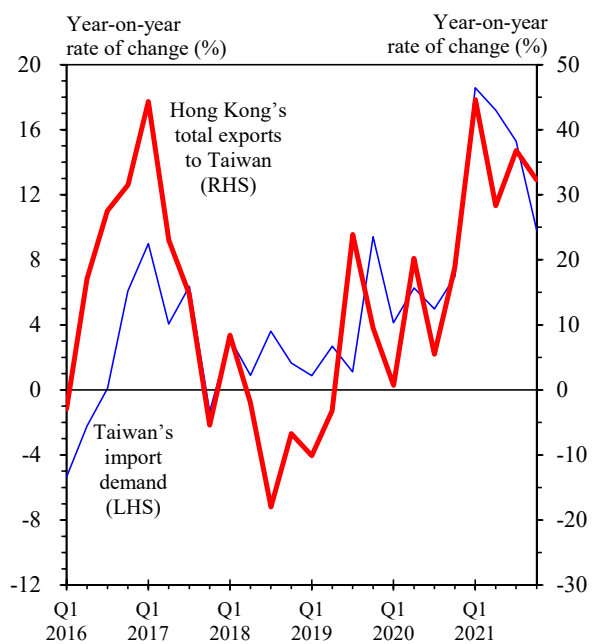


Diagram 3.10 : Exports to Korea increased sharply

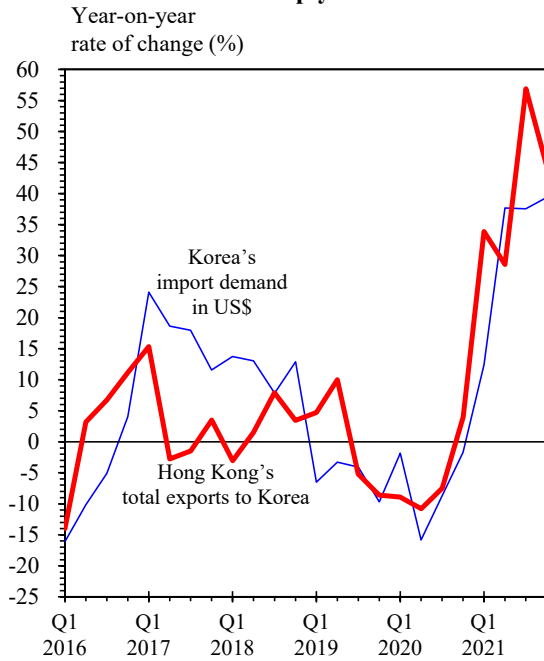
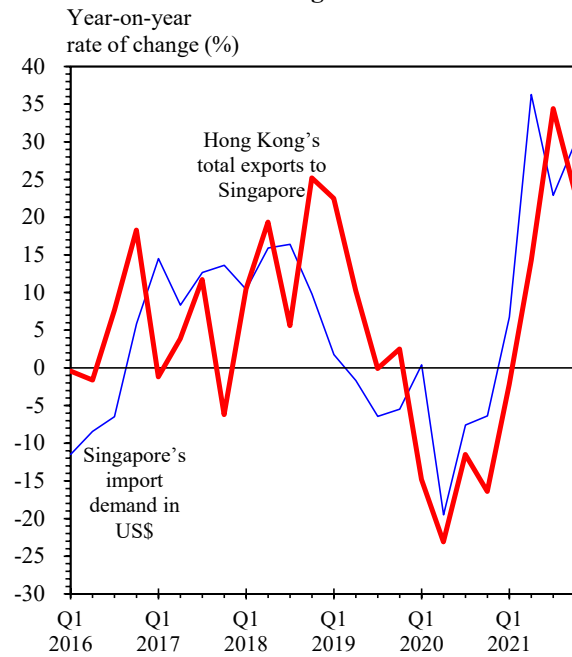


Diagram 3.11 : Exports to Singapore recorded notable growth



Imports of goods

3.8 *Imports of goods* increased visibly by 18.1% in real terms in 2021, after a decline of 2.6% in 2020. *Retained imports*, which refer to the imports for domestic use and accounted for around one-fifth of total imports in 2020, rose by 12.6% in 2021 following a decline of 8.8% in 2020, as domestic demand revived alongside the improving economic and labour market conditions. Imports for subsequent *re-exports*⁽³⁾ also rebounded notably in 2021 in tandem with robust export performance.

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

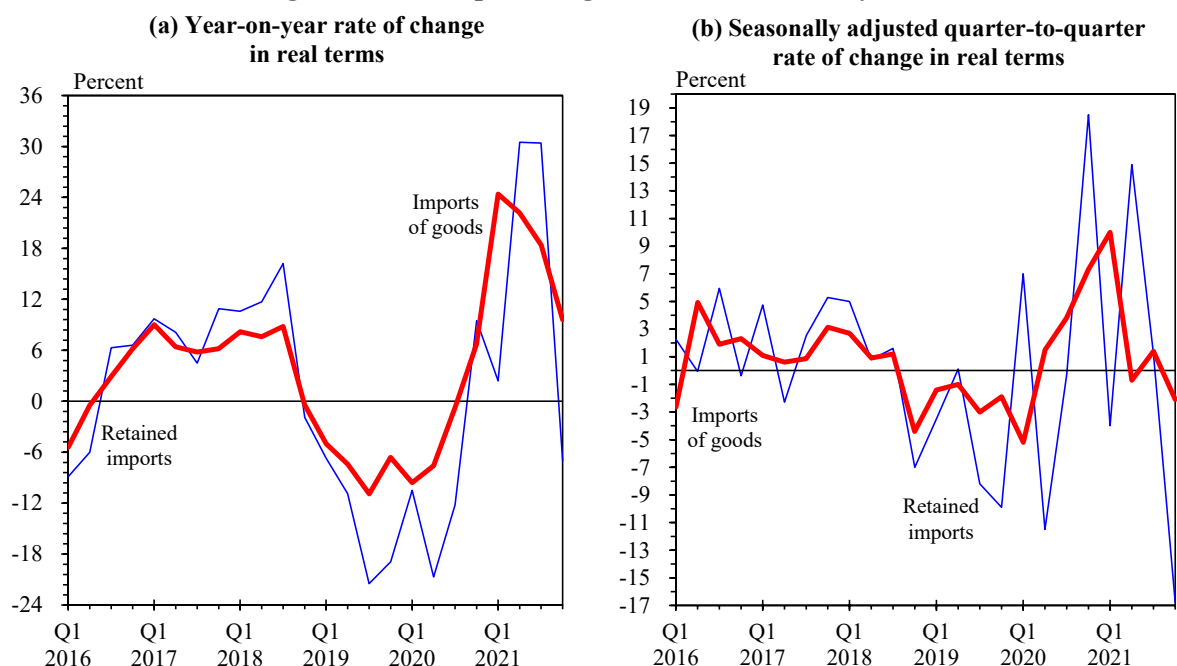
		<u>Imports of goods</u>				<u>Retained imports^(a)</u>			
		<u>In value terms</u>	<u>In real terms⁽⁺⁾</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>
2020	Annual	-3.3	-2.6	-0.7	-10.8	-8.8			-2.4
	Q1	-10.0	-9.6	(-5.2)	-0.4	-12.2	-10.5	(7.0)	-1.3
	Q2	-8.8	-7.6	(1.5)	-1.0	-24.5	-20.7	(-11.5)	-3.6
	Q3	-1.9	-0.7	(3.8)	-1.2	-15.2	-12.2	(-0.3)	-4.2
	Q4	6.6	6.7	(7.3)	-0.1	10.2	9.5	(18.5)	-1.1
2021	Annual	24.3	18.1	5.5	18.2	12.6			5.6
	Q1	25.6	24.4	(10.0)	1.1	3.1	2.4	(-4.0)	1.2
	Q2	27.9	22.2	(-0.7)	4.7	35.4	30.5	(14.9)	3.8
	Q3	25.8	18.4	(1.4)	6.5	40.1	30.4	(1.2)	8.3
	Q4	19.0	9.6	(-2.1)	9.0	1.0	-7.0	(-16.8)	8.9

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.

(+) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1. Figures in Table 1.1 are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

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

Diagram 3.12 : Imports of goods increased visibly in 2021



Services trade

Exports of services

3.9 *Exports of services* grew mildly by 1.1% in real terms in 2021, after plummeting by a record 34.8% in 2020. Exports of transport services rebounded thanks to vibrant regional trading activities and cargo flows, though scant cross-border passenger flows constrained the extent of revival. Exports of business and other services grew moderately alongside the global economic recovery. Exports of financial services increased further, supported by active cross-border financial and fund-raising activities. However, as inbound tourism was still frozen throughout 2021, exports of travel services remained at a very low level and plunged further by 44.1% for the year as a whole.

Diagram 3.13 : The contribution from travel services to total exports of services was minimal in 2021 as inbound tourism remained at a standstill

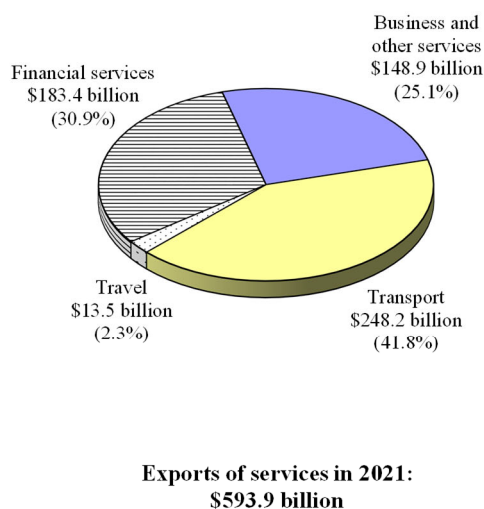


Diagram 3.14 : Exports of services grew mildly in 2021

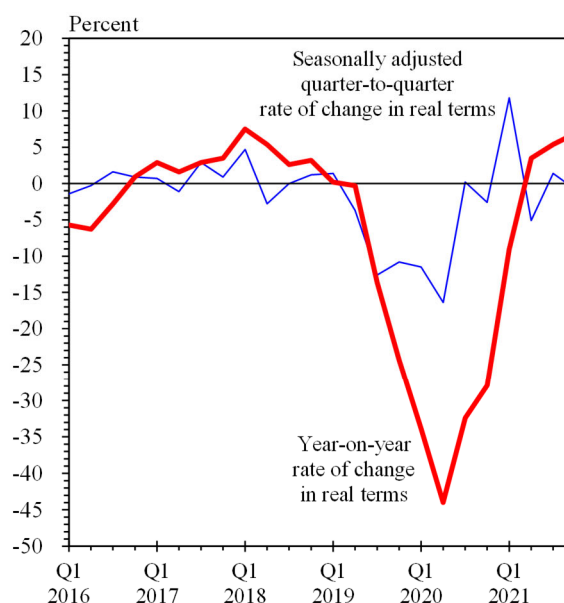


Table 3.4 : Exports of services by major service group (year-on-year rate of change in real terms (%))

		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Transport</u>	<u>Travel</u> ^(a)	<u>Financial services</u>	<u>Business and other services</u>
2020	Annual	-34.8	-25.3	-90.2	2.2	-9.6
	Q1	-33.9 (-11.5)	-22.1	-80.1	1.9	-10.5
	Q2	-44.0 (-16.4)	-32.2	-96.9	2.0	-11.0
	Q3	-32.4 (0.2)	-24.0	-97.0	2.8	-9.5
	Q4	-27.9 (-2.6)	-22.2	-90.7	2.3	-7.5
2021	Annual	1.1	4.4	-44.1	2.5	2.2
	Q1	-9.1 (11.8)	-7.7	-77.4	2.8	0.1
	Q2	3.5 (-5.1)	5.3	16.1	3.0	0.9
	Q3	5.4 (1.4)	9.3	30.0	3.6	1.2
	Q4	6.9 (-0.8)	11.4	36.3	0.3	6.2

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

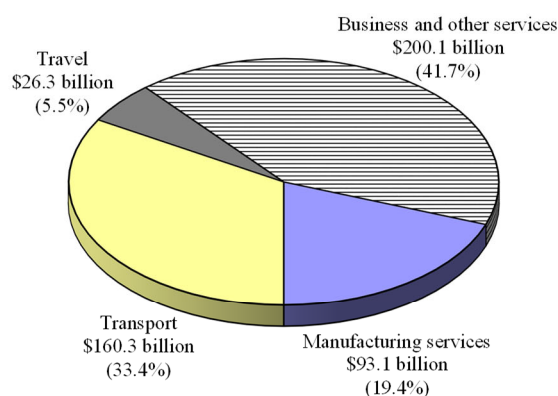
(a) Comprising mainly inbound tourism receipts.

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

Imports of services

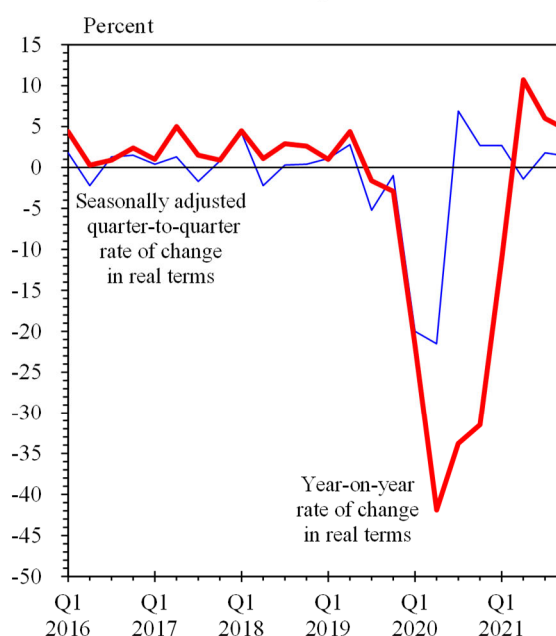
3.10 *Imports of services* increased moderately by 1.7% in real terms in 2021, following a plunge of 32.2% in 2020. Imports of travel services dived further by 42.0% in 2021 as outbound tourism remained heavily constrained by the pandemic and various travel restrictions. Imports of transport services bounced back thanks to buoyant trading activities and cargo flows in the region. Imports of manufacturing services also picked up in the year, reflecting the improvement in outward processing activities. Imports of business and other services increased moderately amid the revival of the global economy.

Diagram 3.15 : The share of travel services to overall imports of services remained meagre as outbound tourism remained heavily constrained



**Imports of services in 2021:
\$479.8 billion**

Diagram 3.16 : Imports of services increased moderately in 2021



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

Of which :

		<u>Imports of services</u>	<u>Travel</u> ⁽⁺⁾	<u>Transport</u>	<u>Manufacturing services</u> ^(^)	<u>Business and other services</u>
2020	Annual	-32.2	-79.6	-22.0	-8.5	1.3
	Q1	-21.6 (-20.0)	-48.0	-20.1	-18.1	1.5
	Q2	-41.9 (-21.5)	-92.5	-32.1	-13.8	-0.1
	Q3	-33.8 (6.9)	-87.4	-20.6	-9.3	2.7
	Q4	-31.5 (2.7)	-88.2	-14.4	5.7	1.0
2021	Annual	1.7	-42.0	11.4	9.2	2.7
	Q1	-11.3 (2.7)	-78.0	9.3	10.8	3.8
	Q2	10.7 (-1.4)	42.8	18.0	9.5	4.0
	Q3	6.0 (1.8)	2.4	11.4	9.4	1.5
	Q4	4.6 (1.4)	4.2	7.8	7.6	1.4

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(+) Comprising mainly outbound travel spending.

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

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

Goods and services balance

3.11 Based on the GDP accounting framework, the goods balance turned to a surplus of \$22 billion in 2021 on the back of a larger increase in exports of goods than imports of goods. Over the same period, the services surplus widened to \$114 billion, as surplus from trade in transport services increased visibly. The combined goods and services account registered a surplus of \$136 billion in 2021, equivalent to 2.4% of total import value, compared to the surplus of \$51 billion or 1.1% in 2020.

**Table 3.6 : Goods and services 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>	
2020	Annual	4,198	519	4,240	426	-41	93	51	1.1
	Q1	882	153	931	119	-49	33	-15	-1.5
	Q2	980	110	999	88	-19	22	3	0.3
	Q3	1,137	128	1,105	104	32	24	56	4.6
	Q4	1,199	129	1,205	115	-6	13	8	0.6
2021	Annual	5,242	594	5,220	480	22	114	136	2.4
	Q1	1,169	149	1,162	112	6	37	44	3.4
	Q2	1,239	129	1,268	109	-29	20	-9	-0.7
	Q3	1,366	157	1,363	123	3	33	37	2.5
	Q4	1,469	159	1,427	136	41	24	65	4.2

Notes : Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

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

Other developments

3.12 The Government continued to strengthen Hong Kong's economic links with the Mainland in 2021. The HKSAR Government and the Ministry of Commerce signed a MOU on enhancing exchanges and co-operation in promoting high-quality development of overseas ETCZs in September 2021. According to the MOU, pursuant to the principle of “government providing guidance, enterprises taking the lead, and market-oriented operation”, the HKSAR Government and the Ministry of Commerce will leverage respective strengths to promote the high-quality development of the ETCZs, encourage enterprises of both places to invest and set up businesses at the ETCZs, develop the ETCZs jointly by different means, and explore international markets. Meanwhile, the Central Government's promulgation of the Qianhai Plan in September 2021 will also foster Hong Kong-Shenzhen co-operation at a higher level under which the two cities can serve as dual engines to drive development in the Guangdong-Hong Kong-Macao Greater Bay Area. The Plan will give full play to Hong Kong's long-held advantages in high-end professional services, elevate the function of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, and promote the long-term development for Hong Kong professional services.

3.13 The Government also made further progress in enhancing trade and investment relations with other economies. In the Asia-Pacific region, the Government signed a MOU with the APEC Secretariat to support the creation of the Strengthening Economic Legal Infrastructure sub-fund, which will provide funding for capacity building work to assist APEC economies to strengthen their economic and legal infrastructure, with a view to fostering economic development in the region. Meanwhile, an Investment Promotion and Protection Agreement (IPPA) between Hong Kong and Mexico took effect in June 2021. Taking into account the above IPPA, the total number of IPPAs in force between Hong Kong and foreign economies increased to 22, covering a total of 31 foreign economies. To support enterprises in exploring more diversified markets by fully utilising the better protection offered by the IPPAs, the Financial Secretary announced in the 2021-22 Budget an extra \$1.5 billion injection into the Dedicated Fund on Branding, Upgrading and Domestic Sales. While the cumulative funding ceiling per enterprise would be increased, the geographical coverage would also be substantially extended further in phases from 20 to 37 economies to include all those with which Hong Kong has signed IPPAs.

3.14 At the same time, the Government continued to expand its tax treaty network. The comprehensive avoidance of double taxation agreement (CDTA) with Georgia came into force in July after the completion of the relevant ratification procedures. The number of CDAs signed by Hong Kong totalled 45 as at end-2021.

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 external trade quantum index series compiled using the chain linking approach, which were first released in March 2015 to replace the previous trade index numbers compiled using the Laspeyres method with a fixed base year. The series are not comparable with the real trade aggregates under GDP (reported in Chapter 1) which are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*. Apart from this, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 3, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) It is crudely estimated that, based on the annual merchandise trade figures for 2018 (without taking into account the temporary exemptions of some Mainland products as announced by the US in September 2019 and the additional tariff measures that became effective on 1 September 2019), around HK\$144 billion worth of Hong Kong's re-exports of Mainland origin to the US were affected by the various batches of additional tariffs introduced by the US in the third quarter of 2018, equivalent to around 3.5% of Hong Kong's total exports of goods. After the implementation of additional tariffs in September 2019, the share of affected re-exports increased to around 6.0% of Hong Kong's total exports of goods. Taken together, the value of the affected re-exports turned from a year-on-year increase of 7.8% in the first three quarters of 2018 to a decline of 3.4% in the fourth quarter of the year, and plunged by 23.8% for 2019 as a whole. It fell further by 21.8% in 2020, before bouncing back by 12.7% in 2021. The performance of these affected re-exports in 2021 was less buoyant than Hong Kong's total exports to all markets, which surged by 26.3% year-on-year.
- (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 4 : DEVELOPMENTS IN SELECTED SECTORS

Summary

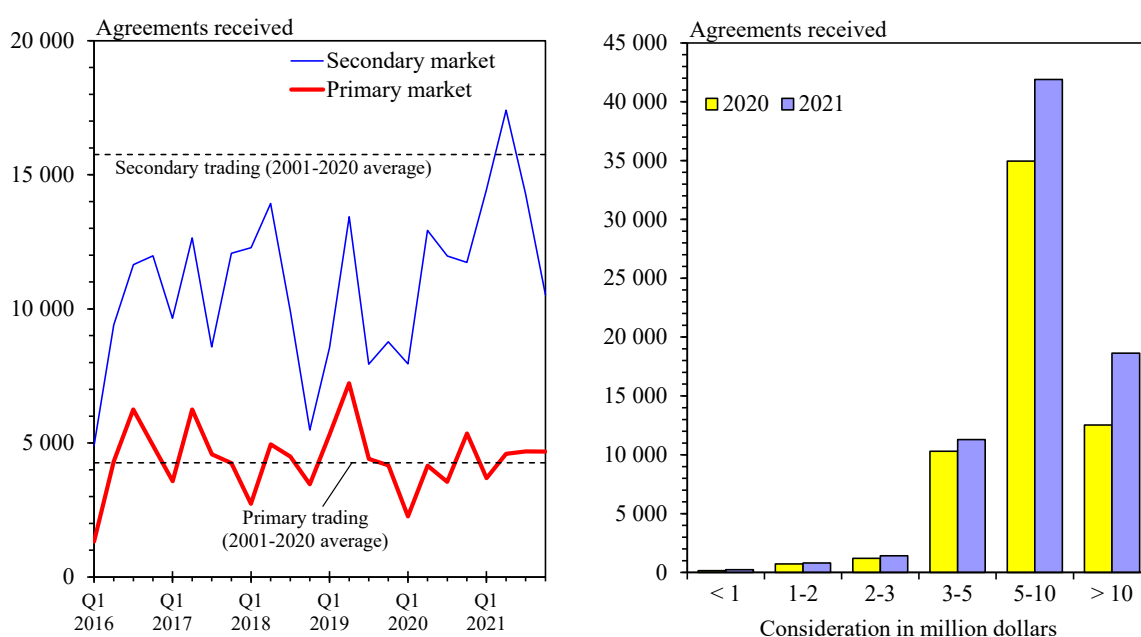
- *The residential property market was generally active in 2021, though turned somewhat quieter in the latter part of the year. While the low interest rate environment, firm end-user demand and the local economic recovery continued to provide support in the first half, sentiment weakened thereafter amid the local stock market correction and growing concerns over possible interest rate hikes in the US. Flat prices on average rose 3% during the year, notwithstanding a slight decline after reaching a peak in September.*
- *Reflecting the Government's sustained efforts in increasing land and flat supply, total private first-hand flat supply in the coming three to four years would rise to a high level of 98 000 units as estimated at end-2021. Meanwhile, the various demand-side management measures yielded notable results, with speculative activities and non-local demand staying low, and investment activities remaining modest in 2021.*
- *The commercial and industrial property markets improved in 2021 from the weakness in the preceding year or so alongside the local economic recovery and the abolition of the Doubled Ad Valorem Stamp Duty (DSD) on non-residential property transactions. Trading activities for all major market segments rebounded sharply. While prices and rentals of office space remained relatively soft, those of retail shop space and flatted factory space saw moderate increases.*
- *The tourism sector remained at a standstill in 2021. Notwithstanding some relative improvement in the second half, visitor arrivals stayed at an extremely low level of 91 400 for the year as a whole, far below the pre-recession level of 65.1 million in 2018.*
- *The logistics sector put up a mixed performance in 2021. Total container throughput declined by 1.0% in 2021, as the growth in the first half of the year alongside the surge in trade flows was more than offset by the decline in the second half when congestions at many ports around the world affected schedules of vessels going in and out of Hong Kong. In stark contrast, air freight throughput exhibited a strong performance and rose by 12.8%, mainly thanks to the surge in the volume of merchandise trade but also partly bolstered by a low base of comparison.*

Property

4.1 The *residential property market* was generally active in 2021, though turned somewhat quieter in the latter part of the year. While the low interest rate environment, firm end-user demand and the local economic recovery continued to provide support in the first half, sentiment weakened thereafter amid the local stock market correction and growing concerns over possible interest rate hikes in the US.

4.2 For 2021 as a whole, the total number of sale and purchase agreements for residential property received by the Land Registry surged by 24% to 74 297, the highest since 2012, and was well above the five-year average of 58 643 from 2016 to 2020. Within the total, primary market transactions rose by 15% to 17 650, and secondary market transactions jumped by 27% to 56 647. Total consideration soared by 34% to \$733.9 billion.

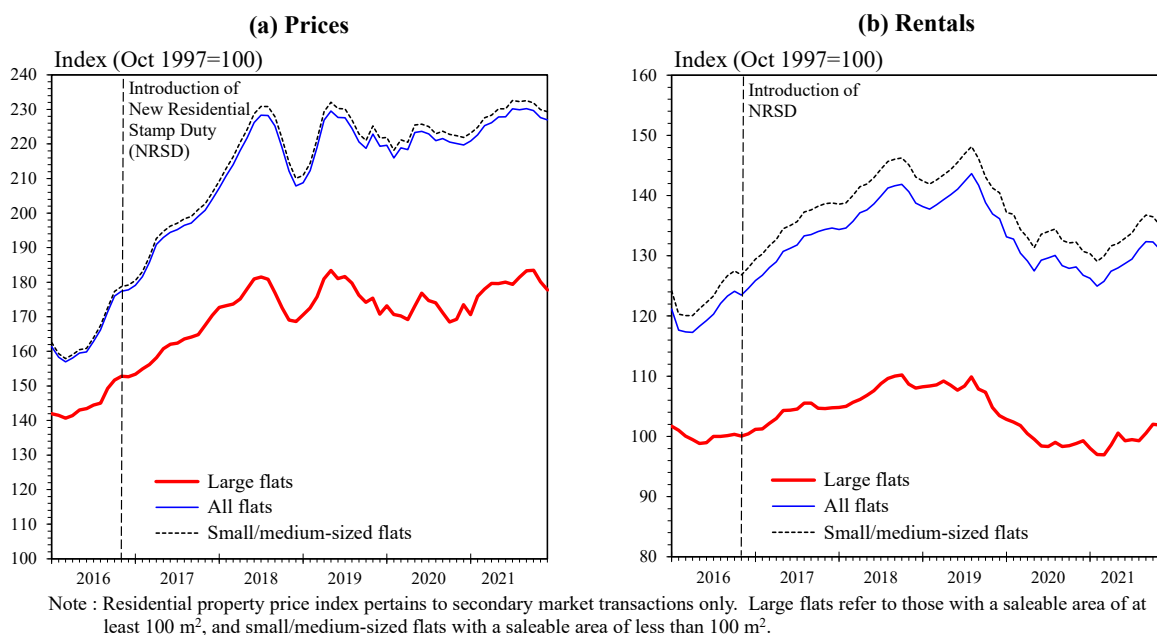
Diagram 4.1 : Trading activities in 2021 reached the highest level since 2012, though turned quieter in the latter part of the year



4.3 Flat prices in December 2021 on average were 3% higher than in December 2020. Following an increase of 5% during the first three quarters, flat prices on average declined slightly by 1% during the fourth quarter. Analysed by size, comparing December 2021 with December 2020, prices of small/medium-sized flats and large flats rose by 3% and 2% respectively.

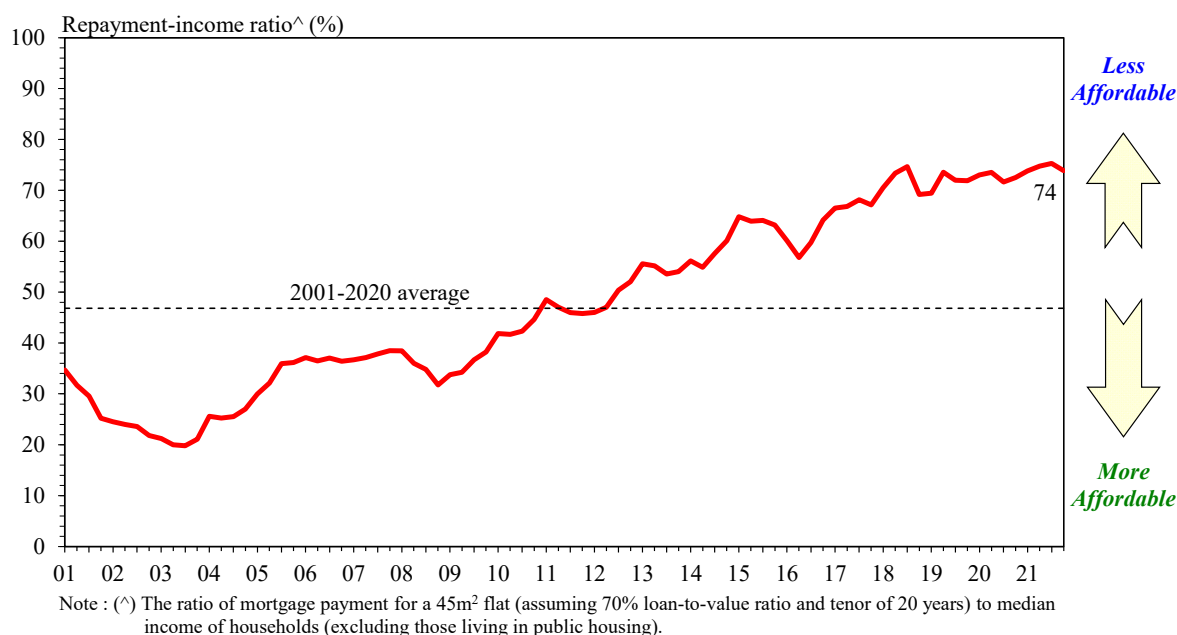
4.4 Flat rentals have revived since the second quarter of 2021 after six consecutive quarters of decline, but weakened again during the fourth quarter. Flat rentals in December 2021 on average were 3% higher than in December 2020, but still 9% below the peak in August 2019. Analysed by size, rentals of small/medium-sized flats and large flats rose by 3% and 4% respectively during the year. The average rental yield for residential property stayed at 2.2% in December 2021, same as that in December 2020.

Diagram 4.2 : Flat prices and rentals rose for 2021 as a whole, notwithstanding a slight decline during the fourth quarter



4.5 The index of 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) remained elevated at around 74% in the fourth quarter, significantly above the long-term average of 47% over 2001-2020⁽¹⁾. Should interest rates rise by three percentage points to a level closer to the historical standards, the ratio would soar to 97%.

Diagram 4.3 : The index of home purchase affordability remained elevated



4.6 Raising flat supply through increasing land supply is a policy priority of the Government⁽²⁾. As announced in December 2021, a total of seven residential sites were sold or would be put up for sale by the Government under the 2021-22 Land Sale Programme, capable of providing about 3 400 units in total. Combining the various sources (including Government land sale, railway property development projects, the Urban Renewal Authority’s projects, and private development and redevelopment projects), the total private housing land supply in 2021-22 is estimated to have a capacity to produce about 20 100 units, exceeding the private housing supply annual target (12 900 units) by about 55%.

4.7 Reflecting the Government’s sustained efforts in raising land supply, the *total supply of first-hand flats* in the private sector in the coming three to four years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) would rise to a high level of 98 000 units as estimated at end-2021. Another 6 400 units could be added to the total supply after the conversion of a number of residential sites into “disposed sites”.

4.8 The demand-supply balance of private flats remained tight during 2021. The gross completions of private flats retreated by 31% to 14 400 units in 2021. After netting off demolition of 2 500 units, the net completions of 11 900 units were lower than the take-up of 14 100 units⁽³⁾. As a result, the vacancy rate edged down from 4.3% at end-2020 to 4.1% at end-2021, below the long-term average of 4.8% over 2001-2020. The Rating and Valuation Department forecasts gross completions at 22 900 units in 2022 and 21 800 units in 2023⁽⁴⁾, compared with the average of 14 800 units per annum in the past ten years (2012-2021).

4.9 To dampen speculative, investment and non-local demand, and to reduce the possible risks to financial stability arising from an exuberant property market, the Government implemented a number of demand-side management and macro-prudential measures during 2009 to 2017. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) remained low at 57 cases per month or 0.8% of total transactions in 2021, well below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* also stayed low at 25 cases per month or 0.4% of total transactions in 2021, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As an indicator of *investment activities*, purchases subject to the New Residential Stamp Duty stayed at a modest level of 311 cases per month or 4.6% of total transactions in 2021, markedly lower than the monthly average of 1 412 cases subject to DSD or 26.5% in January to November 2016. As to *mortgage lending*, the average loan-to-value ratio of new mortgages was 56% in 2021, likewise below the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

Diagram 4.4 : Speculative activities remained low

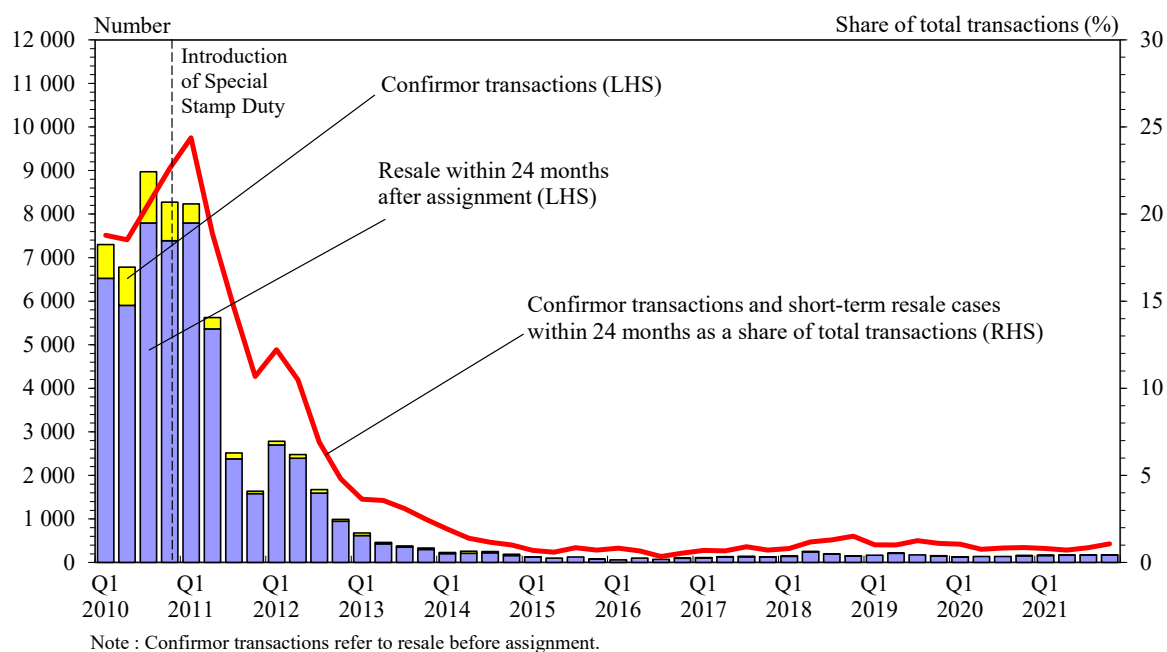


Diagram 4.5 : Purchases by non-local buyers stayed low

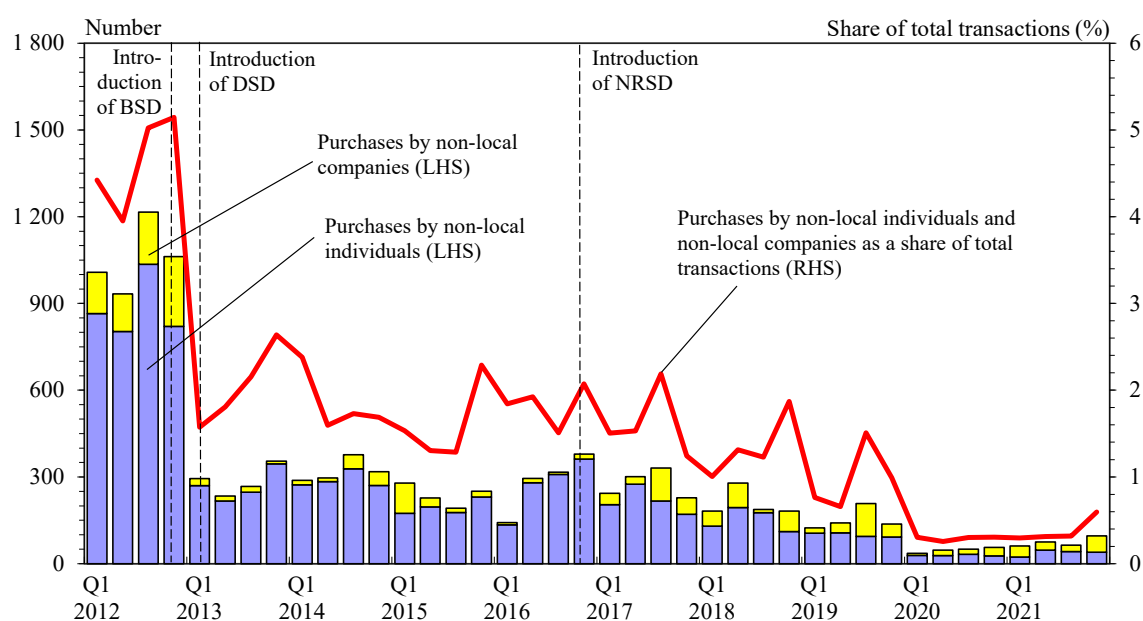
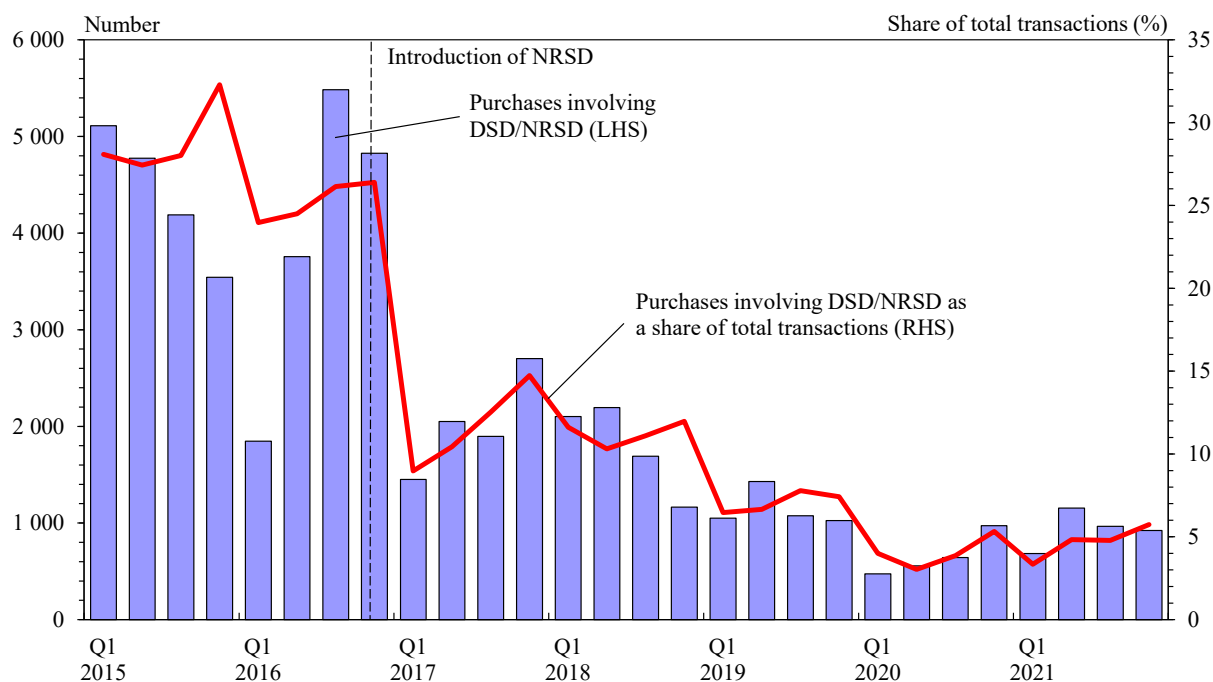


Diagram 4.6 : Investment activities were modest



4.10 The *commercial* and *industrial property markets* improved in 2021 from the weakness in the preceding year or so alongside the local economic recovery and the abolition of the DSD on non-residential property transactions. Trading activities for all major market segments rebounded sharply. While prices and rentals of office space remained relatively soft, those of retail shop space and flatted factory space saw moderate increases.

4.11 Prices of *office space* on average declined by 3% between December 2020 and December 2021, as the 1% increase in prices of Grade A office space was more than offset by the respective declines of 3% and 6% in prices of Grade B and C office space. Over the same period, office rentals on average were little changed. Within the total, rentals of Grade A office space retreated by 2%, while those of Grade B and C office space went up by 3% and 2% respectively. Compared with the respective peaks in 2018 and 2019, prices of office space in December 2021 on average have plummeted by 19% and rentals by 12%. The average rental yields of Grade A, B and C office space were 2.5%, 2.7% and 3.0% respectively in December 2021, compared with 2.5%, 2.5% and 2.8% a year earlier. Transactions for office space rebounded sharply by 57% to 1 080 cases in 2021. As to the demand-supply balance, with a negative take-up of 39 700 m² and a completion of 69 600 m², the vacancy rate rose from 11.5% at end-2020 to 12.3% at end-2021, staying above the long-term average of 9.2% over 2001-2020.

4.12 Prices and rentals of *retail shop space* increased by 5% and 3% respectively between December 2020 and December 2021. Compared with the respective peaks in 2018 and 2019, prices and rentals in December 2021 were still 9% and 7% lower. The average rental yield edged down from 2.6% in December 2020 to 2.5% in December 2021. For all commercial spaces, transactions leapt by 72% to 2 190 cases in 2021⁽⁵⁾. As the take-up of 144 600 m² exceeded the completion of 41 500 m², the vacancy rate declined from 11.4% at end-2020 to 10.2% at end-2021, but was still above the long-term average of 9.0% over 2001-2020.

4.13 Prices and rentals of *flatted factory space* rose by 9% and 7% respectively between December 2020 and December 2021. Prices in December 2021 were 4% lower than the peak in June 2019, while rentals have surpassed the peak in August 2019 by 2%. The average rental yield remained at 3.0% in December 2021, unchanged from December 2020. Transactions jumped by 72% to 3 640 cases in 2021. As the take-up of 77 100 m² exceeded the completion of 29 500 m², the vacancy rate declined from 6.4% at end-2020 to 5.7% at end-2021, staying below the long-term average of 7.0% over 2001-2020.

Diagram 4.7 : Prices and rentals of office space remained relatively soft during 2021, while those of retail shop space and flatted factory space saw moderate increases

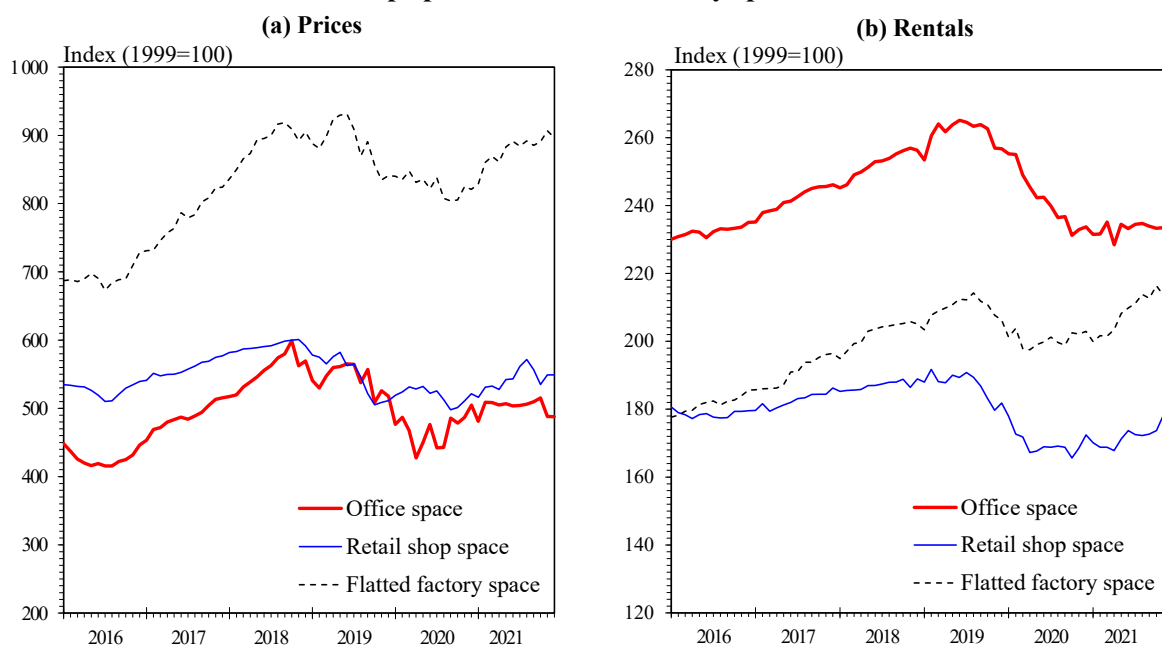
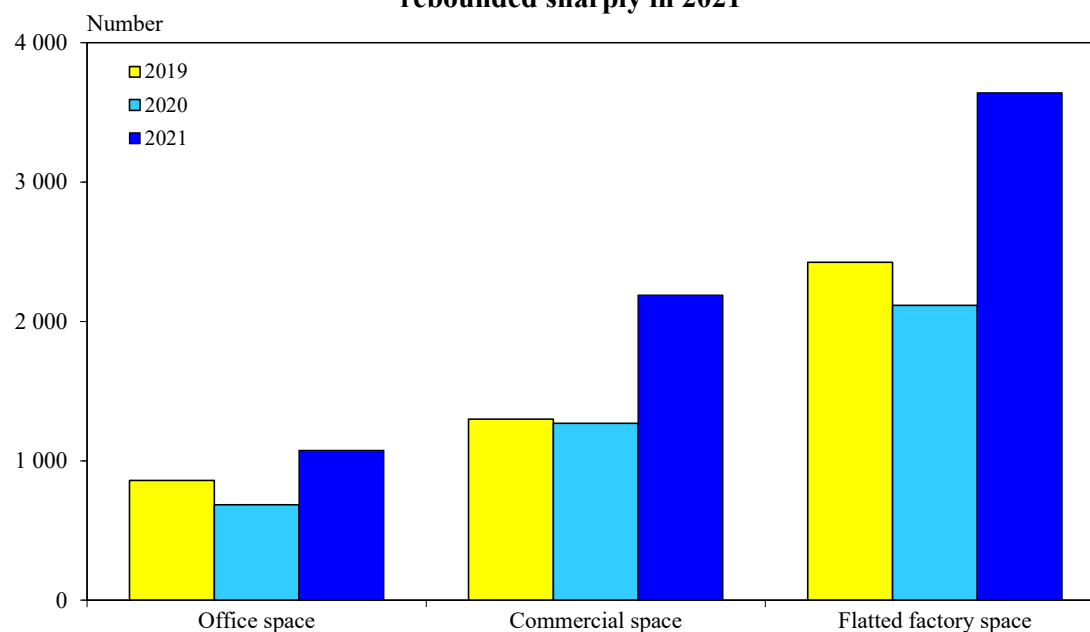


Diagram 4.8 : Transactions for commercial and industrial properties rebounded sharply in 2021



Land

4.14 Eleven sites with a total area of about 14.5 hectares were disposed of in 2021, fetching a land premium of about \$108.0 billion. Among these sites, there were eight residential sites, two commercial sites, and one industrial site. In addition, the tender exercises for one residential site in Repulse Bay, one industrial site in Fanling, one logistics site in Tsing Yi and one telecommunications station site in Chung Hom Kok commenced in the fourth quarter. Regarding exchange of land, 15 sites with a total area of about 54.8 hectares were approved in 2021. As to lease modifications, a total of 62 sites were approved.

Tourism

4.15 The tourism sector remained at a standstill in 2021. There were only 91 400 *visitor arrivals* or 0.1% of the pre-recession level of 65.1 million in 2018. This was notwithstanding some relative improvement shown in the second half of the year amid the introduction of new measures in early August allowing non-Hong Kong residents coming from low-risk and medium-risk places to enter Hong Kong under specified conditions and the launch of the Come2hk Scheme in mid-September exempting those coming from Guangdong Province and Macao from the compulsory quarantine requirement upon fulfilment of specified conditions. Visitors from the Mainland, other short-haul markets and long-haul markets all remained at extremely low levels in 2021⁽⁶⁾, and so did overnight and same-day visitors. Visitor spending, as measured by exports of travel services, amounted to only 4.3% of the level in 2018 in real terms.

Table 4.1 : Number of visitor arrivals

		<u>All sources</u>	<u>Mainland China</u>	<u>Other short-haul markets*</u>	<u>Long-haul markets*</u>
2019	Annual	55 912 600	43 774 700	7 939 600	4 198 300
	Q1	18 234 400	14 582 200	2 486 500	1 165 700
	Q2	16 637 500	12 991 300	2 448 200	1 198 000
	Q3	11 891 600	9 356 000	1 648 000	887 600
	Q4	9 149 200	6 845 100	1 356 900	947 100
2020	Annual	3 568 900	2 706 400	503 600	358 900
	Q1	3 489 200	2 665 900	483 500	339 800
	Q2	26 900	15 300	4 800	6 700
	Q3	34 100	14 300	10 200	9 700
	Q4	18 600	10 900	5 100	2 700
2021	Annual	91 400	65 700	15 000	10 700
	Q1	16 500	11 600	3 100	1 900
	Q2	17 200	12 700	2 400	2 100
	Q3	29 400	21 800	4 300	3 200
	Q4	28 300	19 700	5 200	3 500

Notes : (*) See note (6) at the end of this chapter for the definitions of other short-haul and long-haul markets.

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

Table 4.2 : Number of overnight and same-day visitor arrivals

		<u>Overnight visitor arrivals</u>	<u>Same-day visitor arrivals</u>
2019	Annual	23 752 400	32 160 300
	Q1	7 775 100	10 459 300
	Q2	7 145 100	9 492 400
	Q3	5 108 400	6 783 200
	Q4	3 723 700	5 425 500
2020	Annual	1 359 400	2 209 500
	Q1	1 280 900	2 208 300
	Q2	26 500	300
	Q3	33 800	300
	Q4	18 100	500
2021	Annual	89 200	2 200
	Q1	16 300	200
	Q2	16 900	300
	Q3	29 000	300
	Q4	26 900	1 400

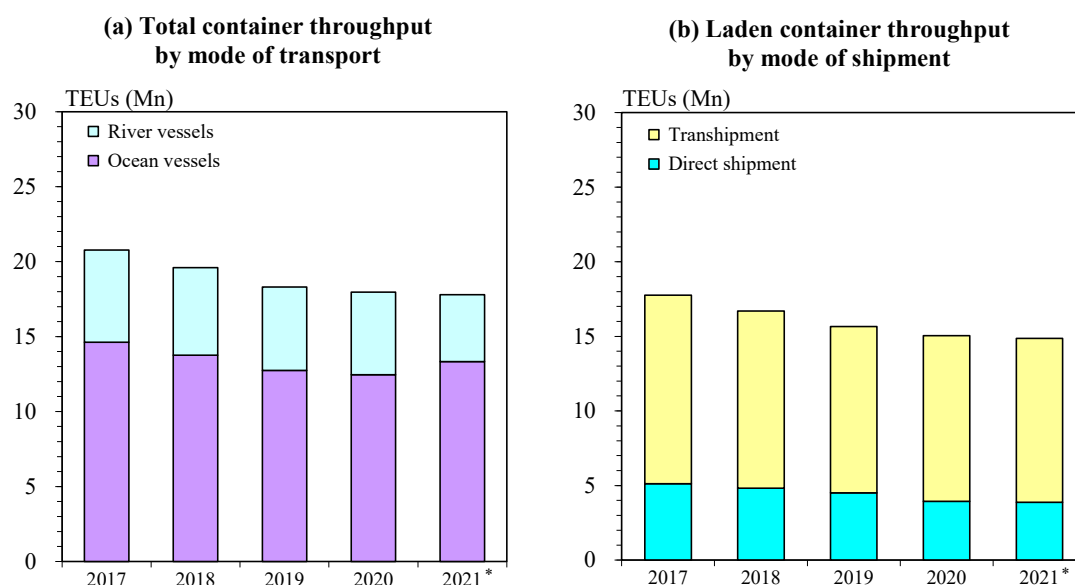
Note : Figures may not add up to total visitor arrivals due to rounding.

4.16 The hotel sector remained under pressure in 2021, though individuals undergoing compulsory quarantine at hotels and “staycation activities” provided some support. The average hotel room occupancy rate increased from 46% in 2020 to 63% in 2021, yet still considerably lower than the average of 91% in 2018 prior to the recession. The figure rose gradually during the year, from 52% in the first quarter to 60% in the second quarter, 70% in the third quarter, and 71% in the fourth quarter. However, the average achieved hotel room rate decreased by 3.0% to \$860⁽⁷⁾ in 2021.

Logistics

4.17 The logistics sector put up a mixed performance in 2021. Following the recovery in the second half of 2020, *total container throughput* grew further in the first half of 2021 alongside the surge in trade flows. Yet a decline was observed in the second half as congestions at many ports around the world affected schedules of vessels going in and out of Hong Kong. For 2021 as a whole, total container throughput declined by 1.0% to about 17.8 million twenty-foot equivalent units (TEUs). Within the laden container throughput, direct shipment and transshipment declined by 1.8% and 1.1% respectively. The value of trade handled at the Hong Kong port rose by 18.6% over the low base a year earlier, but its share in total trade decreased from 14.1% in 2020 to 13.4% in 2021.

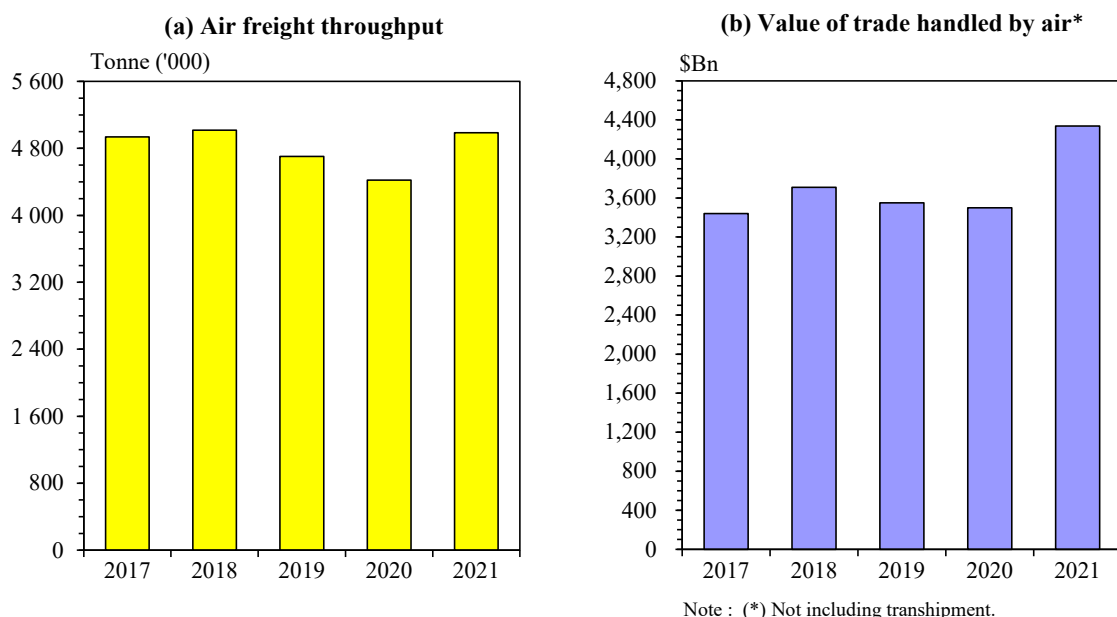
Diagram 4.9 : Container throughput declined in 2021



Note : (*) Total container throughput for 2021 is the preliminary estimate by Hong Kong Maritime and Port Board. Its breakdown by mode of transport and the laden container throughput by mode of shipment are crudely estimated from the profile in the first eleven months of 2021.

4.18 *Air freight throughput* fared strongly and rose by 12.8% to 5.0 million tonnes in 2021, mainly thanks to the surge in the volume of merchandise trade but also partly bolstered by a low base of comparison and the disruptions in maritime transport in the latter half of the year. The value of trade by air surged by 24.0%, but its share in total trade edged down from 42.7% in 2020 to 42.2% in 2021.

**Diagram 4.10 : Air freight throughput and the value of trade handled by air
both rose in 2021**



Transport

4.19 Notwithstanding some modest improvements seen in the second half of the year, cross-boundary traffic flows for all modes of passenger transport remained at extremely low levels during 2021 as most of the boundary control measures and quarantine requirements in response to the COVID-19 pandemic remained in place. Air passenger traffic amounted to around 1.4 million trips, only 1.8% of the pre-recession level of 74.7 million in 2018. Water-borne and land-based cross-boundary passenger trips totalled around 0.3 million and 1.0 million respectively, only 1.1% and 0.4% of their corresponding pre-recession levels of 25.7 million and 235.7 million in 2018. Meanwhile, average daily cross-boundary vehicle movements also stayed at a low level of 16 758, far below the pre-recession level of 43 013 in 2018.

Environment

4.20 The third meeting of the Hong Kong-Guangdong Joint Working Group on Environmental Protection and Combating Climate Change was held in December 2021. The meeting reviewed the progress of collaboration in 2021 and endorsed the work plan for 2022. Among others, Hong Kong and Guangdong will work together with a view to announcing the regional air pollutant emission measures and targets for 2025 and 2030 in 2022. The two governments would also continue to work with Macao on a three-year project to formulate a regional ozone control policy on a scientific basis.

Notes :

- (1) Starting from the third quarter of 2019, the index of home purchase affordability is calculated based on, among others, the mortgage rates of new mortgage loans with reference to both the Best Lending Rate (BLR) and the Hong Kong Interbank Offered Rate (HIBOR). As such, the data from the third quarter of 2019 onwards may not be strictly comparable with those in previous quarters, which were based on the mortgage rates of new mortgages loans with reference to the BLR only.

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

- (2) For details of the measures promulgated in 2010, 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 promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects. For details of the measures promulgated in 2015, see Box 3.1 of the First Quarter Economic Report 2015. For details of the measures promulgated in 2016, see note (1) at the end of Chapter 4 in the 2016 Economic Background and 2017 Prospects. For details of the measures promulgated in 2017, see note (3) at the end of Chapter 3 in the First Quarter Economic Report 2017, note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2017 and Box 3.1 of the Third Quarter Economic Report 2017. For details of the measures promulgated in 2018, see Box 3.1 in the Half-yearly Economic Report 2018 and Box 3.1 of the Third Quarter Economic Report 2018. For details of the measures promulgated in 2019, see Box 3.1 of the Third Quarter Economic Report 2019. For details of the measures promulgated in 2020, see Box 4.1 of the 2020 Economic Background and 2021 Prospects. For details of the measures promulgated in 2021, see Box 3.1 of the Third Quarter Economic Report 2021.
- (3) Take-up figures represent the net increase in the number of units occupied. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures. Take-up should not be confused with the sales of new developments, and it bears no direct relationship to the number of units sold by developers. Negative take-up means that there is a decrease in the number of units occupied (i.e. property previously occupied was released during the year and remained vacant at the year-end). Also, take-up, demolition, completion and vacancy figures on residential and non-residential properties are preliminary figures from the Rating and Valuation Department, and are subject to revision.
- (4) Forecast completions in 2022 and 2023 are preliminary figures only, and are subject to revision upon the availability of more data.
- (5) The figures on transaction and vacancy rate refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.

- (6) Other short-haul markets refer to North Asia, South and 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. In 2021, visitor arrivals from the Mainland, other short-haul and long-haul markets accounted for respective shares of 72%, 16% and 12% of total visitors.
- (7) The figures on hotel room occupancy and achieved room rate do not include guesthouses.

CHAPTER 5 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in 2021, as the US Federal Open Market Committee (FOMC) kept the target range for the Federal Funds Rate unchanged at the record low level of 0.00-0.25%. Hong Kong dollar interbank interest rates and interest rates on the retail front stayed at low levels.*
- *The Hong Kong dollar spot exchange rate against the US dollar stayed at the strong side of the Convertibility Zone during most of 2021, but weakened somewhat in the second half of the year. As the US dollar weakened against the renminbi (RMB) though strengthened against many other major currencies, the trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index decreased by 0.5% during 2021, while the Real Effective Exchange Rate Index edged up by 0.2%.*
- *Total loans and advances registered a moderate growth of 3.8% during 2021. Within the total, loans for use in and outside Hong Kong increased by 4.7% and 1.7% respectively.*
- *The local stock market underwent a sharp correction in 2021, dampened by the prospective tightening of the US Fed's monetary policy, regulatory requirements in the Mainland, and uncertainties surrounding the global economic outlook amid the spread of more infectious COVID-19 variants and supply bottlenecks. The Hang Seng Index (HSI) closed the year at 23 398, down by 14.1% from a year earlier or 24.7% from the recent high in February. Trading activities were very active during most of the year. Fund raising activities were buoyant in the first half before retreating somewhat thereafter.*

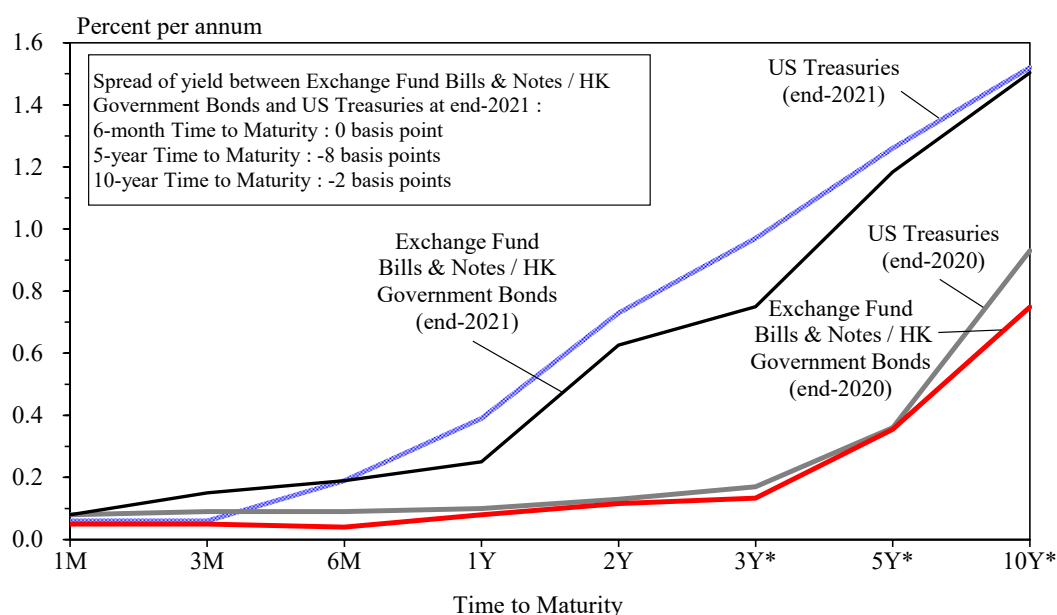
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Office of the Government Economist.*

Interest rates and exchange rates

5.1 The low interest rate environment in Hong Kong continued in 2021, as the US FOMC kept the target range for the Federal Funds Rate unchanged at the record low level of 0.00-0.25%. *Hong Kong dollar interbank interest rates* (HIBORs) stayed at low levels throughout the year. The overnight HIBOR edged up from 0.04% at end-2020 to 0.06% at end-2021, while the 3-month HIBOR decreased from 0.35% to 0.26%. Consequently, the *Base Rate*⁽¹⁾ under the Discount Window operated by the HKMA remained unchanged at 0.50% at end-2021. The Aggregate Balance remained sizeable, though it declined from \$457.5 billion at end-2020 to \$377.5 billion at end-2021 as HKMA increased the issuance of Exchange Fund Bills since September 2021⁽²⁾.

5.2 Both *Hong Kong dollar* and *US dollar* yield curves steepened in 2021. Reflecting the relative movements, the yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills narrowed from negative 5 basis points at end-2020 to zero at end-2021, and the negative yield spread between the 10-year Hong Kong Government Bonds and 10-year US Treasury Notes narrowed from 18 basis points to 2 basis points.

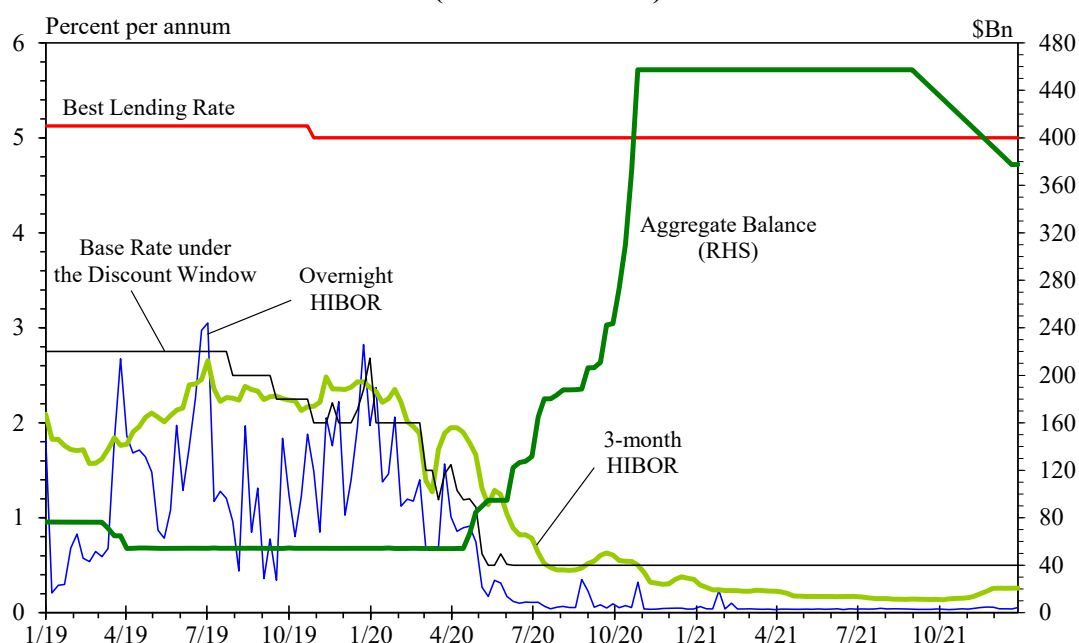
Diagram 5.1 : Both Hong Kong dollar and US dollar yield curves steepened in 2021



Note : (*) With the HKMA stopping new issuance of Exchange Fund Notes of tenors of 3 years or above since January 2015, the Hong Kong dollar yields for tenor of 3 years and above refer to those for Hong Kong Government Bonds.

5.3 Interest rates on the retail front also stayed at low levels in 2021. The *Best Lending Rates* in the market remained unchanged in the range of 5.00% to 5.50% throughout the year. The *average savings deposit rate* for deposits of less than \$100,000 quoted by major banks stayed unchanged at 0.001%, while the 1-year *time deposit rate* declined from 0.14% at end-2020 to 0.08% at end-2021. The *composite interest rate*⁽³⁾, which indicates the average cost of funds for retail banks, declined from 0.28% a year earlier to 0.21% at end-2021.

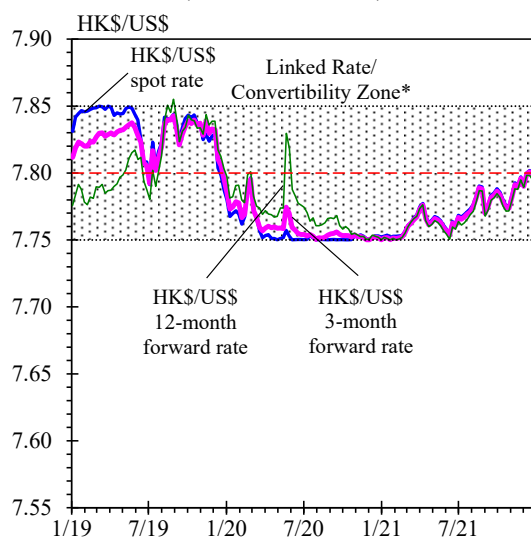
Diagram 5.2 : Interbank interest rates and interest rates on the retail front stayed at low levels in 2021 (end for the week)



5.4 The *Hong Kong dollar spot exchange rate against the US dollar* stayed at the strong side of the Convertibility Zone during most of 2021. It traded close to the strong-side Convertibility Undertaking level in the first half of the year, mainly driven by strong equity-related demand for Hong Kong dollars from fund raising activities, the southbound Stock Connect and dividend payments, notwithstanding some brief periods of softening amid the repatriation of proceeds raised in Initial Public Offerings (IPOs) and share placements. The Hong Kong dollar subsequently weakened in the second half along with the local stock market correction and closed the year at 7.797, compared with 7.752 at end-2020. The discount of 3-month *Hong Kong dollar forward rate* narrowed from 21 pips (each pip is equivalent to HK\$0.0001) at end-2020 to 12 pips at end-2021, while that of 12-month forward rate widened from 20 pips to 48 pips.

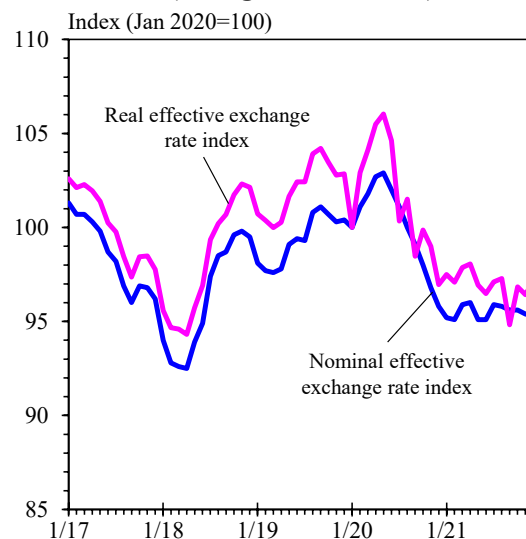
5.5 Under the Linked Exchange Rate System, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar weakened against the RMB though strengthened against many other major currencies, notably during the second half of 2021, the *trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index*⁽⁴⁾ decreased by 0.5% during the year, while the *Real Effective Exchange Rate Index* edged up by 0.2%.

Diagram 5.3 : The Hong Kong dollar spot exchange rate against the US dollar stayed at the strong side of the Convertibility Zone during most of 2021, but weakened somewhat in the second half of the year (end for the week)



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

Diagram 5.4 : The trade-weighted nominal effective exchange rate index decreased during 2021, while the real effective exchange rate index edged up (average for the month)



Money supply and banking sector

5.6 The monetary aggregates recorded modest growth in 2021. The Hong Kong dollar broad *money supply* (HK\$M3) increased by 1.5% over a year earlier to \$8,057 billion at end-2021, and the seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1) rose by 5.4% to \$2,093 billion⁽⁵⁾. Meanwhile, *total deposits* with authorized institutions (AIs)⁽⁶⁾ rose moderately by 4.6% to \$15,186 billion, within which Hong Kong dollar deposits and foreign currency deposits increased by 1.4% and 7.9% respectively.

Diagram 5.5 : The monetary aggregates recorded modest growth in 2021

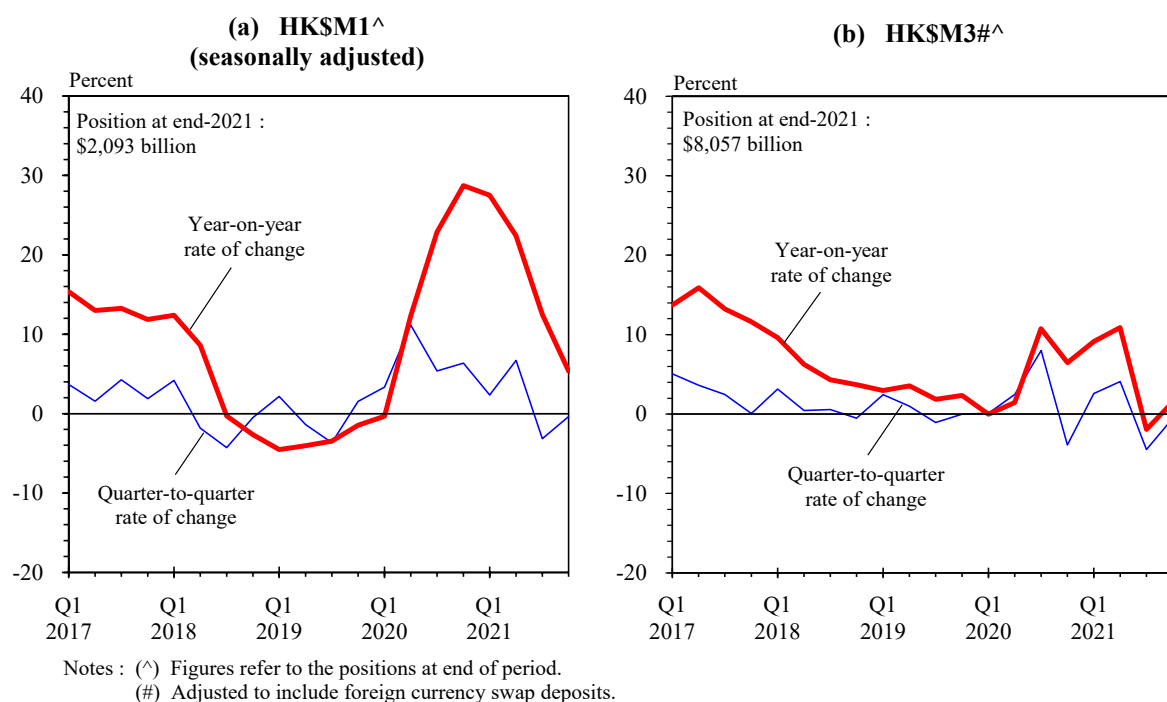


Table 5.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$[#]</u>	<u>Total</u>	<u>HK\$[#]</u>	<u>Total</u>
2020	Q1	3.3	5.2	0.1	0.4	0.1	0.4
	Q2	11.2	8.6	2.5	2.0	2.5	2.0
	Q3	5.4	26.0	8.0	4.9	8.0	4.9
	Q4	6.4	-9.6	-3.9	-1.5	-3.9	-1.5
2021	Q1	2.3	4.8	2.6	1.0	2.6	1.0
	Q2	6.7	14.2	4.1	3.0	4.1	3.0
	Q3	-3.2	-7.4	-4.5	-1.0	-4.5	-1.0
	Q4	-0.4	-2.5	-0.5	1.3	-0.5	1.3
Total amount at end-2021 (\$Bn)		2,093	3,491	8,044	16,273	8,057	16,311
% change over a year earlier		5.4	8.0	1.5	4.3	1.5	4.3

Notes : (^) Seasonally adjusted.

(#) Adjusted to include foreign currency swap deposits.

5.7 *Total loans and advances* registered a moderate growth of 3.8% over a year earlier to \$10,897 billion at end-2021. Within the total, Hong Kong dollar loans and foreign currency loans went up by 5.2% and 1.8% respectively. Reflecting the relative movements in loans and deposits, the loan-to-deposit ratio for Hong Kong dollar rose from 83.5% a year earlier to 86.7% at end-2021, while that for foreign currency fell from 61.0% to 57.5%.

5.8 Both loans for use in and outside Hong Kong increased in 2021. Specifically, loans for use in Hong Kong (including trade finance) rose by 4.7% over a year earlier to \$7,722 billion at end-2021, and loans for use outside Hong Kong by 1.7% to \$3,175 billion. Within the former, loans to various economic segments showed mixed performances. On the one hand, trade finance and loans to manufacturing rose by 14.2% and 4.4% respectively in tandem with vibrant trade flows. On the other hand, loans to stockbrokers decreased by 23.4%, dampened by the sharp stock market correction in the second half of the year. Loans to wholesale and retail trade and loans to financial concerns also fell by 6.9% and 0.9% respectively. As for property-related lending, loans for purchase of residential property and loans to building, construction, property development and investment increased by 10.0% and 4.7% respectively amid a generally active property market.

Table 5.2 : 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
2020	Q1	6.1	6.5	-1.2	2.5	1.7	7.6	17.0	3.4	1.6	2.8
	Q2	-1.3	-4.3	-0.3	-2.6	1.7	-1.6	16.5	-0.8	2.5	0.2
	Q3	-3.6	-0.5	-3.5	-1.2	2.6	-1.8	296.5	4.7	-0.4	3.2
	Q4	-7.1	0.4	-2.7	1.6	2.0	-2.8	-77.9	-5.4	-3.5	-4.8
2021	Q1	8.5	4.3	0.2	3.4	1.4	2.4	50.8	3.6	0.9	2.8
	Q2	17.8	-2.0	-2.2	-0.3	2.6	0.5	152.0	5.7	0.8	4.3
	Q3	5.5	3.6	-2.5	-1.1	3.1	-3.1	-77.6	-3.6	2.0	-2.0
	Q4	-15.4	-1.4	-2.6	2.7	2.6	-0.5	-10.2	-0.8	-2.0	-1.2
Total amount at end-2021 (\$Bn)		485	322	326	1,711	1,841	909	57	7,722	3,175	10,897
% change over a year earlier		14.2	4.4	-6.9	4.7	10.0	-0.9	-23.4	4.7	1.7	3.8

- Notes :
- (a) Figures also include loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme, in addition to those for the purchase of private residential flats.
 - (b) Loans to individual sectors may not add up to all loans and advances for use in Hong Kong, as some sectors are not included.
 - (c) Also include loans where the place of use is not known.

5.9 The Hong Kong banking sector remains resilient. The Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying at a high level of 20.4% at end-September 2021. Asset quality of the local banking sector also remained sound. The ratio of classified loans to total loans for retail banks decreased from 0.82% at end-2020 to 0.78% at end-September 2021 and the delinquency ratio for credit card lending from 0.27% to 0.22%. Meanwhile, the delinquency ratio for residential mortgage loans stayed low at 0.04% at end-2021, same as end-2020.

Table 5.3 : Asset quality of retail banks*

(as % of total loans)

<u>At end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2020	Q1	97.86	1.60	0.55
	Q2	97.62	1.67	0.71
	Q3	97.64	1.61	0.75
	Q4	97.45	1.73	0.82
2021	Q1	97.57	1.60	0.82
	Q2	97.78	1.42	0.81
	Q3	97.73	1.48	0.78

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

(*) Period-end figures relate to Hong Kong offices, overseas branches and major overseas subsidiaries. Loans and advances are classified into the following categories: Pass, Special Mention, Substandard, Doubtful and Loss. Loans in the substandard, doubtful and loss categories are collectively known as “classified loans”.

5.10 *Offshore RMB business* recorded solid and broad-based growth in 2021. RMB trade settlement transactions handled by banks in Hong Kong rose by 12.0% over a year earlier to RMB7,083.6 billion. Total RMB deposits (including customer deposits and outstanding certificates of deposit) increased visibly by 24.8% over a year earlier to RMB944.7 billion at end-2021. As to financing activities, RMB bond issuance totalled RMB109.6 billion in 2021 (including the issuances of RMB20.0 billion by the Ministry of Finance), 87.2% higher than in 2020, and outstanding RMB bank loans rose by 7.5% over a year earlier to RMB163.6 billion at end-2021.

Table 5.4 : Renminbi deposits and cross-border renminbi trade settlement in Hong Kong

<u>At end of period</u>		<u>Interest rates on^(a)</u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement^(c)</u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits^(b)</u> (%)	<u>Three-month time deposits^(b)</u> (%)		
2020	Q1	260,629	403,524	664,153	0.25	0.53	140	1,531,343
	Q2	241,113	398,802	639,915	0.22	0.40	140	1,604,512
	Q3	241,432	426,459	667,890	0.16	0.31	141	1,711,958
	Q4	260,024	461,626	721,650	0.16	0.31	141	1,476,247
2021	Q1	265,396	507,084	772,481	0.16	0.31	143	1,698,745
	Q2	286,607	534,585	821,192	0.16	0.31	142	1,694,123
	Q3	281,073	574,858	855,931	0.16	0.31	144	1,876,862
	Q4	286,728	640,070	926,797	0.16	0.31	146	1,813,844
% change over a year earlier		10.3	38.7	28.4	N.A.	N.A.	N.A.	22.9

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 applicable.

The debt market

5.11 As to the Hong Kong dollar *debt market*, total gross issuance of Hong Kong dollar debt securities edged up by 0.2% to \$4,334.0 billion in 2021, with the increase of 1.2% in public sector issuance more than offsetting the decrease of 4.8% in private sector debt issuance⁽⁷⁾. The total outstanding amount of Hong Kong dollar debt securities rose by 3.0% over a year earlier to \$2,356.8 billion at end-2021, equivalent to 29.3% of HK\$M3 or 24.4% of Hong Kong dollar-denominated assets of the banking sector⁽⁸⁾.

5.12 As to the Government Bond (GB) Programme, a total of \$19.4 billion institutional GBs were issued through tenders in 2021, including the inaugural issuance of \$1.0 billion of Floating Rate Notes indexed to the Hong Kong Dollar Overnight Index Average. At end-2021, the total outstanding amount of Hong Kong dollar bonds under the GB Programme was \$168.2 billion, comprising 13 institutional issues totalling \$85.5 billion and five retail issues (two iBonds and three Silver Bonds) totalling \$82.7 billion. In addition, one US dollar sukuk with an issuance size of US\$1.0 billion was outstanding under the GB Programme.

**Table 5.5 : New issuance and outstanding value of
Hong Kong dollar debt securities (\$Bn)**

		Exchange Fund paper	Statutory bodies/ government- owned corporations	Govern- ment	Public sector total	AIs ^(a)	Local corporations	Non-MDBs overseas borrowers ^(b)	Private sector total	MDBs ^(b)	Total
New Issuance											
2020	Annual	3,392.7	54.7	48.2	3,495.6	390.2	36.3	392.4	818.9	11.3	4,325.9
	Q1	834.8	6.7	2.5	844.0	83.9	6.9	112.6	203.4	1.1	1,048.4
	Q2	823.0	22.9	8.2	854.1	76.0	16.9	109.2	202.1	2.4	1,058.5
	Q3	905.1	8.8	1.0	914.9	91.1	6.3	102.5	199.9	5.5	1,120.3
	Q4	829.7	16.4	36.5	882.7	139.2	6.3	68.1	213.6	2.4	1,098.6
2021	Annual	3,403.9	64.4	69.4	3,537.7	376.5	59.1	343.6	779.3	17.1	4,334.0
	Q1	815.2	25.6	2.7	843.5	118.4	20.0	121.7	260.1	6.5	1,110.0
	Q2	826.9	15.0	28.2	870.1	97.1	10.0	81.7	188.8	1.6	1,060.5
	Q3	851.6	11.8	31.0	894.3	71.9	11.4	64.1	147.4	6.6	1,048.3
	Q4	910.2	12.0	7.5	929.7	89.1	17.7	76.1	183.0	2.5	1,115.1
% change in 2021 over 2020		0.3	17.6	44.0	1.2	-3.5	62.7	-12.4	-4.8	50.5	0.2
Outstanding (at end of period)											
2020	Q1	1,086.3	58.0	83.2	1,227.6	332.9	115.1	476.3	924.3	20.5	2,172.3
	Q2	1,067.7	72.0	88.5	1,228.2	322.3	122.2	487.0	931.6	20.2	2,180.1
	Q3	1,068.1	71.5	89.5	1,229.0	318.3	123.6	502.9	944.9	24.6	2,198.5
	Q4	1,068.1	81.6	116.5	1,266.2	376.6	124.9	493.9	995.5	26.5	2,288.2
2021	Q1	1,068.3	93.6	119.2	1,281.1	353.5	135.1	529.3	1,018.0	27.5	2,326.5
	Q2	1,068.4	96.0	147.3	1,311.7	309.9	132.0	501.1	943.0	24.9	2,279.6
	Q3	1,088.5	99.5	163.7	1,351.6	278.4	136.6	470.5	885.5	27.8	2,264.9
	Q4	1,148.6	101.6	168.2	1,418.4	274.6	144.7	489.8	909.1	29.3	2,356.8
% change at end-2021 over end-2020		7.5	24.6	44.4	12.0	-27.1	15.9	-0.8	-8.7	10.4	3.0

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.

The stock and derivatives markets

5.13 The *local stock market* underwent a sharp correction in 2021. In early 2021, the HSI extended its rally in the fourth quarter of the preceding year and reached a high of 31 085 on 17 February. It then drifted lower and moved within a narrow range during the second quarter, before falling sharply through the rest of the year. Market sentiment was dampened by the prospective tightening of the US Fed's monetary policy, regulatory requirements in the Mainland, and uncertainties surrounding the global economic outlook amid the spread of more infectious COVID-19 variants and supply bottlenecks. The HSI plunged to 22 745 on 20 December before closing the year at 23 398, down by 14.1% from a year earlier. Meanwhile, *market capitalisation* shrank by 10.8% from a year earlier to \$42.4 trillion at end-2021. The local stock market ranked the seventh largest in the world and the fourth largest in Asia⁽⁹⁾.

5.14 Trading activities in the local stock market were very active during the first three quarters, though turned somewhat quieter in the fourth quarter. For the year as a whole, *average daily turnover* in the securities market soared by 28.8% to \$166.7 billion. Within the total, the average daily trading value of equities, derivative warrants, and unit trusts (including Exchange-Traded Funds (ETFs)) surged by 33.2%, 22.7% and 16.5% respectively, while that of callable bull/bear contracts⁽¹⁰⁾ declined by 5.8%. As to futures and options⁽¹¹⁾, the average daily trading volume expanded by 3.3%. Within the total, trading of stock options rose by 21.1%, while that of HSI options, HSI futures, and Hang Seng China Enterprises Index futures fell by 32.9%, 17.1% and 12.3% respectively.

Diagram 5.6 : The local stock market underwent a sharp correction in 2021

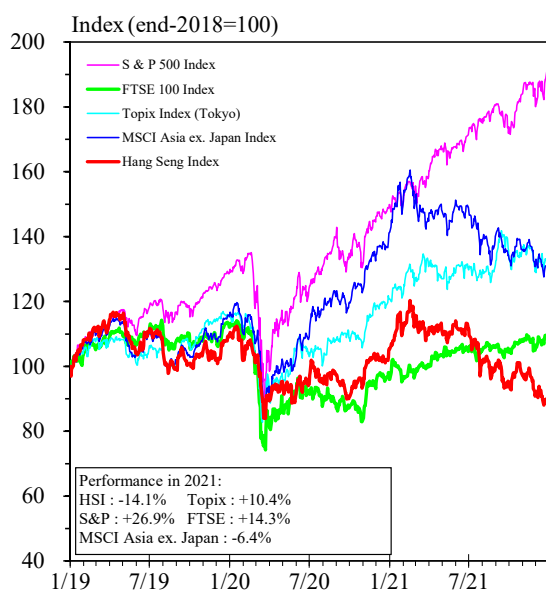
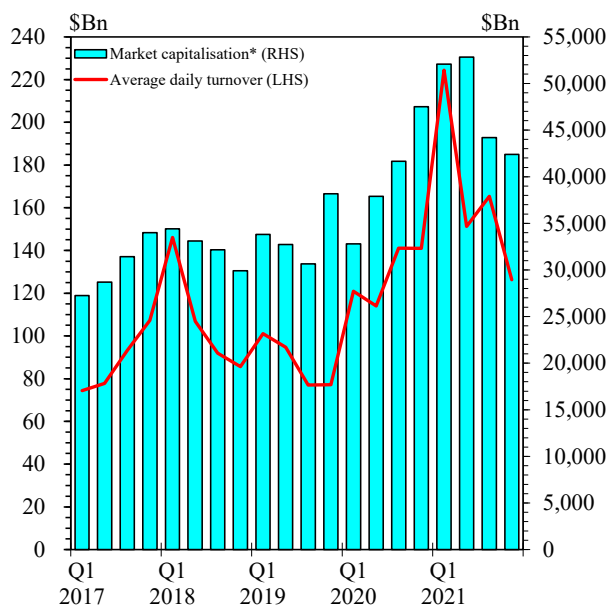


Diagram 5.7 : Market capitalisation shrank, while trading activities were very active during most of the year



Note : (*) Position at end of quarter.

Table 5.6 : Average daily turnover of futures and options of the Hong Kong market

		Hang Seng Index	Hang Seng Index	Hang Seng China		Total
		<u>futures</u>	<u>options</u>	Enterprises	Stock	futures and
				<u>Index futures</u>	<u>options</u>	<u>options traded*</u>
2020	Annual	167 209	39 405	145 608	526 191	1 137 864
	Q1	210 477	54 632	182 562	537 310	1 298 205
	Q2	161 548	37 321	135 135	465 236	1 048 166
	Q3	165 514	36 501	138 737	562 193	1 152 259
	Q4	131 196	29 237	125 993	536 318	1 032 510
2021	Annual	138 582	26 456	127 649	637 246	1 174 889
	Q1	164 096	33 963	133 426	826 689	1 410 544
	Q2	123 166	22 138	107 831	545 936	997 372
	Q3	138 989	26 926	139 745	667 391	1 225 576
	Q4	128 147	22 823	128 641	510 155	1 016 537
% change in						
2021 Q4 over		-2.3	-21.9	2.1	-4.9	-1.5
2020 Q4						
% change in						
2021 over		-17.1	-32.9	-12.3	21.1	3.3
2020						

Note : (*) 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. The Hong Kong Exchanges and Clearing Limited (HKEX) has revised the methodology for compiling the average daily turnover of total futures and options traded in the fourth quarter of 2021. The figures for earlier quarters have been revised accordingly.

5.15 Fund raising activities were buoyant in the first half of 2021 before retreating somewhat thereafter. For the year as a whole, *total equity capital raised*, comprising new share floatation and post-listing arrangements on the Main Board and GEM⁽¹²⁾, increased by 3.2% over the high level in 2020 to \$770.7 billion. Within the total, the amount of funds raised through IPOs shrank by 17.8% to \$328.9 billion. Hong Kong ranked fourth among stock exchange markets globally in terms of the amount of funds raised through IPOs in 2021.

5.16 Mainland enterprises continued to play an important role in the Hong Kong stock market. At end-2021, a total of 1 368 Mainland enterprises (including 296 H-share companies, 174 “Red Chip” companies and 898 private enterprises) were listed on the Main Board and GEM, accounting for 53% of the total number of listed companies and 79% of total market capitalisation. Mainland-related stocks accounted for 88% of equity turnover and 85% of total equity fund raised in the Hong Kong stock exchange in 2021.

5.17 The HKEX reached an agreement with the Shanghai Stock Exchange, Shenzhen Stock Exchange and China Securities Depository and Clearing Corporation in December on the Stock Connect inclusion arrangements for eligible ETFs. The inclusion of ETFs will broaden the Connect product ecosystem as well as support the continued development of the capital markets of the Mainland and Hong Kong. Details of the inclusion arrangement, including business and technical preparations, will take approximately six months to complete. The arrangement will help further expand and enhance mutual access between the two markets.

Fund management and investment funds

5.18 Performance of fund management business⁽¹³⁾ was rather resilient in 2021, notwithstanding the local stock market correction during most of the year. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹⁴⁾ rose by 3.7% over a year earlier to \$1,181.8 billion at end-2021. The monthly average gross retail sales of *mutual funds* rose by 25.4% over a year earlier to US\$8.4 billion in January – November 2021⁽¹⁵⁾.

Insurance sector

5.19 The *insurance sector*⁽¹⁶⁾ expanded further in the third quarter of 2021. Gross premium income from long-term business jumped by 26.2% over the low base a year earlier, within which premium income from non-investment linked plans (which accounted for 79% of total premium for this segment) and investment linked plans rose by 11.6% and 161.9% respectively. As to general business, gross and net premium increased by 2.8% and 6.4% respectively.

Table 5.7 : 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	
2020	Annual	60,297	40,932	2,232	120,224	12,794	26	367	133,411	193,708
	Q1	18,264	12,221	329	32,453	2,481	23 [#]	128	35,085	53,349
	Q2	15,219	10,579	295	28,259	2,089	23 [#]	67	30,438	45,657
	Q3	15,014	10,045	811	29,822	3,264	22 [#]	99	33,207	48,221
	Q4	11,800	8,087	797	29,690	4,960	N.A.	73	34,681	46,481
2021	Q1	18,267	11,950	512	34,291	6,283	6	140	40,720	58,987
	Q2	15,114	10,158	282	32,674	7,072	9	72	39,827	54,941
	Q3	15,427	10,685	429	33,272	8,548	7	92	41,919	57,346
% change in 2021 Q3 over 2020 Q3		2.8	6.4	-47.1	11.6	161.9	-68.2	-7.1	26.2	18.9

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

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

(#) The quarterly breakdowns of 2020 do not tally with the annual figure as premiums have been reclassified in the fourth quarter of 2020.

N.A. Not applicable.

Highlights of policy and market developments

5.20 The HKMA and the People's Bank of China (PBoC) jointly announced the signing of the "Memorandum of Understanding on Fintech Innovation Supervisory Cooperation in the Guangdong-Hong Kong-Macao-Greater Bay Area (GBA)" in October, under which the two authorities have agreed to link up the PBoC's Fintech Innovation Regulatory Facility with the HKMA's Fintech Supervisory Sandbox in the form of a "network". The "network link-up" aims to provide a "one-stop platform" to allow eligible financial institutions (FIs) and

technology firms to conduct pilot trials of cross-boundary fintech initiatives concurrently in Hong Kong and Mainland GBA cities. The arrangement will enable FIs and technology firms to obtain early supervisory feedback and user opinions, expediting the launch of fintech products and reducing development costs. The HKMA is working closely with the PBoC to operationalise the platform.

5.21 The HKMA released a technical whitepaper titled “e-HKD: A technical perspective” in October, as part of a study on the prospect of issuing retail central bank digital currency (CBDC) in Hong Kong under the “Fintech 2025” strategy. The whitepaper explores potential technical design options for issuing and distributing retail CBDCs. The HKMA is studying the comments received, and hopes to offer initial thoughts on retail CBDC around mid-2022.

5.22 To further encourage the use of regulatory technology (Regtech) under the “Fintech 2025” strategy, the HKMA launched the first Anti-Money Laundering (AML) Regtech Lab (AMLab) in November, which focused on using Network Analytics to address the risks of fraud-related mule accounts and enhancing data and information sharing through public-private partnership efforts in AML. The AMLab will provide a collaborative platform for ongoing peer group sharing of operational, hands-on experience of Regtech approaches, with an aim to strengthen banks’ capabilities to protect customers from fraud and financial crime losses, reduce risk displacement across the banking sector, and raise the overall effectiveness of the AML ecosystem. The initiative will be conducive to strengthening risk management and regulatory compliance in Hong Kong’s banking sector.

5.23 The Financial Reporting Council (Amendment) Bill 2021 was passed in October, enabling the Financial Reporting Council (FRC) to become a full-fledged independent regulatory body for the accounting profession. Under the new regime, the FRC will be renamed as Accounting and Financial Reporting Council and will perform expanded statutory functions, including the issuance of practising certificates to certified public accountants; registration of accounting practice units and Public Interest Entities auditors; and inspection, investigation and discipline work of the accounting profession. This will bring Hong Kong’s regulatory regime of the accounting profession more in line with international developments and with increased coherence and efficiency, hence reinforcing Hong Kong’s status as an international financial centre and business hub. The new regime will be implemented after the necessary preparatory work has been completed.

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) To meet the ongoing demand for Exchange Fund paper by banks amidst the abundance of liquidity in the banking system, the HKMA has increased the issuance size of 91-day Exchange Fund Bills since September 2021. The increase in the supply of Exchange Fund Bills is consistent with the Currency Board principles, since the additional issuance simply represents a change in the composition of the Monetary Base. By end-2021, the additional issuance size of the Bills amounted to \$80 billion in total and the Aggregate Balance decreased by the same amount.
- (3) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movements 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. Since June 2019, the composite interest rate has been calculated based on the new local “Interest rate risk in the banking book” framework. As such, the figures are not strictly comparable with those of previous months.
- (4) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against 18 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 2019 and 2020.

The Real EERI of the Hong Kong dollar is obtained by adjusting the Nominal EERI for relative movements in the seasonally adjusted consumer price indices of the respective trading partners.

- (5) The various definitions of the money supply are as follows:

M1 : Notes and coins with the public, plus customers’ demand deposits with licensed banks.

M2 : M1 plus customers’ savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks and 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. As monthly monetary statistics are subject to volatilities due to a wide range of transient factors, such as seasonal and IPO-related funding demand as well as business and investment-related activities, caution is required when interpreting the statistics.

- (6) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-2021, there were 160 licensed banks, 16 restricted licence banks and 12 deposit-taking companies in Hong Kong. Altogether, 188 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, NCDs held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (9) The ranking is based on the market capitalisation figures of global stock exchange markets and compiled by the World Federation of Exchanges and the London Stock Exchange Group.
- (10) Given the relatively small share (less than 0.5% of the daily turnover in the securities market), trading of debt securities and its movements were not analysed.
- (11) At end-2021, there were 118 classes of stock options contracts and 92 classes of stock futures contracts.
- (12) At end-2021, there were 2 219 and 353 companies listed on the Main Board and GEM respectively.
- (13) At end-2021, there was one SFC-authorized retail hedge fund with net asset size of US\$118 million. The amount of net assets under management decreased by 5.6% from end-September 2021, and represented a 7.8% decrease from a year earlier and a 26.3% decrease from end-2002, the year when the hedge funds guidelines were first issued.
- (14) At end-2021, there were 13 approved trustees. On MPF products, 24 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 411 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 323 000 employers, 2.68 million employees and 231 000 self-employed persons are estimated to have participated in MPF schemes.
- (15) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association (HKIFA) on their members, and cover only the active authorised funds that have responded to the survey. At end-November 2021, the survey covered a total of 1 383 active authorised funds.

- (16) At end-2021, there were 164 authorised insurers in Hong Kong. Within this total, 54 were engaged in long-term insurance business, 90 in general insurance business, 19 in composite insurance business, and one in special purpose business. These authorised insurers come from 22 countries and territories (including Hong Kong).

CHAPTER 6 : THE LABOUR SECTOR

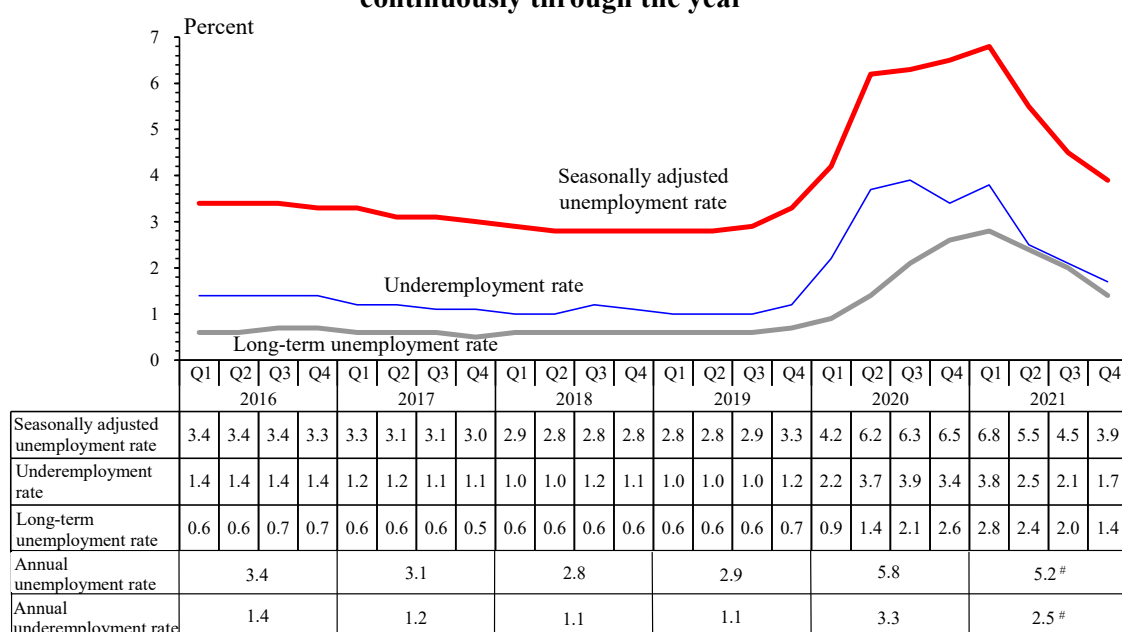
Summary

- *The labour market was under notable pressure in early 2021, but improved continuously through the year amid the sustained economic recovery and stable local epidemic situation. The Consumption Voucher Scheme rolled out in the second half of the year also helped. After reaching a 17-year high of 7.2% in December 2020 – February 2021, the seasonally adjusted unemployment rate fell successively to 3.9% in the fourth quarter of 2021. The underemployment rate also went down from the peak of 4.0% to 1.7%. For 2021 as a whole, the unemployment rate averaged 5.2%, 0.6 percentage point lower than in 2020, and the underemployment rate averaged 2.5%, also lower by 0.8 percentage point.*
- *The unemployment rates of all major sectors saw visible declines in the fourth quarter of 2021 as compared with the high levels in early 2021, particularly those of the consumption- and tourism-related sectors, the construction sector, the transportation sector, the education sector, and the arts, entertainment and recreation sector. The unemployment rates of both lower-skilled workers and higher-skilled workers declined visibly, though the former was still noticeably higher than the latter.*
- *Overall labour demand strengthened during 2021. Results of establishment surveys indicated that private sector employment increased successively after reaching a low in December 2020, leading to a year-on-year increase in September 2021. Private sector vacancies turned to a year-on-year increase in June 2021 and picked up strongly in September 2021. More recent statistics from the General Household Survey (GHS) suggested that total employment in the fourth quarter of 2021 increased further over the previous quarter and showed a wider year-on-year increase.*
- *Reversing the general trend of deceleration in the past two years or so, nominal wages and labour earnings on average showed accelerated year-on-year increases in the second quarter of 2021 and increased steadily further in the third quarter of 2021. Separately, median household income rebounded during 2021 from the low levels earlier, and showed a year-on-year increase in the fourth quarter of 2021. Yet, it was still below the pre-recession level in the second quarter of 2019.*

Overall labour market situation⁽¹⁾

6.1 The labour market was under notable pressure in early 2021, but improved continuously through the year amid the sustained economic recovery and stable local epidemic situation. The Government's support measures, including the Consumption Voucher Scheme, also helped. After reaching a 17-year high of 7.2% in December 2020 – February 2021, the seasonally adjusted *unemployment rate*⁽²⁾ fell successively to 3.9% in the fourth quarter of 2021. The *underemployment rate*⁽³⁾ also went down from the peak of 4.0% to 1.7%. For 2021 as a whole, the unemployment rate averaged 5.2%, 0.6 percentage point lower than in 2020, and the underemployment rate averaged 2.5%, also lower by 0.8 percentage point. The unemployment rates of all major sectors saw visible declines in the fourth quarter of 2021 as compared with the high levels in early 2021, particularly in the consumption- and tourism-related sectors (viz., retail, accommodation and food services sectors), the construction sector, the transportation sector, the education sector, and the arts, entertainment and recreation sector. The unemployment rates of both lower-skilled workers and higher-skilled workers declined visibly, though the former was still noticeably higher than the latter. Overall labour demand strengthened during 2021. Total private sector employment increased successively after reaching a low in December 2020, leading to a year-on-year increase in September 2021. Private sector vacancies turned to a year-on-year increase in June 2021 and picked up strongly in September 2021. Though not strictly comparable, more recent statistics from the General Household Survey (GHS) suggested that total employment increased further in the fourth quarter of 2021 over the previous quarter and showed a wider year-on-year increase. Reversing the general trend of deceleration in the past two years or so, nominal wages and labour earnings on average showed accelerated but still-modest year-on-year increases in the third quarter of 2021. Separately, median household income rebounded during 2021 from the low levels earlier, and showed a year-on-year increase in the fourth quarter of 2021. Yet, it was still 3.4% below the pre-recession level in the second quarter of 2019.

Diagram 6.1 : The labour market was under notable pressure in early 2021, but improved continuously through the year



Note : # Provisional figures.

Table 6.1 : The unemployment rate (seasonally adjusted), underemployment rate and long-term unemployment rate

		Unemployment rate* (%)	Underemployment rate (%)	Long-term unemployment rate (%)
2020	Annual	5.8	3.3	1.7
	Q1	4.2	2.2	0.9
	Q2	6.2	3.7	1.4
	Q3	6.3	3.9	2.1
	Q4	6.5	3.4	2.6
2021	Annual [#]	5.2	2.5	2.1
	Q1	6.8	3.8	2.8
	Q2	5.5	2.5	2.4
	Q3	4.5	2.1	2.0
	Q4	3.9	1.7	1.4

Notes : * Seasonally adjusted (except for annual figures).

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Labour force and total employment

6.2 The *labour force*⁽⁴⁾ declined further by 1.0% to 3 847 400 in 2021, following the record annual fall of 2.0% in 2020. The continued decline in the labour force was partly due to the decline in the working-age population (i.e. land-based non-institutionalised population aged 15 and above) which enlarged to 0.6% in 2021 from 0.3% in 2020. The further decline in the overall labour force participation rate amid population aging was another contributory factor. The overall labour force participation rate declined further by 0.3 percentage point to 59.3% in 2021, following the decline of 1.0 percentage point in 2020. Analysed by gender and by age group, the labour force participation rates of most of them showed increases in 2021 over 2020. Yet, in the fourth quarter of 2021, the labour force participation rate of many of these groups were still below their pre-recession levels, particularly those of the younger age groups of 15-24.

6.3 *Total employment*⁽⁵⁾ decreased slightly by 0.4% to 3 648 200 in 2021, after the record annual decline of 4.9% in 2020. Yet, the quarterly profile shows that total employment improved since early 2021. On a year-on-year comparison, total employment declined by 3.3% in the first quarter of 2021, showed little change in the second quarter, and turned to increases of 1.1% in the third quarter and 1.4% in the fourth quarter. On a quarter-to-quarter comparison, total employment increased successively since the second quarter. Analysed by sector, for 2021 as a whole, employment of some sectors such as manufacturing and import/export trade and wholesale fell noticeably further, continuing their general secular downtrends. Meanwhile, employment of some sectors such as construction, real estate, food and beverage service activities rebounded visibly after the noticeable falls in 2020. Employment of some other sectors, as in postal and courier activities, public administration, professional and business services, and financing, continued to increase in 2021, surpassing their pre-recession levels.

Table 6.2 : 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>
2020	Annual	3 888 200 (-2.0)	3 661 600 (-4.9)	226 600	129 500
	Q1	3 902 800 (-1.6)	3 739 100 (-3.1)	163 700	83 900
	Q2	3 881 100 (-2.3)	3 638 600 (-5.7)	242 500	144 200
	Q3	3 875 200 (-2.4)	3 619 800 (-6.0)	255 400	149 400
	Q4	3 874 400 (-1.9)	3 630 200 (-5.1)	244 200	133 300
2021	Annual [#]	3 847 400 (-1.0)	3 648 200 (-0.4)	199 200	97 600
	Q1	3 873 900 (-0.7)	3 614 100 (-3.3)	259 800	148 400
	Q2	3 853 100 (-0.7)	3 640 100 (§)	213 100	96 000
	Q3	3 838 600 (-0.9)	3 658 000 (1.1)	180 600	79 000
	Q4	3 824 000 (-1.3)	3 680 700 (1.4)	143 300	66 800
		<-0.4>	<-0.6>		

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

() % change over a year earlier.

< > Quarter-to-quarter % change for the fourth quarter of 2021.

Provisional figures.

§ Change less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.2 : Both labour force and total employment declined further for 2021 as a whole, but total employment turned to year-on-year increases in the second half of 2021

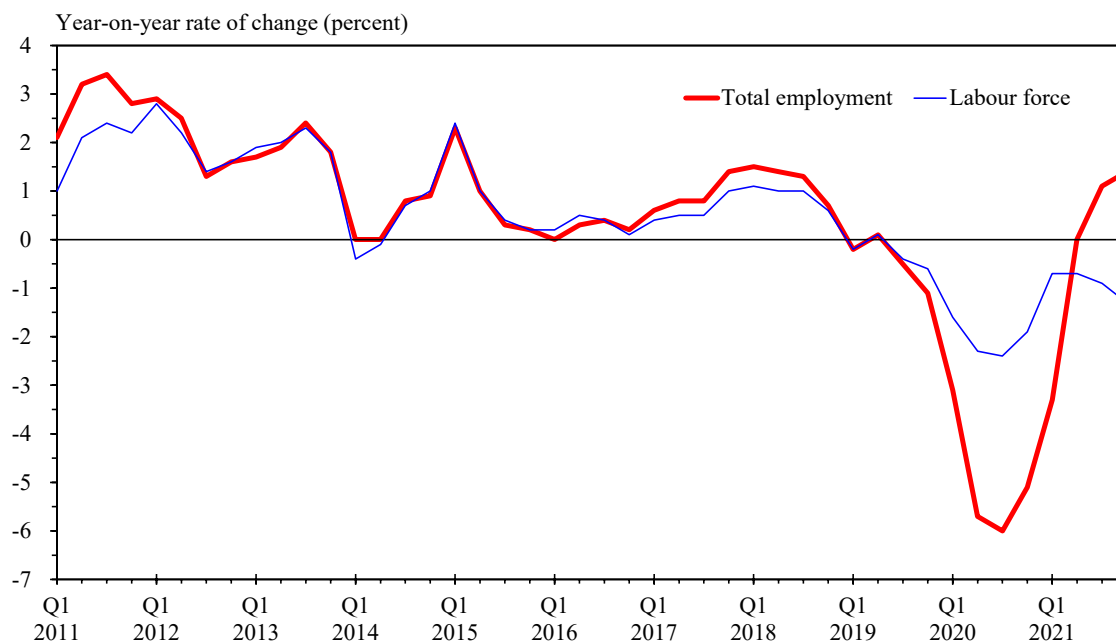


Table 6.3 : Labour force participation rates by gender and by age group (%)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021[#]</u>	<u>2021 Q4</u>
<u>Male</u>							
15-24	39.5	38.1	39.2	39.6	35.9	35.9	36.0
<i>of which:</i>							
15-19	12.9	9.9	10.4	11.4	7.3	6.8	6.3
20-24	60.7	59.2	60.2	59.8	56.7	57.5	57.9
25-29	92.9	92.6	92.9	91.4	90.7	91.6	92.4
30-39	96.4	96.6	96.4	95.9	95.0	95.2	94.7
40-49	95.0	95.2	95.1	93.9	93.5	93.6	93.9
50-59	86.0	86.7	86.9	85.1	84.7	85.3	85.1
≥ 60	29.9	30.4	32.1	31.9	31.4	31.0	30.3
Overall	68.6	68.3	68.5	67.5	66.2	65.7	65.2
<u>Female</u>							
15-24	41.9	41.5	41.1	40.8	37.1	37.2	35.5
<i>of which:</i>							
15-19	12.3	11.8	12.0	11.7	7.2	8.1	9.1
20-24	63.6	61.8	60.4	60.2	57.9	58.2	54.6
25-29	86.2	86.5	86.6	87.2	87.2	87.9	87.0
30-39	78.0	79.0	79.3	78.9	78.7	78.7	78.4
40-49	73.4	73.8	74.1	73.4	73.2	73.8	74.3
50-59	59.7	60.4	61.5	62.2	62.7	64.0	64.2
≥ 60	12.3	13.7	14.5	15.5	15.3	16.0	15.6
Overall	54.8	55.1	55.1	55.0	54.2	54.1	53.6
<u>Both genders combined</u>							
15-24	40.7	39.8	40.2	40.2	36.5	36.5	35.8
<i>of which:</i>							
15-19	12.6	10.8	11.2	11.6	7.3	7.5	7.7
20-24	62.2	60.5	60.3	60.0	57.3	57.8	56.3
25-29	89.2	89.3	89.5	89.1	88.8	89.7	89.6
30-39	85.4	86.0	86.1	85.7	85.3	85.5	85.1
40-49	82.4	82.6	82.7	81.8	81.4	81.8	82.2
50-59	72.2	72.7	73.2	72.7	72.6	73.4	73.4
≥ 60	20.7	21.7	22.9	23.3	23.0	23.2	22.6
Overall	61.1	61.1	61.2	60.6	59.6	59.3	58.8

Note : # Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

6.4 The unemployment situation was severe in early 2021, but improved notably through the year. The *seasonally adjusted unemployment rate* reached the 17-year-high of 7.2% in December 2020 – February 2021, and then fell to 6.8% in the first quarter of 2021, 5.5% in the second quarter, 4.5% in the third quarter and 3.9% in the fourth quarter. The number of unemployed persons fell markedly by 45.2% (or 118 300) from the peak of 261 600 in December 2020 – February 2021 to 143 300 in the fourth quarter of 2021. For 2021 as a whole, the unemployment rate averaged 5.2%, 0.6 percentage point lower than in 2020, and the average number of unemployed persons decreased by 12.1% (or 27 400) to 199 200.

6.5 The unemployment rates of all major sectors saw visible declines in the fourth quarter of 2021 from the high levels in early 2021. In particular, the unemployment rate the consumption- and tourism-related sectors combined fell by 5.7 percentage points from December 2020 – February 2021 to 5.4% in the fourth quarter. Among these sectors, the unemployment rate of the food and beverage service activities sector fell by 8.2 percentage points to 5.9%. The unemployment rates of many other sectors, such as construction (down 6.3 percentage points to 5.1%), transportation (down 2.6 percentage points to 4.3%), education (down 2.8 percentage points to 2.3%), and arts, entertainment and recreation (down 8.9 percentage points to 4.0%), also registered notable declines. For the *low-paying sectors*⁽⁶⁾ as a whole, the unemployment rate went down by 3.3 percentage points to 3.3%. Comparing 2021 with 2020 on an annual average basis, the unemployment rates of most major sectors decreased, with visible decreases in those of the food and beverage service activities sector (down 3.7 percentage points to 9.4%), the construction sector (down 2.3 percentage points to 8.1%), the accommodation services sector (down 1.1 percentage points to 6.8%) and the social work activities sector (down 0.7 percentage point to 2.6%). The unemployment rate of the low-paying sectors as a whole went down by 0.7 percentage point to 4.9%.

6.6 The unemployment rate of the lower-skilled workers fell by 3.6 percentage points from December 2020 – February 2021 to 4.0% in the fourth quarter of 2021, and the unemployment rate of the higher-skilled workers decreased by 2.1 percentage points to 2.5%. The unemployment rate of the lower-skilled workers remained noticeably higher than that of the higher-skilled workers. Comparing 2021 with 2020, the annual unemployment rate of the lower-skilled workers decreased by 0.9 percentage point to 5.7%, and that of the higher-skilled segment decreased by 0.2 percentage point to 3.4%.

6.7 Analysed by other socio-economic attributes and comparing 2021 with 2020, unemployment rates across all groups decreased. Analysed by age, the unemployment rate of persons aged 15-24 fell markedly by 2.8 percentage points from the record high of 15.5% in 2020 to 12.7% in 2021. The unemployment rate of persons aged 25-29 also declined visibly by 1.0 percentage point to 6.1%. Analysed by level of education attainment, the unemployment rates of those with lower secondary education (down 1.3 percentage points to 6.6%), and primary and below education (down 0.7 percentage point to 5.5%) showed more visible declines.

Diagram 6.3 : The unemployment rates of all major sectors saw visible declines in the fourth quarter of 2021 from the high levels in early 2021

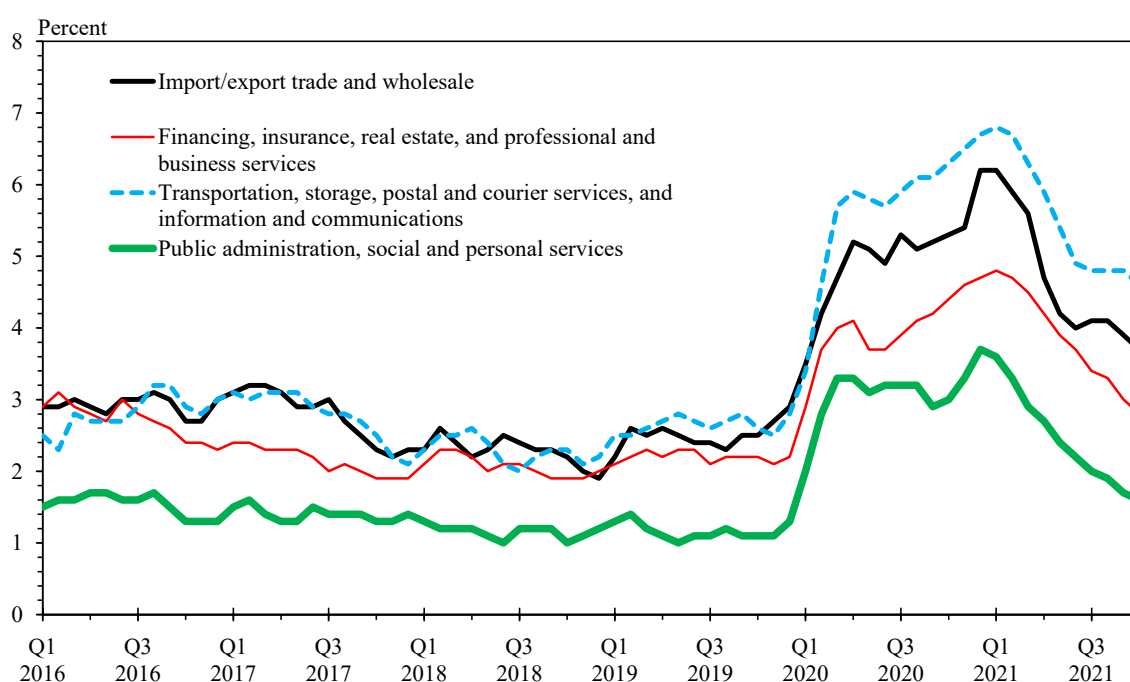
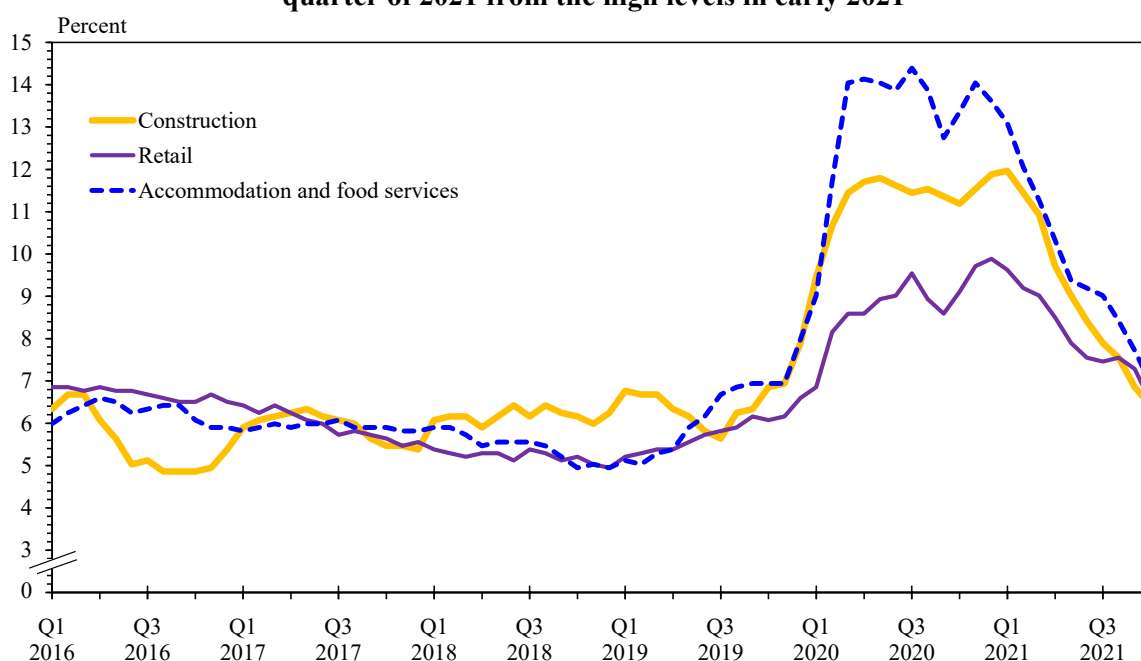


Table 6.4 : Unemployment rates by major economic sector

	<u>2020</u>					<u>2021</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u> [#]	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Import/export trade and wholesale	4.8	3.5	5.2	5.3	5.3	4.7	6.2	4.7	4.1	3.7
Retail	7.4	5.6	7.6	8.7	8.2	7.0	8.8	7.5	6.3	5.2
Accommodation and food services	12.3	8.1	14.0	14.3	13.1	9.0	12.8	9.6	8.1	5.7
Transportation, storage, postal and courier services	5.5	3.3	6.1	6.0	6.7	5.9	7.2	6.5	5.0	4.9
Information and communications	5.1	3.5	5.7	5.6	5.4	4.6	5.8	4.5	4.2	3.9
Financing and insurance	2.7	2.4	2.9	2.8	3.2	2.9	3.7	3.0	2.7	2.1
Real estate	3.4	2.4	3.2	4.0	3.8	3.0	4.2	3.1	2.6	1.9
Professional and business services	4.8	3.3	5.3	4.6	5.4	4.8	5.7	5.3	4.3	3.7
Public administration, social and personal services	2.8	2.0	3.3	3.2	3.0	2.4	3.6	2.7	2.0	1.6
Manufacturing	6.2	5.9	6.4	6.4	6.1	6.5	6.5	6.9	6.8	5.6
Construction	10.4	8.6	11.2	10.9	10.6	8.1	11.5	8.9	6.8	5.1
Overall*	5.8	4.2 (4.2)	6.2 (6.2)	6.6 (6.3)	6.3 (6.5)	5.2	6.7 (6.8)	5.5 (5.5)	4.7 (4.5)	3.7 (3.9)

Notes : * Including first-time job-seekers and re-entrants into the labour force.

() Seasonally adjusted unemployment rates.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 6.4 : The unemployment rates of lower-skilled workers and higher-skilled workers both declined visibly from the high levels in early 2021

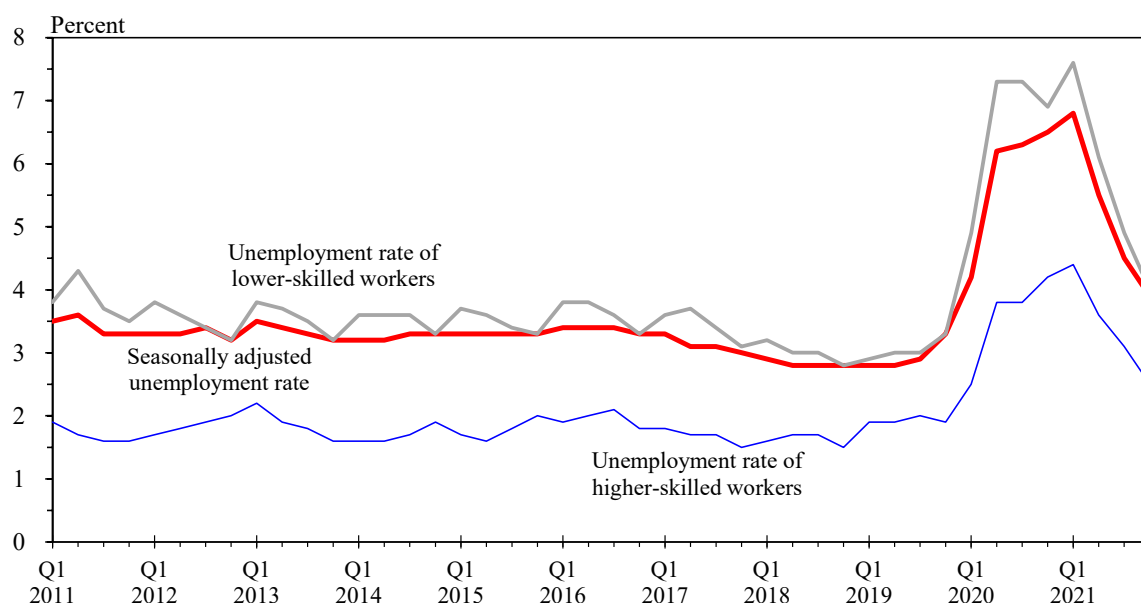


Table 6.5 : Unemployment rates* by skill segment

	2020					2021				
	Annual	Q1	Q2	Q3	Q4	Annual [#]	Q1	Q2	Q3	Q4
<u>Higher-skilled segment</u>	3.6	2.5	3.8	3.8	4.2	3.4	4.4	3.6	3.1	2.5
Managers and administrators	2.8	1.8	3.1	2.5	3.6	2.6	3.2	3.0	2.0	2.1
Professionals	2.1	1.5	2.0	2.5	2.6	2.1	2.6	2.1	2.3	1.5
Associate professionals	4.4	3.3	4.8	4.8	5.2	4.2	5.5	4.4	3.8	3.1
<u>Lower-skilled segment[^]</u>	6.6	4.9	7.3	7.3	6.9	5.7	7.6	6.1	4.9	4.0
Clerical support workers	5.5	3.8	5.7	6.5	5.8	4.9	5.8	5.1	4.3	4.3
Service and sales workers	9.1	6.5	10.7	10.2	9.7	7.7	11.3	7.9	6.8	5.0
Craft and related workers	10.1	9.4	11.2	9.7	10.5	7.4	10.4	8.3	6.2	4.7
Plant and machine operators and assemblers	5.0	3.8	5.7	5.6	5.2	4.4	5.8	4.9	3.5	3.4
Elementary occupations	4.5	3.2	4.7	5.1	4.6	4.3	5.6	5.0	3.5	3.0

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

^ Including other occupations.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

Table 6.6 : Unemployment rates* by age and educational attainment

	<u>2020</u>					<u>2021</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u> [#]	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
<u>Age</u>										
15-24	15.5	10.1	14.6	20.3	17.3	12.7	13.5	13.7	15.0	8.7
<i>of which:</i>										
15-19	18.9	12.9	19.0	25.2	17.6	15.7	16.5	18.4	16.8	11.5
20-24	15.2	9.9	14.3	19.8	17.2	12.5	13.3	13.3	14.8	8.4
25-29	7.1	5.1	7.8	7.9	7.8	6.1	7.3	6.2	6.1	4.8
30-39	4.2	3.0	4.6	4.5	4.4	3.9	5.0	4.2	3.5	2.9
40-49	4.7	3.8	4.9	4.9	4.9	4.2	5.5	4.7	3.5	3.2
50-59	6.0	4.0	6.8	6.9	6.6	5.4	7.7	5.9	4.4	3.7
≥ 60	5.2	3.9	5.9	5.4	5.5	4.7	6.8	5.0	3.7	3.3
<u>Educational attainment</u>										
Primary education and below	6.2	4.2	7.4	7.2	5.9	5.5	8.6	5.7	4.4	3.1
Lower secondary education	7.9	5.9	8.8	8.0	8.8	6.6	8.7	7.1	5.8	4.7
Upper secondary education [^]	5.9	4.3	6.6	6.5	6.3	5.4	7.2	6.0	4.5	3.9
Post-secondary education	5.1	3.6	5.0	6.1	5.7	4.5	5.3	4.7	4.6	3.5

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

^ Including craft courses.

Provisional figures.

Source : General Household Survey, Census and Statistics Department.

6.8 Indicators for the intensity of unemployment show that the situation was severe in the earlier part of 2021, but improved continuously in the rest of the year. The long-term unemployment rate (i.e. the proportion of persons unemployed for six months or longer in the labour force) reached a record high of 2.8% in the first quarter of 2021, before declining successively to 1.4% in the fourth quarter. For 2021 as a whole, it averaged 2.1%, 0.4 percentage point higher than in 2020, and compared with the average level of 0.7% in the ten years to 2019. The number of long-term unemployed persons likewise reached a record high of 108 200 in the first quarter of 2021, and then fell by 51.5% (or 55 700) to 52 500 in the fourth quarter. Its share in total unemployment went down from the high level of 41.7% in the first quarter of 2021 to 36.6% in the fourth quarter. The median duration of unemployment, after rising to a record high of 154 days in February – April 2021, shortened visibly to 98 days in the fourth quarter but was still visibly longer than the average of 63 days in 2018 before the recession. As for the proportion of dismissal or lay-offs in the total number of unemployed persons (not including first-time job-seekers and re-entrants into the labour force), it reached an 11-year high of 62.1% in the March – May 2021, before declining successively to 54.6% in the fourth quarter.

Profile of underemployment

6.9 The underemployment situation was difficult in early 2021, but improved notably in the rest of the year. The underemployment rate rose to a post-SARS high of 4.0% in December 2020 – February 2021, and then declined successively to 1.7% in the fourth quarter of 2021. The number of underemployed persons fell markedly by 56.8% (or 87 800) from the peak of 154 600 in December 2020 – February 2021 to 66 800 in the fourth quarter of 2021. For 2021 as a whole, the underemployment rate averaged 2.5%, down by 0.8 percentage point from the 16-year-high of 3.3% in 2020, and the average number of underemployed persons fell notably by 31 900 from the previous year to 97 600. Analysed by sector, the underemployment rates of almost all major sectors saw decreases in 2021 as compared with 2020. The underemployment rate of the retail, accommodation and food services sectors combined decreased by 2.1 percentage points from the annual record of 5.6% in 2020 to 3.5% in 2021. Among these sectors, the underemployment rates of the food and beverage service activities sector and the accommodation services sector both went down by 3.3 percentage points, to 4.5% and 2.8% respectively. The underemployment rate of the decoration, repair and maintenance for buildings sector also declined visibly (down 3.7 percentage points to 10.9%). Analysed by skill segment, the underemployment rate of the lower-skilled segment fell by 1.1 percentage points

from the previous year to 3.3% in 2021, and that of the higher-skilled segment decreased by 0.4 percentage point to 1.4%.

Profile of employment in establishments

6.10 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available up to September 2021. Attempts have been made to bring the analysis more up-to-date by drawing reference to information from supplementary sources wherever possible.

6.11 Overall labour demand strengthened during 2021 from the weak situation earlier. Total private sector employment, after reaching a low in December 2020, increased successively to 2 715 500 in September 2021, which was 0.3% higher than a year ago, arresting the year-on-year declines recorded since June 2019. Analysed by sector, employment in many selected sectors continued to increase in September 2021 over a year earlier, more notably for manual workers at construction sites (up 13.2%), employment in food and beverage services (up 5.2%), accommodation services (up 5.0%) and real estate (up 4.3%), though the increases in some sectors reflected in part the low bases of comparison a year earlier. As for those sectors that registered declines in employment, some saw narrower rates of decline, such as import and export trade (down 1.9%), and arts, entertainment, recreation and other services (down 1.1%). Analysed by establishment size, employment in *small and medium-sized enterprises (SMEs)*⁽⁷⁾ increased by 1.9% in September 2021 over a year earlier, while that of the large enterprises decreased by 0.9%. Taking the first three quarters of 2021 as a whole, private sector employment decreased by 0.9% from a year earlier, narrower than the annual decline of 4.5% in 2020. As for the civil service, employment decreased slightly by 0.2% in both September 2021 and in the first nine months of 2021 combined from the respective periods in 2020.

Table 6.7 : Employment by major economic sector

	<u>2020</u>					<u>2021</u>		
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>
Import/export trade and wholesale	452 300 (-10.8)	475 400 (-8.5)	450 200 (-12.0)	444 700 (-11.3)	439 000 (-11.4)	434 600 (-8.6)	434 900 (-3.4)	435 100 (-2.2)
Retail	251 100 (-6.3)	254 900 (-6.5)	249 400 (-8.1)	249 800 (-6.5)	250 300 (-4.1)	249 900 (-2.0)	248 100 (-0.5)	248 500 (-0.5)
Accommodation ^(a) and food services	246 600 (-13.8)	259 500 (-11.7)	248 700 (-15.3)	242 000 (-13.8)	236 100 (-14.4)	239 900 (-7.5)	252 000 (1.3)	254 500 (5.1)
Transportation, storage, postal and courier services	173 800 (-3.7)	177 300 (-1.9)	176 100 (-2.3)	175 000 (-3.0)	166 800 (-7.5)	165 500 (-6.7)	168 700 (-4.2)	167 200 (-4.4)
Information and communications	110 200 (-0.3)	109 700 (-0.8)	110 800 (-0.2)	110 300 (-0.1)	109 900 (-0.3)	109 300 (-0.4)	108 800 (-1.8)	108 400 (-1.7)
Financing, insurance, real estate, professional and business services	761 700 (0.2)	758 800 (§)	759 900 (-0.1)	764 600 (0.5)	763 500 (0.4)	761 600 (0.4)	765 700 (0.8)	772 000 (1.0)
Social and personal services	532 000 (-0.6)	532 300 (0.3)	531 000 (-0.5)	531 800 (-0.9)	532 900 (-1.3)	534 700 (0.5)	532 500 (0.3)	533 600 (0.3)
Manufacturing	83 400 (-4.0)	84 200 (-4.8)	84 200 (-3.7)	83 300 (-3.5)	81 900 (-4.1)	81 200 (-3.6)	79 200 (-6.0)	78 400 (-5.9)
Construction sites (covering manual workers only)	97 200 (-4.5)	101 100 (-5.9)	97 600 (-4.9)	93 900 (-3.1)	96 100 (-3.8)	102 700 (1.6)	106 100 (8.6)	106 300 (13.2)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 719 500 (-4.5)</i>	<i>2 764 300 (-3.8)</i>	<i>2 719 000 (-5.1)</i>	<i>2 706 900 (-4.4)</i>	<i>2 687 900 (-4.7)</i>	<i>2 690 700 (-2.7)</i>	<i>2 707 300 (-0.4)</i>	<i>2 715 500 (0.3)</i>
		<-1.8>	<-1.6>	<-0.5>	<-0.8>	<0.3>	<0.6>	<0.2>
<i>Civil service^(c)</i>	<i>177 200 (0.7)</i>	<i>177 700 (1.6)</i>	<i>177 300 (1.2)</i>	<i>176 800 (0.1)</i>	<i>177 000 (-0.2)</i>	<i>177 600 (-0.1)</i>	<i>176 900 (-0.3)</i>	<i>176 400 (-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 the difference in sectoral coverage: while the former survey covers selected major sectors, the latter survey covers all sectors in the economy.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) 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.

(c) 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 % change compared with the level three months ago.

§ Change less than 0.05%.

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

Vacancies

6.12 Reflecting the strengthening of labour demand, private sector vacancies turned to a year-on-year increase in June 2021. At 54 560 in September 2021, it represented a surge of 40.2% over a year earlier or 20.1% over three months ago after seasonal adjustment. Taking the first three quarters of 2021 as a whole, the number of private sector job vacancies increased by 15.8% over a year earlier, after an annual decline of 42.6% in 2020.

6.13 In September 2021, the numbers of vacancies in all selected sectors increased on a year-on-year comparison, with those in the human health services sector (up 113.8%), the accommodation services sector (up 94.5%), the food and beverage services sector (up 77.4%), the arts, entertainment, recreation and other services sector (up 72.8%), the manufacturing sector (up 50.7%), the retail sector (up 49.8%), and the education sector (up 47.4%) showing sharp increases. Analysed by occupational category, the numbers of vacancies in both lower-skilled and higher-skilled segments increased visibly, by 37.3% and 43.8% respectively. Analysed by establishment size, the numbers of vacancies in large enterprises and SMEs increased by 45.5% and 28.8% respectively. Separately, the number of job openings in the civil service rose by 20.6% to 15 960.

6.14 Reflecting the improvement in manpower demand, the ratio of job vacancies per 100 unemployed persons went up from 15 in March 2021 to 21 in June 2021 and 30 in September 2021. Analysed by skill segment, the ratio in the higher-skilled segment rose from 27 in March 2021 to 36 in June 2021 and 53 in September 2021, and that in the lower-skilled segment went up from 12 to 18 and 27. Manpower shortage situation remained acute in the residential care and social work services sector, where the ratio stayed high at 194 in September 2021.

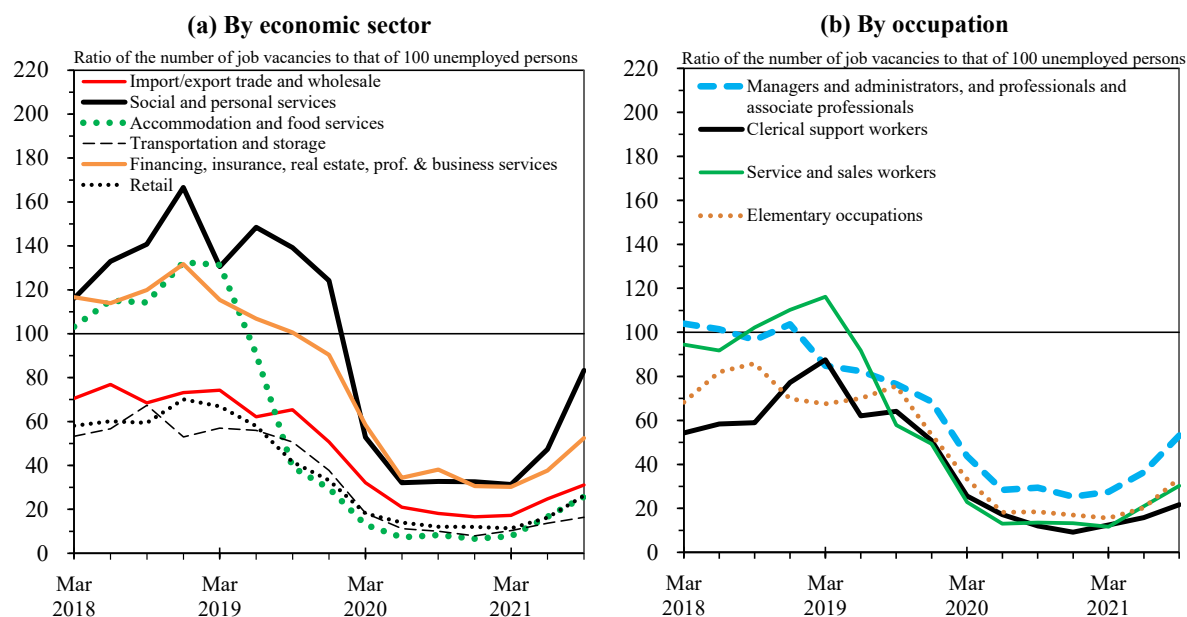
Table 6.8 : Vacancies by major economic sector

	<u>Number of vacancies</u>								Vacancy rate in Sep 2021 (%)
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	
Import/export trade and wholesale	3 450 (-42.9)	4 080 (-40.1)	3 670 (-43.3)	3 180 (-48.4)	2 880 (-39.4)	3 510 (-13.9)	3 840 (4.8)	4 070 (27.9)	0.9
Retail	3 060 (-54.3)	3 050 (-63.5)	3 160 (-58.8)	3 140 (-47.3)	2 910 (-40.2)	2 970 (-2.6)	3 450 (9.4)	4 710 (49.8)	1.9
Accommodation ^(a) and food services	2 830 (-69.4)	2 910 (-80.2)	2 840 (-74.6)	3 180 (-49.1)	2 400 (-50.6)	2 760 (-5.2)	4 330 (52.4)	5 760 (81.2)	2.2
Transportation, storage, postal and courier services	2 180 (-43.6)	2 590 (-45.8)	2 280 (-44.2)	2 090 (-45.0)	1 760 (-37.4)	2 520 (-2.9)	2 930 (28.5)	2 580 (23.4)	1.5
Information and communications	1 900 (-33.2)	2 190 (-25.6)	2 040 (-32.9)	1 740 (-39.4)	1 650 (-35.6)	1 670 (-24.1)	1 930 (-5.5)	2 290 (31.8)	2.1
Financing, insurance, real estate, professional and business services	13 010 (-31.8)	14 660 (-28.7)	12 360 (-38.6)	13 060 (-29.6)	11 950 (-29.7)	12 980 (-11.4)	14 000 (13.3)	16 000 (22.5)	2.0
Social and personal services	11 300 (-32.4)	11 400 (-36.2)	11 650 (-32.3)	11 490 (-31.3)	10 660 (-29.2)	11 970 (5.1)	13 550 (16.3)	17 570 (52.9)	3.2
Manufacturing	710 (-68.0)	760 (-69.6)	750 (-71.7)	760 (-60.3)	560 (-68.5)	690 (-9.0)	940 (24.4)	1 150 (50.7)	1.4
Construction sites (covering manual workers only)	240 (-64.6)	500 (-42.6)	240 (-68.5)	140 (-75.2)	80 (-84.3)	80 (-84.3)	250 (2.5)	160 (14.7)	0.2
<i>All establishments surveyed in the private sector^(b)</i>	<i>38 840 (-42.6)</i>	<i>42 270 (-46.9)</i>	<i>39 120 (-46.7)</i>	<i>38 910 (-38.3)</i>	<i>35 060 (-35.6)</i>	<i>39 350 (-6.9)</i>	<i>45 440 (16.2)</i>	<i>54 560 (40.2)</i>	<i>2.0</i>
		<-24.3>	<-7.3>	<-0.4>	<-7.9>	<9.5>	<15.7>	<20.1>	
<i>Civil service^(c)</i>	<i>12 560 (24.8)</i>	<i>10 660 (8.6)</i>	<i>11 320 (10.3)</i>	<i>13 240 (32.7)</i>	<i>15 040 (47.4)</i>	<i>15 140 (42.0)</i>	<i>15 540 (37.3)</i>	<i>15 960 (20.6)</i>	<i>8.3</i>

- Notes : Vacancy rate refers to the ratio of vacancies to total employment opportunities (actual employment plus vacancies).
- (a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.
- (b) 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.
- (c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.
- () % change over a year earlier.
- < > Seasonally adjusted % change compared with the level three months ago.

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

Diagram 6.5 : Manpower balance situation saw further improvement in September 2021



6.15 The vacancy rate for private sector establishments, measured in terms of the number of job vacancies as a percentage of total employment opportunities, went up from 1.4% in March 2021 and 1.7% in June 2021 to 2.0% in September 2021, though this was still somewhat lower than the annual average of around 2.4% in the ten years to 2019 before the deep recession in 2020. Most major sectors recorded higher vacancy rates in September 2021 compared with the levels three months ago, with visible increases observed in human health services and accommodation services.

6.16 Information on job vacancies in the private sector received by the Labour Department (LD) may provide some hints on the latest developments in the labour market. The number of such vacancies went up further by 4% over the preceding quarter to a monthly average of 107 300 in the fourth quarter of 2021, registering a marked increase of 74% over the low base a year earlier. It was only 7% lower than the pre-recession monthly average in the second quarter of 2019.

Wages and earnings

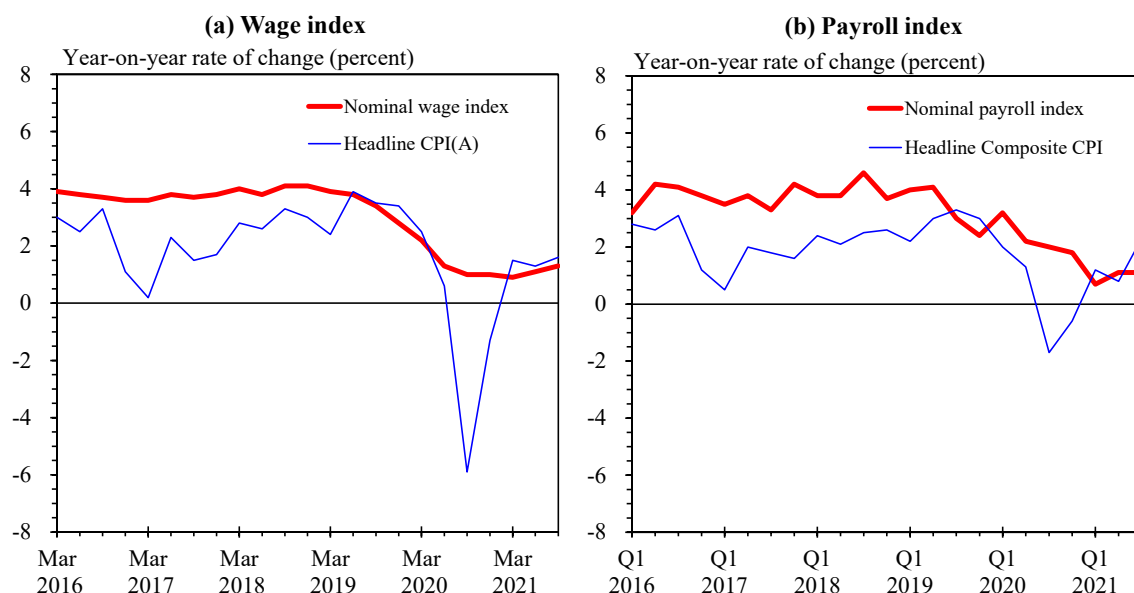
6.17 Nominal wages and labour earnings on average showed accelerated but still-modest year-on-year increases in the second quarter of 2021, reversing the general trend of deceleration in the past two years or so, and increased steadily further in the third quarter of 2021. The year-on-year increase in the average nominal wage rate, as measured by the nominal *wage* index for all selected industry sections which covers regular payment to employees at the supervisory level or below, accelerated from 0.9% in March 2021, which was the slowest in over 11 years, to 1.1% in June 2021 and 1.3% in September 2021. For the first nine months of 2021 combined, the average nominal wage rate rose by 1.1% year-on-year, slightly slower than the 1.3% increase registered for 2020 as a whole. After discounting for headline inflation⁽⁸⁾, wages in real terms decreased slightly by 0.2% in September 2021 and by 0.4% in the first nine months of 2021 combined, as the year-on-year increases in the headline Consumer Price Index (A) in the respective periods were enlarged by the low base effect caused by the Government's one-off relief measures.

6.18 The average nominal wage rates in most selected sectors continued to show year-on-year increases in September 2021, notably for those in real estate leasing and maintenance management (up 2.9%), and financial and insurance activities (up 2.5%). Average nominal wage rate in the transportation sector recorded a narrower year-on-year decline of 0.5% than that in June 2021. Analysed by occupation, all selected occupations saw increases in average nominal wage rates over a year earlier, with the increase in that of miscellaneous non-production workers (up 2.7%) more notable.

6.19 Likewise, *labour earnings*⁽⁹⁾, as measured by the index of payroll per person engaged for all selected industry sections which also covers overtime pay, discretionary bonuses and other irregular payments, increased by 0.7% year-on-year in nominal terms in the first quarter of 2021, the slowest in over 11 years. It then showed an accelerated increase of 1.1% in the second quarter of 2021, arresting the general trend of deceleration since the second half of 2019, and saw a further modest increase of 1.1% in the third quarter of 2021. Taking the first three quarters of 2021 together, labour earnings increased by 1.0% in nominal terms, slower than the 2.4% gain recorded for 2020 as a whole. After discounting for headline inflation, labour earnings in real terms decreased by 1.1% year-on-year in the third quarter of 2021 and 0.5% in the first three quarters of 2021 combined, as the year-on-year increases in the headline Composite Consumer Price Index in the respective periods were enlarged by the low base effect caused by the Government's one-off relief measures.

6.20 Analysed by sector and on a year-on-year comparison, labour earnings in the consumption-related sectors, i.e. accommodation and food service activities, and retail trade, switched to nominal increases of 0.9% and 0.2% respectively in the third quarter of 2021. The improvement also reflected the positive effect of the Consumption Voucher Scheme on consumer sentiment and spending. Meanwhile, most other sectors continued to see year-on-year nominal increases in labour earnings. On the other hand, nominal labour earnings in transportation, storage, postal and courier services continued to fall, but at a decelerated pace of 2.1% as compared to that in the preceding quarter.

Diagram 6.6 : Nominal wages and labour earnings on average showed accelerated increases in the second quarter of 2021, reversing the general trend of deceleration in the past two years or so



Note : The year-on-year rates of change of the CPIs from the fourth quarter of 2020 onwards are computed from the new 2019/20-based series, and those before are from the old 2014/15-based series.

6.21 More recent statistics compiled from the GHS, though not strictly comparable to those from the business establishment surveys, suggested that earnings of low-income workers stayed on the rise throughout 2021. *Average monthly employment earnings*⁽¹⁰⁾ of full-time employees (excluding foreign domestic helpers) of the lowest three decile groups combined increased by 4.1% year-on-year in nominal terms in the fourth quarter of 2021, faster than the respective increases of 2.2%, 2.9% and 2.6% in the first three quarters. It was also faster than the inflation rate of 2.5% as measured by the headline CPI(A) and that of 1.2% as measured by the underlying CPI(A) in the fourth quarter. For 2021 as a whole, the increase averaged 2.7% in nominal terms. This was slightly below the headline CPI(A) inflation of 2.9% which was enlarged by low base effect caused by the Government's one-off relief measures a year ago, but was visibly higher than the underlying CPI(A) inflation of 0.8% which netted out the effect of these measures. Meanwhile, as the employment situation improved, the median monthly household income (excluding foreign domestic helpers) rebounded during 2021 from the low levels earlier, and showed a year-on-year increase of 7.5% in nominal terms in the fourth quarter of 2021. Yet, it was still 3.4% below the pre-recession level in the second quarter of 2019.

Highlights of labour-related measures and policy developments in 2021

6.22 The Government continued to implement various measures to help job seekers secure employment. In particular, under Job Creation Scheme 2.0 which was launched following the Government's allocation of \$6.6 billion in the 2021-22 *Budget*, around 31 000 jobs were created as at end-2021, comprising around 16 000 jobs in the government sector and some 15 000 jobs in the non-governmental sector. Separately, the third and fourth tranches of the Love Upgrading Special Scheme were launched by the Employees Retraining Board in January and July 2021 respectively, each of which lasted for six months and provided 20 000 training places with allowance. As for the Greater Bay Area Youth Employment Scheme launched in January 2021, nearly 3 500 job vacancies were offered by over 400 enterprises under the Scheme to graduates who were awarded bachelor's degrees or above from 2019 to 2021. Graduates responded positively and made over 20 000 job applications. As at end-2021, 1 090 graduates reported duty.

6.23 To enrich Hong Kong's talent pool, in her 2021 Policy Address, the Chief Executive announced measures to attract non-local talents more proactively, as well as other measures to nurture talent. Among these measures, the annual quota under the Quality Migrant Admission Scheme (QMAS) has been increased from 2 000 to 4 000. Moreover, upon the completion of a review, the Government decided to add two new professions of "professionals in compliance in asset management" and "financial professionals in Environmental, Social and Governance (ESG)" to the Talent List, expand the scope of some existing professions to include experts of "medical and healthcare sciences", "microelectronics", "integrated circuit design" and "arts technology", and refine the requirements on legal and dispute resolution professionals, with a view to complementing Hong Kong's future policy direction to develop relevant key areas. The updated Talent List now comprises 13 professions. Qualified talents under the Talent List would get bonus marks under the QMAS. Separately, to support the research work of the higher education sector, the \$3 billion Research Matching Grant Scheme has been extended to 2024.

6.24 In early 2021 when the local epidemic situation was severe, LD introduced online job fairs and continued to provide employment and recruitment services through telephone and online platforms such as the Interactive Employment Service website. As the situation stabilised, LD gradually resumed the organisation of district-based job fairs in LD's job centres, recruitment activities in industry-based recruitment centres and large-scale job fairs. In 2021, LD organised 13 large-scale physical job fairs and four online

job fairs. A total of 312 organisations participated in the physical job fairs, offering more than 16 700 vacancies. Separately, over 6 800 vacancies were provided by 160 organisations joining the online job fairs. The job opportunities were from various industries including business services, finance, retail, property management, catering, etc. LD also organised more thematic job fairs on various topics for individual industries with recruitment needs, such as property management and security, elderly care, and logistics and transportation industries, to help job seekers secure employment. In 2021, LD conducted 197 thematic job fairs, soaring by 140% over the 82 thematic job fairs in 2020.

6.25 The Employment (Amendment) Bill 2021 was passed by the Legislative Council in July 2021. Starting 2022, the number of statutory holidays will be increased progressively from originally 12 days, with one additional day every two years, to 17 days. The first additional statutory holiday will be the Birthday of the Buddha in 2022.

6.26 The Minimum Wage Commission commenced a new round of review on the Statutory Minimum Wage (SMW) rate and conducted focused consultation meetings with stakeholders of LPS in September 2021 to gauge their views on the SMW.

6.27 The Government announced in October 2021 the refinements of the Government subsidy scheme for the abolition of the offsetting arrangement under the Mandatory Provident Fund System, which aimed to provide more targeted assistance to employers, especially micro, small and medium-sized enterprises, to adapt to the policy change.

Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. The statistics of the three-month periods of November 2019 – January 2020 to October – December 2020 have been revised to take into account the final end-2020 population estimates.

The classification of occupation adopted by the Census and Statistics Department follows the International Standard Classification of Occupations (ISCO), which is used to classify the occupation of an employed person or the previous occupation of an unemployed person. After the implementation of the new ISCO, 2008 (ISCO-08), the General Household Survey has been enhanced to adopt the ISCO-08 in compiling labour force statistics by occupation, with statistics backcasted to the quarter of January – March 2011. Starting from the reference quarter of January – March 2011, all the labour force statistics by occupation, unless otherwise specified, are compiled based on the ISCO-08.

- (2) 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); (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.

- (3) 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.

- (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) 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).
- (6) The low-paying sectors as identified by the fifth-term Minimum Wage Commission include:
 - (i) retail (including supermarkets and convenience stores, and other retail stores);
 - (ii) food and beverage services (including Chinese restaurants, non-Chinese restaurants, fast food cafes, Hong Kong style tea cafes, and other food and beverage services);
 - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
 - (iv) other low-paying sectors, including
 - elderly homes;
 - laundry and dry cleaning services;
 - hairdressing and other personal services;
 - local courier services; and
 - food processing and production.
- (7) Manufacturing enterprises which employ fewer than 100 persons and non-manufacturing enterprises which employ fewer than 50 persons are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same business registration number and engaged in the same industry/services group are combined into one business unit (enterprise) 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 persons will be considered as a single large enterprise, instead of separate SMEs. An establishment is an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location (e.g. a branch or an outlet of a company).
- (8) Different consumer price indices (CPIs) are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the headline 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 headline CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
- (9) In addition to wages, which include all regular and guaranteed 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.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 7 : PRICES

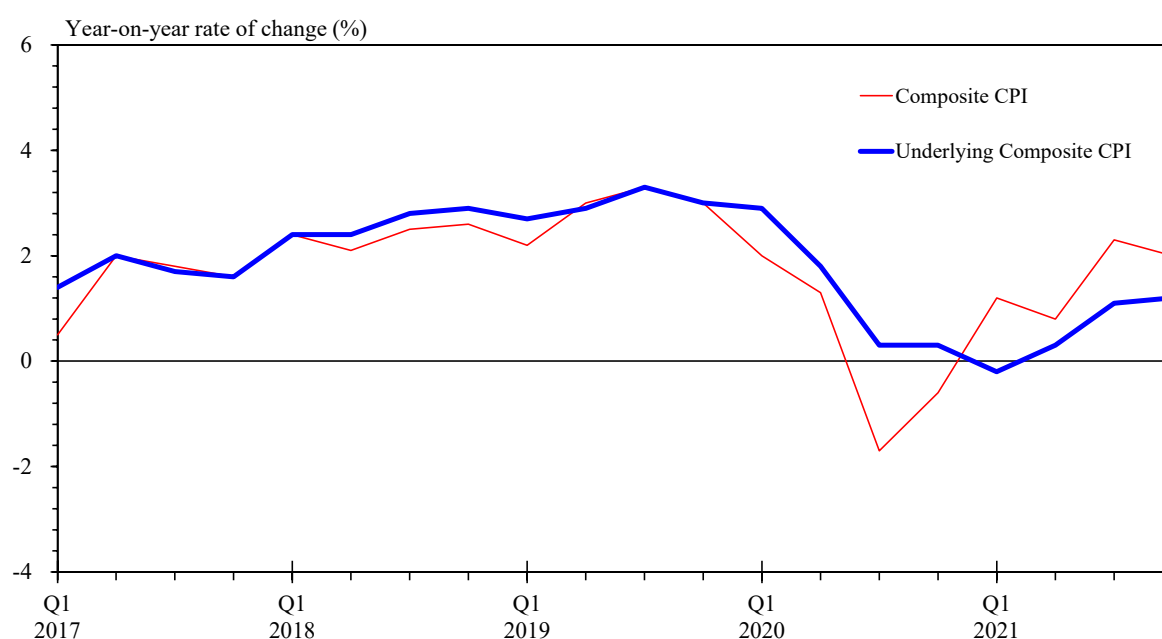
Summary

- *Underlying consumer price inflation went up modestly over the course of 2021 alongside the economic recovery and higher import prices. Prices of some consumption items saw accelerated increases in the second half of the year amid the stabilised local epidemic situation and improved demand. The low bases of comparison for some items such as transport and meals out and takeaway food also contributed. Offsetting these developments were the softening of the private housing rental component and modest increase in basic food prices. The underlying Composite Consumer Price Index (Composite CPI)⁽¹⁾, which nets out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, saw its year-on-year rate of change rose successively from -0.2% in the first quarter of 2021 to 1.2% in the fourth quarter. For 2021 as a whole, underlying inflation averaged 0.6%, down from 1.3% in 2020.*
- *The headline Composite CPI inflation rate rose from 0.3% in 2020 to 1.6% in 2021, mainly reflecting the low base of comparison caused by the more sizeable Government's one-off relief measures in 2020 as compared to 2021.*
- *Domestically, private housing rentals recorded decline through the year as the earlier retreat in fresh-letting residential rentals continued to feed through. On business costs, wage growth remained modest, while commercial rentals stayed soft.*
- *External price pressures increased visibly in 2021 under the combined effects of higher inflation in some major economies amid supply chain bottlenecks and strong demand revival, as well as the surges in shipping costs and international commodity and energy prices. The lower exchange values of the US dollar vis-à-vis other major currencies also contributed. Against this background, prices of overall merchandise imports rose visibly, particularly so in the second half of the year.*

Consumer prices

7.1 Underlying consumer price inflation went up modestly over the course of 2021 alongside the notable improvement in global and local economic conditions. Domestically, a number of CPI components saw faster year-on-year increases in the second half of the year amid the stabilised local epidemic situation and the revival in consumption demand. The low bases of comparison for some CPI items such as transport and meals out and takeaway food also contributed. Yet, the private housing rental component registered decline through the year as the earlier retreat in fresh-letting residential rentals continued to feed through. As to business costs, wage growth remained modest, while commercial rentals stayed soft. External price pressures intensified in 2021, as some major import sources saw higher inflation under the combined effects of demand revival and supply chain bottlenecks. The surges in shipping costs as well as international commodity and energy prices, and the softer US dollar also contributed. As a result, prices of merchandise imports picked up noticeably, particularly so in the second half of 2021.

Diagram 7.1: Underlying consumer price inflation went up modestly over the course of 2021



Note : The year-on-year rates of change of the CPIs from the fourth quarter of 2020 onwards are computed from the new 2019/20-based series, and those before are from the old 2014/15-based series.

7.2 Underlying consumer price inflation, in terms of the year-on-year rate of change in the underlying Composite CPI which nets out the effects of the Government's one-off relief measures to reflect the underlying inflation trend, turned from -0.2% in the first quarter of 2021 to 0.3% in the second quarter and went up further to 1.1% and 1.2% in the third and fourth quarters respectively. For 2021 as a whole, the underlying Composite CPI rose modestly by 0.6%, as compared to the 1.3% increase in 2020. The slower annual underlying inflation was mainly attributable to the decline in private housing rentals and a moderated increase in basic food prices amid falling pork prices. In contrast, the headline Composite CPI inflation rate rose from 0.3% in 2020 to 1.6% in 2021. The higher headline inflation rate was mainly due to the lower base of comparison caused by the more sizeable Government's one-off relief measures in 2020. These included the payment of two more months of public housing rentals by the Government alongside rent waiver for tenants by the Hong Kong Housing Society, the larger amount of electricity charge subsidy and higher ceiling of rates concessions for each domestic rateable tenement in the fourth quarter of 2020.

Table 7.1 : Consumer Price Indices
(year-on-year rate of change (%))

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying^(a)</u>	<u>Headline</u>			
2020	Annual	1.3 ^(b)	0.3 ^(b)	-0.6 ^(b)	0.6 ^(b)	0.8 ^(b)
	H1	2.4	1.6	1.3	1.9	1.8
	H2	0.3 ^(b)	-1.1 ^(b)	-2.4 ^(b)	-0.6 ^(b)	-0.2 ^(b)
	Q1	2.9	2.0	1.1	2.4	2.4
	Q2	1.8	1.3	1.6	1.4	1.1
	Q3	0.3	-1.7	-4.2	-0.6	-0.1
	Q4	0.3	-0.6	-0.7	-0.6	-0.3
2021	Annual	0.6	1.6	2.9	1.0	0.9
	H1	*	1.0	2.5	0.3	0.2
	H2	1.2	2.1	3.2	1.6	1.5
	Q1	-0.2	1.2	3.3	0.3	*
	Q2	0.3	0.8	1.6	0.4	0.4
	Q3	1.1	2.3	4.0	1.4	1.3
	Q4	1.2	2.0	2.5	1.8	1.7

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

2020	Q1	0.8	-0.7	-2.4	-0.1	0.3
	Q2	*	0.7	2.0	0.1	-0.1
	Q3	-0.6	-2.2	-4.5	-1.2	-0.6
	Q4	0.1	1.6	4.4	0.5	0.1
2021	Q1	0.3	1.1	1.6	0.9	0.6
	Q2	0.4	0.3	0.3	0.2	0.4
	Q3	0.3	-0.8	-2.2	-0.2	0.2
	Q4	0.3	1.4	2.7	0.9	0.5

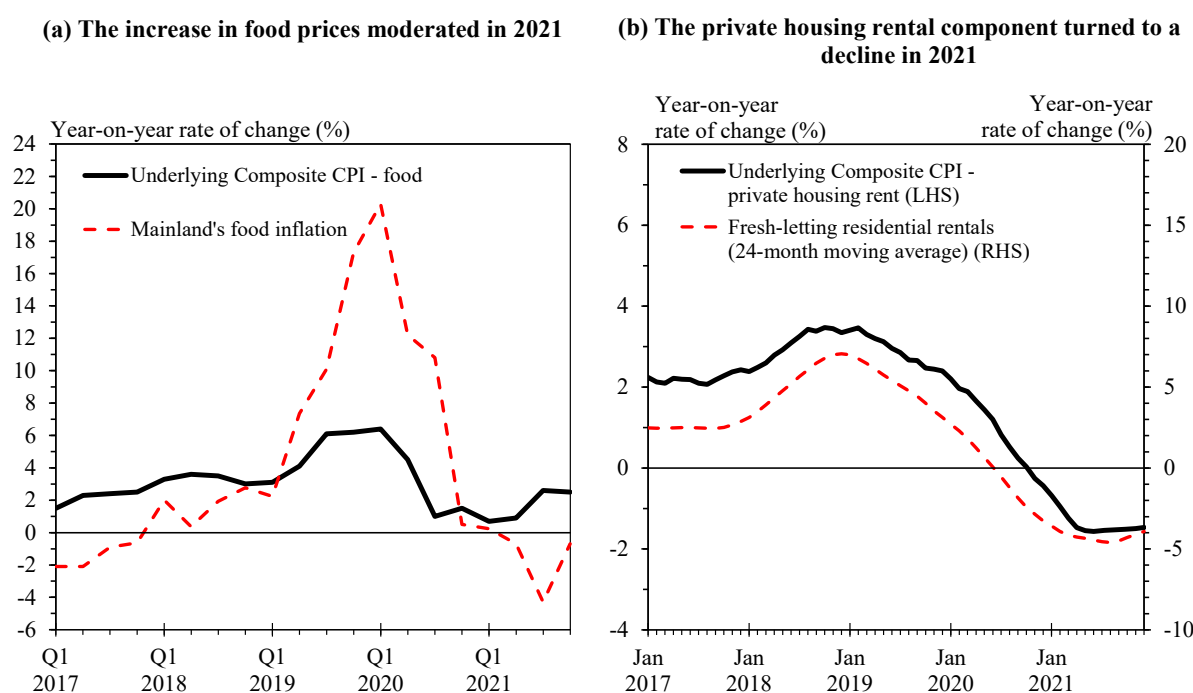
Notes : (a) Underlying consumer price inflation is calculated by netting out the effects of all Government's one-off relief measures introduced since 2007, including the waiver and Government's payment of public housing rentals, rates concession, suspension and subsequent abolition of Employees Retraining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

(b) 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 2020 and H2 of 2020.

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

7.3 Analysed by major component of the underlying Composite CPI, the increase in food prices, the component with the largest weight other than housing, moderated to 1.7% in 2021, mainly reflecting the visibly slower increase in basic food prices of 1.4% as pork prices fell after posting sharp increases for two years in a row. Meanwhile, prices of meals out and takeaway food saw a widened increase of 1.8%, mainly due to a low base of comparison in the second half of 2020 when the fluid local epidemic situation caused disruptions to the business of restaurants during certain periods. As for housing, the private housing rental component turned to a decline of 1.4%, reflecting the feed-through of the earlier softening in fresh-letting residential rentals. The public housing rental component saw an accelerated increase, attributable to the carry-over effect of the upward adjustment in public housing rentals in September 2020. For other major components, the increase in prices of electricity, gas and water accelerated amid elevated international fuel prices. Prices of transport turned to an increase, mainly due to bus fare increase and the smaller extra MTR fare discount. Thanks to the stabilised local epidemic situation during most of the year and improved consumption demand alongside the economic recovery, prices of clothing and footwear as well as durable goods rose back. Meanwhile, prices of miscellaneous services saw a further modest increase. On the other hand, prices of miscellaneous goods fell moderately, as prices of some items under the proprietary medicines and supplies component fell against a high base of comparison.

Diagram 7.2 : Food and private housing rental components of the underlying Composite CPI



Note : The year-on-year rates of change of the CPI from the fourth quarter of 2020 onwards are computed from the new 2019/20-based series, and those before are from the old 2014/15-based series.

Diagram 7.3 (a) : Major components of underlying CPI saw mixed movements in 2021

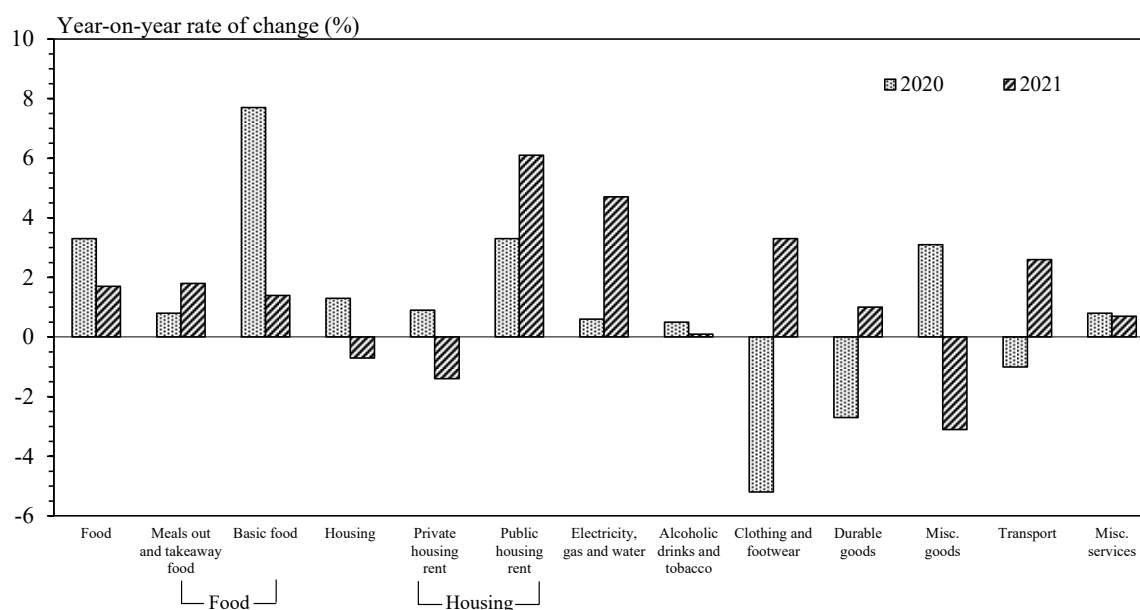
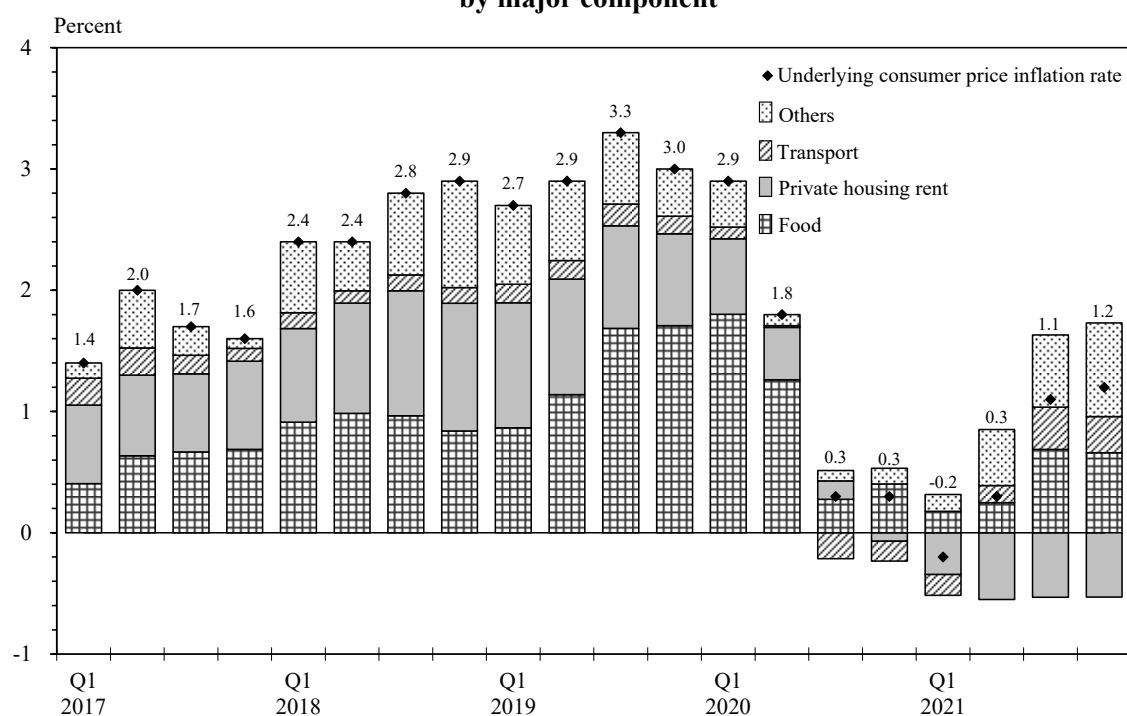


Diagram 7.3 (b) : Contribution to underlying consumer price inflation rate by major component



Note : The year-on-year rates of change of the CPIs from the fourth quarter of 2020 onwards are computed from the new 2019/20-based series, and those before are from the old 2014/15-based series.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2020^(b)</u>	<u>Annual</u>	<u>2021</u>			
				<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Food	27.41	3.3	1.7	0.7	0.9	2.6	2.5
<i>Meals out and takeaway food</i>	17.05	0.8	1.8	*	1.0	3.6	2.8
<i>Basic food</i>	10.36	7.7	1.4	1.8	1.1	1.0	1.9
Housing ^(a)	40.25	1.3 (-0.1)	-0.7 (0.3)	-0.1 (1.7)	-0.7 (-0.7)	-0.9 (1.0)	-1.2 (-0.6)
<i>Private housing rent</i>	35.46	0.9 (1.1)	-1.4 (-1.3)	-1.0 (-1.0)	-1.6 (-1.6)	-1.5 (-1.6)	-1.5 (-0.8)
<i>Public housing rent</i>	1.87	3.3 (-21.0)	6.1 (29.3)	9.6 (59.2)	9.4 (11.0)	6.1 (100.3)	-0.1 (2.0)
Electricity, gas and water	2.82	0.6 (-20.6)	4.7 (27.0)	* (25.4)	2.2 (26.0)	4.8 (20.5)	12.3 (37.0)
Alcoholic drinks and tobacco	0.49	0.5	0.1	0.6	-0.1	-0.4	0.2
Clothing and footwear	2.42	-5.2	3.3	-1.5	2.1	5.4	7.1
Durable goods	4.00	-2.7	1.0	-0.5	0.7	2.1	2.0
Miscellaneous goods	3.32	3.1	-3.1	-4.2	-4.1	-2.8	-1.2
Transport	6.17	-1.0	2.6	-2.8	2.4	5.9	5.1
Miscellaneous services	13.12	0.8 (0.8)	0.7 (0.7)	0.5 (0.5)	0.6 (0.6)	0.9 (0.8)	1.1 (1.0)
All items	100.00	1.3 (0.3)	0.6 (1.6)	-0.2 (1.2)	0.3 (0.8)	1.1 (2.3)	1.2 (2.0)

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

(b) 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 2020.

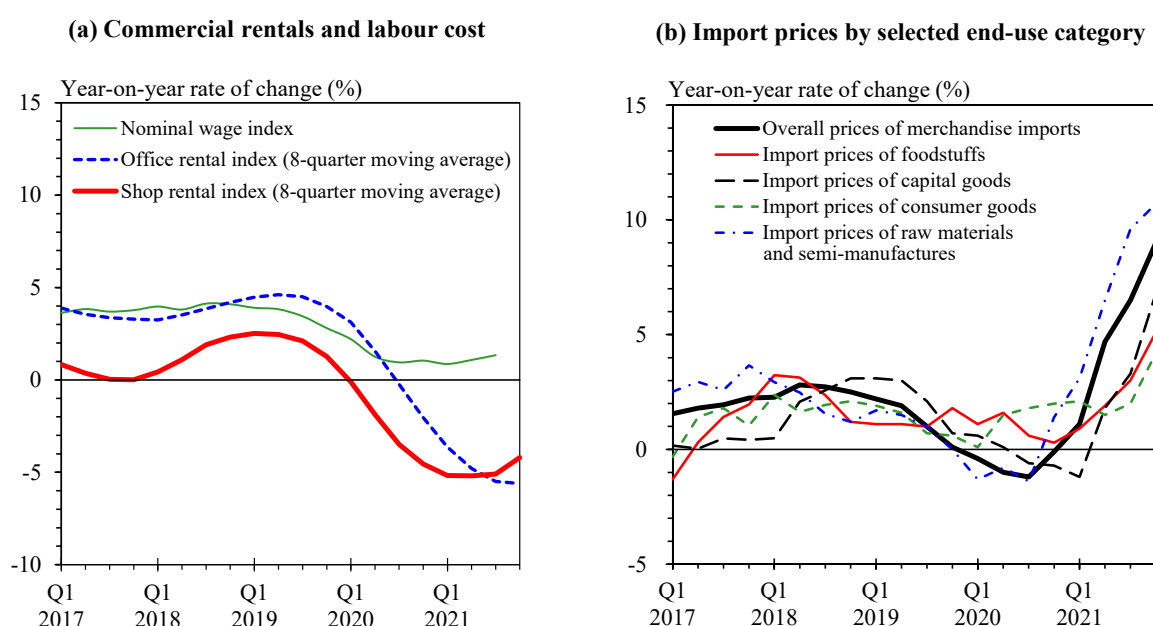
() Figures in brackets represent the headline rates of change before netting out the effects of Government's one-off relief measures.

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

Costs of factor inputs and import prices

7.4 Domestic cost pressures remained in check in 2021. On the back of improved labour market conditions, wage growth reverted the general decelerating trend in the past two years or so but was still modest. Pressures on commercial rentals faced by businesses stayed soft. As a proxy, the eight-quarter moving average of office rentals declined by 5.6% in 2021, and that of shop rentals by 4.2%. Nonetheless, these rental movements showed signs of bottoming out during the year thanks to the continued revival of domestic economic activity.

**Diagram 7.4 : Domestic cost pressures remained in check ;
external price pressures increased visibly**



7.5 External price pressures increased visibly in 2021 under the combined effects of higher inflation in some major economies amid supply chain bottlenecks and strong demand revival, as well as the surges in shipping costs and international commodity and energy. Meanwhile, the lower exchange values of the US dollar vis-à-vis other major currencies for the year as a whole also contributed. Against this backdrop, the year-on-year increase in prices of merchandise imports accelerated throughout 2021, from 2.9% in the first half of the year to 7.8% in the second half. For 2021 as a whole, prices of merchandise imports rose by 5.5%, having declined by 0.7% in 2020. Analysed by major end-use category, import prices of fuels soared by 39.8% along with the surge in international oil prices. Import prices of raw materials and semi-manufactures registered a marked increase of 7.6%, reflecting the pick-up in production activities and tighter transportation capacity worldwide. The increases in import prices of foodstuffs, consumer goods and capital goods likewise picked up, though stayed largely moderate at 2.6%, 2.5% and 2.9% respectively for the year as a whole.

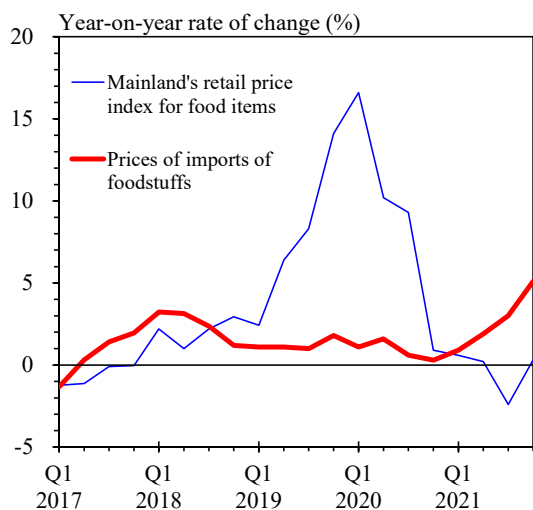
**Table 7.3 : Prices of merchandise imports by end-use category
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2020	Annual	0.9	1.5	-0.5	-27.7	-0.2	-0.7
	H1	1.4	0.8	-1.0	-23.8	0.3	-0.7
	H2	0.4	1.9	*	-32.0	-0.7	-0.6
	Q1	1.1	0.1	-1.3	-4.0	0.6	-0.4
	Q2	1.6	1.5	-0.8	-42.4	0.1	-1.0
	Q3	0.6	1.8	-1.4	-32.0	-0.6	-1.2
	Q4	0.3	2.0	1.4	-32.0	-0.7	-0.1
2021	Annual	2.6	2.5	7.6	39.8	2.9	5.5
	H1	1.3	1.9	4.8	18.1	0.4	2.9
	H2	4.1	3.1	10.1	63.7	5.1	7.8
	Q1	0.9	2.1	3.1	-9.5	-1.2	1.1
	Q2	1.9	1.5	6.5	61.5	1.8	4.7
	Q3	3.0	2.0	9.6	53.4	3.3	6.5
	Q4	5.1	4.2	10.7	74.2	6.8	9.0

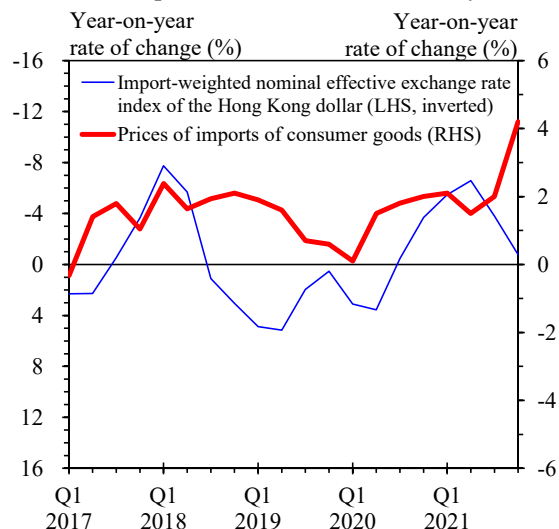
Note : (*) Change within $\pm 0.05\%$.

Diagram 7.5: Prices of merchandise imports by end-use category

(a) The increase in import prices of foodstuffs picked up throughout 2021

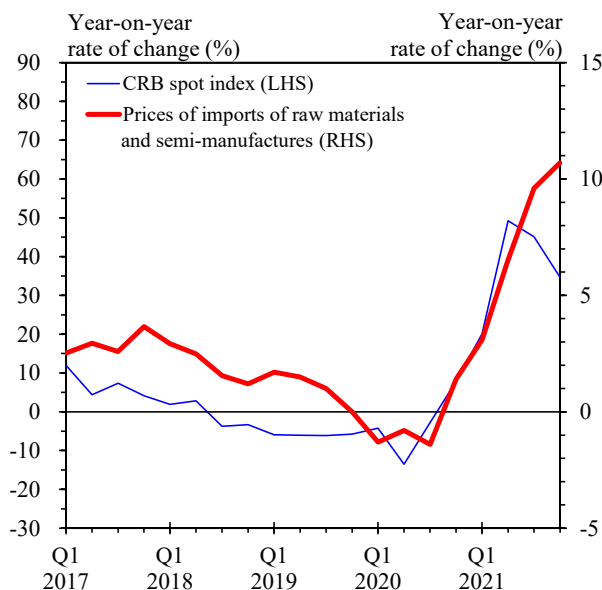


(b) Import prices of consumer goods rose at a faster pace in the second half of the year

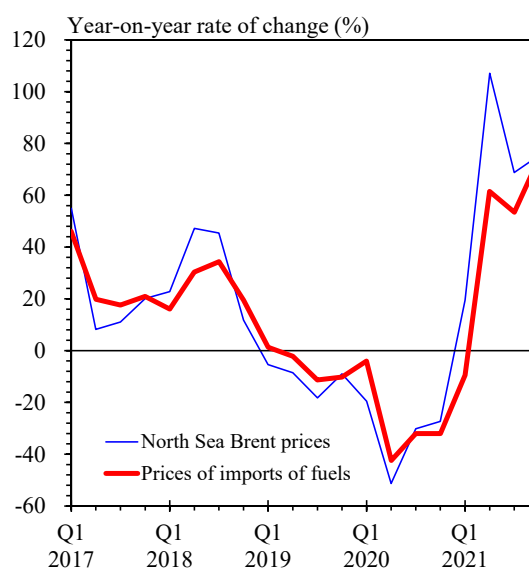


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials and semi-manufactures registered a marked increase



(d) Import prices of fuels soared



Output prices

7.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, saw mixed movements across various sectors in the first three quarters of 2021. Output prices for the manufacturing sector increased modestly. Among the selected service sectors, output prices for accommodation services reverted to a moderate increase, but remained much lower than the pre-recession level due to a lack of visitors. The increases in output prices for air transport and water transport accelerated sharply, reflecting buoyant trade flows and tight capacity. Separately, output prices for land transport turned to a modest increase, while that for courier services saw a mild decline. Meanwhile, the secular downtrend in output prices for telecommunications services continued amid technological improvement and intense competition in the sector.

Table 7.4 : Producer Price Indices for the manufacturing sector and selected service sectors
(year-on-year rate of change (%))

<u>Industry group</u>	<u>Annual</u>	<u>2020</u>					<u>2021</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1-Q3</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Manufacturing	2.3	1.3	1.3	3.8	2.9	1.2	1.9	2.7	-0.8
Selected service sectors ^(a)									
Accommodation services	-20.2	-23.4	-23.2	-17.7	-15.8	2.3	-4.0	4.1	7.2
Land transport	-5.0	-2.6	-3.0	-7.3	-7.2	1.0	-5.2	1.1	7.5
Water transport	5.6	1.3	1.7	2.5	17.0	56.1	34.4	57.0	76.6
Air transport	15.9	7.5	10.1	18.3	27.7	28.2	18.9	30.3	34.7
Telecommunications	-1.8	-2.4	-1.9	-0.6	-2.4	-2.0	-1.7	-1.6	-2.7
Courier services	5.1	1.8	-0.7	10.3	9.6	-1.0	2.1	-1.1	-3.7

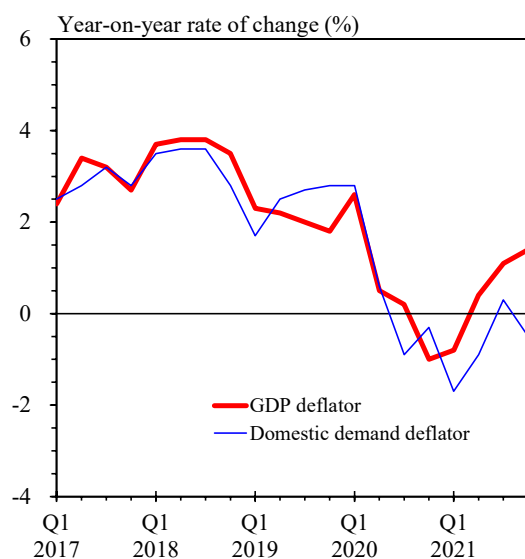
Note : (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

7.7 As a broad measure of the overall change in prices in the economy, *GDP deflator*⁽⁴⁾ rose slightly by 0.5% in 2021, having increased by 0.6% in 2020. The *terms of trade*⁽⁵⁾ improved as export prices rose faster than import prices. Taking out the external trade components, the domestic demand deflator declined by 0.7% in 2021, after increasing by 0.5% in the preceding year.

Diagram 7.6: GDP deflator

(a) GDP deflator rose slightly in 2021



(b) Terms of trade improved in 2021

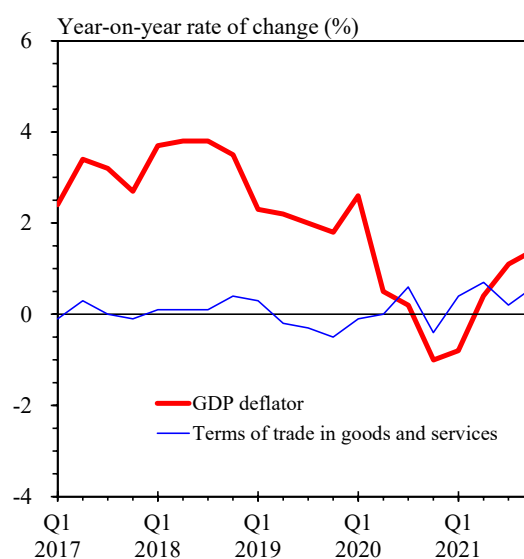


Table 7.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

		<u>2020</u>					<u>2021</u>			
	<u>Annual</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]	<u>Annual</u> [#]	<u>Q1</u> [#]	<u>Q2</u> [#]	<u>Q3</u> [#]	<u>Q4</u> [#]
Private consumption expenditure	0.6	3.1	0.7	-0.4	-0.9	-0.7	-1.6	-0.9	-0.6	0.3
Government consumption expenditure	1.7	4.7	1.4	0.7	*	1.0	*	0.3	1.3	2.3
Gross domestic fixed capital formation	-1.5	2.4	-2.1	-4.1	-2.1	0.1	-3.7	-1.6	1.7	3.9
Total exports of goods ^{&}	0.1	*	-0.1	0.1	0.1	4.9	1.3	4.7	5.1	8.1
Imports of goods ^{&}	0.1	0.5	-0.2	-0.6	0.6	4.7	1.1	4.1	5.4	7.8
Exports of services ^{&}	-0.4	-0.3	-3.7	-1.2	3.4	13.2	7.3	13.5	16.4	15.7
Imports of services ^{&}	-0.9	-2.7	-3.7	-1.2	3.7	10.7	5.3	12.3	12.3	12.3
Gross Domestic Product	0.6	2.6 <0.6>	0.5 <-1.0>	0.2 <-0.1>	-1.0 <-0.3>	0.5	-0.8 <0.5>	0.4 <0.3>	1.1 <0.5>	1.4 <0.1>
Total final demand ^{&}	0.2	1.1	-0.1	-0.3	0.1	3.6	0.6	3.3	4.3	5.9
Domestic demand	0.5	2.8	0.6	-0.9	-0.3	-0.7	-1.7	-0.9	0.3	-0.5
Terms of trade in goods and services ^{&}	*	-0.1	*	0.6	-0.4	0.5	0.4	0.7	0.2	0.6

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.

(&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchandising under the standards stipulated in the *System of National Accounts 2008*.

(#) Revised 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.

In May 2021, the Census and Statistics Department rebased the CPI series from 2014/15 to 2019/20, incorporating the updated consumption patterns of households and other relevant information. CPI figures quoted in this report refer to the 2019/20 based series unless otherwise stated.

The expenditure ranges of the households covered in the 2019/20-based CPIs are shown below:

	Approximate proportion of <u>households covered</u> (%)	Average monthly expenditure range <u>during Oct 2019 to Sep 2020</u> (\$)
CPI(A)	50	6,500 to 27,999
CPI(B)	30	28,000 to 48,499
CPI(C)	10	48,500 to 91,999

The weightings of the various components in the 2019/20-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	27.41	32.71	26.76	21.89
<i>Meals out and takeaway food</i>	17.05	18.87	17.27	14.55
<i>Basic food</i>	10.36	13.84	9.49	7.34
Housing	40.25	40.46	40.77	39.24
<i>Private housing rent</i>	35.46	33.43	37.22	35.44
<i>Public housing rent</i>	1.87	4.95	0.55	--
<i>Management fees and other housing charges</i>	2.92	2.08	3.00	3.80
Electricity, gas and water	2.82	3.85	2.57	1.92
Alcoholic drinks and tobacco	0.49	0.76	0.41	0.27
Clothing and footwear	2.42	1.78	2.51	3.08
Durable goods	4.00	3.29	3.94	4.97
Miscellaneous goods	3.32	3.31	3.48	3.10
Transport	6.17	4.52	6.38	7.89
Miscellaneous services	13.12	9.32	13.18	17.64
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>2020</u>					<u>2021</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Selected developed economies										
US [^]	1.7	2.2	1.3	1.7	1.6	3.6	1.4	3.7	4.1	5.0
Canada	0.7	1.8	*	0.3	0.8	3.4	1.4	3.3	4.1	4.7
EU	0.7	1.5	0.6	0.5	0.2	2.9	1.4	2.2	3.1	4.9
Japan	*	0.7	0.1	*	-0.9	-0.2	-0.5	-0.7	-0.2	0.5
Selected major emerging economies										
Mainland China	2.5	5.0	2.7	2.3	0.1	0.9	*	1.1	0.8	1.8
Russia	3.4	2.4	3.1	3.5	4.4	6.7	5.5	6.0	6.8	8.3
India	6.6	6.7	6.6	6.9	6.4	5.1	4.9	5.6	5.1	5.0
Brazil	3.2	3.8	2.1	2.6	4.3	8.3	5.3	7.7	9.6	10.5
Selected Asian economies										
Hong Kong	0.3	2.0	1.3	-1.7	-0.6	1.6	1.2	0.8	2.3	2.0
Singapore	-0.2	0.4	-0.7	-0.3	-0.1	2.3	0.8	2.3	2.5	3.7
Taiwan	-0.2	0.5	-1.0	-0.5	*	2.0	0.8	2.1	2.3	2.7
Korea	0.5	1.0	*	0.7	0.5	2.5	1.4	2.5	2.5	3.5
Malaysia	-1.1	0.9	-2.6	-1.4	-1.5	2.5	0.5	4.2	2.1	3.2
Thailand	-0.8	0.4	-2.7	-0.7	-0.4	1.2	-0.5	2.4	0.7	2.4
Indonesia	2.0	2.9	2.3	1.4	1.6	1.6	1.4	1.5	1.6	1.8
Philippines	2.4	2.5	1.9	2.3	2.9	3.9	4.0	4.0	4.1	3.6
Vietnam	3.2	5.6	2.8	3.2	1.4	1.8	0.3	2.7	2.5	1.9
Macao	0.8	2.6	1.6	*	-0.8	*	-1.0	-0.4	0.5	1.0

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

([^]) Refer to the core CPI inflation.

- (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.

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

	(\$Mn)					
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Private consumption expenditure	1,314,969	1,413,058	1,502,768	1,593,091	1,650,101	1,784,375
Government consumption expenditure	185,310	198,572	214,216	231,263	247,973	261,447
Gross domestic fixed capital formation	517,411	515,516	530,916	537,205	535,216	575,977
Building and construction	204,860	211,130	244,047	262,780	283,447	297,306
Costs of ownership transfer	34,074	39,389	43,967	45,846	44,517	65,810
Machinery, equipment and intellectual property products	278,477	264,997	242,902	228,579	207,252	212,861
Changes in inventories	-3,662	-1,673	7,473	-20,580	447	10,973
Total exports of goods ^{&}	3,632,957	3,926,059	3,986,769	3,889,225	3,892,886	4,212,774
Imports of goods ^{&}	3,779,686	4,142,651	4,237,700	4,066,527	4,022,579	4,391,306
Exports of services ^{&}	764,026	812,640	829,085	808,948	764,660	811,295
Imports of services ^{&}	594,266	583,216	573,522	574,345	578,106	605,924
GDP	2,037,059	2,138,305	2,260,005	2,398,280	2,490,598	2,659,611
Per capita GDP (\$)	284,899	297,860	312,609	328,924	339,476	359,810
GNI	2,066,514	2,178,824	2,306,612	2,442,656	2,553,191	2,775,163
Per capita GNI (\$)	289,019	303,504	319,056	335,010	348,007	375,443
Total final demand	6,411,011	6,864,172	7,071,227	7,039,152	7,091,283	7,656,841
Total final demand excluding re-exports ^(a)	3,828,055	4,025,243	4,116,670	4,139,786	4,190,686	4,496,472
Domestic demand	2,014,028	2,125,473	2,255,373	2,340,979	2,433,737	2,632,772
Private	1,737,274	1,827,460	1,929,514	1,991,436	2,062,216	2,240,487
Public	276,754	298,013	325,859	349,543	371,521	392,285
External demand	4,396,983	4,738,699	4,815,854	4,698,173	4,657,546	5,024,069

Definition of Terms :

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand	= government consumption expenditure + gross domestic fixed capital formation by the public sector
Domestic demand	= private sector domestic demand + public sector domestic demand
External demand	= total exports of goods + exports of services

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

	(\$Mn)							
	2018	2019	2020 [#]	2021 [#]	Q1 [#]	Q2 [#]	2021 Q3 [#]	Q4 [#]
Private consumption expenditure	1,936,427	1,973,720	1,777,226	1,864,059	449,692	467,588	455,706	491,073
Government consumption expenditure	281,420	309,437	339,689	358,818	94,933	84,324	89,947	89,614
Gross domestic fixed capital formation	612,439	520,575	455,026	501,066	116,246	123,753	128,517	132,550
Building and construction	308,596	278,091	253,836	258,764	65,815	61,186	64,171	67,592
Costs of ownership transfer	67,482	49,209	40,071	56,613	12,185	15,597	15,233	13,598
Machinery, equipment and intellectual property products	236,361	193,275	161,119	185,689	38,246	46,970	49,113	51,360
Changes in inventories	11,204	-3,067	52,008	1,987	-3,633	11,090	21,387	-26,857
Total exports of goods ^{&}	4,453,350	4,255,098	4,198,338	5,241,504	1,168,766	1,238,532	1,365,691	1,468,515
Imports of goods ^{&}	4,706,347	4,375,619	4,239,663	5,219,930	1,162,438	1,267,826	1,362,533	1,427,133
Exports of services ^{&}	886,883	798,942	518,947	593,935	148,967	129,056	156,616	159,296
Imports of services ^{&}	639,947	634,243	426,257	479,819	111,637	109,194	123,273	135,715
GDP	2,835,429	2,844,843	2,675,314	2,861,620	700,896	677,323	732,058	751,343
Per capita GDP (\$)	380,543	378,939	357,576	386,983	--	--	--	--
GNI	2,970,244	2,988,560	2,831,397	N.A.	722,431	761,483	795,850	N.A.
Per capita GNI (\$)	398,637	398,082	378,438	N.A.	--	--	--	--
Total final demand	8,181,723	7,854,705	7,341,234	8,561,369	1,974,971	2,054,343	2,217,864	2,314,191
Total final demand excluding re-exports ^(a)	4,819,554	4,601,880	4,099,060	4,457,259	1,069,806	1,072,345	1,145,667	1,169,441
Domestic demand	2,841,490	2,800,665	2,623,949	2,725,930	657,238	686,755	695,557	686,380
Private	2,425,554	2,359,687	2,149,237	2,226,622	521,079	572,788	573,762	558,993
Public	415,936	440,978	474,712	499,308	136,159	113,967	121,795	127,387
External demand	5,340,233	5,054,040	4,717,285	5,835,439	1,317,733	1,367,588	1,522,307	1,627,811

- 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.
 (&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.
 (--) 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Private consumption expenditure	4.1	4.6	3.3	4.8	2.0	5.5
Government consumption expenditure	3.6	2.7	3.1	3.4	3.4	2.8
Gross domestic fixed capital formation	6.8	2.6	-0.1	-3.2	-0.1	3.1
Building and construction	7.2	-4.3	9.3	2.2	5.9	-0.5
Costs of ownership transfer	-17.8	-28.1	6.9	-8.3	-2.9	23.2
Machinery, equipment and intellectual property products	10.2	11.3	-8.7	-7.7	-6.4	3.8
Total exports of goods ^{&}	3.3	8.2	0.8	-1.7	1.6	6.5
Imports of goods ^{&}	4.6	9.9	1.5	-2.7	0.7	7.3
Exports of services ^{&}	2.7	6.0	1.6	0.3	-3.5	2.8
Imports of services ^{&}	2.2	-2.1	-2.2	5.0	2.0	2.0
GDP	1.7	3.1	2.8	2.4	2.2	3.8
Per capita GDP	0.6	2.7	2.0	1.5	1.5	3.0
RGNI	-0.2	4.0	2.7	3.8	3.2	5.7
Per capita RGNI	-1.3	3.6	1.9	2.9	2.6	4.9
Total final demand	3.4	6.6	1.6	-0.4	1.3	5.6
Total final demand excluding re-exports ^(a)	3.2	4.2	0.6	0.1	1.5	4.5
Domestic demand	3.9	4.1	2.9	1.6	2.6	5.2
Private	3.6	4.1	2.6	1.3	2.5	5.7
Public	5.8	3.7	4.6	2.9	3.1	2.2
External demand	3.2	7.8	1.0	-1.4	0.7	5.8

- 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.
 - (&) Figures are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.
 - (--) Not applicable.
 - N.A. Not yet available.
 - (^) Average annual rate of change for the 10-year period 2010-2020.
 - (~) Average annual rate of change for the 5-year period 2015-2020.

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

	(%)									
	<u>2018</u>	<u>2019</u>	<u>2020[#]</u>	<u>2021[#]</u>	<u>2021</u>				Average annual rate of change:	
					Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	10 years 2011 to 2021 [#]	5 years 2016 to 2021 [#]
Private consumption expenditure	5.3	-0.8	-10.5	5.6	2.5	7.5	6.8	5.8	2.3	0.8
Government consumption expenditure	4.2	5.1	7.9	4.6	6.4	2.9	5.0	4.1	4.1	4.9
Gross domestic fixed capital formation	1.7	-14.9	-11.3	10.1	5.6	23.9	13.1	0.1	-0.8	-2.7
Building and construction	-0.5	-10.8	-9.3	0.3	-2.9	0.4	2.0	2.1	-0.3	-4.3
Costs of ownership transfer	-11.2	-13.4	-4.0	39.2	85.9	57.7	35.0	0.6	-3.3	4.8
Machinery, equipment and intellectual property products	8.8	-20.8	-15.9	16.7	3.0	55.5	22.5	-2.6	-1.6	-2.6
Total exports of goods ^{&}	3.5	-5.5	-1.4	19.0	30.8	20.8	14.2	13.3	3.2	4.1
Imports of goods ^{&}	4.7	-8.2	-3.2	17.6	23.6	21.9	16.9	9.9	3.0	3.2
Exports of services ^{&}	4.6	-9.6	-34.8	1.1	-9.1	3.5	5.4	6.9	-3.7	-8.5
Imports of services ^{&}	2.8	0.1	-32.2	1.7	-11.3	10.7	6.0	4.6	-2.7	-6.3
GDP	2.8	-1.7	-6.5	6.4	8.0	7.6	5.5	4.8	1.6	0.9
Per capita GDP	2.0	-2.4	-6.2	7.7	--	--	--	--	1.2	0.7
RGNI	3.5	-1.7	-5.7	N.A.	9.7	11.3	7.8	N.A.	1.9[^]	0.9~
Per capita RGNI	2.7	-2.5	-5.4	N.A.	--	--	--	--	1.3[^]	0.4~
Total final demand	3.9	-5.3	-6.7	12.6	15.1	16.1	12.2	7.8	2.1	1.8
Total final demand excluding re-exports ^(a)	4.0	-5.0	-11.1	6.3	3.4	11.9	8.7	1.9	0.7	-0.5
Domestic demand	4.4	-3.7	-6.8	4.6	-0.2	11.0	10.0	-1.4	1.8	0.6
Private	4.8	-4.6	-9.2	4.8	-1.8	12.9	11.5	-2.3	1.5	0.1
Public	2.4	1.5	6.0	4.1	6.9	2.5	3.4	3.1	3.6	3.2
External demand	3.7	-6.1	-6.7	17.0	24.9	19.0	13.3	12.7	2.3	2.4

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

	<u>2016</u>		<u>2017</u>		<u>2018</u>		<u>2019</u>		<u>2020[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	1,898	0.1	1,736	0.1	1,762	0.1	2,057	0.1	2,648	0.1
Manufacturing	26,844	1.1	27,299	1.1	27,571	1.0	29,366	1.1	25,140	1.0
Electricity, gas and water supply, and waste management	34,414	1.4	34,978	1.4	35,660	1.3	34,083	1.2	35,155	1.4
Construction	124,932	5.2	129,714	5.1	120,473	4.5	114,499	4.2	104,017	4.1
Services	2,229,760	92.2	2,357,359	92.4	2,514,947	93.1	2,559,558	93.4	2,397,020	93.5
<i>Import/export, wholesale and retail trades</i>	525,526	21.7	548,636	21.5	575,103	21.3	533,352	19.5	473,298	18.5
<i>Accommodation^(a) and food services</i>	79,682	3.3	83,507	3.3	91,525	3.4	75,918	2.8	37,397	1.5
<i>Transportation, storage, postal and courier services</i>	149,742	6.2	153,359	6.0	158,440	5.9	151,574	5.5	115,122	4.5
<i>Information and communications</i>	84,208	3.5	86,891	3.4	91,449	3.4	95,557	3.5	93,662	3.7
<i>Financing and insurance</i>	428,903	17.7	480,488	18.8	535,126	19.8	581,319	21.2	597,994	23.3
<i>Real estate, professional and business services</i>	266,139	11.0	274,822	10.8	280,843	10.4	276,497	10.1	244,955	9.6
<i>Public administration, social and personal services</i>	436,912	18.1	465,488	18.2	499,433	18.5	536,259	19.6	531,218	20.7
<i>Ownership of premises</i>	258,649	10.7	264,166	10.4	283,028	10.5	309,081	11.3	303,373	11.8
GDP at basic prices	2,417,849	100.0	2,551,086	100.0	2,700,413	100.0	2,739,563	100.0	2,563,979	100.0
Taxes on products	83,743	--	110,698	--	117,825	--	93,623	--	103,627	--
Statistical discrepancy (%)	-0.4	--	-0.1	--	0.6	--	0.4	--	0.3	--
GDP at current market prices	2,490,598	--	2,659,611	--	2,835,429	--	2,844,843	--	2,675,314	--

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

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(#) 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>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020[#]</u>	<u>2020</u>	<u>2021</u>			(%)
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	
Agriculture, fishing, mining and quarrying	-6.8	-2.0	-5.2	-1.8	-0.8	3.8	-3.6	3.6	-4.2	-6.8	
Manufacturing	-1.5	-0.4	0.4	1.3	0.4	-5.8	-6.1	2.6	5.6	7.6	
Electricity, gas and water supply, and waste management	-2.6	-0.8	0.9	0.1	-0.5	-14.2	-13.1	0.2	5.5	3.6	
Construction	5.4	5.1	-1.3	3.3	-9.7	-12.0	-8.3	-2.0	0.8	2.1	
Services	1.7	2.3	3.5	3.1	-0.7	-6.7	-4.0	6.7	6.6	5.2	
<i>Import/export, wholesale and retail trades</i>	-1.1	0.6	4.2	4.2	-7.5	-15.0	-7.8	24.2	15.5	8.5	
<i>Accommodation^(a) and food services</i>	-1.9	0.5	2.0	5.9	-11.7	-44.8	-35.6	-5.2	16.7	46.4	
<i>Transportation, storage, postal and courier services</i>	3.3	3.0	4.8	2.5	-1.7	-36.9	-32.6	-0.6	18.7	19.1	
<i>Information and communications</i>	4.0	4.1	4.0	4.1	4.7	1.7	2.4	3.7	2.2	2.5	
<i>Financing and insurance</i>	6.1	4.2	5.3	4.0	3.4	4.0	4.8	7.3	6.0	2.9	
<i>Real estate, professional and business services</i>	0.7	2.8	2.1	-0.4	-0.2	-4.6	-2.9	1.3	2.3	2.7	
<i>Public administration, social and personal services</i>	2.5	3.0	3.2	3.6	3.2	-2.3	-2.1	2.1	4.3	3.8	
<i>Ownership of premises</i>	0.6	0.5	0.9	1.0	0.6	-0.3	-0.3	0.6	0.7	0.8	
Taxes on products	7.1	-9.1	13.7	-3.9	-11.3	17.6	37.1	46.9	38.7	15.6	
GDP in chained (2019) dollars	2.4	2.2	3.8	2.8	-1.7	-6.5	-3.4	8.0	7.6	5.5	

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

(a) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

Table 5 : Value added and employment statistics of the Four Key Industries and other selected industries

	2017		2018		2019		2020 [#]		Annual percentage change (%)		
	% share		% share		% share		% share		2018	2019	2020 [#]
	\$Bn	in total ⁽¹⁾	\$Bn	in total ⁽¹⁾	\$Bn	in total ⁽¹⁾	\$Bn	in total ⁽¹⁾			
Value added at current prices											
<i>Four Key Industries</i> ⁽²⁾	1,454.9	57.0	1,548.7	57.3	1,545.9	56.4	1,412.1	55.1	6.4	-0.2	-8.7
Financial services	480.5	18.8	535.1	19.8	581.3	21.2	598.0	23.3	11.4	8.6	2.9
Tourism	114.2	4.5	120.5	4.5	98.6	3.6	9.3	0.4	5.5	-18.2	-90.6
Trading and logistics	548.4	21.5	571.6	21.2	541.2	19.8	508.2	19.8	4.2	-5.3	-6.1
Professional services and other producer services ⁽³⁾	311.8	12.2	321.4	11.9	324.8	11.9	296.5	11.6	3.1	1.1	-8.7
<i>Other selected industries</i>											
Cultural and creative industries ⁽⁴⁾	123.2	4.8	130.5	4.8	129.3	4.7	116.2	4.5	5.9	-0.9	-10.2
Medical services ⁽⁴⁾	46.9	1.8	49.4	1.8	51.4	1.9	48.8	1.9	5.4	4.0	-5.1
Education services ⁽⁴⁾	32.4	1.3	35.2	1.3	36.7	1.3	34.9	1.4	8.8	4.3	-4.9
Innovation and technology ⁽⁴⁾	18.9	0.7	21.0	0.8	23.5	0.9	24.4	1.0	11.2	12.0	3.9
Testing and certification services ⁽⁴⁾	7.5	0.3	7.7	0.3	7.3	0.3	6.7	0.3	2.1	-4.4	-8.5
Environmental industries ⁽⁴⁾	9.3	0.4	9.9	0.4	9.9	0.4	9.7	0.4	5.8	*	-1.4
Air transport	73.8	2.9	75.1	2.8	68.8	2.5	37.7	1.5	1.7	-8.3	-45.3
Sports and related activities	34.0	1.3	37.0	1.4	39.0	1.4	N.A.	N.A.	7.3	5.8	N.A.
Nominal GDP at basic prices	2,551.1	100.0	2,700.4	100.0	2,739.6	100.0	2,564.0	100.0	5.9	1.4	-6.4

Notes: For sports and related activities, value added figures are rounded to the nearest billion and employment figures are rounded to the nearest thousand. Percentage share in total and annual percentage change for each industry are derived from unrounded figures.

- (1) Refers to percentage share in nominal GDP at basic prices. Such GDP figure is slightly different from the commonly used one, i.e. valued at current market prices, in which taxes on products are included.
- (2) Individual figures may not add up exactly to the total due to rounding.
- (3) Other producer services refer to producer services other than financial services, tourism, trading and logistics and professional services.
- (4) The other selected industries reflect the direct contribution of these industries in the private sector only. Some of them are service domains straddling across different industries. For example, "innovation and technology" activities may exist in any industry and organisation. The term "industry" is used to denote the aggregate of the economic activities concerned for easy general understanding.
- (5) Since innovation and technology involves significant non-routine activities, persons engaged in these activities are measured by the volume of labour input to innovation and technology in full-time equivalent terms (in terms of man-years).
- (6) Figures refer to Composite Employment Estimates.
- (#) Figures are subject to revision later on as more data become available.
- (*) Change within $\pm 0.05\%$.

**Table 5 : Value added and employment statistics of the Four Key Industries
and other selected industries (Cont'd)**

	<u>2017</u>		<u>2018</u>		<u>2019</u>		<u>2020[#]</u>		<u>Annual percentage change (%)</u>		
	Number (‘000)	% share in total	Number (‘000)	% share in total	Number (‘000)	% share in total	Number (‘000)	% share in total	2018	2019	2020 [#]
<u>Employment</u>											
<i>Four Key Industries</i> ⁽²⁾	1 780.2	46.6	1 789.5	46.3	1 745.0	45.3	1 504.2	41.1	0.5	-2.5	-13.8
Financial services	258.5	6.8	263.0	6.8	272.6	7.1	273.7	7.5	1.7	3.7	0.4
Tourism	257.1	6.7	257.0	6.6	231.0	6.0	48.6	1.3	*	-10.1	-79.0
Trading and logistics	727.5	19.0	718.5	18.6	673.7	17.5	616.2	16.8	-1.2	-6.2	-8.5
Professional services and other producer services ⁽³⁾	537.2	14.0	551.1	14.2	567.6	14.7	565.8	15.4	2.6	3.0	-0.3
<i>Other selected industries</i>											
Cultural and creative industries ⁽⁴⁾	231.4	6.1	234.7	6.1	237.2	6.2	228.6	6.2	1.4	1.0	-3.6
Medical services ⁽⁴⁾	98.6	2.6	99.9	2.6	102.5	2.7	103.3	2.8	1.3	2.6	0.8
Education services ⁽⁴⁾	85.8	2.2	87.0	2.3	89.3	2.3	88.3	2.4	1.4	2.6	-1.2
Innovation and technology ^{(4) (5)}	39.5	1.0	41.6	1.1	44.6	1.2	45.3	1.2	5.3	7.2	1.6
Testing and certification services ⁽⁴⁾	14.3	0.4	14.6	0.4	14.8	0.4	15.1	0.4	2.2	1.2	2.2
Environmental industries ⁽⁴⁾	44.1	1.2	44.1	1.1	44.7	1.2	47.4	1.3	0.1	1.2	6.1
Air transport	61.5	1.6	62.7	1.6	62.4	1.6	57.2	1.6	2.0	-0.5	-8.3
Sports and related activities	80.0	2.1	81.0	2.1	83.0	2.2	N.A.	N.A.	1.3	3.4	N.A.
Total employment⁽⁶⁾	3 823.9	100.0	3 867.6	100.0	3 850.5	100.0	3 662.1	100.0	1.1	-0.4	-4.9

**Table 6 : Balance of Payments by major component
(at current prices)**

	(\$Mn)								
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020[#]</u>	<u>2020</u>	<u>2021</u>		
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Current account ^(a)	98,485	121,840	105,942	166,303	186,754	33,356	60,212	69,755	95,511
Goods	-129,693	-178,532	-252,997	-120,521	-41,325	-5,739	6,328	-29,294	3,158
Services	186,554	205,371	246,936	164,699	92,690	13,259	37,330	19,862	33,343
Primary income	62,593	115,552	134,815	143,717	156,083	30,098	21,535	84,160	63,792
Secondary income	-20,969	-20,551	-22,813	-21,592	-20,694	-4,261	-4,981	-4,973	-4,783
Capital and financial account ^(a)	-101,104	-76,488	-175,081	-237,439	-244,344	-65,486	-89,259	-97,917	-64,426
Capital account	-374	-645	-1,574	-682	-505	-134	-126	-10,140	-91
Financial account	-100,730	-75,843	-173,507	-236,756	-243,839	-65,352	-89,133	-87,777	-64,335
Financial non-reserve assets	-91,874	174,666	-165,948	-245,612	19,211	168,147	-80,917	-125,333	-37,116
<i>Direct investment</i>	<i>447,758</i>	<i>186,887</i>	<i>172,795</i>	<i>160,730</i>	<i>263,703</i>	<i>161,306</i>	<i>202</i>	<i>129,978</i>	<i>101,503</i>
<i>Portfolio investment</i>	<i>-469,591</i>	<i>264,159</i>	<i>-616,428</i>	<i>-215,764</i>	<i>-528,049</i>	<i>-325,500</i>	<i>-16,435</i>	<i>-292,487</i>	<i>-283,864</i>
<i>Financial derivatives</i>	<i>36,327</i>	<i>61,763</i>	<i>33,202</i>	<i>1,239</i>	<i>18,790</i>	<i>509</i>	<i>-5,658</i>	<i>17,131</i>	<i>5,268</i>
<i>Other investment</i>	<i>-106,368</i>	<i>-338,144</i>	<i>244,483</i>	<i>-191,817</i>	<i>264,766</i>	<i>331,832</i>	<i>-59,026</i>	<i>20,045</i>	<i>139,977</i>
Reserve assets	-8,856	-250,509	-7,559	8,855	-263,050	-233,499	-8,216	37,556	-27,219
Net errors and omissions	2,619	-45,353	69,139	71,136	57,590	32,129	29,047	28,162	-31,085
Overall Balance of Payments	8,856	250,509	7,559	-8,855	263,050	233,499	8,216	-37,556	27,219

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

(a) In accordance with the accounting rules adopted in compiling Balance of Payments, a positive value for the balance figure in the current account represents a surplus whereas a negative value represents a deficit. In the capital and financial account, a positive value indicates a net financial inflow while a negative value indicates a net outflow. As increases in external assets are debit entries and decreases are credit entries, a negative value for the reserve assets represents a net increase while a positive value represents a net decrease.

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

**Table 7 : Goods and services trade
(at current market prices)**

	(\$Mn)								
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020[#]</u>	<u>2021[#]</u>		<u>2021</u>		
						Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
Total exports of goods	4,212,774	4,453,350	4,255,098	4,198,338	5,241,504	1,168,766	1,238,532	1,365,691	1,468,515
Imports of goods	4,391,306	4,706,347	4,375,619	4,239,663	5,219,930	1,162,438	1,267,826	1,362,533	1,427,133
Goods trade balance	-178,532 (-4.1)	-252,997 (-5.4)	-120,521 (-2.8)	-41,325 (-1.0)	21,574 (0.4)	6,328 (0.5)	-29,294 (-2.3)	3,158 (0.2)	41,382 (2.9)
Exports of services	811,295	886,883	798,942	518,947	593,935	148,967	129,056	156,616	159,296
Imports of services	605,924	639,947	634,243	426,257	479,819	111,637	109,194	123,273	135,715
Services trade balance	205,371 (33.9)	246,936 (38.6)	164,699 (26.0)	92,690 (21.7)	114,116 (23.8)	37,330 (33.4)	19,862 (18.2)	33,343 (27.0)	23,581 (17.4)
Exports of goods and services	5,024,069	5,340,233	5,054,040	4,717,285	5,835,439	1,317,733	1,367,588	1,522,307	1,627,811
Imports of goods and services	4,997,230	5,346,294	5,009,862	4,665,920	5,699,749	1,274,075	1,377,020	1,485,806	1,562,848
Goods and services trade balance	26,839 <0.5>	-6,061 <-0.1>	44,178 <0.9>	51,365 <1.1>	135,690 <2.4>	43,658 <3.4>	-9,432 <-0.7>	36,501 <2.5>	64,963 <4.2>

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

(#) 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 8 : Total exports of goods by market
(in value terms)**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>			<u>2021</u>			
							Q1	Q2	Q3	Q4	
	(% change)				(% change)	(\$Mn)	(% change over a year earlier)				
All markets	8.0	7.3	-4.1	-1.5	26.3	4,960,656	33.2	27.2	22.7	23.8	
Mainland of China	8.4	8.6	-3.3	5.1	27.0	2,951,973	39.8	27.8	21.8	22.1	
United States	1.9	8.1	-14.8	-14.9	19.6	309,619	19.5	15.9	17.0	25.7	
Taiwan	19.9	-3.6	2.4	11.6	46.0	143,816	49.1	38.2	50.8	46.4	
India	35.9	-15.3	-12.0	-17.6	36.6	133,057	22.9	53.8	25.1	52.6	
Japan	10.0	0.7	-6.4	-9.7	8.7	118,849	8.1	-0.3	17.9	10.0	
Vietnam	10.3	4.5	-3.6	5.3	22.2	103,277	29.8	24.8	8.0	28.2	
Netherlands	11.5	11.5	-4.4	-5.2	22.8	79,412	44.0	0.1	28.5	26.0	
United Kingdom	-2.8	2.0	3.7	-9.4	57.5	73,438	130.2	110.7	45.2	-7.2	
Korea	4.9	2.1	-2.3	-7.6	42.7	74,556	34.6	31.0	58.4	46.1	
Germany	10.8	3.0	-8.9	-14.5	24.1	73,585	19.4	11.5	33.1	31.0	
Rest of the world	3.9	11.5	-0.7	-10.8	22.9	899,075	18.2	28.9	21.3	23.4	

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

**Table 9 : Imports of goods by source
(in value terms)**

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>		<u>2021</u>			
							Q1	Q2	Q3	Q4
	(% change)			(% change)	(\$Mn)		(% change over a year earlier)			
All sources	8.7	8.4	-6.5	-3.3	24.3	5,307,792	25.6	27.9	25.8	19.0
Mainland of China	5.9	7.7	-5.9	-6.5	26.5	2,433,474	30.5	24.8	27.6	24.2
Taiwan	12.9	2.7	-2.4	22.8	35.0	547,531	40.6	44.2	27.6	30.7
Singapore	10.1	9.0	-7.5	8.1	31.7	413,813	35.0	40.7	30.5	22.7
Korea	28.5	10.4	-20.9	12.3	31.3	324,618	26.6	44.3	42.5	16.7
Japan	2.7	2.6	-2.8	-5.0	12.8	270,787	12.0	20.6	18.2	2.4
United States	3.4	8.1	-7.9	-17.9	18.3	206,687	6.0	28.5	29.7	12.0
Malaysia	26.8	64.6	-14.3	1.2	1.7	166,718	5.9	-7.3	2.0	7.1
Vietnam	13.6	7.3	18.5	28.4	16.9	117,652	45.6	6.6	15.4	8.7
Thailand	8.5	2.8	-7.4	1.4	18.9	102,819	23.6	23.9	16.4	13.0
Philippines	27.6	1.1	-9.1	-0.1	25.1	87,702	21.6	32.5	24.4	22.6
Rest of the world	7.7	6.4	-4.9	-17.0	17.0	635,991	13.0	32.9	20.7	5.6

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>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020[#]</u>	<u>2021[#]</u>			<u>2021</u>		
							Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]
	(% change)			(% change)		(\$Mn)	(% change over a year earlier)			
Exports of services	6.1	9.3	-9.9	-35.0	14.5	593,935	-2.4	17.5	22.7	23.8
Transport	8.6	9.0	-4.7	-24.7	33.5	248,174	6.4	35.3	46.0	48.1
Travel	1.9	11.2	-21.6	-90.2	-39.1	13,513	-75.0	24.6	35.1	40.1
Financial services	13.5	10.9	-2.9	-0.4	8.8	183,383	7.5	8.5	12.5	6.8
Other services	2.9	5.1	-5.1	-9.0	4.5	148,865	1.1	2.8	3.9	10.0
Imports of services	4.8	5.6	-0.9	-32.8	12.6	479,819	-6.5	24.4	19.0	17.5
Transport	3.7	6.6	-1.1	-19.8	39.0	160,290	23.9	51.1	44.6	37.8
Travel	5.6	4.7	1.6	-79.7	-38.6	26,286	-77.0	53.7	7.0	7.6
Manufacturing [^]	3.5	2.0	-5.5	-10.4	17.9	93,095	13.0	18.4	19.3	19.9
Other services	5.5	7.6	-1.3	-1.4	5.8	200,148	6.1	8.2	4.2	4.9

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

Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

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

(^) This includes the value of processing fees paid by Hong Kong to the processing units outside Hong Kong and raw materials / semi-manufactures directly procured by these processing units.

Table 11 : Incoming visitors by source

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>		<u>2021</u>		
						Q1	Q2	Q3	Q4
<u>(’000)</u>									
All sources	58 472.2	65 147.6	55 912.6	3 568.9	91.4	16.5	17.2	29.4	28.3
Mainland of China	44 445.3	51 038.2	43 774.7	2 706.4	65.7	11.6	12.7	21.8	19.7
South and Southeast Asia	3 626.2	3 571.7	3 040.5	190.5	9.5	2.0	1.5	3.1	2.9
Taiwan	2 010.8	1 925.2	1 538.9	105.1	2.5	0.8	0.5	0.4	0.9
Europe	1 901.5	1 937.6	1 728.4	158.8	6.6	1.2	1.5	1.9	2.0
United States	1 215.6	1 304.2	1 107.2	80.8	1.4	0.3	0.2	0.4	0.4
Japan	1 230.0	1 287.8	1 078.8	50.3	0.3	#	#	0.1	0.2
Others	4 042.9	4 082.8	3 644.1	276.9	5.3	0.6	0.8	1.6	2.3
<u>(% change over a year earlier)</u>									
All sources	3.2	11.4	-14.2	-93.6	-97.4	-99.5	-35.9	-14.0	51.7
Mainland of China	3.9	14.8	-14.2	-93.8	-97.6	-99.6	-17.2	52.4	81.1
South and Southeast Asia	-2.0	-1.5	-14.9	-93.7	-95.0	-98.8	-52.5	-62.7	-16.7
Taiwan	*	-4.3	-20.1	-93.2	-97.6	-99.3	-56.7	-67.3	-20.2
Europe	-0.2	1.9	-10.8	-90.8	-95.9	-99.2	-69.8	-74.1	15.8
United States	0.3	7.3	-15.1	-92.7	-98.3	-99.6	-69.5	-48.5	1.0
Japan	12.6	4.7	-16.2	-95.3	-99.3	-99.9	-49.5	-4.1	128.2
Others	2.2	1.0	-10.7	-92.4	-98.1	-99.8	-47.9	-18.2	120.8

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

(#) Less than 0.05.

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

Table 12 : Property market

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	10 149	8 254	15 719	11 280	14 595	17 791	20 968
Commercial property	226	161	161	233	276	303	304
<i>of which :</i>							
Office space	136	123	104	164	153	198	179
Other commercial premises ^(b)	90	39	57	69	123	105	125
Industrial property ^(c)	170	85	116	30	78	105	44
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	46	85	36	30	5	23	41
Storage premises ^(d)	123	0	80	0	73	83	3
Production of public housing							
(in units)							
Rental housing flats ^(e)	9 778	20 898	5 634	10 147	21 755	11 268	20 137
Subsidised sales flats ^(e)	0	0	0	1 310	229	2 788	4 863
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	796.4	816.0	647.1	893.3	645.8	872.8	703.0
Commercial property	210.2	309.5	290.3	319.0	312.4	488.6	109.2
Industrial property ^(f)	70.7	138.1	105.9	225.3	76.2	62.5	98.4
Other properties	428.9	136.4	217.1	555.4	235.1	227.1	91.9
Total	1 506.1	1 400.1	1 260.4	1 993.0	1 269.4	1 651.1	1 002.5
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	81 333	50 676	63 807	55 982	54 701	61 591	57 247
Primary market	12 968	11 046	16 857	16 826	16 793	18 645	15 633
Secondary market	68 365	39 630	46 950	39 156	37 908	42 946	41 614
Selected types of non-residential properties ^(h)							
Office space	3 269	1 685	1 271	1 470	1 105	1 955	1 331
Other commercial premises	7 282	4 305	3 092	2 067	1 523	2 198	1 926
Flatted factory space	9 731	4 271	3 016	3 407	2 727	5 135	4 852

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>2019</u>	<u>2020</u>	<u>2021</u>		<u>2021</u>		
				Q1	Q2	Q3	Q4
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	13 643	20 888	14 386	2 249	6 711	2 208	3 218
Commercial property	384	136	111	11	25	14	61
<i>of which :</i>							
Office space	267	69	70	8	13	0	49
Other commercial premises ^(b)	118	67	42	3	13	14	12
Industrial property ^(c)	56	38	30	0	15	0	15
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	56	38	30	0	15	0	15
Storage premises ^(d)	0	0	0	0	0	0	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	9 634	6 605	N.A.	2 409	2 761	3 813	N.A.
Subsidised sales flats ^(e)	7 027	7 610	N.A.	0	3 222	0	N.A.
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	765.0	520.1	N.A.	152.2	69.8	439.5	N.A.
Commercial property	763.0	228.1	N.A.	112.7	317.0	271.9	N.A.
Industrial property ^(f)	177.7	182.6	N.A.	9.4	0.0	7.5	N.A.
Other properties	234.6	410.8	N.A.	13.7	52.6	92.1	N.A.
Total	1 940.3	1 341.5	N.A.	288.0	439.4	811.0	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	59 797	59 880	74 297	18 131	22 000	18 969	15 197
Primary market	21 108	15 317	17 650	3 692	4 593	4 686	4 679
Secondary market	38 689	44 563	56 647	14 439	17 407	14 283	10 518
Selected types of non-residential properties ^(h)							
Office space	861	686	1 077	245	332	283	217
Other commercial premises	1 300	1 269	2 189	539	611	547	492
Flatted factory space	2 426	2 117	3 642	885	1 035	903	819

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 sale and purchase 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>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	206.2	242.4	256.9	296.8	286.1	333.9	377.3
Office space	334.7	409.8	423.0	448.9	426.9	487.1	554.7
Shopping space	420.5	506.8	521.2	559.2	526.9	558.4	591.4
Flatted factory space	489.8	655.4	668.0	723.9	692.7	778.1	888.1
Property rental indices ^(b) :							
Residential flats	142.6	154.5	159.5	172.8	168.2	182.6	193.0
Office space	188.3	204.1	213.7	226.7	232.3	241.8	252.2
Shopping space	151.3	165.5	173.1	182.5	178.6	182.5	187.0
Flatted factory space	131.9	147.3	160.1	174.4	181.4	190.7	202.3
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	13.2	17.6	6.0	15.5	-3.6	16.7	13.0
Office space	12.4	22.4	3.2	6.1	-4.9	14.1	13.9
Shopping space	28.4	20.5	2.8	7.3	-5.8	6.0	5.9
Flatted factory space	27.2	33.8	1.9	8.4	-4.3	12.3	14.1
Property rental indices ^(b) :							
Residential flats	6.4	8.3	3.2	8.3	-2.7	8.6	5.7
Office space	10.8	8.4	4.7	6.1	2.5	4.1	4.3
Shopping space	12.7	9.4	4.6	5.4	-2.1	2.2	2.5
Flatted factory space	11.2	11.7	8.7	8.9	4.0	5.1	6.1

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.

(#) Figures for non-residential property are provisional.

(+) Provisional figures.

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

Table 13 : Property prices and rentals (Cont'd)

	<u>2019</u>	<u>2020</u>	<u>2021⁺</u>		<u>2021</u>		
				Q1	Q2	Q3 [#]	Q4 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	383.0	381.2	392.7	385.5	393.0	397.9	394.4
Office space	543.0	468.8	502.1	499.5	505.2	506.7	497.1
Shopping space	549.7	518.9	543.0	526.7	537.8	563.2	544.5
Flatted factory space	887.9	826.1	879.1	852.9	878.5	887.2	897.9
Property rental indices ^(b) :							
Residential flats	194.4	180.3	179.8	175.1	178.4	182.4	183.1
Office space	261.4	241.7	233.2	232.7	232.0	234.4	233.6
Shopping space	187.2	169.9	172.3	169.2	170.9	172.4	176.8
Flatted factory space	209.7	200.5	209.1	201.0	207.1	212.5	215.8
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	1.5	-0.5	3.0	2.2	2.5	3.8	3.6
Office space	-2.1	-13.7	7.1	4.7	11.9	10.9	1.4
Shopping space	-7.1	-5.6	4.6	0.3	2.0	10.0	6.5
Flatted factory space	*	-7.0	6.4	1.4	5.9	8.7	9.9
Property rental indices ^(b) :							
Residential flats	0.7	-7.3	-0.3	-4.9	-0.4	1.2	3.0
Office space	3.6	-7.5	-3.5	-8.1	-4.7	-1.4	0.4
Shopping space	0.1	-9.2	1.4	-2.8	1.8	2.1	4.7
Flatted factory space	3.7	-4.4	4.3	*	4.2	6.3	6.6

Table 14 : Monetary aggregates

	2012	2013	2014	2015	2016	2017	2018
<u>(at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	920,920	1,000,344	1,116,675	1,253,380	1,428,775	1,598,014	1,555,731
M2 ^(a)	4,537,384	4,795,130	5,225,773	5,765,549	6,280,230	7,010,345	7,262,451
M3 ^(a)	4,545,590	4,806,012	5,236,188	5,778,772	6,292,666	7,024,514	7,284,322
Total money supply (\$Mn)							
M1	1,377,359	1,510,895	1,708,724	1,971,146	2,213,970	2,431,461	2,421,598
M2	8,950,005	10,056,437	11,011,372	11,618,441	12,508,127	13,755,255	14,348,059
M3	8,970,396	10,085,243	11,048,944	11,655,019	12,551,331	13,803,837	14,403,688
Deposit (\$Mn)							
HK\$	4,176,200	4,390,953	4,800,330	5,312,403	5,809,060	6,484,616	6,715,262
Foreign currency	4,120,234	4,789,109	5,272,804	5,437,346	5,918,240	6,267,872	6,671,119
Total	8,296,434	9,180,062	10,073,135	10,749,749	11,727,300	12,752,488	13,386,381
Loans and advances (\$Mn)							
HK\$	3,333,059	3,606,018	4,000,361	4,152,589	4,479,107	5,359,983	5,836,238
Foreign currency	2,233,751	2,850,795	3,275,910	3,381,951	3,544,284	3,953,686	3,886,385
Total	5,566,810	6,456,813	7,276,271	7,534,540	8,023,390	9,313,668	9,722,623
Nominal Effective Exchange Rate Indices							
(Jan 2020 = 100) ^(b)							
Trade-weighted	89.6	89.6	90.7	95.7	98.4	98.4	96.2
Import-weighted	89.3	89.8	91.1	96.5	98.8	98.8	96.5
Export-weighted	89.9	89.4	90.2	94.8	97.9	98.0	95.8
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	15.9	8.6	11.6	12.2	14.0	11.8	-2.6
M2 ^(a)	12.1	5.7	9.0	10.3	8.9	11.6	3.6
M3 ^(a)	12.1	5.7	9.0	10.4	8.9	11.6	3.7
Total money supply							
M1	22.2	9.7	13.1	15.4	12.3	9.8	-0.4
M2	11.1	12.4	9.5	5.5	7.7	10.0	4.3
M3	11.0	12.4	9.6	5.5	7.7	10.0	4.3
Deposit							
HK\$	11.7	5.1	9.3	10.7	9.3	11.6	3.6
Foreign currency	7.0	16.2	10.1	3.1	8.8	5.9	6.4
Total	9.3	10.7	9.7	6.7	9.1	8.7	5.0
Loans and advances							
HK\$	5.5	8.2	10.9	3.8	7.9	19.7	8.9
Foreign currency	16.3	27.6	14.9	3.2	4.8	11.6	-1.7
Total	9.6	16.0	12.7	3.5	6.5	16.1	4.4
Nominal Effective Exchange Rate Indices							
(Jan 2020 = 100) ^(b)							
Trade-weighted	0.3	*	1.2	5.5	2.8	*	-2.2
Import-weighted	0.2	0.6	1.4	5.9	2.4	*	-2.3
Export-weighted	0.2	-0.6	0.9	5.1	3.3	0.1	-2.2

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, 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 negotiable certificates of deposit issued by such institutions and held outside the monetary sector.

Table 14 : Monetary aggregates (Cont'd)

	2019	2020	2021	Q1	Q2	Q3	Q4
<u>(at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	1,533,104	1,972,719	2,078,911	2,079,446	2,553,280	2,141,722	2,078,911
M2 ^(a)	7,438,789	7,922,089	8,043,994	8,128,388	8,461,821	8,085,088	8,043,994
M3 ^(a)	7,454,655	7,937,038	8,057,408	8,143,300	8,477,737	8,098,753	8,057,408
Total money supply (\$Mn)							
M1	2,484,738	3,231,921	3,490,858	3,386,579	3,866,519	3,579,632	3,490,858
M2	14,745,872	15,606,608	16,272,650	15,760,021	16,231,151	16,065,611	16,272,650
M3	14,786,375	15,644,043	16,310,866	15,797,352	16,270,817	16,104,828	16,310,866
Deposit (\$Mn)							
HK\$	6,884,143	7,311,368	7,414,381	7,508,711	7,865,877	7,480,315	7,414,381
Foreign currency	6,887,444	7,202,247	7,771,839	7,173,630	7,317,676	7,520,132	7,771,839
Total	13,771,586	14,513,615	15,186,220	14,682,341	15,183,554	15,000,447	15,186,220
Loans and advances (\$Mn)							
HK\$	6,219,377	6,106,960	6,425,857	6,254,914	6,619,402	6,332,428	6,425,857
Foreign currency	4,157,325	4,391,617	4,470,799	4,535,055	4,630,411	4,693,781	4,470,799
Total	10,376,701	10,498,577	10,896,656	10,789,969	11,249,814	11,026,209	10,896,656
Nominal Effective Exchange Rate Indices							
(Jan 2020 =100) ^(b)							
Trade-weighted	99.4	100.0	95.5	95.4	95.4	95.8	95.4
Import-weighted	99.5	100.1	95.8	95.6	95.7	96.1	95.9
Export-weighted	99.2	100.0	95.1	95.2	95.0	95.4	94.9
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	-1.5	28.7	5.4	31.7	45.2	-11.0	5.4
M2 ^(a)	2.4	6.5	1.5	9.2	10.9	-1.9	1.5
M3 ^(a)	2.3	6.5	1.5	9.1	10.9	-1.9	1.5
Total money supply							
M1	2.6	30.1	8.0	29.5	36.2	0.1	8.0
M2	2.8	5.8	4.3	6.5	7.5	1.4	4.3
M3	2.7	5.8	4.3	6.4	7.5	1.4	4.3
Deposit							
HK\$	2.5	6.2	1.4	9.2	11.5	-2.2	1.4
Foreign currency	3.2	4.6	7.9	4.0	4.2	5.6	7.9
Total	2.9	5.4	4.6	6.6	7.9	1.5	4.6
Loans and advances							
HK\$	6.6	-1.8	5.2	1.0	8.6	-2.8	5.2
Foreign currency	7.0	5.6	1.8	1.2	0.7	4.0	1.8
Total	6.7	1.2	3.8	1.1	5.2	*	3.8
Nominal Effective Exchange Rate Indices							
(Jan 2020 =100) ^(b)							
Trade-weighted	3.3	0.6	-4.5	-5.5	-6.9	-4.3	-1.4
Import-weighted	3.1	0.6	-4.3	-5.3	-6.6	-4.0	-1.0
Export-weighted	3.5	0.8	-4.9	-5.6	-7.3	-4.6	-1.9

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

(b) Period average.

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

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

	(%)							
	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>		
					Q4	Q1	Q2	Q3
Services Industry								
Import and export trade	2.3	3.7	-6.6	-3.6	6.1	27.6	27.5	22.3
Wholesale	2.8	4.3	-8.3	-7.9	-0.3	11.2	12.7	15.4
Retail	2.2	8.7	-11.1	-24.3	-9.0	7.5	9.3	7.3
Transportation	7.1	8.0	-2.3	-19.7	-6.8	19.3	52.4	76.7
<i>within which:</i>								
Land transport	1.8	5.3	1.3	-23.9	-13.0	-4.6	9.3	10.7
Water transport	5.6	4.4	0.1	10.7	35.7	67.1	78.2	105.0
Air transport	10.0	11.3	-4.9	-36.2	-30.1	-9.4	44.9	76.1
Warehousing and storage	14.1	12.7	-1.4	11.5	27.0	39.0	37.7	18.5
Courier	19.1	-0.7	-3.9	28.4	36.2	47.3	13.3	9.4
Accommodation services ^(a)	6.0	10.8	-14.3	-59.1	-33.2	16.1	58.2	45.0
Food services	5.0	6.0	-5.9	-29.4	-25.2	-8.8	10.0	43.9
Information and communications	2.9	3.1	1.2	-8.5	-0.5	6.1	9.6	7.2
<i>within which:</i>								
Telecommunications	-3.5	2.2	-2.6	-9.0	2.0	7.7	5.4	4.4
Film entertainment	4.3	3.1	-2.3	-44.0	-32.2	-17.0	35.2	54.1
Banking	-0.1	6.8	2.8	-8.0	-12.2	-3.7	-8.6	2.8
Financing (except banking)	7.2	10.3	1.1	12.2	17.7	29.1	21.3	19.2
<i>within which:</i>								
Financial markets and asset management	1.6	11.6	0.8	13.2	21.4	36.3	25.9	21.7
<i>within which : Asset management</i>	4.4	3.7	7.3	11.6	17.9	26.2	31.5	30.5
Insurance	11.8	8.7	8.8	6.1	8.9	-1.6	3.8	3.0
Real estate	10.2	5.4	11.4	3.2	26.9	10.4	0.2	1.9
Professional, scientific and technical services	1.9	3.3	1.3	-2.1	-0.7	2.9	8.2	8.2
Administrative and support services	1.5	3.5	0.4	-25.4	-25.9	-10.6	11.0	3.4
Services Domain								
Tourism, convention and exhibition services	0.8	11.0	-19.3	-86.7	-85.0	-72.1 ⁺	57.9 ⁺	48.4 ⁺
Computer and information technology services	1.4	2.9	-7.2	-3.2	2.4	22.8	15.2	21.6

Notes: Upon the implementation of the new Hong Kong Standard Industrial Classification (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.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(+) Provisional figures.

Table 16 : Labour force characteristics

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021⁺</u>		<u>2021</u>		
						Q1	Q2	Q3	Q4
<u>(%)</u>									
Labour force participation rate	61.1	61.2	60.6	59.6	59.3	59.6	59.5	59.3	58.8
Seasonally adjusted unemployment rate ^(a)	3.1	2.8	2.9	5.8	5.2	6.8	5.5	4.5	3.9
Underemployment rate	1.2	1.1	1.1	3.3	2.5	3.8	2.5	2.1	1.7
<u>('000)</u>									
Population of working age	6 463.3	6 506.4	6 549.1	6 528.3	6 486.6	6 498.9	6 472.0	6 472.4	6 503.0
Labour force	3 946.6	3 979.0	3 966.2	3 888.2	3 847.4	3 873.9	3 853.1	3 838.6	3 824.0
Persons employed	3 823.2	3 867.0	3 849.9	3 661.6	3 648.2	3 614.1	3 640.1	3 658.0	3 680.7
Persons unemployed	123.4	112.0	116.3	226.6	199.2	259.8	213.1	180.6	143.3
Persons underemployed	45.6	43.2	42.0	129.5	97.6	148.4	96.0	79.0	66.8
<u>(% change over a year earlier)</u>									
Population of working age	0.7	0.7	0.7	-0.3	-0.6	-0.8	-0.9	-0.4	*
Labour force	0.7	0.8	-0.3	-2.0	-1.0	-0.7	-0.7	-0.9	-1.3
Persons employed	1.0	1.1	-0.4	-4.9	-0.4	-3.3	*	1.1	1.4
Persons unemployed	-7.2	-9.2	3.8	94.9	-12.1	58.7	-12.1	-29.3	-41.3
Persons underemployed	-16.5	-5.3	-2.8	208.3	-24.7	76.8	-33.4	-47.1	-49.9

Notes: (a) Seasonal adjustment is not applicable to annual unemployment rates.

(+) Provisional figures.

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

Table 17 : Employment in selected major industries

Selected major industries	2016	2017	2018	2019	2020	2020	2021			
						Dec	Mar	Jun	Sep	(No.)
	(% change)					(% change over a year earlier)				
Manufacturing	-3.6	-3.3	-3.0	-3.5	-4.0	-4.1	-3.6	-6.0	-5.9	78 406
Construction sites (covering manual workers only)	13.3	10.1	-5.8	-9.0	-4.5	-3.8	1.6	8.6	13.2	106 320
Import and export trade	-0.7	-0.4	-0.6	-5.7	-11.0	-11.6	-8.6	-3.5	-1.9	385 299
Wholesale	-0.8	-0.6	-0.9	-4.0	-8.8	-10.1	-8.4	-2.9	-4.1	49 778
Retail	-1.1	0.5	1.7	-1.7	-6.3	-4.1	-2.0	-0.5	-0.5	248 548
Food and beverage services	-0.2	0.3	2.8	-2.3	-13.6	-13.6	-7.2	1.0	5.2	217 557
Accommodation services ^(a)	-2.1	0.3	4.8	1.8	-14.7	-19.1	-9.4	3.1	5.0	36 901
Transportation, storage, postal and courier services	0.5	0.2	0.6	0.3	-3.7	-7.5	-6.7	-4.2	-4.4	167 222
Information and communications	0.7	0.9	1.5	1.9	-0.3	-0.3	-0.4	-1.8	-1.7	108 435
Financing and insurance	0.8	1.5	2.6	2.9	0.6	0.1	-0.8	0.1	0.4	240 114
Real estate	-0.1	1.3	2.0	1.2	0.4	1.2	1.9	2.4	4.3	142 653
Professional and business services (excluding cleaning and similar services)	1.9	2.1	3.2	1.5	-0.3	*	0.3	0.2	-0.3	306 615
Cleaning and similar services	0.5	0.7	-1.4	-0.3	0.3	1.2	1.6	2.1	1.4	82 591
Education	2.3	1.6	1.8	1.7	-1.0	-1.3	0.1	-0.1	-0.8	202 263
Human health services	4.3	3.5	3.4	4.7	4.1	3.4	4.0	3.3	2.9	145 750
Residential care and social work services	3.0	1.0	1.0	2.4	0.4	-1.6	-0.3	0.4	1.0	66 214
Arts, entertainment, recreation and other services	-2.2	-0.6	1.4	0.8	-5.4	-6.1	-2.6	-2.7	-1.1	119 422
Civil service ^(b)	1.2	1.6	2.1	2.2	0.7	-0.2	-0.1	-0.3	-0.2	176 406
Others ^(c)	0.8	2.1	*	1.5	-1.7	0.5	2.5	2.2	-0.5	11 426

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 (HSIC) 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) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(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.

(c) Include employment in mining and quarrying; and in electricity and gas supply, and waste management.

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

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

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u> Dec	Mar	<u>2021</u> Jun	Sep
<u>(Number)</u>									
Building sites									
Private sector	60 243	65 985	65 700	62 903	54 957	52 839	57 539	59 480	57 706
Public sector ^(a)	16 030	21 660	21 604	19 257	22 982	23 933	25 460	24 750	22 605
Sub-total	76 273	87 645	87 303	82 160	77 939	76 772	82 999	84 230	80 311
Civil engineering sites									
Private sector	1 386	979	1 729	2 483	2 180	2 079	2 034	2 911	3 871
Public sector ^(a)	30 141	30 050	22 816	17 108	17 064	17 266	17 669	18 928	22 138
Sub-total	31 526	31 029	24 546	19 591	19 244	19 345	19 703	21 839	26 009
Total	107 799	118 674	111 849	101 750	97 182	96 117	102 702	106 069	106 320
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	19.6	9.5	-0.4	-4.3	-12.6	-11.8	-3.2	7.5	10.5
Public sector ^(a)	3.6	35.1	-0.3	-10.9	19.3	11.7	16.7	6.9	-1.8
Sub-total	15.8	14.9	-0.4	-5.9	-5.1	-5.6	2.1	7.3	6.8
Civil engineering sites									
Private sector	-13.9	-29.3	76.6	43.6	-12.2	-11.6	-21.7	33.7	107.4
Public sector ^(a)	9.0	-0.3	-24.1	-25.0	-0.3	6.3	2.8	11.5	31.6
Sub-total	7.7	-1.6	-20.9	-20.2	-1.8	4.1	-0.4	14.0	39.2
Total	13.3	10.1	-5.8	-9.0	-4.5	-3.8	1.6	8.6	13.2

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>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>		
Selected industry sections						Q4	Q1	Q2	Q3
(in nominal terms)									
Manufacturing	3.5	3.4	4.0	3.8	-0.1	-1.1	-1.8	-0.8	*
Import/export and wholesale trades	2.3	2.9	3.2	2.3	0.5	-0.1	-0.5	-0.1	0.1
Retail trade	2.4	3.3	3.0	2.3	0.1	-0.4	-0.3	-0.1	0.2
Transportation, storage, postal and courier services	3.3	3.4	4.1	3.9	-5.4	-10.5	-8.2	-4.2	-2.1
Accommodation ^(a) and food service activities	5.1	4.7	5.3	4.7	-2.9	-4.2	-5.3	-2.1	0.9
Information and communications	3.4	3.3	3.3	3.9	2.3	1.7	1.2	1.8	1.8
Financial and insurance activities	2.7	3.0	3.1	3.0	1.7	1.6	1.4	1.7	1.9
Real estate activities	4.2	4.3	4.3	4.1	1.5	1.1	1.1	1.3	1.4
Professional and business services	5.1	4.2	4.6	3.8	1.6	1.2	1.1	1.3	1.5
Social and personal services	2.5	3.1	4.3	2.3	6.2	5.6	-1.7	1.5	0.8
All selected industry sections surveyed	3.7	3.7	3.9	3.4	2.4	1.8	0.7	1.1	1.1
(in real terms)									
Manufacturing	1.0	2.0	1.6	0.9	-0.4	-0.5	-3.0	-1.6	-2.1
Import/export and wholesale trades	-0.1	1.4	0.8	-0.5	0.2	0.4	-1.7	-0.9	-2.1
Retail trade	*	1.8	0.6	-0.5	-0.1	0.2	-1.6	-0.9	-1.9
Transportation, storage, postal and courier services	0.9	1.9	1.6	1.0	-5.6	-10.0	-9.3	-5.0	-4.2
Accommodation ^(a) and food service activities	2.6	3.2	2.8	1.8	-3.2	-3.6	-6.4	-2.9	-1.3
Information and communications	1.0	1.9	0.8	0.9	2.0	2.3	-0.1	0.9	-0.4
Financial and insurance activities	0.3	1.6	0.7	0.2	1.2	2.2	0.1	0.8	-0.3
Real estate activities	1.7	2.8	1.9	1.1	1.3	1.7	-0.1	0.5	-0.8
Professional and business services	2.6	2.7	2.2	0.9	1.4	1.8	-0.1	0.5	-0.8
Social and personal services	0.1	1.6	1.8	-0.6	6.0	6.2	-2.9	0.7	-1.4
All selected industry sections surveyed	1.3	2.3	1.5	0.5	2.1	2.4	-0.5	0.2	-1.1

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 2019/20-based Composite CPI.

In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, payroll also covers 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 industrial and occupational coverage, the movements in payroll per person engaged do not necessarily match closely with those in wage rates.

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

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

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

(%)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>		
Selected industry sections						Dec	Mar	Jun	Sep
(in nominal terms)									
Manufacturing	4.0	3.7	3.6	3.5	2.0	1.6	1.5	1.4	1.4
Import/export, wholesale and retail trades	2.7	3.0	3.0	2.3	1.0	0.7	0.5	0.7	0.8
Transportation	3.5	2.9	4.7	4.4	0.1	-1.5	-2.1	-0.8	-0.5
Accommodation ^(a) and food service activities	4.9	4.7	4.6	4.1	1.0	0.9	0.8	0.8	1.4
Financial and insurance activities ^(b)	3.4	3.5	3.5	3.7	2.3	2.3	2.3	2.4	2.5
Real estate leasing and maintenance management	3.7	4.1	4.4	3.9	2.7	2.7	2.8	2.8	2.9
Professional and business services	4.7	4.7	4.4	3.6	1.7	1.5	1.5	1.5	1.8
Personal services	5.5	4.2	4.1	3.3	0.7	0.4	-0.2	0.1	0.4
All industries surveyed	3.7	3.8	4.0	3.5	1.3	1.0	0.9	1.1	1.3
(in real terms)									
Manufacturing	1.5	2.2	0.8	0.2	3.1	2.9	0.1	*	-0.2
Import/export, wholesale and retail trades	0.3	1.6	0.1	-1.0	2.1	2.0	-1.0	-0.7	-0.7
Transportation	1.0	1.5	1.7	1.0	1.3	-0.2	-3.5	-2.2	-2.0
Accommodation ^(a) and food service activities	2.3	3.3	1.7	0.7	2.1	2.2	-0.6	-0.5	-0.2
Financial and insurance activities ^(b)	0.9	2.1	0.6	0.2	3.7	3.6	0.8	1.0	0.9
Real estate leasing and maintenance management	1.1	2.6	1.4	0.5	3.8	4.0	1.3	1.4	1.3
Professional and business services	2.3	3.2	1.5	0.3	2.8	2.8	0.1	0.2	0.2
Personal services	3.0	2.7	1.1	0.2	1.7	1.6	-1.6	-1.2	-1.2
All industries surveyed	1.2	2.3	1.0	0.1	2.5	2.3	-0.6	-0.3	-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 2019/20-based CPI(A).

(a) Accommodation services sector covers hotels, guesthouses, boarding houses and other establishments providing short-term accommodation.

(b) Excluding stock, commodity and bullion brokers; and exchanges and services companies.

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

**Table 21 : Monthly wage level and distribution analysed
by industry section : all employees**

(HK\$)

Industry sections	May – Jun 2019			May – Jun 2020		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	14,800	17,800	27,700	14,500	17,500	27,100
Electricity and gas supply; sewerage, waste management and remediation activities	21,600	28,200	42,400	21,100	28,000	43,100
Construction	18,500	23,500	29,500	18,400	23,000	29,800
Import and export trade	14,000	18,800	28,000	14,200	18,900	28,200
Wholesale	12,000	15,100	20,500	12,200	15,200	20,600
Retail trade	11,000	14,000	18,100	10,500	13,700	18,000
<i>within which:</i>						
Supermarkets and convenience stores	7,400	11,900	14,400	7,600	11,700	14,200
Other retail stores	11,500	14,200	18,500	11,500	14,300	18,800
Land transport	14,700	19,800	29,100	14,500	19,400	28,700
Other transportation, storage, postal and courier services ^(b)	14,300	19,000	25,000	14,000	18,500	24,800
Food and beverage services	11,000	13,800	18,000	10,000	13,600	17,500
<i>within which:</i>						
Hong Kong style tea cafes	12,100	13,700	17,600	12,000	13,700	17,700
Chinese restaurants	12,800	15,000	20,200	12,800	15,100	20,500
Restaurants, other than Chinese	12,000	14,200	18,000	11,800	14,300	18,000
Fast food cafes ^(c)	4,900	10,100	13,500	4,900	10,200	13,700
Other food and beverage services	9,000	13,400	16,800	6,300	13,000	16,800
Accommodation services ^(d)	13,500	16,200	21,000	13,400	15,700	21,000
Information and communications	16,000	23,700	36,200	16,500	23,700	36,000
Financing and insurance	18,600	28,300	47,200	19,000	28,600	47,500
Real estate activities ^(e)	14,800	23,000	34,600	14,200	21,800	34,200
Estate management, security and cleaning services	10,100	13,000	15,900	10,200	13,000	15,700
<i>within which:</i>						
Real estate maintenance management	12,500	14,100	17,100	12,500	14,500	17,400
Security services ^(f)	11,800	13,600	16,400	11,800	13,800	16,500
Cleaning services	7,900	9,800	11,000	8,000	10,000	11,100
Membership organisations ^(g)	10,800	13,700	21,800	11,400	14,000	22,000
Professional, scientific and technical services	15,500	24,300	37,100	16,000	25,000	37,500
Administrative and support services activities	13,000	17,000	26,800	13,000	17,300	27,200
Travel agency, reservation service and related activities	12,400	15,300	21,900	11,000	15,200	21,500
Education and public administration (excluding the Government)	14,100	29,200	51,600	14,500	30,000	52,000
Human health activities; and beauty and body prettifying treatment	14,100	19,500	42,700	14,200	19,600	42,400
Miscellaneous activities	11,000	13,100	17,000	10,800	13,000	17,000
<i>within which:</i>						
Elderly homes	12,800	14,500	17,300	12,800	14,500	17,500
Laundry and dry cleaning services	9,400	12,000	16,300	8,400	12,000	13,900
Hairdressing and other personal services	10,500	12,600	16,800	10,300	12,300	17,000
Local courier services	8,000	11,000	15,000	8,100	11,000	15,000
Food processing and production	10,600	13,000	18,000	11,000	13,200	18,400
Other activities not classified above	12,600	16,300	25,400	12,900	16,600	25,500
All industry sections above	13,100	18,200	28,200	13,200	18,400	28,800

Notes: Monthly wages figures are rounded to the nearest hundred of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

(d) Including hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.

**Table 22 : Hourly wage level and distribution analysed
by industry section : all employees**

(HK\$)

Industry sections	May – Jun 2019			May – Jun 2020		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing ^(a)	55.8	72.6	107.3	55.6	71.5	103.9
Electricity and gas supply; sewerage, waste management and remediation activities	78.6	111.1	168.7	76.3	108.9	166.7
Construction	78.4	99.9	124.4	78.9	100.0	125.5
Import and export trade	58.2	80.3	118.3	58.7	80.5	118.3
Wholesale	51.9	65.2	86.5	52.5	65.6	86.5
Retail trade	45.6	53.8	67.9	45.0	53.4	67.0
<i>within which:</i>						
Supermarkets and convenience stores	42.9	47.5	52.5	42.4	47.6	52.0
Other retail stores	46.3	55.9	72.6	46.6	56.6	73.1
Land transport	57.1	79.6	116.8	57.6	80.0	113.5
Other transportation, storage, postal and courier services ^(b)	52.7	69.1	95.2	52.4	68.0	94.6
Food and beverage services	46.6	52.2	64.8	46.7	52.6	66.0
<i>within which:</i>						
Hong Kong style tea cafes	47.6	52.5	63.3	47.6	52.5	64.2
Chinese restaurants	46.9	53.3	71.6	47.1	53.8	72.3
Restaurants, other than Chinese	48.3	54.2	67.3	48.5	54.1	67.1
Fast food cafes ^(c)	44.4	48.3	53.8	44.0	48.1	55.0
Other food and beverage services	45.2	51.2	61.5	45.2	51.1	61.0
Accommodation services ^(d)	47.3	58.1	74.4	47.3	58.1	74.3
Information and communications	64.5	93.8	141.2	66.1	93.9	143.4
Financing and insurance	74.6	111.0	191.2	75.4	110.4	190.2
Real estate activities ^(e)	62.5	90.0	142.9	61.7	88.0	140.7
Estate management, security and cleaning services	41.1	45.9	58.7	41.2	46.4	58.2
<i>within which:</i>						
Real estate maintenance management	41.2	46.3	62.2	41.3	46.9	62.8
Security services ^(f)	41.2	45.5	55.6	41.4	46.1	56.3
Cleaning services	40.0	45.1	51.7	40.2	45.2	51.9
Membership organisations ^(g)	44.8	56.7	90.9	44.6	58.0	91.7
Professional, scientific and technical services	65.6	95.8	157.6	66.7	97.6	159.5
Administrative and support services activities	51.4	71.0	110.5	52.1	71.7	112.5
Travel agency, reservation service and related activities	50.7	66.5	90.3	51.6	66.4	94.1
Education and public administration (excluding the Government)	67.5	131.8	220.0	67.4	133.0	222.2
Human health activities; and beauty and body prettifying treatment	63.6	89.6	174.9	63.2	90.4	173.8
Miscellaneous activities	44.4	51.6	68.3	44.9	51.6	69.0
<i>within which:</i>						
Elderly homes	42.4	52.7	69.8	42.5	52.6	70.4
Laundry and dry cleaning services	43.1	49.5	65.2	45.9	49.5	59.4
Hairdressing and other personal services	47.2	51.9	70.5	46.9	52.0	71.7
Local courier services	47.0	52.2	62.6	46.7	52.2	63.0
Food processing and production	44.0	50.9	69.8	44.4	51.4	69.7
Other activities not classified above	53.8	67.9	103.6	54.4	69.2	104.5
All industry sections above	52.2	73.0	114.9	52.8	74.4	117.6

Notes: Hourly wages figures are rounded to the nearest ten cents of Hong Kong dollar.

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

(d) Including hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

(e) Excluding real estate maintenance management.

(f) Including investigation activities and services to buildings and landscape care activities.

(g) Including incorporated owners/tenants committees, kaifong welfare associations, etc.

Table 23 : Rates of change in prices

	(%)							
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
GDP deflator	3.5	1.8	2.9	3.6	1.6	2.9	3.7	2.0
Domestic demand deflator	4.2	1.4	3.1	2.2	1.4	2.8	3.4	2.4
Consumer Price Indices ^(a) :								
Composite CPI	4.1	4.3	4.4	3.0	2.4	1.5	2.4	2.9
CPI(A)	3.6	5.1	5.6	4.0	2.8	1.5	2.7	3.3
CPI(B)	4.3	4.1	4.2	2.9	2.3	1.4	2.3	2.7
CPI(C)	4.1	3.8	3.5	2.1	2.1	1.5	2.2	2.6
Unit Value Indices :								
Total exports of goods	3.4	1.3	2.0	0.1	-1.7	1.8	2.4	1.1
Imports of goods	3.3	0.9	1.9	-0.4	-1.7	1.9	2.6	1.3
Terms of Trade Index ^(b)	0.1	0.4	0.1	0.5	*	-0.1	-0.1	-0.1
Producer Price Index for all manufacturing industries	0.1	-3.1	-1.7	-2.7	1.3	3.8	2.0	1.0
Tender Price Indices :								
Public sector building projects	8.3	6.6	7.3	5.9	1.0	-0.3	-2.9	-2.6
Public housing projects	6.4	9.3	8.0	12.5	-0.7	0.3	-1.9	-1.8

Notes: (a) The year-on-year rates of change before October 2020 were derived using the index series in the base periods at that time (for instance the 2014/15-based index series), compared with the index a year earlier in the same base period.

(b) Derived from merchandise trade index numbers.

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

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

N.A. Not yet available.

(^) Average annual rate of change for the 10-year period 2010-2020.

(~) Average annual rate of change for the 5-year period 2015-2020.

Table 23 : Rates of change in prices (Cont'd)

(%)

	<u>2020</u>	<u>2021</u>	<u>2021</u>				<u>Average annual rate of change:</u>	
			Q1	Q2	Q3	Q4	10 years 2011 to 2021	5 years 2016 to 2021
GDP deflator [#]	0.6	0.5	-0.8	0.4	1.1	1.4	2.3	1.9
Domestic demand deflator [#]	0.5	-0.7	-1.7	-0.9	0.3	-0.5	2.1	1.7
Consumer Price Indices ^(a) :								
Composite CPI	0.3	1.6	1.2	0.8	2.3	2.0	2.7	1.7
CPI(A)	-0.6	2.9	3.3	1.6	4.0	2.5	3.1	2.0
CPI(B)	0.6	1.0	0.3	0.4	1.4	1.8	2.6	1.6
CPI(C)	0.8	0.9	*	0.4	1.3	1.7	2.4	1.6
Unit Value Indices :								
Total exports of goods	-0.6	5.4	1.0	5.0	6.1	9.0	1.5	2.0
Imports of goods	-0.7	5.5	1.1	4.7	6.5	9.0	1.4	2.1
Terms of Trade Index ^(b)	*	*	-0.1	0.3	-0.4	*	0.1	-0.1
Producer Price Index for all manufacturing industries	2.3	N.A.	1.9	2.7	-0.8	N.A.	1.1 [^]	2.1 [~]
Tender Price Indices :								
Public sector								
building projects	-3.0	N.A.	-0.6	-0.2	1.4	N.A.	3.1 [^]	-1.6 [~]
Public housing projects	-2.7	N.A.	-0.7	0.5	1.9	N.A.	3.8 [^]	-1.4 [~]

Table 24 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
All items	100.00	4.1 (4.7)	4.3 (4.0)	4.4 (3.5)	3.0 (2.5)	2.4 (2.3)	1.5 (1.7)	2.4 (2.6)
Food	27.41	5.8	4.4	4.1	4.0	3.4	2.2	3.4
<i>Meals out and takeaway food</i>	17.05	5.4	4.4	4.6	4.2	3.3	2.7	2.9
<i>Basic food</i>	10.36	6.5	4.4	3.4	3.4	3.6	1.1	4.3
Housing ^(a)	40.25	5.6	6.7	6.7	5.1	3.7	2.0	2.5
<i>Private housing rent</i>	35.46	6.8	6.3	6.0	4.7	3.4	1.8	2.2
<i>Public housing rent</i>	1.87	-7.1	16.0	18.3	10.9	7.2	3.0	4.1
Electricity, gas and water	2.82	-8.2	6.9	14.9	8.4	1.0	-1.7	4.9
Alcoholic drinks and tobacco	0.49	3.0	1.5	6.5	1.3	1.5	0.6	1.3
Clothing and footwear	2.42	3.1	1.7	0.9	-1.8	-3.4	-0.4	1.6
Durable goods	4.00	-1.4	-4.3	-3.4	-5.6	-5.4	-3.2	-2.0
Miscellaneous goods	3.32	2.2	2.2	2.3	0.9	1.5	1.4	1.3
Transport	6.17	3.0	2.3	2.0	-0.3	1.6	2.3	1.6
Miscellaneous services	13.12	2.8	3.7	3.0	1.1	2.3	0.9	2.1

Notes: The year-on-year rates of change before October 2020 were derived using the index series in the base periods at that time (for instance the 2014/15-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 2019/20-based index series.

Figures in brackets represent the underlying rates 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".

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

Table 24 : Rates of change in Composite Consumer Price Index (Cont'd)

(%)										
	Weight	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2021</u>				Average annual rate of change:	
					Q1	Q2	Q3	Q4	10 years 2011 to 2021	5 years 2016 to 2021
All items	100.00	2.9 (3.0)	0.3 (1.3)	1.6 (0.6)	1.2 (-0.2)	0.8 (0.3)	2.3 (1.1)	2.0 (1.2)	2.7 (2.7)	1.7 (2.0)
Food	27.41	4.9	3.3	1.7	0.7	0.9	2.6	2.5	3.7	3.1
<i>Meals out and takeaway food</i>	17.05	2.2	0.8	1.8	*	1.0	3.6	2.8	3.2	2.1
<i>Basic food</i>	10.36	9.9	7.7	1.4	1.8	1.1	1.0	1.9	4.5	4.8
Housing ^(a)	40.25	3.5	-0.1	0.3	1.7	-0.7	1.0	-0.6	3.6	1.6
<i>Private housing rent</i>	35.46	3.1	1.1	-1.3	-1.0	-1.6	-1.6	-0.8	3.4	1.4
<i>Public housing rent</i>	1.87	7.1	-21.0	29.3	59.2	11.0	100.3	2.0	5.9	3.2
Electricity, gas and water	2.82	-5.4	-20.6	27.0	25.4	26.0	20.5	37.0	2.0	-0.4
Alcoholic drinks and tobacco	0.49	1.2	0.5	0.1	0.6	-0.1	-0.4	0.2	1.7	0.7
Clothing and footwear	2.42	-1.7	-5.2	3.3	-1.5	2.1	5.4	7.1	-0.2	-0.5
Durable goods	4.00	-1.9	-2.7	1.0	-0.5	0.7	2.1	2.0	-2.9	-1.8
Miscellaneous goods	3.32	2.5	3.1	-3.1	-4.2	-4.1	-2.8	-1.2	1.4	1.0
Transport	6.17	2.0	-1.0	2.6	-2.8	2.4	5.9	5.1	1.6	1.5
Miscellaneous services	13.12	2.0	0.8	0.7	0.5	0.6	0.8	1.0	1.9	1.3

**Table 25 : Rates of change in implicit price deflators of GDP
and its main expenditure components**

(%)

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Private consumption expenditure	3.2	2.7	2.9	1.2	1.5	2.5	3.1
Government consumption expenditure	6.2	4.3	4.7	4.4	3.7	2.5	3.3
Gross domestic fixed capital formation	6.4	-2.9	3.1	4.5	-0.3	4.4	4.6
Total exports of goods	3.2	-0.1	0.7	-0.7	-1.4	1.7	2.2
Imports of goods	4.3	-0.3	0.8	-1.4	-1.8	1.8	2.3
Exports of services	4.7	0.4	0.4	-2.8	-2.0	3.2	4.5
Imports of services	0.6	0.3	0.5	-4.6	-1.3	2.7	2.8
Gross Domestic Product	3.5	1.8	2.9	3.6	1.6	2.9	3.7
Total final demand	3.7	0.4	1.4	*	-0.6	2.2	2.8
Domestic demand	4.2	1.4	3.1	2.2	1.4	2.8	3.4

Notes: Figures in this table are compiled based on the change of ownership principle in recording goods sent abroad for processing and merchanting under the standards stipulated in the *System of National Accounts 2008*.

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

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

**Table 25 : Rates of change in implicit price deflators of GDP
and its main expenditure components (Cont'd)**

	(%)								
	<u>2019</u>	<u>2020[#]</u>	<u>2021[#]</u>	<u>2021</u>				Average annual rate of change:	
				Q1 [#]	Q2 [#]	Q3 [#]	Q4 [#]	10 years 2011 to 2021 [#]	5 years 2016 to 2021 [#]
Private consumption expenditure	2.7	0.6	-0.7	-1.6	-0.9	-0.6	0.3	2.0	1.6
Government consumption expenditure	4.7	1.7	1.0	*	0.3	1.3	2.3	3.6	2.6
Gross domestic fixed capital formation	-0.1	-1.5	0.1	-3.7	-1.6	1.7	3.9	1.8	1.5
Total exports of goods	1.1	0.1	4.9	1.3	4.7	5.1	8.1	1.1	2.0
Imports of goods	1.3	0.1	4.7	1.1	4.1	5.4	7.8	1.2	2.0
Exports of services	-0.3	-0.4	13.2	7.3	13.5	16.4	15.7	2.0	3.9
Imports of services	-1.0	-0.9	10.7	5.3	12.3	12.3	12.3	0.9	2.8
Gross Domestic Product	2.0	0.6	0.5	-0.8	0.4	1.1	1.4	2.3	1.9
Total final demand	1.4	0.2	3.6	0.6	3.3	4.3	5.9	1.5	2.0
Domestic demand	2.4	0.5	-0.7	-1.7	-0.9	0.3	-0.5	2.1	1.7

