

Press Release

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Economic Situation in the Second Quarter of 2007 and Latest GDP and Price Forecasts for 2007

The Government released today (Friday) the Half-yearly Economic Report 2007, together with the preliminary figures on Gross Domestic Product for the second quarter of 2007.

The Government Economist, Mr K C Kwok, described the economic situation in the second quarter of 2007 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy expanded briskly in the second quarter of 2007, with GDP accelerating to a 6.9% growth in real terms over a year earlier, up from a revised 5.7% in the first quarter. The economic upturn continued to be broad-based and distinctly above trend.
- * Externally, merchandise exports sustained another quarter of strong performance, growing by 11.3% in real terms in the second quarter. While exports to the Mainland stayed vibrant on the back of a buoyant economy, those to the EU and Japan also showed faster growth, thereby offsetting the softness of the US market. Further weakening of the US dollar also helped.
- * Financial services recorded spectacular performance while many business and professional services held up well. Meanwhile, exports of services continued to show distinct growth, rising by 10.9% in real terms in the second quarter, underpinned by the surge in offshore trade, buoyant financial market activities and sustained expansion of inbound tourism.
- * Domestically, private consumption expenditure rose markedly further by 6.6% in real terms in the second quarter, supported by rising income, better job prospects and improved financial positions of households. Overall investment spending picked up to a strong 11.1% growth in real terms in the second quarter. Investment in equipment and machinery re-accelerated to double-digit growth amidst the strong business confidence, while construction and building activity saw a notable rebound albeit from a low base.
- * The labour market improved further in the second quarter, with the seasonally adjusted unemployment rate edging down to 4.2% in the second quarter, the lowest since mid-1998. Wages and earnings continued to rise, while job vacancies surged to a post-1997 high in March 2007.
- * The global economic environment is still largely positive. However, the weakness of the US economy arising from a prolonged correction in the housing

market and the turmoil arising from the sub-prime mortgages will remain a concern. This, coupled with the tightening in credit conditions in many financial markets, will constitute the key source of uncertainty going forward. The external environment will also be affected by the movements of exchange rates as well as the macroeconomic adjustment measures in the Mainland. Yet there are also a number of favourable developments, including the continued vibrant growth of the Mainland and other emerging economies, the sustained economic expansion in Europe and Japan, as well as the fairly strong performance of other Asian economies.

- * Domestic demand has gathered strong momentum in recent quarters and assumed an important role in driving the economy forward. An improving labour market and strong consumer confidence should continue to support private consumption spending. Investment spending should also hold up well, in the face of the brisk pace of business expansion, sustained corporate profit growth, and new business opportunities emanating from the economic integration between Hong Kong and the Mainland.
- * Taking into account the better-than-expected outturn of a 6.3% GDP growth in the first half of 2007 and also the range of uncertainties prevailing in the external environment, the forecast GDP growth for 2007 as a whole is revised upward from 4.5-5.5% to 5-6%. Indeed, barring any abrupt adverse changes in the external environment, the economy is set for further solid growth in the second half of the year.
- * As to the inflation outlook, higher food prices, the renminbi appreciation and recent weakness of the US dollar would continue to exert cost pressure from the external front. Nevertheless, the sustained rapid increase in labour productivity and continued expansion in productive capacity on the supply side would provide an offset. Moreover, various one-off factors including the rates concession for two quarters, the recent public housing rental cut, and the implementation of the Pre-primary Education Voucher Scheme would also help keep the headline inflation at a moderate level in the rest of the year. With the actual outturn of consumer price inflation so far largely in line with expectations (1.5% for the first half of 2007), the forecast rate of increase in the Composite CPI for 2007 as a whole is maintained at 1.5%.

DETAIL

GDP

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP rose by 6.9% in real terms in the second quarter of 2007 over a year earlier, marking the 15th consecutive quarter of distinctly above-trend growth. This was also faster than the revised 5.7% growth in the preceding quarter. Growth remained broad-based, with external trade gathering strong momentum and domestic demand continuing to display strength. On a seasonally adjusted quarter-to-quarter comparison, GDP accelerated to a 2.0% growth in real terms in the second quarter of 2007 (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2007 are presented in *Table 1*. Developments in different segments of the economy in the second quarter of 2007 are described below.

External trade

3. Merchandise exports registered robust growth in the second quarter of 2007, with broad-based expansion across different markets. The Mainland market continued to be the key growth driver, given its own vibrant trade flows and strong domestic demand. Exports to the EU and Japan also showed faster growth, thereby offsetting the softness of the US market. Further weakening of the US dollar also contributed to export competitiveness. *Total exports of goods* went up strongly by 11.3% in real terms in the second quarter over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods expanded by 2.0% in real terms in the second quarter of 2007.

4. *Exports of services* grew distinctly, by 10.9% in real terms in the second quarter of 2007 over a year earlier, mainly propelled by service exports relating to offshore trade as well as by exports of financial services given the buoyant financial market activities. Service exports relating to inbound tourism also saw further notable growth along with the pick-up in the number of incoming visitors in the quarter. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose notably by 3.9% in the second quarter of 2007.

Domestic sector

5. The robust external trade was well matched by the fairly strong performance of domestic demand. Local consumer sentiment was upbeat in the second quarter, backed by rising labour income, better job prospects and buoyancy of the stock market. *Private consumption expenditure (PCE)* accelerated to a strong 6.6% growth in real terms in the second quarter of 2007 over a year earlier. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure likewise increased distinctly, by 2.8% in real terms in the second quarter.

6. *Overall investment spending* picked up to a strong 11.1% growth in real terms in the second quarter of 2007. Machinery and equipment investment continued to be a major driving force of overall investment growth, while stronger private sector construction activities led to a rebound in overall building and construction expenditure, albeit from a low base. Meanwhile, the results of the latest Quarterly Business Tendency Survey continued to indicate strong business confidence.

The labour sector

7. The labour market continued to improve in the second quarter of 2007. Total employment hit record high, and in tandem the *seasonally adjusted unemployment rate* edged down further to 4.2% in the second quarter, the lowest since mid-1998. The total number of job vacancies in the corporate sector surged to a post-1997 high in March 2007, while wages and earnings continued to rise.

Prices

8. Consumer price inflation remained mild. The year-on-year rate of increase in *Composite Consumer Price Index (CCPI)* eased to 1.3% in the second quarter of 2007, down from the 1.7% rise in the first quarter. This was mainly attributable to the rates concession for two quarters, which would last until September this year. Discounting the effect of the rates concession, the underlying inflation rate was still moderate, at 2.4% year-on-year in the second quarter. This was notwithstanding the increased imported inflation particularly in foodstuffs in addition to the exchange rate effect as a result of the weakness of the Hong Kong dollar and the appreciation of the renminbi. The *GDP deflator* continued to increase slightly, by 0.7% in the second quarter, along with the improvement in terms of trade.

Latest GDP and price forecasts for 2007

9. The global economic environment is still largely positive. However, the weakness of the US economy is expected to continue in the coming quarters, given the prolonged correction in its housing market and the recent financial market turmoil arising from the sub-prime mortgages. Uncertainties arising from the tightening in credit conditions in many financial markets and the increase in financial market risks will continue for some time. The external environment will also be affected by the movements of exchange rates as well as the macroeconomic adjustment measures in the Mainland. Yet there are also a number of favourable developments, including the continued vibrant growth of the Mainland and other emerging economies, the sustained economic expansion in Europe and Japan, as well as the fairly strong performance of other Asian economies.

10. Domestic demand has gathered strong momentum in recent quarters and assumed an important role in driving the economy forward. An improving labour market and strong consumer confidence should continue to support private consumption spending. Investment spending should also hold up well, in the face of the brisk pace of business expansion, sustained corporate profit growth, and new business opportunities emanating from the economic integration between Hong Kong and the Mainland.

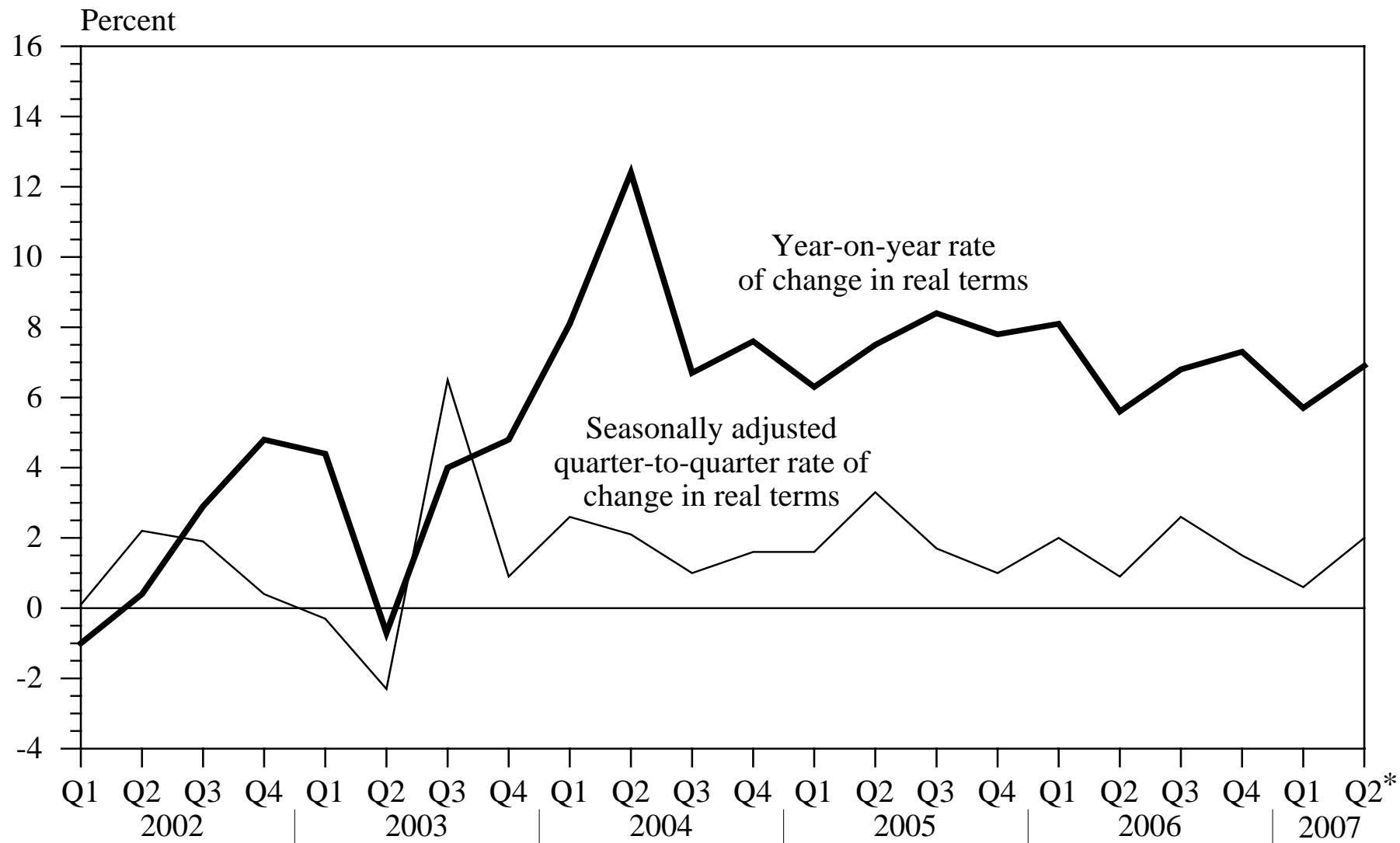
11. Taking into account the better-than-expected outturn of a 6.3% GDP growth in the first half of 2007 and also the range of uncertainties prevailing in the external environment, the forecast GDP growth for 2007 as a whole is revised upward from 4.5-5.5% to 5-6%. Indeed, barring any abrupt adverse changes in the external environment, the economy is set for further solid growth in the second half of the year (*Table 2*). For comparison, the forecasts of Hong Kong's GDP growth by a selection of international organisations and local analysts are summarised in *Table 3*.

12. As to the inflation outlook, higher food prices, the renminbi appreciation and recent weakness of the US dollar would continue to exert cost pressure from the external front. Nevertheless, the sustained rapid increase in labour productivity and continued expansion in productive capacity on the supply side would provide an offset. Moreover, various one-off factors including the rates concession for two quarters, the recent public housing rental cut, and the implementation of the Pre-primary Education Voucher Scheme would also help keep the headline inflation at a moderate level in the rest of the year. With the actual outturn of consumer price inflation so far largely in line with expectations, the forecast rate of increase in the Composite CPI for 2007 as a whole is maintained at 1.5%. As to the GDP deflator, in view of its recent mild rebound along with the improvement in terms of trade, the forecast rate of increase for 2007 as a whole is revised slightly upward from -0.5% to 0.5%.

(The Half-yearly Economic Report 2007 is now available. Users can download the publication free of charge at <http://www.statisticalbookstore.gov.hk> or <http://www.info.gov.hk/hkecon/report>. Print version of the report can also be purchased on-line, or by calling the Publications Sales Unit of ISD at 2537 1910. The hard copy of the report is available for sale at \$69 per copy (15% discount offered if purchased on-line), with a postage charge.)

(The GDP figures up to the second quarter of 2007 are published in the Report of the Gross Domestic Product, Second Quarter 2007. Users can download the publication free of charge at <http://www.statisticalbookstore.gov.hk>. Print version of the report can also be purchased on-line, or by calling the Publications Sales Unit of ISD at 2537 1910. The hard copy of the report is available for sale at \$47 per copy (15% discount offered if purchased on-line), with a postage charge.)

Hong Kong's Gross Domestic Product



Note: (*) Preliminary figures.

Table 1

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

	<u>2005</u>	<u>2006</u>	<u>2006</u>				<u>2007</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	3.3	5.2	5.1 (1.9)	5.8 (1.4)	4.6 (0.9)	5.4 (1.0)	5.3 (1.8)	6.6 (2.8)
Government consumption expenditure	-3.1	0.2	1.1 (2.9)	-1.5 (-2.3)	-1.1 (0.3)	2.3 (1.4)	2.4 (3.0)	2.8 (-1.8)
Gross domestic fixed capital formation	4.6	7.9	7.3 (N.A)	4.5 (N.A)	10.3 (N.A)	9.4 (N.A)	4.7 (N.A)	11.1 (N.A)
<i>of which :</i>								
Building and construction	-8.4	-7.3	-11.4	-4.1	-10.1	-2.8	-2.6	5.3
Machinery, equipment and computer software	12.9	17.2	22.4	11.9	20.4	14.9	6.8	13.1
Total exports of goods	11.2	10.2	14.4 (3.2)	6.4 (0.1)	8.9 (4.1)	11.7 (3.3)	8.2 (1.4)	11.3 (2.0)
Imports of goods	8.6	10.0	14.0 (2.7)	6.7 (-0.2)	8.5 (4.2)	11.4 (3.8)	8.6 (1.0)	12.9 (3.5)
Exports of services	11.3	8.9	8.5 (0.6)	8.9 (2.6)	8.9 (3.2)	9.0 (2.5)	8.9 (0.5)	10.9 (3.9)
Imports of services	7.4	6.4	5.0 (-0.3)	9.1 (5.4)	5.2 (-0.9)	6.5 (2.0)	4.1 (-2.3)	8.0 (9.2)
Gross Domestic Product	7.5	6.9	8.1 (2.0)	5.6 (0.9)	6.8 (2.6)	7.3 (1.5)	5.7 (0.6)	6.9 (2.0)
<i>Change in the main price indicators (%)</i>								
GDP deflator	-0.4	-0.4	-0.1 (-0.2)	-0.2 (-0.1)	-0.4 (*)	-0.4 (*)	0.9 (1.1)	0.7 (-0.3)
Composite Consumer Price Index	1.0	2.0	1.6 (0.4)	2.0 (0.7)	2.3 (0.6)	2.1 (0.4)	1.7 (*)	1.3 (0.4)
<u>Change in nominal GDP (%)</u>	7.1	6.6	8.0	5.3	6.3	6.9	6.7	7.7

(#) Revised figures.

(+) Preliminary figures.

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

N.A. Not applicable, as no clear seasonal pattern is found in gross domestic fixed capital formation, due to the presence of considerable short-term fluctuations.

(*) Change of less than 0.05%.

Table 2**Economic forecasts for 2007
(year-on-year rate of change (%))**

	Forecasts for 2007 as released on 18.5.2007 <u>(%)</u>	Latest forecasts for 2007 on 17.8.2007 <u>(%)</u>
Gross Domestic Product (GDP)		
<i>Real GDP</i>	4.5 to 5.5	5 to 6
<i>Nominal GDP</i>	4 to 5	5.5 to 6.5
Composite Consumer Price Index	1.5	1.5
GDP deflator	-0.5	0.5

Table 3

**2007 GDP and price forecasts for Hong Kong put out by
selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u>	<u>Private consumption expenditure</u> (growth rate	<u>Gross domestic fixed capital Formation</u> in real	<u>Total exports of goods</u> terms (%))	<u>Exports of services</u>	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
International organisations:								
IMF	Apr 2007	5.5	--	--	--	--	1.5	World Economic Outlook, Apr 2007.
ADB	Mar 2007	5.4	--	--	--	--	1.6	Asian Development Outlook 2007, Mar 2007.
World Bank	Nov 2006	4.9	--	--	--	--	--	East Asia Update, Nov 2006.
	Apr 2007	5.3	--	--	--	--	--	East Asia and Pacific Update, Apr 2007.
PECC	Nov 2006	5.1	1.7	--	--	--	2.5	State of the Region 2006-2007, Nov 2006.
	May 2007	5.3	--	--	7.4	--	2.2	State of the Region First Quarter Economic Outlook, 2007.
United Nations	Jan 2007	6.2	--	--	--	--	1.7	World Economic Situation and Prospects 2007, Jan 2007.
Private sector analysts:								
<i>(a) Major local banks</i>								
HSBC	Feb 2007	5.3	3.3	8.2	--	--	3	Macro Currencies, February 2007.
	May 2007	5.3	3.5	8	--	--	1.8	Macro Currencies, May 2007.
	Jul 2007	5.4	3.5	8	--	--	1.8	Macro Currencies, July 2007.
Hang Seng Bank	Feb 2007	5.6	--	--	--	--	2.5	Economic Bulletin, February 2007.
	May 2007	5.6	--	--	8	--	2	Economic Bulletin, May 2007.
	Jul 2007	5.6	--	--	8	--	2	Economic Bulletin, Jul 2007.
Standard Chartered Bank	Feb 2007	5	--	--	--	--	2	Asia Focus, 14 Feb 2007.
	May 2007	5.5	--	--	--	--	2	Asia Focus, 16 May 2007.
	Aug 2007	5.5	--	--	--	--	1.8	Asia Focus, 8 Aug 2007.
Bank of China (HK)	Dec 2006	5	3.8	4.8	7.5	7	2.5	Bank of China (HK) Research, Dec 2006.
	Jun 2007	5	3.8	4.8	7.5	7	2	BOC Economic Review Monthly, Jun 2007.
Bank of East Asia	Jan 2007	5	5.5	4.5	7.4	7	2.7	Economic Analysis, Jan 2007.
	Aug 2007	6	--	--	--	--	2	Bank of East Asia, 13 Aug 2007.

Table 3 (cont'd)

2007 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts

	Date of release	GDP	Private consumption expenditure (growth rate)	Gross domestic capital formation in real	Total exports of goods terms (%)	Exports of services	Rate of change in consumer prices (%)	Reference source
ABN Amro Bank	Jan 2007	4	3.6	6	--	--	3	Asia Vision, 10 Jan 2007.
	May 2007	4.8	--	--	--	--	--	Asia Vision, 30 May 2007.
	Jul 2007	5.5	--	--	--	--	2.1	Macro forecast, Jul 2007.
Citigroup	Jan 2007	6	4.3	5.8	--	--	2.6	Asia Economic Outlook and Strategy, 26 Jan 2007.
	Apr 2007	6	4.8	5.9	--	--	1.8	Asia Economic Outlook and Strategy, 27 Apr 2007.
	Jul 2007	6	--	--	--	--	1.8	Hong Kong Economics, 2 Jul 2007.
<i>(b) Investment bank</i>								
JP Morgan Chase	Feb 2007	5	--	--	--	--	2.5	Global Data Watch, 16 Feb 2007.
	May 2007	5.5	--	--	--	--	1.8	JP Morgan Chase, 14 May 2007.
	Aug 2007	5.3	--	--	--	--	1.6	JP Morgan Chase, 13 Aug 2007.
Goldman Sachs Asia	Feb 2007	5.5	--	--	--	--	3.1	Goldman Sachs Asia, 26 Feb 2007.
	May 2007	5.5	--	--	--	--	3.1	Goldman Sachs Asia, 15 May 2007.
	Aug 2007	6	--	--	--	--	2.9	Goldman Sachs Asia, 13 Aug 2007.
Morgan Stanley Asia	Nov 2006	5	4.2	6.4	--	--	2.5	Morgan Stanley Research, 21 Nov 2006.
	Feb 2007	5	4.2	5.8	10	7	2.5	Morgan Stanley Research, 28 Feb 2007.
	May 2007	5	4.5	6	--	--	2.5	Hong Kong Economics, 21 May 2007.
Merrill Lynch	Apr 2007	4.6	--	--	--	--	2.3	The Asian Market Economist, 16 Apr 2007.
Credit Suisse	Dec 2006	4.5	--	--	--	--	3-5	Hong Kong Economics Times, 22 Dec 2006.
	Mar 2007	5	4.5	8.5	--	--	2.2	Emerging Markets Quarterly, 14 Mar 2007.
	Jun 2007	5	5.5	6.5	--	--	2	Emerging Markets Quarterly, 20 Jun 2007.
Lehman Brothers	Feb 2007	5.5	--	--	--	--	2.5	Global Weekly Economic Monitor, 16 Feb 2007.
	May 2007	5.5	--	--	--	--	2.5	Global Weekly Economic Monitor, 11 May 2007.
	Aug 2007	6.5	--	--	--	--	1.5	Global Weekly Economic Monitor, 10 Aug 2007.

Table 3 (cont'd)

2007 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts

	<u>Date of release</u>	<u>GDP</u>	<u>Private consumption expenditure</u> (growth rate	<u>Gross domestic fixed capital formation</u> in real	<u>Total exports of goods</u> terms (%))	<u>Exports of services</u>	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
<i>(c) Others</i>								
Economist Intelligence Unit	Mar 2007	4.6	4.9	7.5	--	--	2.5	Country Forecast, Mar 2007.
	Apr 2007	5.7	5.7	8.1	--	--	2.5	Country Forecast, Apr 2007.
	May 2007	5.4	5.2	8.1	--	--	2.6	Country Forecast, May 2007.
	Jul 2007	5.7	5.5	6.5	--	--	2	Country Forecast, Jul 2007.
	Aug 2007	5.9	5.8	6.5	--	--	1.9	Country Forecast, Aug 2007.
Hong Kong General Chamber of Commerce	Feb 2007	5	--	--	--	--	2.5	HKGCC, 24 Feb 2007.
University of Hong Kong	Apr 2007	5-6	--	--	--	--	2.2	APEC Study Center, HKU 11 Apr 2007.
	Jul 2007	5.2	--	--	--	--	--	APEC Study Center, HKU 4 Jul 2007.
Federation of Hong Kong Industries	Jan 2007	5.5-6	--	--	--	--	--	Press release, 18 Jan 2007.

Observation :

The forecasts of GDP growth in real terms for 2007 from the private sector analysts listed above are mostly in the range of 5-6%, averaging at 5.5%.



Half-yearly Economic Report 2007

Government of the Hong Kong
Special Administrative Region

HALF-YEARLY ECONOMIC REPORT 2007

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

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CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

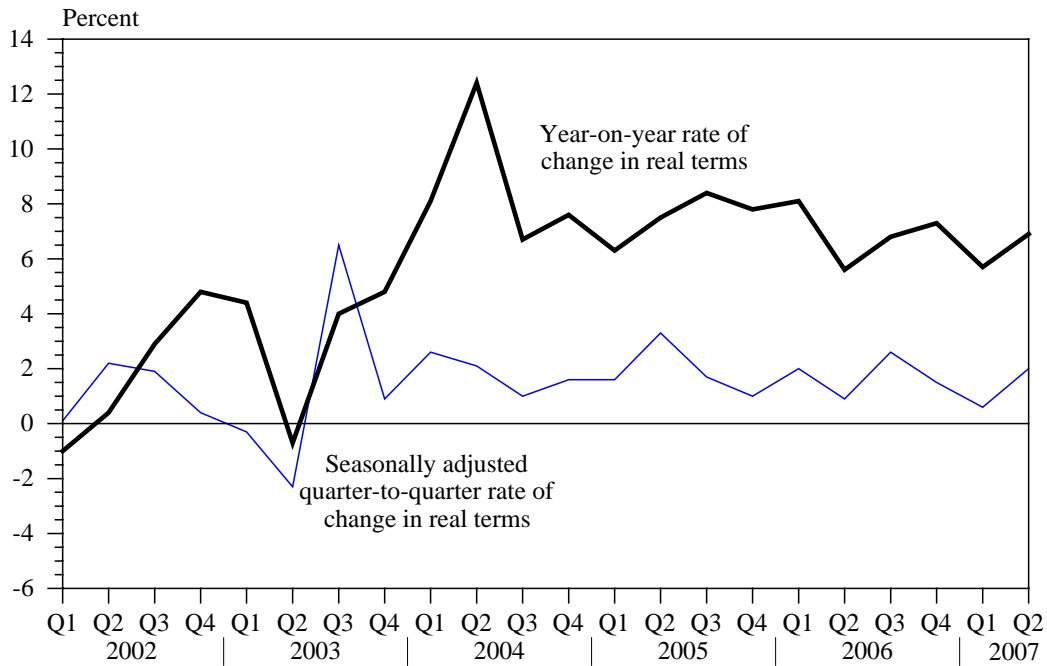
- *The Hong Kong economy expanded briskly in the second quarter of 2007, with GDP accelerating to a 6.9% growth in real terms, up from 5.7% in the first quarter. The economic upturn continued to be broad-based and distinctly above trend.*
- *External trade was robust in the second quarter. Merchandise exports to the Mainland stayed vibrant, and those to the EU and Japan also showed faster growth, offsetting the softness of the US market. The sustained notable growth in exports to many of the East Asian markets also contributed.*
- *Financial services recorded spectacular performance while many business and professional services held up well. Meanwhile, exports of services continued to show distinct growth, underpinned by buoyant financial market activities, and notable growth in offshore trade and inbound tourism.*
- *Domestic demand continued to display strength. Consumption spending rose markedly further, supported by rising labour income, better job prospects and improved financial positions of households. Investment in equipment and machinery also re-accelerated to double-digit growth, reflecting the sanguine business outlook. Construction and building activity saw a rebound, albeit from a low base.*
- *The labour market improved further in the second quarter, with total employment rising to another new high and the seasonally adjusted unemployment rate edging down to 4.2%, the lowest since mid-1998. Wages and earnings rose further in March 2007 over a year earlier, while job vacancies went up to a post-1997 high.*
- *Consumer price inflation stayed moderate, even after discounting the influence of one-off factors such as the rates concessions. The underlying inflationary pressures in the second quarter, partly alleviated by the continued rise in labour productivity, remained largely unchanged from the preceding quarter.*

Overall situation

1.1 The Hong Kong economy saw another quarter of broad-based upturn at a robust and faster pace of expansion in the second quarter of 2007. External trade gathered strong momentum, supported by a largely vibrant external environment. Locally, domestic demand continued to contribute in a significant way to overall economic growth. Consumer spending saw further strong increase in the second quarter, reflecting the improving labour market conditions and positive wealth effect from the buoyant asset market performance. Investment spending on machinery and equipment also re-accelerated to double-digit growth, even against a high base of comparison, indicating that business confidence held up well. The demand for labour strengthened further along with the economic upturn, generating more new jobs and leading to continued rise in labour incomes. Notwithstanding the brisk pace of economic expansion, the underlying inflationary trend remained moderate in the second quarter, with rising labour productivity helping to alleviate the price pressures from the external front. The rates concessions in particular had kept the headline consumer price inflation at a modest level.

1.2 In the second quarter of 2007, the *Gross Domestic Product (GDP)*⁽¹⁾ rose by 6.9% in real terms over a year earlier, marking the fifteenth consecutive quarter of distinctly above-trend growth. This was also faster than the 5.7% growth in the preceding quarter (revised up from the earlier estimate of 5.6%). On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP rose by 2.0% in real terms in the second quarter.

Diagram 1.1 : Economic growth remained distinctly above trend in the second quarter



1.3 Merchandise exports registered robust growth in the second quarter, with broad-based expansion across different markets. The Mainland market continued to perform robustly, given its own vibrant trade flows and strong domestic demand. Exports to the EU also picked up in the second quarter, reflecting the stronger euro since the latter part of last year and the continued economic expansion of the EU economy. Exports to Japan expanded moderately, despite the weakness of the yen. Exports to most of the other Asian markets, particularly Taiwan, Thailand and Malaysia, fared well. All these, with further help from the weakness of the US dollar, provided an offset to the softness of the US market. Overall, *total exports of goods* grew by 11.3% in real terms in the second quarter over a year earlier, up from 8.2% in the first quarter. Meanwhile, *exports of services* continued to grow distinctly, by 10.9% in real terms in the second quarter, mainly propelled by service exports relating to offshore trade as well as by exports of financial services given the buoyant financial market activities. Service exports relating to inbound tourism also saw further notable growth.

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

	<u>2005[#]</u>	<u>2006[#]</u>	<u>2006</u>				<u>2007</u>	
			<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3[#]</u>	<u>Q4[#]</u>	<u>Q1[#]</u>	<u>Q2⁺</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	3.3	5.2	5.1 (1.9)	5.8 (1.4)	4.6 (0.9)	5.4 (1.0)	5.3 (1.8)	6.6 (2.8)
Government consumption expenditure	-3.1	0.2	1.1 (2.9)	-1.5 (-2.3)	-1.1 (0.3)	2.3 (1.4)	2.4 (3.0)	2.8 (-1.8)
Gross domestic fixed capital formation	4.6	7.9	7.3 (N.A)	4.5 (N.A)	10.3 (N.A)	9.4 (N.A)	4.7 (N.A)	11.1 (N.A)
<i>of which :</i>								
Building and construction	-8.4	-7.3	-11.4	-4.1	-10.1	-2.8	-2.6	5.3
Machinery, equipment and computer software	12.9	17.2	22.4	11.9	20.4	14.9	6.8	13.1
Total exports of goods	11.2	10.2	14.4 (3.2)	6.4 (0.1)	8.9 (4.1)	11.7 (3.3)	8.2 (1.4)	11.3 (2.0)
Imports of goods	8.6	10.0	14.0 (2.7)	6.7 (-0.2)	8.5 (4.2)	11.4 (3.8)	8.6 (1.0)	12.9 (3.5)
Exports of services	11.3	8.9	8.5 (0.6)	8.9 (2.6)	8.9 (3.2)	9.0 (2.5)	8.9 (0.5)	10.9 (3.9)
Imports of services	7.4	6.4	5.0 (-0.3)	9.1 (5.4)	5.2 (-0.9)	6.5 (2.0)	4.1 (-2.3)	8.0 (9.2)
Gross Domestic Product	7.5	6.9	8.1 (2.0)	5.6 (0.9)	6.8 (2.6)	7.3 (1.5)	5.7 (0.6)	6.9 (2.0)
<i>Change in the main price indicators (%)</i>								
GDP deflator	-0.4	-0.4	-0.1 (-0.2)	-0.2 (-0.1)	-0.4 (*)	-0.4 (*)	0.9 (1.1)	0.7 (-0.3)
Composite Consumer Price Index	1.0	2.0	1.6 (0.4)	2.0 (0.7)	2.3 (0.6)	2.1 (0.4)	1.7 (*)	1.3 (0.4)
<u>Change in nominal GDP (%)</u>	7.1	6.6	8.0	5.3	6.3	6.9	6.7	7.7

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

(#) Revised figures.

(+) Preliminary figures.

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

N.A. Not applicable, as no clear seasonal pattern is found in gross domestic fixed capital formation, due to the presence of considerable short-term fluctuations.

(*) Change of less than 0.05%.

1.4 The robust external trade was well matched by the fairly strong performance of domestic demand. Local consumer sentiment was upbeat in the second quarter, backed by rising labour income, better job prospects and buoyancy of the stock market. *Private consumption expenditure (PCE)* registered a strong 6.6% growth in real terms in the second quarter, after a 5.3% rise in the first quarter. *Government consumption expenditure* continued to show a small increase in the second quarter, reflecting to some extent the resumption of civil service recruitment.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure^(b)
2006	Annual	5.3	4.3	5.3	3.5	6.2	4.1	5.4	5.2
	Q1	5.6	5.5	4.1	3.4	6.7	2.1	8.3	5.1
	Q2	5.4	4.8	4.4	3.3	6.5	9.4	4.8	5.8
	Q3	4.8	2.7	6.1	3.8	5.2	1.8	3.3	4.6
	Q4	5.5	4.4	6.3	3.5	6.2	3.8	5.3	5.4
2007	Q1	6.0	2.4	8.5	7.4	5.5	1.8	9.5	5.3
	Q2	7.0	1.7	14.1	7.3	6.5	5.4	9.8	6.6

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

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

Diagram 1.2 : Consumer spending grew strongly amidst upbeat sentiment

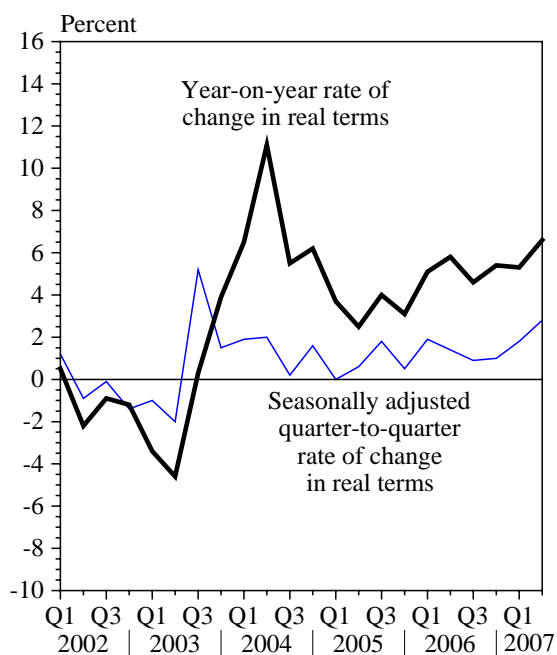
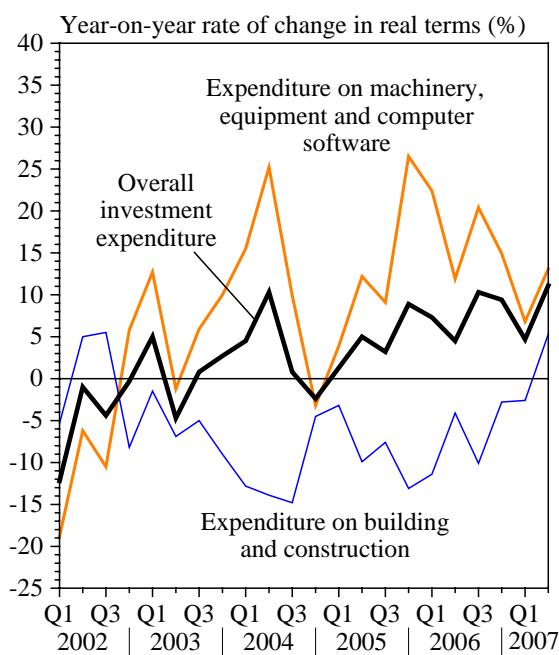


Diagram 1.3 : Overall investment spending re-accelerated to double-digit growth

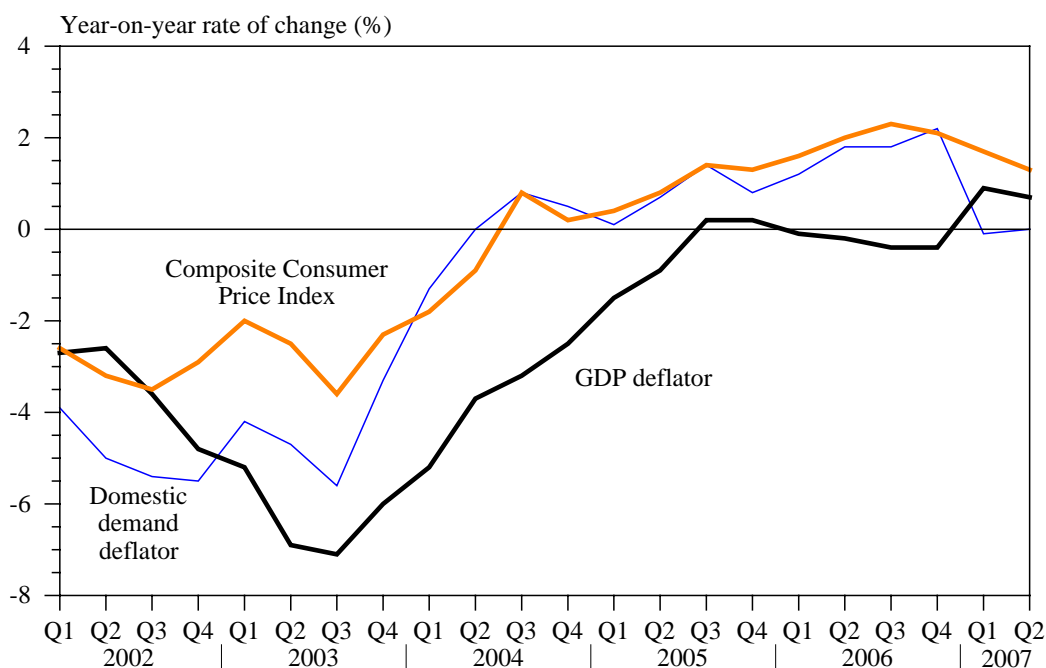


1.5 Overall investment spending in terms of *gross domestic fixed capital formation* quickened its pace of expansion in the second quarter of 2007, up by 11.1% in real terms over a year earlier. Machinery and equipment investment increased markedly by 13.1%, even against a high base of comparison, continuing to be a major driving force of overall investment growth. This, coupled with the results of latest Quarterly Business Tendency Survey, was indicative of the strong business confidence and the need to expand productive capacity to keep pace with the brisk growth in commercial activity. Activity in the construction sector also showed a rebound, concentrated in the private sector, albeit from a low base. Expenditure on building and construction reverted to a 5.3% growth in the second quarter.

1.6 *Consumer price inflation* remained benign in the second quarter. Discounting the influence of the rates concessions, the underlying inflation pressures were still moderate, partly mitigated by the sustained rise in labour productivity in the economy. Yet higher food prices, pressures from the external front due to the US dollar weakness and renminbi appreciation, and lately a tighter labour market continued to pose risk to the upside. The Composite CPI rose by 1.3% in the second quarter over a year earlier, down from the 1.7% increase in the first quarter. Excluding the influence of the one-off factors, including the public housing rental waiver for February and the rates concessions, the Composite CPI rose moderately by 2.4% year on year in the second quarter, similar to the corresponding increase of 2.5% in the first

quarter. As to the *GDP deflator*, it continued to increase slightly, by 0.7% in the second quarter over a year earlier.

Diagram 1.4 : Underlying inflation pressures still moderate



GDP by major economic sector

1.7 The services sector stayed vibrant in the first quarter of 2007, signifying the strong competitiveness of Hong Kong as a regional business hub and an international financial centre. Latest available figures indicate that net output in the services sector as a whole surged by 7.8% in real terms in the first quarter over a year earlier. Financial services, in particular, recorded another quarter of spectacular performance, reaping substantial benefits from the increasing financial integration between Hong Kong and the Mainland. Real estate and business services as well as import and export trades also held up well. Net output of restaurants and hotels, and to a lesser extent that of wholesale and retail trades, also rose briskly, supported by strong consumption spending and vibrant inbound tourism. On the other hand, net output in the manufacturing and construction sectors declined further.

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

	<u>2006</u>						<u>2007</u>
	<u>2005</u>	<u>2006</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	2.1	2.2	7.0	5.3	-0.6	-1.4	-1.5
Construction	-9.2	-7.9	-12.6	-4.6	-10.9	-3.1	-5.7
Services ^(b)	8.0	8.7	9.3	7.6	8.1	9.6	7.8
Of which:							
Wholesale, retail and import and export trades, restaurants and hotels	14.4	10.0	12.5	7.1	10.4	10.0	7.9
Import and export trade	16.1	10.6	13.8	7.3	10.9	10.7	8.1
Wholesale and retail trade	7.4	5.0	3.8	3.5	7.0	5.6	6.0
Restaurants and hotels	6.0	9.0	10.9	9.1	8.5	7.3	8.3
Transport, storage and communications	8.0	8.8	11.2	6.4	8.4	9.4	4.6
Transport and storage	6.8	8.2	10.6	5.1	7.5	9.4	3.6
Communications	11.5	10.6	12.7	9.9	10.7	9.2	7.3
Financing, insurance, real estate and business services	8.7	14.5	13.3	15.2	11.8	17.4	15.7
Financial services	11.9	21.1	20.6	22.7	16.5	24.3	19.0
Real estate and business services	3.2	2.4	0.9	0.5	3.6	4.3	8.9
Community, social and personal services	0.2	2.2	1.4	1.5	2.5	3.2	1.1

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

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

Box 1.1

Ten years after re-unification : a review

10 years after the re-unification, Hong Kong economy is now in an excellent shape, with high economic growth and low inflation. Our per capita GDP reached a new high of US\$27 700 last year. Trade continued to prosper at double digit growth pace in the past four years. Financial sector activities are vibrant as ever. Employment is now at an all time high. But it has not been plain sailing. Hong Kong went through a serious downturn immediately after the handover. Between 1997 and 2003 we were hit successively by three severe shocks. First was the outbreak of the Asian Financial Crisis, which pushed the economy to its first real recession ever since the GDP series was published and triggered a deflationary spiral that lasted for almost 6 years. Then, the bursting of the IT/nasdaq bubble in 2000 and the subsequent global economic slowdown in 2001 completely derailed the recovery process then in Hong Kong. Then, the outbreak of the SARS in 2003. Each time round, Hong Kong was able to recover swiftly, thanks to the resilience and determination of Hong Kong people, and also the entrepreneurship of the corporate sector and the government's "Big market, small government" policy.

Since mid-2003, the economy was back on a strong upturn. Confidence has returned, and by now the economy has been on a broad-based and strong upturn for 15 consecutive quarters. The performance in the past three years has been truly remarkable, not just in terms of the speed and strength to which the economy has turned around, but also in terms of the broad-based employment growth and the benign inflation thus far.

Apart from the cyclical ups and downs, the Hong Kong economy also went through significant economic restructuring, partly triggered by the downturn, but a lot was also our response to the changing economic scene in Asia. Because of the rising prominence of the Mainland economy, China has now become a big market on its own. While this has brought about tremendous business opportunities to Hong Kong's service sectors, it also poses challenges. Economic integration with the Mainland economy which is very competitive in cost terms will mean that Hong Kong has to go up the value chain and move towards high value added activities like financial and professional services. So, in the process, Hong Kong has made significant progress in financial, trade, logistic, tourism and professional services. The city is consistently ranked as the world's freest economy. We are also the preferred regional centre for commerce and trade, and more than 3 800 foreign companies have chosen Hong Kong as regional HQ/representative office, 53% more than 1997. Look at the mix of jobs today, the number of jobs belonging to the higher skilled category surged by 34% over 10 years ago.

Today, the Hong Kong economy is dynamic as ever. Trade as a % of GDP was 400% in 2006, up from 259% in 1997. And with the strong partnership between China's manufacturing base with Hong Kong's services, the importance of services in our economy has grown even more—they are now 91% of GDP, up from 86% in 1997. Economic links between Mainland and Hong Kong have grown by leaps and bounds, and reached unprecedented highs year after year following the implementation of the CEPA.

Box 1.1 (Cont'd)

Mainland factor in propelling Hong Kong's economic development

The Mainland factor is now prominent everywhere in Hong Kong, in trade, in investment, in stock market, in tourism, in financial service business. But our role in China's economic development is very much a dynamic one, as Hong Kong is constantly evolving and searching for new opportunities in a thriving Mainland economy and in an era of globalization:

- On the trade front, Hong Kong has always been the fore-runner of global outsourcing, and as early as the 1980s our manufacturers have started relocating to South China. Today, China is not only important as our production hinterland, it is also our biggest market, more than the combined share of US and Europe even if the stream of exports for outward processing is taken out.
- Hong Kong is always a gateway for companies to go into China. This role is still prominent. Now, our new role is to help Mainland companies to reach out to the world and get to know international best practices.
- In the area of financial services, in the 1980s Hong Kong was already the most important international banking/funding centre for the Mainland. Through the years, the range of financial services has diversified from bank syndications to IPO and asset management. Hong Kong is now a premier IPO centre for Mainland companies, with over half of market capitalization of the HKSE related to Mainland companies. While the listing of H shares has provided significant business opportunities for the financial market here, it has also widened the breadth and the depth of our stock market and attracted more international investors to Hong Kong.
- In terms of capital flows, our role has always been to help channel investment and capital into China. Now, with China's economic development advancing fast, domestic financial intermediation needs on the Mainland are not only huge but also growing. How to improve the effectiveness of domestic financial intermediation in the Mainland is a challenge. Hong Kong can assist in this process, to facilitate the outward mobility of capital from the Mainland in a controlled and orderly manner. The QDII is obviously one such channel.

Thanks to the "One Country, Two systems" arrangement, a great extent of the pre-unification system has extended into the post-unification era. The rule of law – the key to economic success - is well protected. The economic system continues to exhibit a high degree of dynamism. The Mainland factor is adding and no doubt will continue to add vitality to the Hong Kong economy, prompting Hong Kong to move up the value chain and restructure itself to become the international financial and business hub for the Mainland.

Box 1.1 (Cont'd)**Comparison of the economic situation in 2006 with 1997**

	<u>2006</u>	<u>1997</u>	<u>Change over 1997</u>	Remarks
<i>(a) Economy expanded significantly in size with stronger fundamentals and better outlook</i>				
GDP (nominal)	\$1.47 trillion	\$1.37 trillion	8%	
Real GDP	-	-	43%	
Real GDP growth averaged over past 3 years	7.7% p.a. (2004-06)	4.4% p.a. (1995-97)	-	Fastest above-trend growth for 3 consecutive years since 1987.
Per capita GDP (nominal)	\$215,010 (US\$27,680)	\$210,350 (US\$27,170)	2%	Slightly higher than 1997 level, but notably higher in purchasing power terms after adjusting for consumer price movement
<i>(b) Benign inflation</i>				
Consumer price inflation	2.0%	5.8%	-	Lower inflation rate.
CPI inflation averaged over past 3 years	0.8% p.a. (2004-06)	7.1% p.a. (1995-97)	-	The current high-growth-low inflation macroeconomic environment is the best performance in recent history.
<i>(c) Buoyant labour market</i>				
Average labour earnings in real terms (Index, Q1/1999 = 100)	107	89	21%	Real earnings increased by one-fifth.
Total employment ('000)	3 410	3 164	8%	Hit successive record highs during 2006.
Share of employed persons with tertiary education	30.4%	22.3%	Up 8.1 percentage points	Stronger pool of talents.
Share of employed persons in professional and managerial grade	36.3%	29.5%	Up 6.8 percentage points	Transformation towards knowledge-based economy with more higher end jobs.

Box 1.1 (Cont'd)

	<u>2006</u>	<u>1997</u>	<u>Change over 1997</u>	Remarks
<i>(d) International financial centre status becoming more important</i>				
Hang Seng Index (period-end)	19 965	10 723	86%	Hit record high and broke the 20 000 level in late 2006.
Stock market capitalization (US\$ billion, period-end)	1,715.5	413.5	More than quadrupled	Ranked 6 th in the world [#] at end-2006, up from 9 th at end-1997.
Capital raised in IPO (US\$ billion)	42.9	10.5	308%	Ranked 2 nd in the world [#] in 2006, after London.
Average daily stock market turnover (US\$ billion)	4.4	2.0	119%	More vibrant trading activities.
Number of listed companies (period-end)	1 173	658	78%	Premier fund raising centre in the region.
Foreign reserves (US\$ billion)	133.2	92.8	44%	Better equipped to withstand external shocks.
Pass loan as a share of total loans (period-end)	96.65%	94.21%	Up 2.44 percentage points	Higher asset quality of banks.
Share of financial services industry in GDP (2005)	12.7%	10.3%	Up 2.4 percentage points	Rising importance of financial services sector in the economy.
<i>(e) A more complex, dynamic and diversified economy – an international hub for trade & logistics, shipping, business services and tourism</i>				
Ratio of total trade in goods and services to GDP	400%	259%	-	Even more open and closely integrated with the global economy.
Port cargo throughput (million TEUs)	23.5	14.4	64%	Record high in 2006.
Air cargo throughput (million tonnes)	3.6	1.8	doubled	Record high in 2006. A regional air transport hub.
Share of trading and logistics sector in GDP (2005)	28.6%	21.9%	Up 6.7 percentage points	Increasing contribution of trade and logistics activities in GDP.
Incoming visitors (million)	25.3	11.3	more than doubled	Record high in 2006; both Mainland and other visitors increased.
No. of regional headquarters and regional offices	3 845	2 514	53%	Ranked 6th in the world in terms of FDI inflows in 2005.

Box 1.1 (Cont'd)

	<u>2006</u>	<u>1997</u>	<u>Change over 1997</u>	Remarks
No. of work visas issued to non-Mainland workers	21 958	16 561	33%	Visas approved under the General Employment Policy. Indicative of a cosmopolitan city.
<i>(f) Transformation towards a knowledge-based economy and information society</i>				
R&D expenditure				
- \$ million	10,908	5,603	95%	Growing importance of R&D activities in the economy.
- As a share of GDP	0.79% (2005)	0.43% (1998)	0.36 percentage points	
Share of business establishments with internet connection	55.9%	37.3% (2000)	Up 18.6 percentage points	More widespread use of technology to enhance competitiveness.
Internet traffic volume - customer access via broadband networks (terabits since 2001)	7 794 032	73 607 (2001)	106 times	More efficient and effective flow of information within the territory and with the rest of the world.
<i>(g) Much more integration with the fast growing Mainland economy</i>				
Total trade with the Mainland (HK\$ billion)	2,349	1,116	more than doubled	The Mainland is Hong Kong's largest trading partner and Hong Kong is Mainland's 3rd.
Stock of Mainland's FDI from HK (US\$ billion, period-end)	280	120	more than doubled	Hong Kong is the largest external investor in the Mainland.
Mainland visitors (million)	13.6	2.4	5.7 times	Hong Kong is the most favoured destination for Mainland visitors.
No. of Mainland enterprises listed in Hong Kong (period-end)	367	101	3.6 times	Accounting for almost one-third of the total number of listed companies.
Market capitalization of Mainland enterprises listed in Hong Kong (US\$ billion, period-end)	863.6	67.4	12.8 times	Accounting for half of the total market capitalisation.
No. of work visas issued to Mainlanders	5 782	219	26.4 times	Including Mainland residents and also PRC passport holders residing overseas for at least one year before submission of visa application.

Box 1.1 (Cont'd)

	<u>2006</u>	<u>1997</u>	Change over 1997	Remarks
(h) Socio-economic progression with higher living standard, continuous investments in public services and better safety net				
Standardised death rate per 1 000 population	5.4	6.5	Down 1.1 percentage point	General improvement in health care.
Infant mortality rate per 1 000 known live birth	1.8	3.9	Down 2.1 percentage points	General improvement in health care.
Average living space of public housing tenants (sq. m. per person)	12.0	9.5	26.3%	Improving living environment for PRH tenants.
Average waiting time for public housing applicants (years)	1.9	6.6	Reduced by 4.7 years	More timely provision of PRH to those in need.
Public expenditure on health - \$ million - As a share of GDP	31,616 2.3% (2005/06)	27,954 2.0% (1997/98)	13.1% Up 0.3 percentage point	Increased investments in health.
Number of hospital beds per 1 000 population	5.0	4.7	Up 0.3	
Number of doctors per 1 000 population	1.7	1.4	Up 0.3	
Share of population aged 15+ - with no schooling/ kindergarten education - having received tertiary education	7.1% 23.0%	9.3% 17.2%	Down 2.2 percentage points Up 5.8 percentage points	Rising educational attainment of the population.
Public expenditure on education - \$ million - As a share of GDP	53,911 3.9% (2005/06)	47,402 3.5% (1997/98)	13.7% Up 0.4 percentage point	Heavier investments in human capital.

Box 1.1 (Cont'd)

	<u>2006</u>	<u>1997</u>	<u>Change over 1997</u>	Remarks
Pupil-teacher ratios				
- Primary day school	17.6	22.8	Down 5.2	General improvement in education.
- Secondary day school	17.1	20.0	Down 2.9	
Public expenditure on social welfare				
- \$ million	33,262	21,335	55.9%	Better safety net for those in need.
- As a share of GDP	2.4% (2005/06)	1.6% (1997/98)	Up 0.8 percentage point	

Note :

(#) Estimated figure based on latest available information.

Some highlights of economic policy

1.8 The Supplement IV to the CEPA was announced on 29 June 2007, just before the tenth anniversary of the establishment of the HKSAR. The new package comprised 40 liberalisation measures in 28 service areas and also enhanced cooperation in a number of service areas. As a result of the new package, the number of service areas covered by CEPA will expand from 27 to 38. All liberalization measures will be effective starting from 1 January 2008. Of note is that the new package:

- covers important services areas to Hong Kong such as convention and exhibition, banking and tourism, under which the market entry requirements will be relaxed and/or cooperation between the two sides will be enhanced;
- contains 11 new services areas such as public utility, elderly service and environmental service to broaden the market access opportunities for Hong Kong service suppliers (HKSS);
- allows pilot implementation to speed up liberalisation in areas such as tourism, convention and exhibition, and cultural service; and
- puts HKSS at least on par with ASEAN service suppliers by including liberalisation measures in the ASEAN-China Free Trade Agreement that have yet to be covered by CEPA (e.g. market research, services related to management consulting, and environmental services).

1.9 The new package will provide enhanced opportunities for the Hong Kong business and reinforce Hong Kong's comparative advantages in better tapping the potential of the Mainland market. This will further strengthen the status of Hong Kong as an international centre of financial services, trade and logistics, and shipping.

1.10 Financial integration between the Mainland and Hong Kong has been developing at a fast pace. There were some further notable developments on this front in the second quarter, contributing to uphold Hong Kong's role as an international financial centre. Of particular note was the announcement by the China Securities Regulatory Commission on 20 June to allow eligible fund management and securities companies to obtain licenses as Qualified Domestic Institutional Investors (QDII), thereby enabling them to join eligible banks and insurers to invest in Hong Kong and overseas capital markets. Another significant development was the debut issuance of a renminbi-denominated bond in Hong Kong by the State Construction Bank in late June.

1.11 In mid-June, the Government published the Final Report of Public Consultation on Tax Reform. The report recommends, among other things, that having raised public awareness on the deficiencies of a narrow tax base, the Government should continue to study options for broadening the tax base and address this fundamental issue at a suitable time in the future. It also notes that as the problem of ageing population is getting more serious and this would bring additional pressure to our public finances, the Government should consult the public on the health care financing proposals as soon as possible. In addition, to enhance Hong Kong's competitiveness, the Government should continue to advance education and manpower training, and should explore sustainable financial arrangements so as to respond to the long-term needs.

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 : THE EXTERNAL SECTOR

Summary

- *Merchandise exports sustained another quarter of strong performance amidst the generally favourable global environment. Growth was broad-based and picked up further to 11.2% in the second quarter. The vibrancy of the Mainland market and the strength of most EU and Asian markets offset the slack import demand from the US. Further weakening of the US dollar during the period also rendered a boost to our export competitiveness.*
- *The Mainland market remained the major growth driver. The Mainland's strong trade flows, underpinned by its buoyant export growth and robust domestic demand, saw exports to this market sustaining double-digit growth. Exports to the EU and Japan improved further, supported by their continued economic recovery. Exports to many other Asian economies such as Thailand, Taiwan and Malaysia were also fairly strong. But exports to the US remained largely slack amidst the moderating US economy.*
- *Exports of services showed faster and broad-based growth in the second quarter. The buoyant financial market during the quarter gave rise to continued rapid growth in exports of financial services. Exports of travel services also registered accelerated growth along with the pick-up in incoming visitors. Meanwhile, the vibrant trade flows in the Mainland rendered strong support to exports of trade-related services, particularly offshore trade.*
- *A couple of new measures were put on board in the second quarter to facilitate external trade with the Mainland. The fourth supplement to CEPA was signed on 29 June 2007, extending the number of services areas covered by CEPA from 27 to 38. The new package provides enhanced opportunities for the Hong Kong business to tap the Mainland market. The new Shenzhen Bay Bridge commenced operation on 1 July, at which a new border control point with co-location arrangement is set up. All these would help further strengthen Hong Kong's external competitiveness and its role as an international trading and logistics centre.*

Visible trade

Total exports of goods

2.1 Merchandise exports churned out a robust performance in the second quarter of 2007, as global macroeconomic environment remained favourable despite the softness of the US economy. *Total exports of goods* (comprising re-exports and domestic exports) picked up to an 11.2% growth in real terms⁽¹⁾ in the second quarter of 2007, from 7.8% in the first quarter. Notwithstanding the uncertainties envisaged in the beginning of the year, the global economy turned out to be more resilient than earlier expected. This coupled with the buoyant stock markets around the world in the first half of the year, had rendered support to the import demand of major economies. The US economy, albeit showing some moderation, had not derailed into recession, and the negative impacts of the housing market correction was largely contained in the second quarter. The European Union (EU) and Japan economies continued their expansionary paths. The vibrancy of the Mainland economy had not been dampened to any significant extent by the series of tightening measures put on board. Moreover, the US dollar continued its weakness, thereby rendering further boost to price competitiveness of Hong Kong's exports in the second quarter.

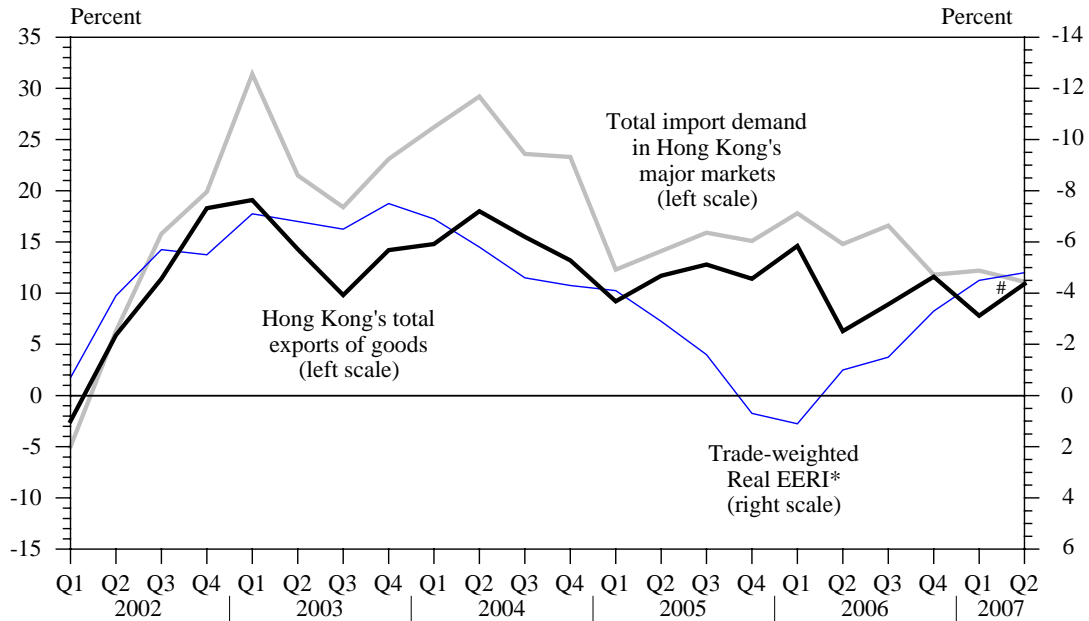
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

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

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

2.2 *Re-exports*⁽²⁾ remained the key growth driver, picking up further to a 13.1% growth in real terms in the second quarter of 2007, after a 10.6% growth in the first quarter. On the contrary, the secular downtrend of *domestic exports* continued, though the decline narrowed to 19.4% in real terms in the second quarter, following the 33.5% plunge in the first quarter. Domestic exports now took up only 4.2% of total exports by value in the second quarter of 2007.

Diagram 2.1 : Merchandise exports sustained another quarter of strong performance (year-on-year rate of change)



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

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

(#) Import demand figure for Q2 2007 refers to Apr-May 2007 only.

Diagram 2.2 : Re-exports picked up further and remained the key growth driver

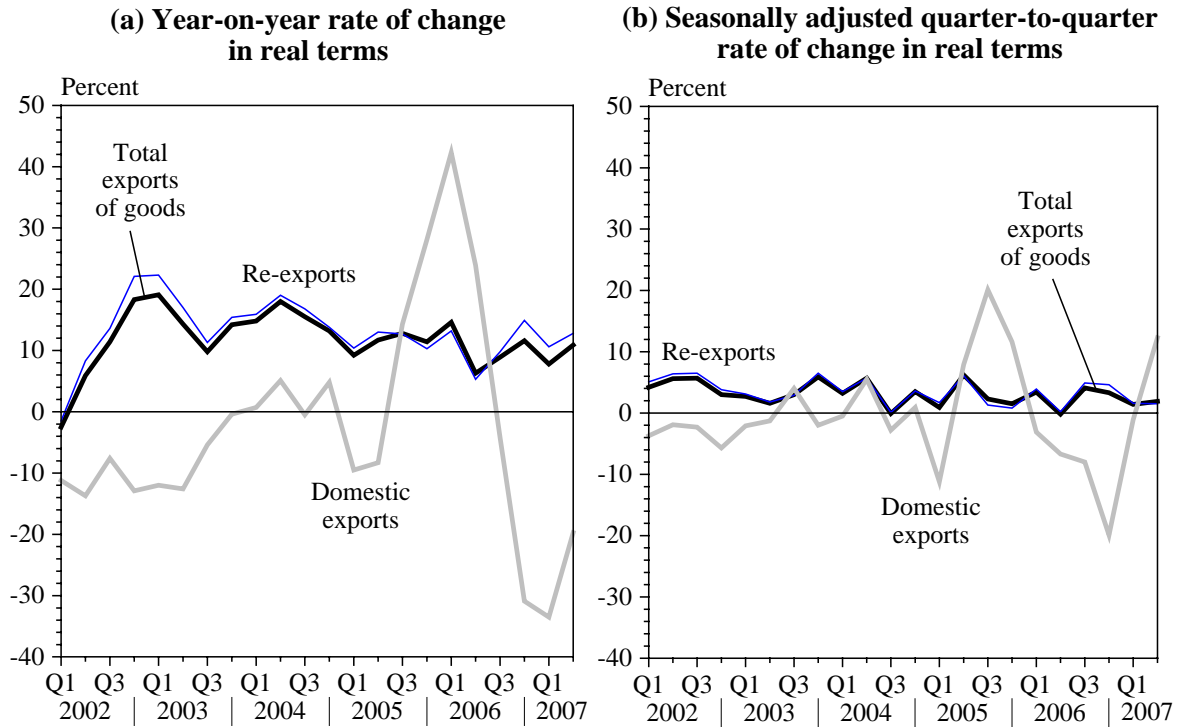
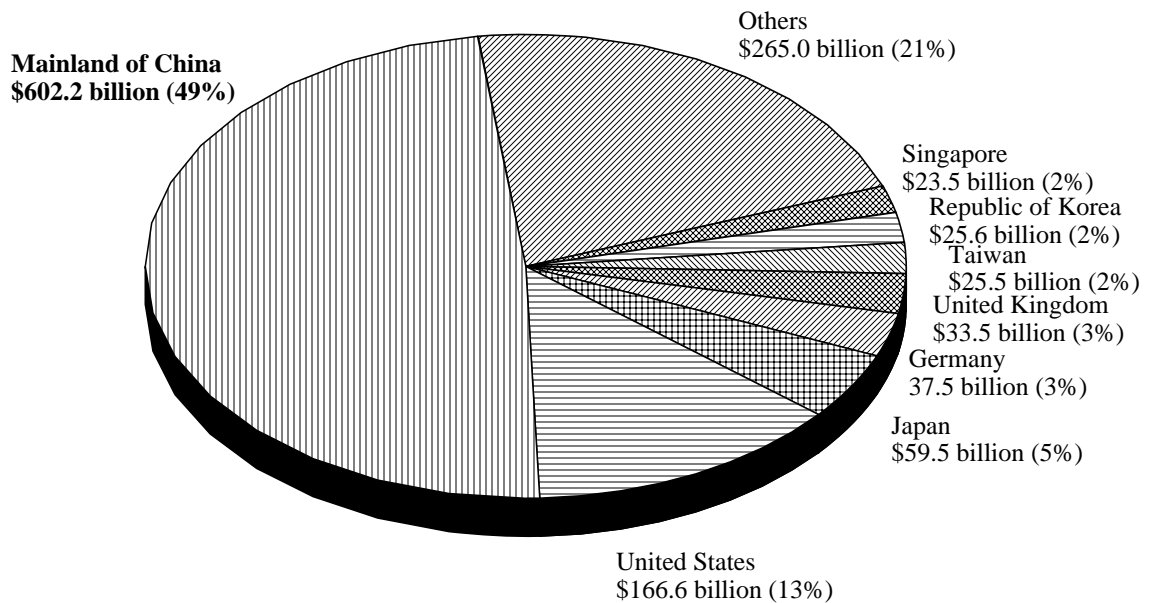


Diagram 2.3 : The Mainland featured prominently in Hong Kong's exports



Total exports of goods in the first half of 2007 : \$1,239.0 billion

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

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

2.3 Growth in the second quarter was broad-based. Exports to the Mainland, which registered double-digit growth for nine quarters in a row, continued to be the major growth driver. The Mainland's sustained strong export growth momentum so far had not been dampened by renminbi appreciation to any noticeable extent. Reportedly the rush shipment before the cut in export tax rebate in a number of items from 1 July also rendered a boost to the Mainland's exports in the second quarter⁽³⁾. As such, Hong Kong's exports to the Mainland for outward processing continued to benefit. On the other hand, the Mainland's robust domestic demand also saw further growth in exports to the Mainland for meeting its own use, which increasingly took up a bigger share of Hong Kong's exports to the Mainland. Elsewhere in East Asia, exports to Japan improved further, underpinned by continuous recovery of its economy, offsetting partly the weaker yen. Exports to many other East Asian economies such as Thailand, Taiwan, and Malaysia were fairly strong, amidst the generally favourable economic environment in the region.

2.4 Outside Asia, the solid expansion of the EU economy coupled with the strength in euro saw a pick-up in exports to the EU, among which exports to Germany and Netherlands showed even more distinct growth. Exports to the US however remained largely slack amidst the softening import demand, as the US economy continued to moderate.

Diagram 2.4 : Hong Kong's total exports of goods to Mainland of China

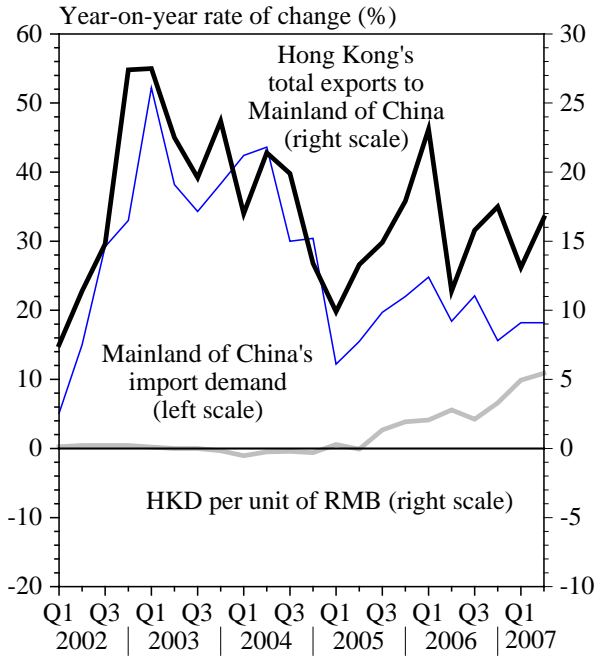
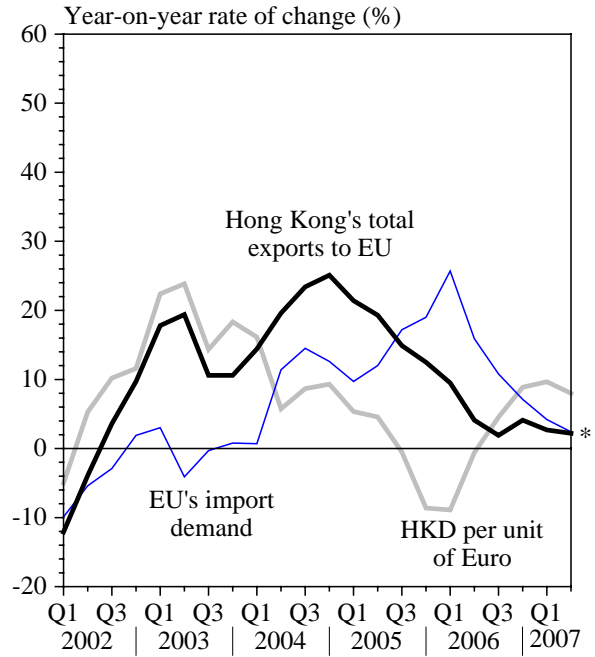


Diagram 2.5 : Hong Kong's total exports of goods to EU



Note: (*) Figure for Apr-May 2007 only.

Diagram 2.6 : Hong Kong's total exports of goods to US

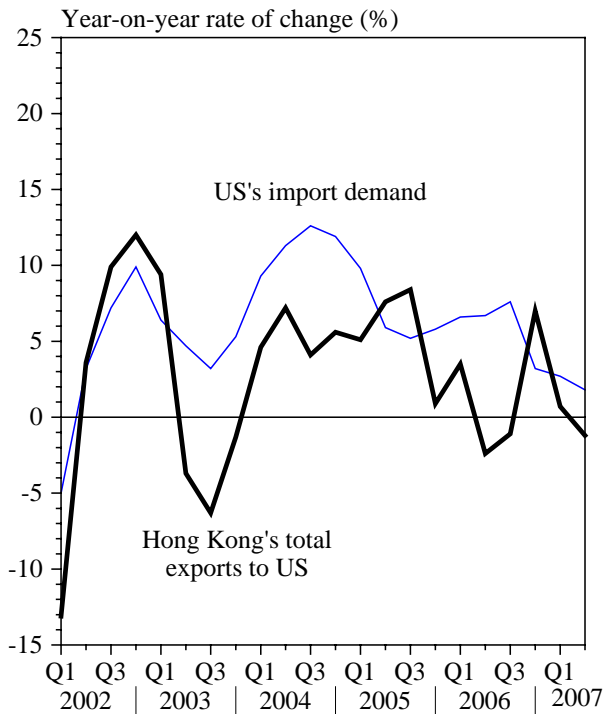


Diagram 2.7 : Hong Kong's total exports of goods to Japan

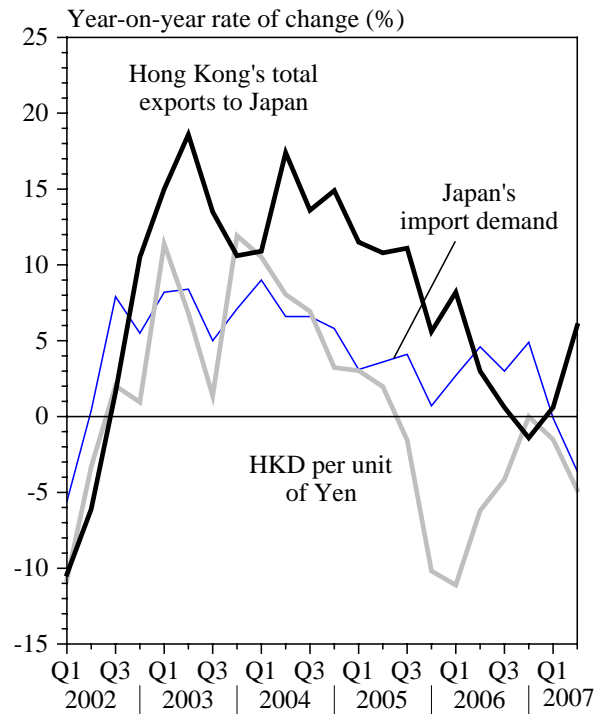


Diagram 2.8 : Hong Kong's total exports of goods to Singapore

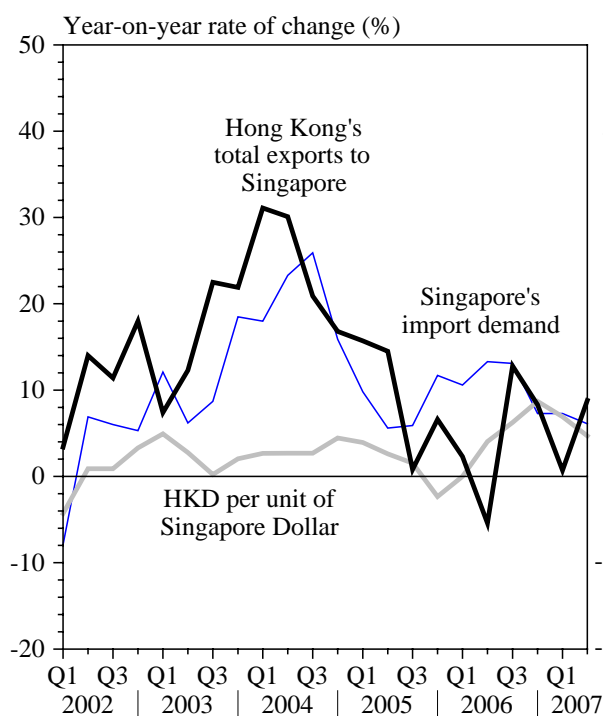
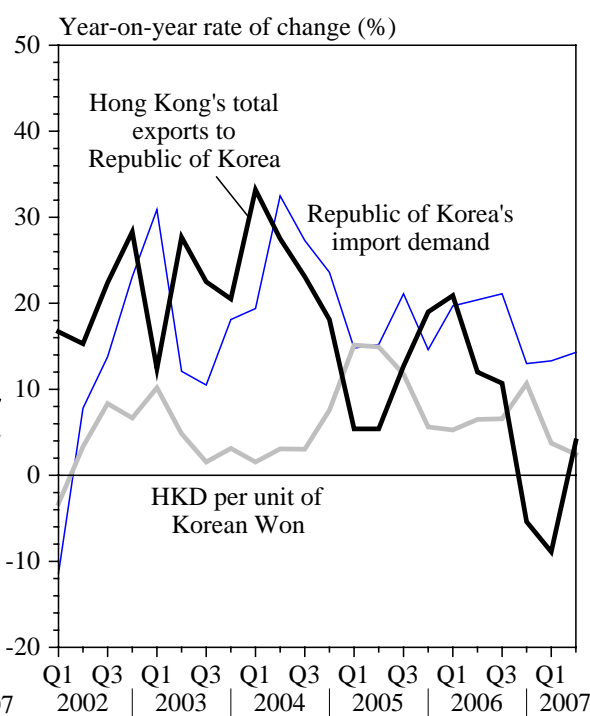


Diagram 2.9 : Hong Kong's total exports of goods to Republic of Korea



Imports of goods

2.5 *Imports of goods* held up well, rising by 12.7% in real terms in the second quarter of 2007, slightly faster than the 8.4% growth in the first quarter. Import intake for subsequent re-exporting firmed up in tandem with the strong re-export growth. *Retained imports*, which are imports for domestic uses, rose at a faster pace by 11.7% in real terms in the second quarter of 2007 over a year earlier. Within this, retained imports of consumer goods picked up moderately notwithstanding a high base last year, as consumer sentiment was upbeat. Retained imports of capital goods continued to record solid growth, amidst the sanguine business sentiment. Retained imports of raw materials and semi-manufactures rebounded against a low base of comparison.

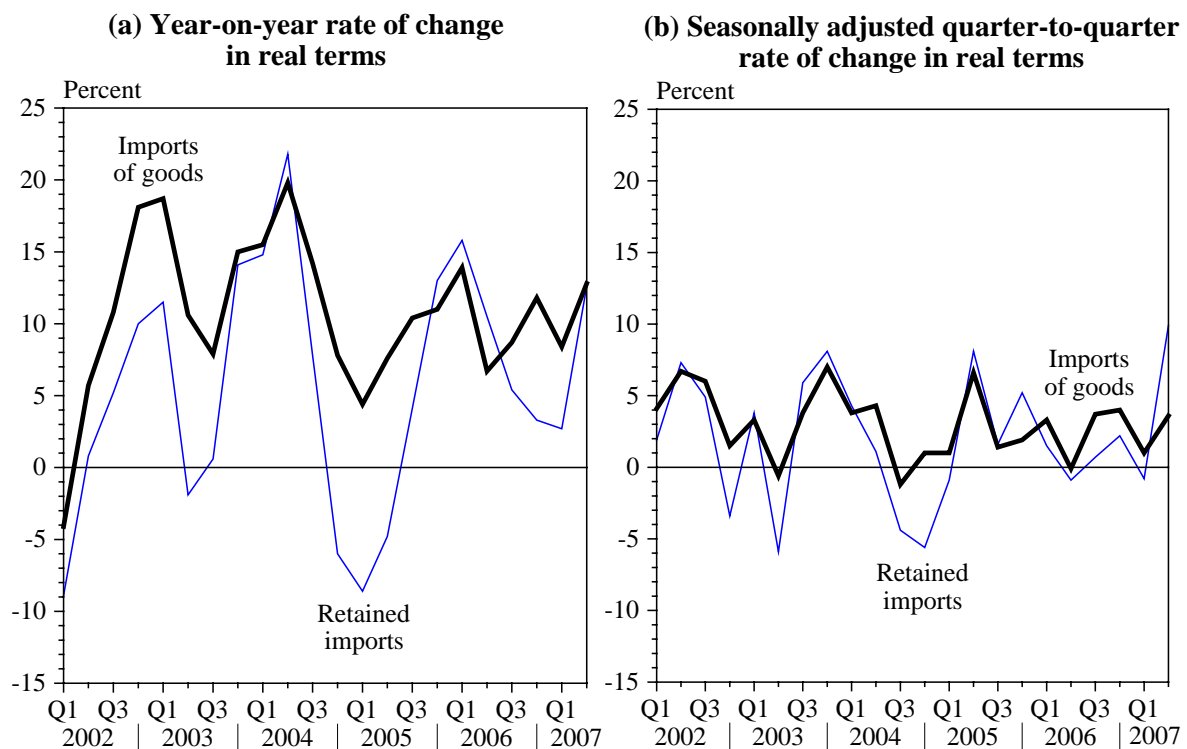
**Table 2.3 : Imports of goods and retained imports
(year-on-year rate of change (%))**

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

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

- (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

Diagram 2.10 : Total imports held up well in the second quarter



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

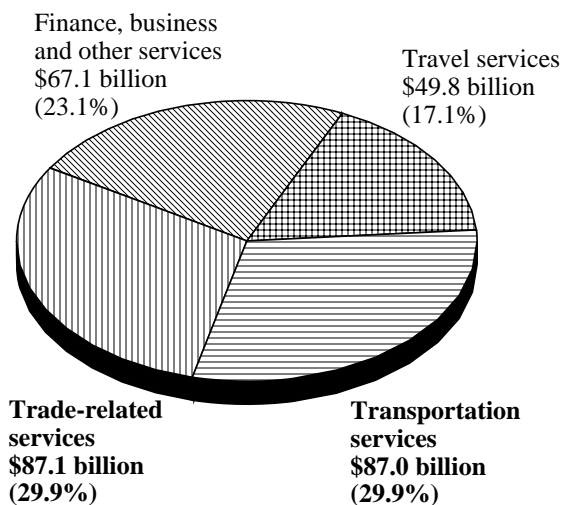
		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2006	Annual	14.4	2.0	27.6	-16.8	5.4
	Q1	16.9	4.3	38.4	-6.4	4.0
	Q2	37.3	4.8	19.8	-13.4	-4.9
	Q3	7.8	2.3	32.5	-27.5	3.5
	Q4	0.5	-2.9	22.2	-18.9	19.5
2007	Q1	-1.0	4.4	6.4	-2.9	8.6
	Q2	2.3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

Invisible trade

Exports of services

2.6 *Exports of services* accelerated to a 10.9% growth in real terms in the second quarter of 2007, from an 8.9% increase in the first quarter, with pick-up in growth recorded in all major sectors. Exports of trade-related services, comprising mainly offshore trade, registered notable growth, underpinned by the Mainland's vibrant trade flows. Exports of financial services surged further amidst the buoyant financial market activities. Various measures by the Mainland authorities to promote outward investment by Mainland institutions and enterprises, including the expansion of the Qualified Domestic Institutional Investors (QDII) Scheme, rendered a boost to demand for Hong Kong's financial services. Exports of travel services also showed faster growth along with the pick-up in growth in the number of incoming visitors. The weakening of the Hong Kong dollar along with the US dollar probably also rendered further boost to visitor spending. Meanwhile, exports of transportation services continued to expand steadily.

Diagram 2.11 : Trade-related and transportation services accounting for three-fifths of service exports, reflecting the important role of Hong Kong as a trading hub



Exports of services in the first half of 2007 : \$291.0 billion

Diagram 2.12 : Exports of services picked up further, boosted by the surge in offshore trade and buoyant financial market activities

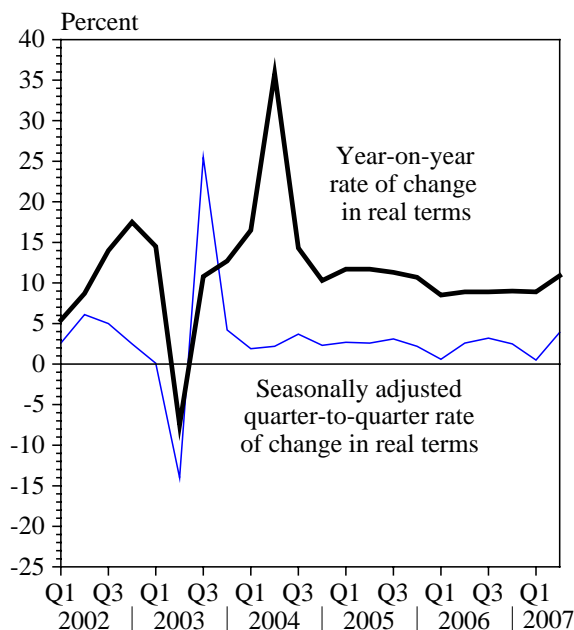


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Exports of services		Trade-related services ^(a)	Transportation services	Travel services ^(b)	Finance, business and other services
2006	Annual	8.9		11.0	6.4	5.4	10.8
	Q1	8.5	(0.6)	13.3	7.0	8.3	4.2
	Q2	8.9	(2.6)	10.8	7.1	4.8	11.5
	Q3	8.9	(3.2)	11.5	5.2	3.3	13.0
	Q4	9.0	(2.5)	9.0	6.4	5.3	14.8
2007	Q1	8.9	(0.5)	9.6	3.1	9.5	14.5
	Q2	10.9	(3.9)	11.3	5.7	9.9	17.5

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

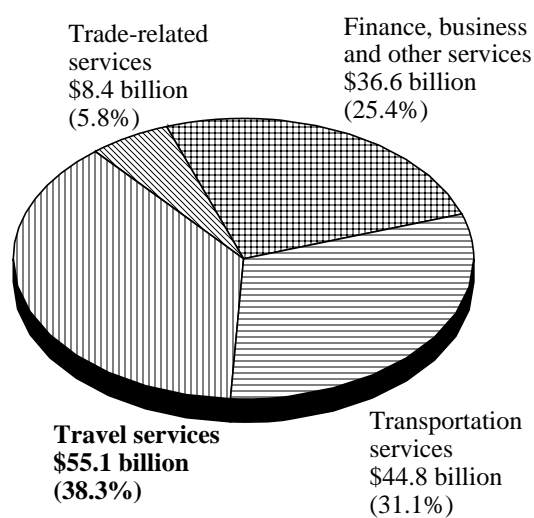
(a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

Imports of services

2.7 *Imports of services* grew further by 8.0% in real terms in the second quarter of 2007, after a 4.1% growth in the first quarter. Among the various types of imports of services, growth in financial, business and other services continued to outpace the growth in imports of travel and other services.

Diagram 2.13 : Travel services being the largest component in imports of services



Imports of services in the first half of 2007 : \$144.0 billion

Diagram 2.14 : Imports of services grew further in the second quarter

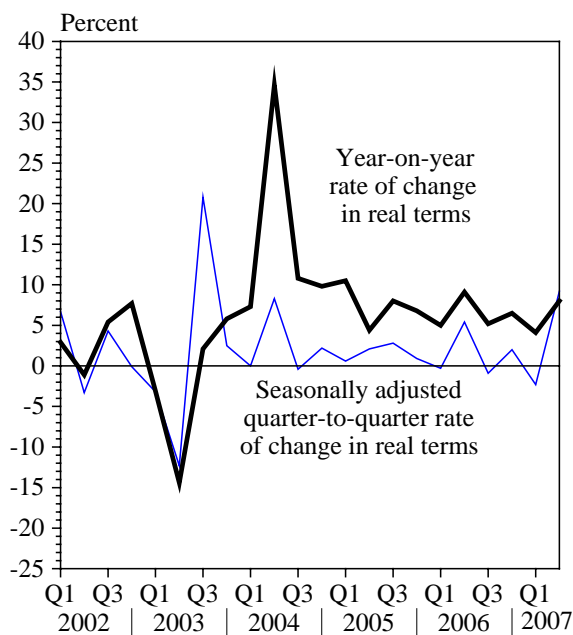


Table 2.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		<i>Of which :</i>				
		<u>Imports of services</u>	<u>Travel services⁽⁺⁾</u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services</u>
2006	Annual	6.4	3.4	6.5	1.6	12.8
	Q1	5.0 (-0.3)	1.5	5.9	3.8	10.5
	Q2	9.1 (5.4)	7.7	9.2	1.5	13.4
	Q3	5.2 (-0.9)	0.6	5.4	2.1	13.9
	Q4	6.5 (2.0)	4.3	5.6	-0.2	13.4
2007	Q1	4.1 (-2.3)	0.9	3.3	1.9	10.7
	Q2	8.0 (9.2)	4.9	6.8	3.5	15.6

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

(+) Comprising mainly outbound travel spending.

Visible and invisible trade balance

2.8 As the surplus in the invisible trade account more than offset the deficit in the merchandise trade account, a surplus of \$24.7 billion was recorded in the combined visible and invisible trade balance in the second quarter of 2007, equivalent to 3.2% of the total value of imports of goods and services. This was slightly smaller than the corresponding figure of \$26.1 billion (3.8%) in the second quarter of 2006. The continued sizeable surplus underscored the strength of Hong Kong's external competitiveness on the one hand, and increased resilience to volatilities and external shocks on the other.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2006	Annual	2,467.4	565.0	2,576.3	284.0	-109.0	281.0	172.1
	Q1	538.5	128.7	568.3	65.7	-29.8	63.0	33.2
	Q2	586.7	129.7	622.1	68.2	-35.4	61.5	26.1
	Q3	667.2	150.7	685.8	76.0	-18.6	74.8	56.2
	Q4	674.9	155.9	700.2	74.1	-25.2	81.8	56.5
2007	Q1	587.3	144.8	621.5	69.7	-34.2	75.1	40.9
	Q2	656.5	146.2	702.7	75.2	-46.6	70.9	24.7

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

Trade policy and other developments

2.9 In the second quarter of 2007, a couple of new measures were put on board by the Government to facilitate external trade with the Mainland. On 29 June 2007, the fourth supplement to CEPA was signed. It contains 40 liberalisation measures in 28 services areas, including 17 existing services areas⁽⁴⁾ and 11 new services areas⁽⁵⁾. The new liberalisation measures will be effective starting 1 January 2008. The new package provides enhanced opportunities for the Hong Kong business and reinforces Hong Kong's comparative advantages in better tapping the potential of the Mainland market. The Government will continue to work closely with the Mainland authorities to make use of the open and developing platform provided by CEPA to engage the Mainland authorities in good time of further liberalisation.

2.10 As at end-June 2007, the Trade and Industry Department (TID) and five Government Approved Certification Organisations issued 24 174 certificates of Hong Kong Origin (CEPA) to goods produced in Hong Kong, involving a total of \$8.66 billion worth of goods. TID also issued 1 788 certificates of Hong Kong Service Supplier.

2.11 The new Shenzhen Bay Bridge was completed and has commenced operation on 1 July. Along with the opening of the new border control point at the new Bridge, the HKSAR and Shenzhen governments signed a Memorandum on co-location arrangement at the Shenzhen Bay Port. The commencement of operation of the new Bridge signifies closer integration and co-operation between Hong Kong and Shenzhen. The trade facilitation measures under CEPA, together with the enhanced border facilities, would help further strengthen Hong Kong's external competitiveness and its role as an international trading and logistics centre.

Notes :

- (1) Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (2) 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.
- (3) The Central Government announced on 19 June 2007 to remove or reduce VAT rebate on certain export items with effect from 1 July. Amongst which VAT rebates on exports of clothing, footwear, toys and clocks are reduced to 11%, and those on certain metal and steel products to 5%.
- (4) They are legal, medical and dental, real estate, job intermediary, convention and exhibition, telecommunications, audiovisual, distribution, insurance, banking, securities, tourism, cultural, maritime transport, air transport, road transport, and individually-owned stores.
- (5) They are computer and related services, market research, services related to management consulting, public utility, building-cleansing, photographic, printing, translation and interpretation, environmental services, social services, and sporting services.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

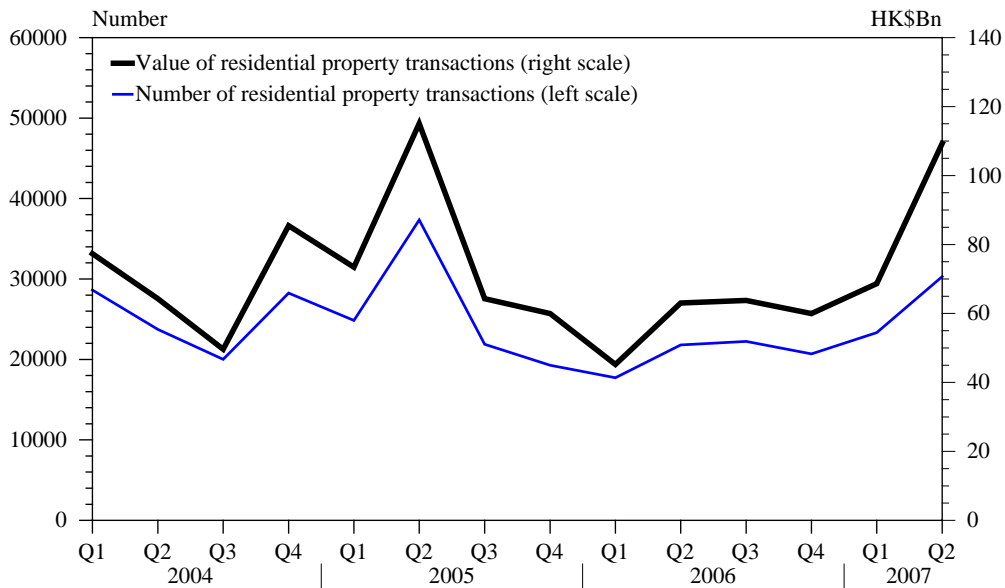
Summary

- *The residential property market turned more active in the first half of 2007, with flat prices resuming a solid increase. Sentiment was boosted by sanguine economic outlook and rising labour income. The non-residential segment stayed buoyant amidst general business upturn.*
- *With the commissioning of Hong Kong - Shenzhen Western Corridor on 1 July 2007, the handling capacity for cross-boundary vehicular traffic has been substantially expanded. The new corridor also enables the further integration of Hong Kong with the transport network in the Mainland.*
- *Inbound tourism grew further in recent quarters. The impetus to visitor growth continued to be broadly based across major markets, signifying a balanced development of the sector.*
- *The logistics sector cruised ahead steadily as trading and transshipment activities continued to expand at a healthy pace. Both air and port cargo movements rose modestly further so far this year.*
- *Collaboration in research and development between the Mainland and Hong Kong is becoming more popular in recent years as the market environment turns more conducive to innovation activities. Also contributed is the substantial policy support, as partly evidenced by the recent two cooperation agreements with the State Ministry of Information Technology and the Shenzhen Municipal Government respectively.*

Property

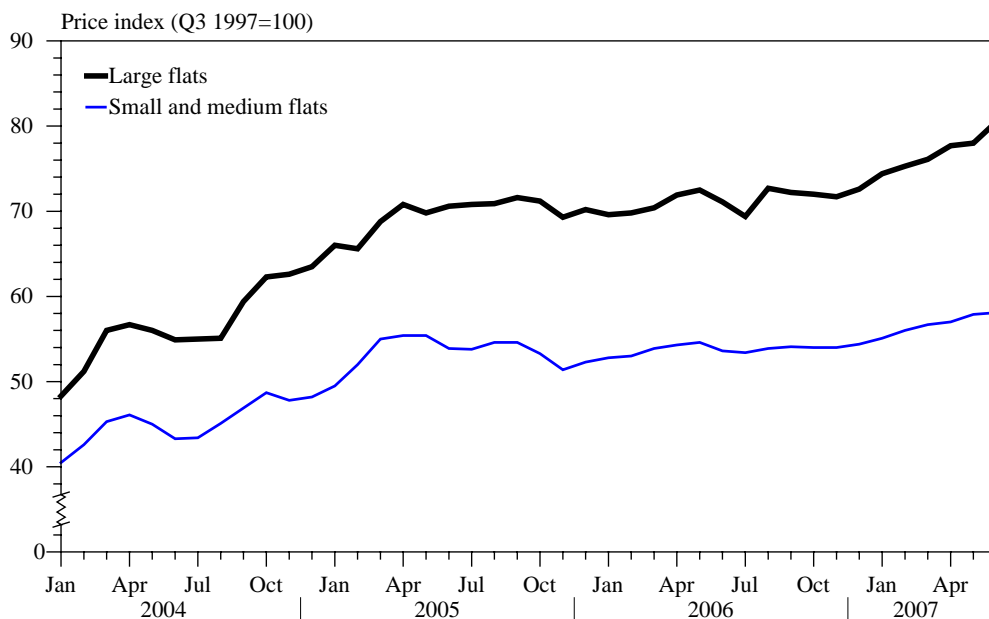
3.1 The sales market for *residential property* turned more active in the first half of 2007. Acquisition interest was boosted by sanguine economic outlook and rising labour income. Compared with a year earlier, the number of private residential units transacted soared by 36% in the first half of 2007, with the monthly figure hitting its two-year high in May. The increase was even faster at 64% in value terms in the first half as the higher-end segment outperformed in the trading rebound. Apart from the primary market, sales in the secondary market also increased distinctly with the number of transactions in the second quarter being the highest since mid-2005.

Diagram 3.1 : Trading of private residential flats regained some momentum recently, with the proceeds involved showing a sharper rebound as the higher-end segment outperformed



3.2 Overall flat prices resumed a solid rise of about 7% from December 2006 to June 2007, having held virtually static during the preceding five months. The increase was across the board, by about 7% for small and medium flats and about 11% for large flats. Compared with the trough in 2003, prices of small and medium flats and large flats had rebounded by 70% and 109% respectively, though still 43% and 23% off the peak in 1997.

Diagram 3.2 : Prices of larger flats showed a steeper upturn in recent years



Notes : (1) Large flats refer to those with saleable area of 100 m² or above while small and medium flats refer to those with saleable area less than 100 m².

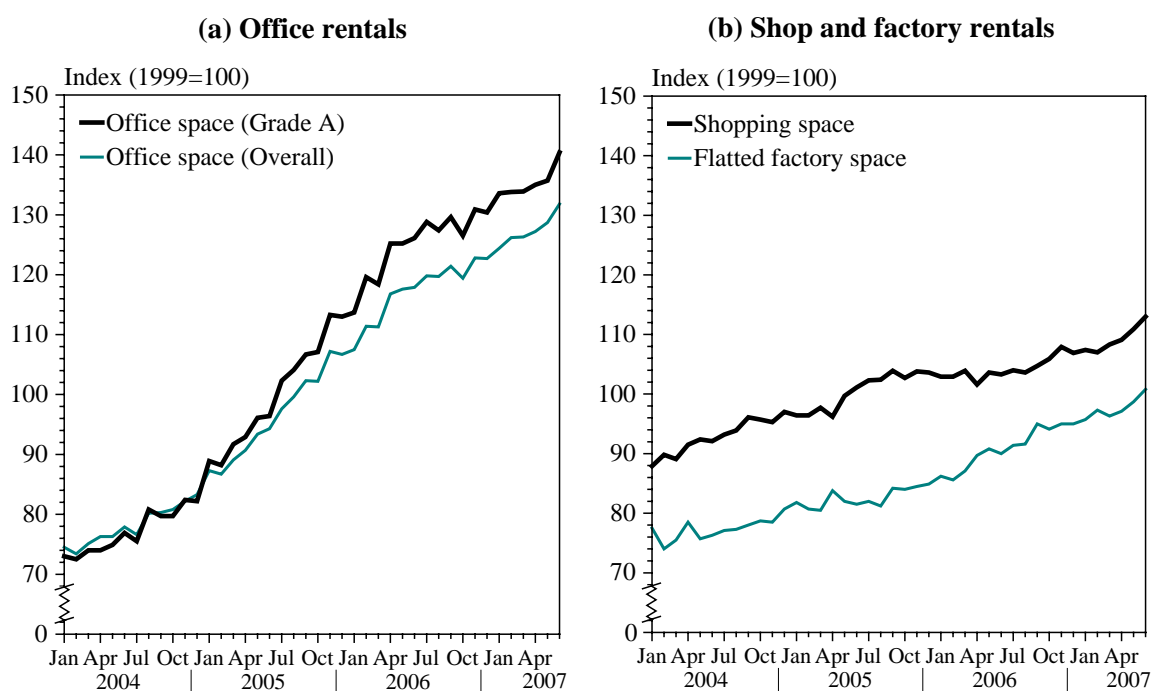
(2) Price index pertains to secondary market transactions only.

3.3 In the leasing market, performance stayed benign as household income continued to improve and user demand built up further. Compared with December 2006, overall flat rentals rose further by about 5%. The increase for large flats was faster at about 8%.

3.4 The *non-residential* property markets continued to benefit from the general business upturn. Leasing stayed buoyant as many enterprises sought business expansion along with increased turnover. In June 2007, rentals of office, shopping and flatted factory spaces went up further by 6-7% over December 2006. Rentals of Grade A office registered a larger rise of about 8%, with the increase being more distinct for some core districts amidst tight new supply.

3.5 Sales of non-residential properties received solid support from the promising leasing prospect and stable local interest environment. Following a brief ease-back in the latter part of 2006, prices of office space reverted to increase distinctly during the first half of 2007, by about 12%. Over the same period, prices of flatted factory spaces registered an accelerated increase of about 15% while prices of shopping space rose further by about 7%.

Diagram 3.3 : Commercial and industrial property leasing remained buoyant along with general business upturn



Land

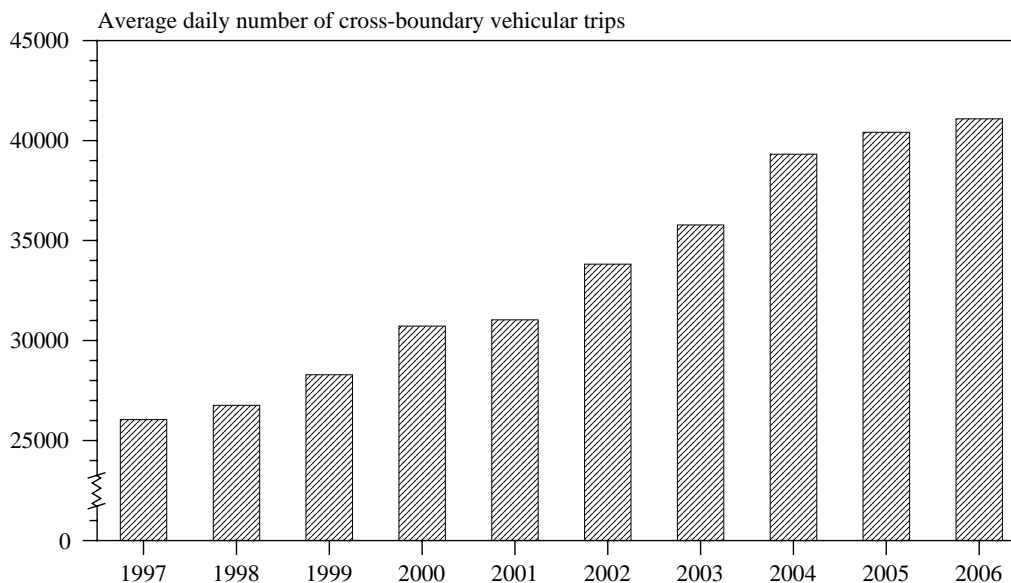
3.6 As market sentiment improved, property developers showed keener interest in land acquisition through the *Application List*. Following sale of three residential sites and one residential-cum-commercial site on the List in the first quarter of 2007, four residential sites were auctioned in the second quarter. Market response was favourable, with the prices fetched higher than the trigger prices by 32-64%. Two of the sites being situated in prime locations commanded land premium reaching \$4 billion and \$5.6 billion respectively.

3.7 For the first half of 2007 as a whole, land area of 94.5 hectares from the Application List was sold through auction, commanding total land premium of \$17.6 billion. These already exceeded well the full year figures of 34.2 hectares and \$7.1 billion in 2006.

External transport

3.8 The Hong Kong - Shenzhen Western Corridor commissioned on 1 July 2007 is the fourth vehicular boundary crossing of Hong Kong. Being the first of its kind, the co-location arrangement at Shenzhen Bay Port provides convenient and efficient services to passengers and vehicles. This new infrastructure is planned to greatly enhance the capacity and efficiency of cross-boundary passenger and cargo traffic. The estimated two-way daily vehicular traffic and passenger flows of the Corridor are around 29 800 vehicles and 30 800 people respectively during the initial period of opening, and are expected to reach some 60 300 vehicles and 61 300 people in the long run. From a broader perspective, the new cross-boundary link also fosters Hong Kong's integration with the rapidly-developing highway infrastructure in the Mainland, to the benefit of extending the hinterlands of Hong Kong's port and airport.

Diagram 3.4 : The commissioning of Hong Kong-Shenzhen Western Corridor raises substantially the capacity to handle the expanding cross-boundary vehicular traffic



3.9 The Sheung Shui to Lok Ma Chau Spur Line has been scheduled to commence operation on 15 August 2007. By providing the second rail link between Hong Kong and the Mainland, it helps to relieve the congestion of cross-boundary passengers at Lo Wu and cope with the anticipated growth in cross-boundary rail passenger traffic. In the first half of 2007, the passenger throughput at the Lo Wu control point was about 47 million, while the corresponding figure for the Lok Ma Chau control point was around 25 million.

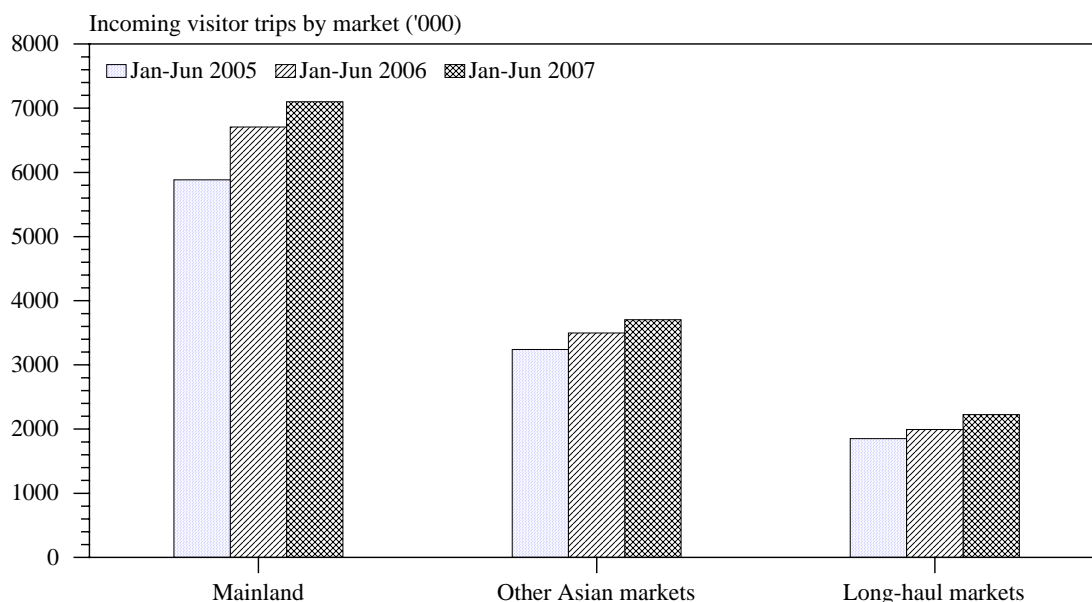
Tourism

3.10 Inbound tourism registered a solid growth in the first half of 2007, with the number of *incoming visitor trips* rising further by 6.8% over a year earlier. Moreover, the year-on-year growth re-accelerated progressively to 6.3% in the first quarter and 7.4% in the second quarter of 2007, from 4.3% in the fourth quarter of 2006.

3.11 Benefiting from the sustained expansion in the global outbound tour market and depreciation of US dollar against many international currencies, the recent visitor growth continued to span across major source markets. The growth in Mainland visitor arrivals picked up to 5.9% in the first half of the year, with arrivals under the Individual Visit Scheme surging further by 21.9% year-on-year. During the Golden Week in May, Mainland visitor arrivals even surged by about 30% over the same period in 2006. Regarding other source markets in Asia, visitor growth stabilised at 5.9% in the first half of 2007,

though individual markets like South Korea and the Philippines fared strongly. Meanwhile, visitor arrivals from long-haul markets expanded markedly further by 11.6%.

Diagram 3.5 : Visitor growth continued to be broadly based across major source markets

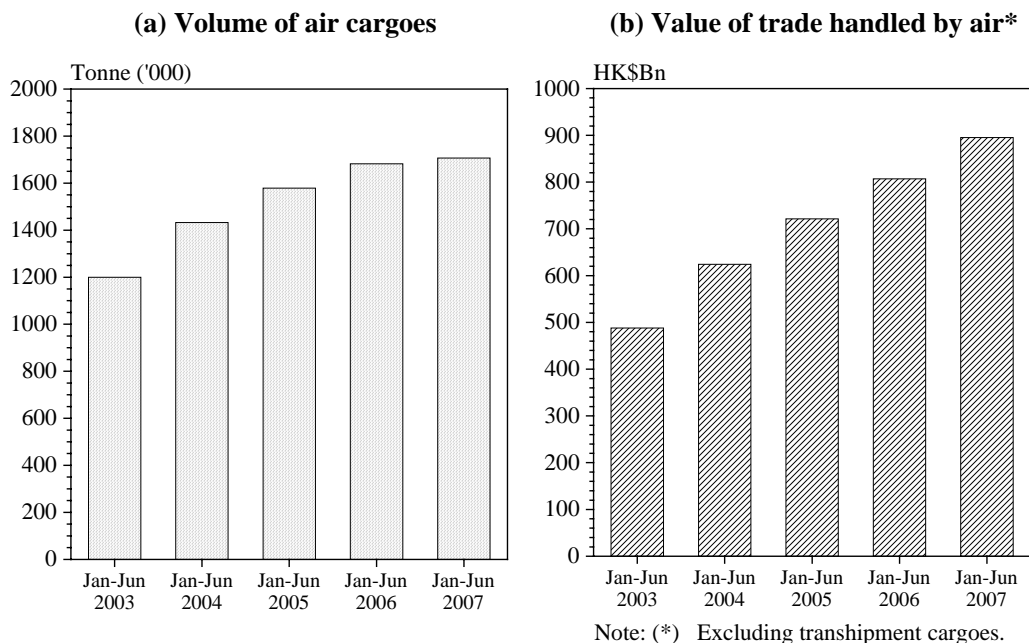


3.12 Hong Kong's inbound tourism is poised to benefit from the latest liberalisation measures under CEPA. As from January 2008, eligible Hong Kong companies will enjoy enhanced access to the travel agent market in the Mainland⁽¹⁾ and Hong Kong travel agents established in all the Pan-PRD provinces will be allowed to apply for operating group tours to Hong Kong and Macao for residents in the provinces concerned⁽²⁾. These measures are expected to encourage more visitors from the Mainland to Hong Kong.

Logistics

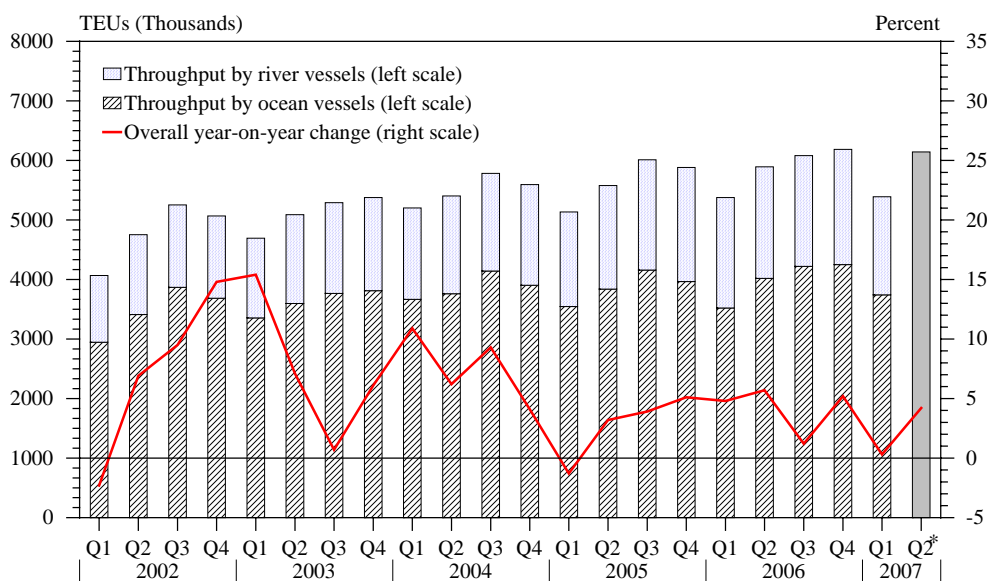
3.13 The logistics sector put up a steady performance in the first half of 2007. Sustained growth in external trade and transshipment activities helped to offset the effects from intense competition in the region and the on-going structural shift towards offshore trade. On *air freight*, air cargo throughput resumed an increase of 3.4% in the second quarter of 2007 over a year earlier, after a brief ease-back of 0.6% in the first quarter. For the first half of 2007 as a whole, there was a mild increase of 1.5%. Over the same period, the value of trade (excluding transshipment cargoes) handled by air rose markedly further by 11.0%, reflecting increased predominance of high-value merchandise in air freight.

Diagram 3.6 : Air cargo traffic expanded steadily on the back of growth in high-value merchandise



3.14 On *port cargo* movement, overall container throughput handled by the Hong Kong Port went up by an estimate of 4.2% in the second quarter of 2007, representing a visible pick-up from the meagre increase of 0.3% in the first quarter. For the first half of 2007 as a whole, there was a modest growth of 2.3%. Profile up to May indicated that the recent growth impetus mainly came from ocean cargo movements, particularly those related to transshipment.

Diagram 3.7 : Notwithstanding the recent pick-up, the growth in port container traffic stayed modest for the first half of 2007 as a whole



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

Innovation and technology

3.15 Further to the agreement with the State Ministry of Information Industry signed on 17 April 2007⁽³⁾, the Government of the Hong Kong Special Administrative Region signed a co-operation agreement on “Shenzhen/Hong Kong Innovation Circle” with the Shenzhen Municipality Government on 21 May. The agreement aims at comprehensive promotion and enhancement of technology collaboration between Shenzhen and Hong Kong, including exchange of talent and sharing of resources, with a view to upgrading the two places into a region with ample innovation resources and dynamic innovation activities. The enhanced institutional framework thus resulted is expected to reinforce the rising trend of cross-boundary collaboration in research and development activities (see **Box 3.1**).

3.16 On 4 June 2007, the Telecommunications Authority announced the adoption of the National Standard as the transmission standard for the digital terrestrial television (DTT) service in Hong Kong. According to the implementation framework for DTT laid down by the Government in July 2004, the existing two terrestrial TV broadcasters are required to launch DTT by end-2007 and to achieve digital coverage of at least 75% by end-2008. Subject to further market and technical studies, the Government will switch off analogue broadcasting in 2012 the earliest. The implementation of DTT will enhance the capacity of broadcasting infrastructure for the provision of a variety of communications to meet Hong Kong’s future needs as a digital city, and maintain its position as a regional broadcasting hub⁽⁴⁾.

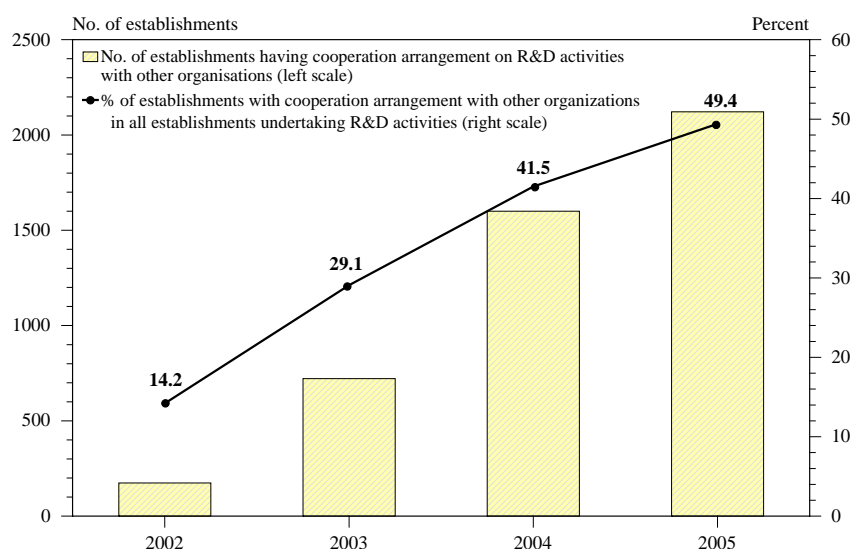
Box 3.1

Rising tendency for business enterprises to engage in collaborative activities on research and development

Inter-organizational collaboration is more and more common for research and development (R&D) activities due to the substantial synergy thus generated. The inducement tends to be greater when a R&D project involves various expertises and intellectual properties possessed by different companies and organizations. By exchanging knowledge, information and resources, the collaborative parties often find it more efficient and effective to generate new ideas, resolve technical constraints, develop new technologies and commercialise them into valuable ends.

In Hong Kong, a rising number of business enterprises with R&D activities have engaged in collaborative projects on R&D in recent years. Latest indications show that the number of business enterprises concerned leaped from less than 200 in 2002 to more than 2 000 in 2005, with their share in all business enterprises with R&D activities ballooning from 14% to 49%.

Business enterprises in Hong Kong having cooperation arrangement on R&D activities with other organizations locally and abroad



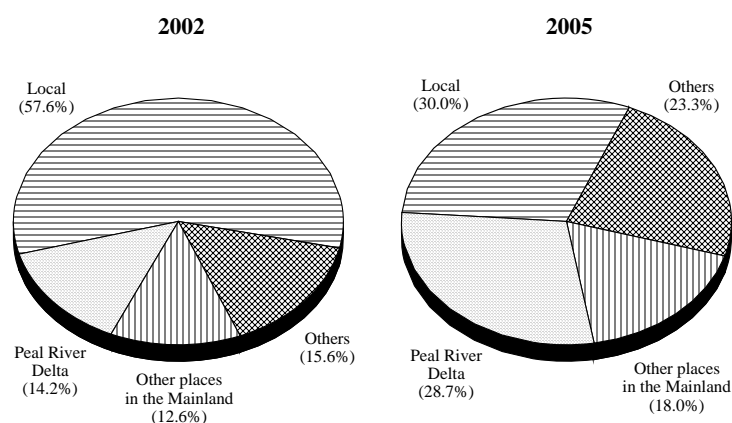
Analysed by location of cooperation organization^(a), Hong Kong, the Mainland and other places in the world respectively accounted for 30%, 47% and 23% of the total in 2005. Compared with the corresponding figures of 58%, 27% and 16% in 2002, the portfolio of partnership in R&D activities has apparently become more externally-oriented especially with the Mainland. This is not surprising in view of the closer economic relations between Hong Kong and the Mainland over the years. Moreover, there is a great deal of complementary strengths between the two economies. For example, Hong Kong has an established intellectual property rights system and sound knowledge in technology transfer and commercialisation, while the Mainland possesses an abundant supply of resource, a solid industrial base and a giant domestic market. Furthermore, the policy support is likewise substantial in Hong Kong and the Mainland as promotion of innovation activities forms part of the overall strategy to upgrade economic structure in both economies.

(a) The locations are counted separately for the total if the cooperation organization has presence in more than one location.

Box 3.1 (cont'd)

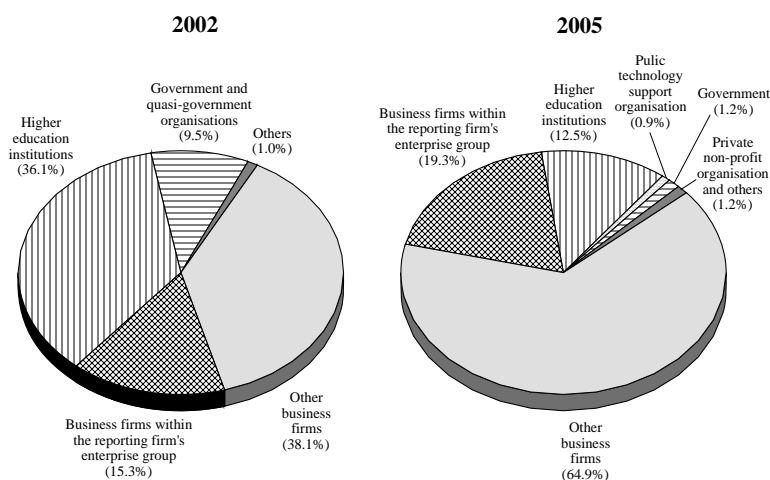
Given our geographical proximity to Pearl River Delta and the fact that it is the major recipient of Hong Kong's outward direct investment, Hong Kong companies have a greater tendency to cooperate with organizations in this region. In 2005, about 60% of the cooperation organizations in the Mainland had presence in Pearl River Delta.

Cooperation organizations with Hong Kong business enterprises in R&D activities – breakdown by location



Another development worth of note is that there is a growing tendency for Hong Kong companies to seek partnership within the private sector. This reflects that market force has become a more important driver of R&D activities as the business environment for innovation activities turns more conducive. From 2002 to 2005, the share of private companies (excluding business firms within the same enterprise group and private non-profit organizations) in all the cooperation organizations with Hong Kong companies in R&D activities went up sharply from 38% to 65%^(b).

Cooperation organizations with Hong Kong business enterprises in R&D activities – breakdown by organization type



(b) The cooperation organizations are counted separately for the total if a Hong Kong company has more than one cooperation organization.

Notes :

- (1) As from January 2008, the minimum annual business turnover required for Hong Kong enterprises to establish joint venture and wholly-owned travel agents in the Mainland will be reduced from US\$12 million and US\$25 million to US\$8 million and US\$15 million respectively.
- (2) As from January 2008, Hong Kong travel agents established in Guangxi, Hunan, Hainan, Fujian, Jiangxi, Yunnan, Guizhou and Sichuan will be allowed to apply for the operation of group tours to Hong Kong and Macao on a pilot basis for the permanent residents in these provinces. Similar measure has been implemented on a pilot basis in Guangdong as from January 2007.
- (3) On 17 April 2007, the Commerce, Industry and Technology Bureau and the State Ministry of Information Industry signed an agreement in Beijing. The agreement provides that the two sides will strengthen technological cooperation and encourage Hong Kong experts to participate in the formulation of national standards in areas relating to the information industry.
- (4) The potential economic benefits of DTT include, *inter alia*, the released spectrum after analogue switch-off, improved reception quality and coverage, and new or enhanced programme contents and innovative services on the digital transmission platforms.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The financial sector stayed strong in the second quarter on the back of favourable macroeconomic conditions. Increasing economic and financial integration with the Mainland also provided impetus to the rapid expansion of financial market activities in Hong Kong.*
- *Liquidity was ample in the local market during the second quarter. Despite the general edge-up in HIBORs, the negative interest rate gaps with the US dollar rates persisted. Money supply and bank loans continued to expand rapidly in tandem with the broad-based economic upturn. The weakening of Hong Kong dollar along with the US dollar against most major currencies continued.*
- *The local stock market resumed a steep uptrend in the second quarter, stimulated by the announcement of further relaxation of the QDII and the bullish global equity markets, after a temporary downward adjustment towards the end of first quarter. The Hang Seng Index hit successive record highs during the quarter, amidst hectic trading and active fund-raising activity.*
- *The second quarter also saw the maiden launch of the renminbi-denominated bond in Hong Kong and the signing of the Supplement IV to the CEPA, containing further financial liberalization measures.*
- *Fund management business showed much vibrancy and remained on the surge as demand for asset management services increased substantially on the back of sustained strong economic growth. This augurs well the rising role of Hong Kong as an asset management centre in the region. Meanwhile, insurance business continued to expand on increasing public awareness on long-term financial planning.*
- *While the financial sector should continue to cruise ahead given the sanguine economic prospect, the increased volatility that accompanies the successive surges in stock markets around the world and problems in the US sub-prime mortgage market would need to be closely watched.*

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

Overall situation

4.1 The financial sector continued to be strong in the second quarter on the back of favourable macroeconomic conditions. Stock market reverted to a surge after a relapse towards the end of the first quarter, with hectic trading activities. Liquidity level continued to be high, as reflected in the persistent negative interest rate premium between the Hong Kong and US dollars, as well as the relatively low lending rates at the retail level. Banking sector had also been strong as their profitability strengthened with further improvement in the credit risk. Fund management business continued to expand rapidly, due to the increasing demand for such services as the wealth accumulated by the high net-worth individuals increased. Looking ahead, the volatility that accompanies the surge in the equity market, as well as problems in the US sub-prime mortgage market, would remain the areas to be watched over.

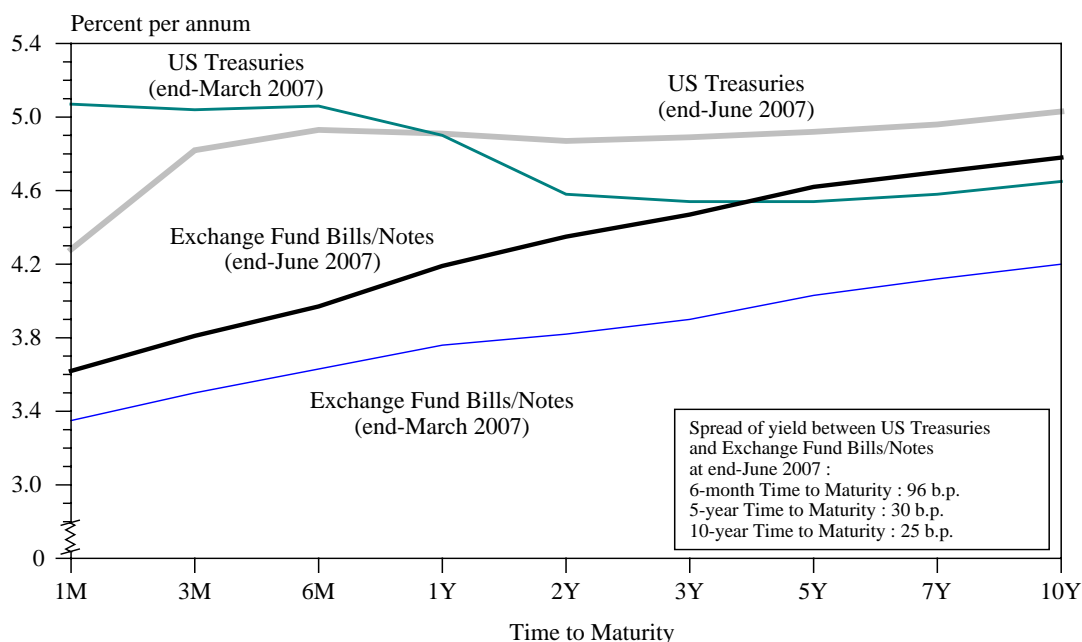
4.2 Towards the end of June, the Hong Kong SAR Government and the Central People's Government signed the fourth phase of the Closer Economic Partnership Arrangement (CEPA). With effect on 1 January 2008, Hong Kong banks will be able to acquire shareholding in Mainland banks subject to a lower asset requirement and will also be encouraged to open branches in Guangdong Province and other targeted areas, while the Mainland banks will be encouraged to set up subsidiaries in Hong Kong. On the debt market front, the first RMB-denominated bonds were launched in Hong Kong by the State Development Bank of China in June. Separately, the Mainland authorities had expanded further the QDII scheme. All these were substantial progresses made towards enhancing capital flows between the Mainland and Hong Kong, further fostering Hong Kong's status as an international financial centre.

Interest rates, aggregate balance and exchange rates

4.3 With the US Fed Funds Target Rate remained unchanged at 5.25%, the Discount Window Base Rate for Hong Kong dollar as offered by the HKMA stayed put at 6.75% during the second quarter⁽¹⁾. As for the interbank market for Hong Kong dollar, the HIBORs in general edged up across the term structure over the period. Overnight HIBOR rose in April on the back of intensive IPO activities during the month, and then climbed down subsequently in May and June. The average for the second quarter was at 4.04%, slightly up from the previous quarter. The three-month HIBOR rose steadily during the second quarter, averaged at 4.32%. Accordingly, the discount of three-month HIBOR over the corresponding Euro-dollar deposit rate continued to narrow, from 116 basis points at end-March to 93 basis points at end-June. With the HIBORs generally edging up, the composite interest rate, which indicated the

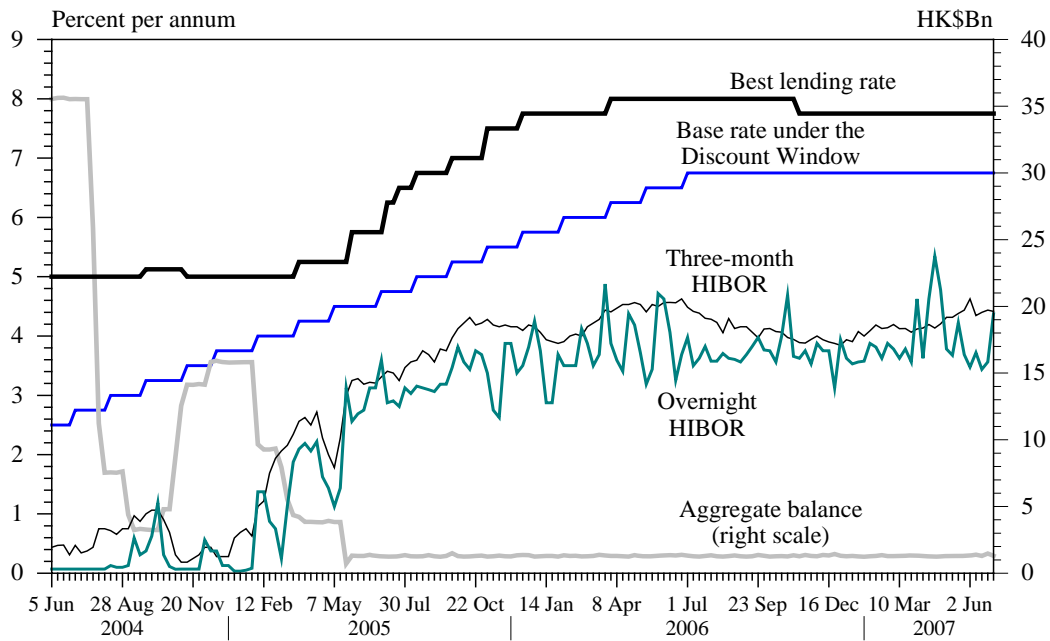
average cost of funds of banks, also rose slightly from 3.00% at end-March to 3.09% at end-June ⁽²⁾. Meanwhile, the Aggregate Balance remained little changed at around HK\$1.3 billion.

Diagram 4.1 : Hong Kong dollar yield curve edged up, gap with the US dollar yield curve persisted



4.4 At the retail level, the deposit rates were little changed and the average one-month time deposit rate offered by major authorized institutions was 2.54% at end-June. The two best lending rates in the market also remained unchanged, at 7.75% and 8% respectively. Yet the high liquidity contributed to further intensification of competition in the offer of mortgage rates. The proportion of newly approved loans priced at more than 2.5% below the best lending rate surged to 90.3% in June, from 73.2% in March.

**Diagram 4.2 : Liquidity level continued to be high
(end for the week)**



4.5 The Hong Kong dollar stayed above the centre of the 7.75 – 7.85 convertibility zone against the US dollar, amidst interest rate arbitrage activities and the conversion of proceeds from equity initial public offerings (IPOs) into US dollars by Mainland companies newly listed on the Hong Kong Stock Exchange. In line with narrowing negative interbank interest rate spreads, the discount of the 12-month Hong Kong dollar forward rate over the spot rate tightened from 735 pips (each pip is equivalent to HK\$0.0001) at end-March to 555 pips in end-June.

4.6 The Hong Kong dollar in general depreciated against other currencies, as the US dollar lost further ground during the quarter, reflecting the slump in the US housing market and the adverse conditions in its sub-prime mortgage market. The trade-weighted Nominal and Real Effective Exchange Rate Indices⁽³⁾ of the Hong Kong dollar consequently declined by 1.1% and 1.7% during the second quarter.

Diagram 4.3 : The HKD/USD remained above the centre of the convertibility zone during the second quarter, forward spread narrowed further (end for the week)

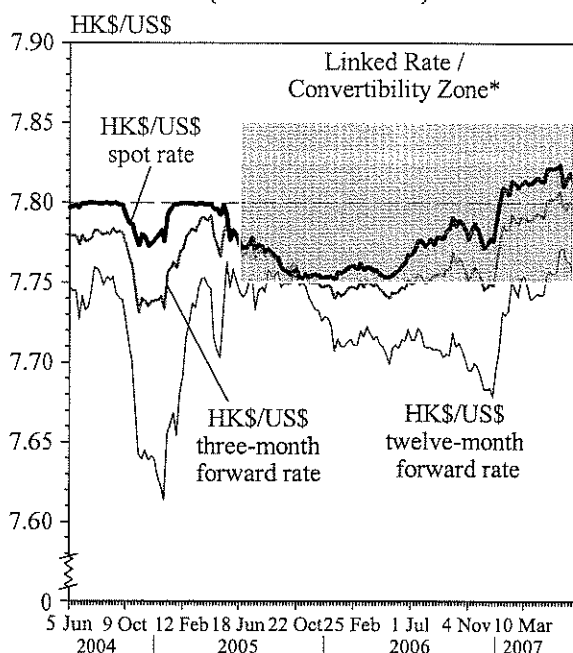
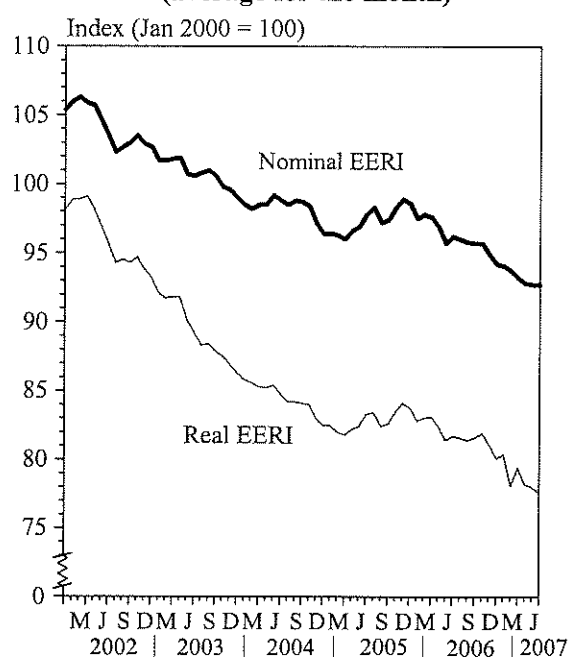


Diagram 4.4 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar fell during the second quarter as the US dollar lost further ground (average for the month)

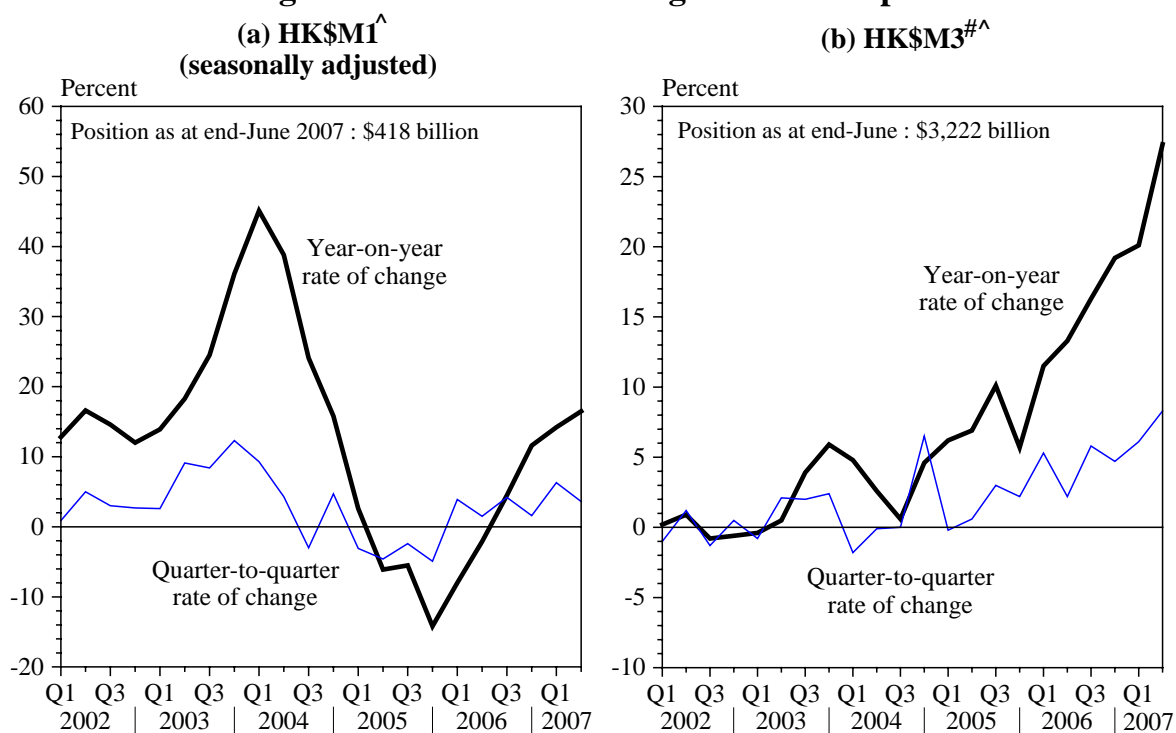


Note: (*) The shaded area represents the Convertibility Zone that was introduced in May 2005 as part of the three refinements to the Linked Exchange Rate System.

Money supply and deposits

4.7 Both narrow and broad money supply recorded notable increases. The seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1)⁽⁴⁾ posted a further rapid increase of 3.6% at end-June over end-March, reflecting continuous increases in Hong Kong dollar demand deposits amidst buoyant fund-raising activities and hectic stock market turnover. Hong Kong dollar broad money supply (HK\$M3) rose even more sharply, by 8.3% over the same period, along with the strong increases in time deposits. Total deposits with authorized institutions⁽⁵⁾ continued to expand notably, as financial positions of both the household and corporate sectors continued to improve amidst sustained improvement in labour market and the buoyant asset market.

Diagram 4.5 : Money supply grew notably further along with the sustained strong economic expansion



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

(#) Adjusted to include foreign currency swap deposits.

Loans and advances

4.8 Total loans and advances increased distinctly during the second quarter, by 7.0% to \$2,859 billion (comprising Hong Kong dollar loans of \$2,210 billion and foreign currency loans of \$649 billion) at end-June, alongside the sustained above-trend economic expansion. Specifically, loans for use in Hong Kong increased notably. Analysed by major usage, a particularly strong growth was seen in loans to stockbrokers and financial concerns, reflecting vibrant stock market activities and increased borrowing to finance the subscription for IPOs. Consistent with the strong growth in retail businesses, the growth of loans to wholesale and retail trade accelerated. The generally steady flow of loans to purchase residential mortgage was in line with the healthy state of the residential property market and the low mortgage rate environment. The increase in loans to finance visible trade also matched Hong Kong's vibrant external trade sector. As deposits rose even faster than loans, the Hong Kong dollar loan-to-deposit ratio declined to a new low of 74.0% at end-June 2007.

Table 4.1 : Loans and advances for use in Hong Kong by major usage

% change during the quarter	Loans to :							
	Finance visible trade	Manu- facturing sector	Whole- sale and retail trade	Building, construction, Property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	All loans and advances for use in Hong Kong ^(b)
2006 Q1	-2.4	-1.9	0.9	0.6	-1.1	3.6	5.3	-0.3
Q2	10.1	3.7	1.9	5.7	-0.6	-1.3	-6.0	2.8
Q3	4.9	-5.4	0.1	-0.9	-0.5	4.7	620.6	1.5
Q4	-4.7	-2.7	2.1	4.0	0.3	-2.5	-82.5	-1.4
2007 Q1	-1.0	3.5	1.9	1.0	-0.1	12.5	959.5	7.6
Q2	12.2	7.3	3.9	6.1	1.2	8.4	39.5	6.4
Total amount at end-June 2007 (HK\$Bn)	169	114	112	525	601	216	124	2,434
% change over a year earlier	11.0	2.2	8.2	10.5	0.8	24.4	1,760.4	14.6

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

Banking

4.9 Asset quality of the local banking sector continued to improve during the first quarter of 2007. The ratio of classified loans to total loans of retail banks declined further, from 1.11% at end-December 2006 to 1.00% at end-March 2007, a record low since the compilation of data in the beginning of 1997. The arrears for over three months in *credit card repayment* slightly edged up from 0.37% in December 2006 to 0.39% in March 2007, a still rather low level when compared to previous years. For *residential mortgage loans*, the delinquency ratio decreased from 0.20% to 0.16% during the first half of the year. The capital adequacy ratio (CAR) for local banks remained stable, averaged at around 13.6% at end-March 2007. All individual Authorised Institution's CARs were above the statutory minimum ratios they are required to meet under the Banking Ordinance.

4.10 On 29 June 2007, the fourth supplement to CEPA was signed between the Hong Kong SAR and the Central People's Government. Under the new arrangement with effect on 1 January 2008, the asset requirement for Hong Kong banks to acquire stakes in Mainland banks will be lowered, and Hong Kong banks will also be encouraged to set up branches in the Guangdong Province and other targeted areas. These will significantly benefit Hong Kong's banking sector. Also, active support will be given to Mainland banks in setting up subsidiary operations in Hong Kong. The growing presence of Mainland banks in Hong Kong will enhance the status of Hong Kong as an international financial centre.

Table 4.2 : Asset quality of retail banks^(a)
(as % of total loans)

<u>As at the end of</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2005	Q1	94.30	3.75	1.95
	Q2	95.05	3.21	1.74
	Q3	95.26	3.25	1.49
	Q4	95.97	2.66	1.37
2006	Q1	95.97	2.71	1.32
	Q2	96.15	2.55	1.29
	Q3	96.44	2.37	1.19
	Q4	96.65	2.24	1.11
2007	Q1	97.11	1.89	1.00

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

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

4.11 Renminbi deposits with authorized institutions continued to expand solidly during the second quarter, amounting to RMB 27.6 billion at end-June, up from RMB 25.2 billion at end-March. This expansion was in part driven by the expectations for the currency's further appreciation. In the same period, the renminbi interest rates at the retail level in Hong Kong remained unchanged at a rather low level of below 1%, while the first-ever renminbi-denominated bonds, being sold in Hong Kong between 27 June and 6 July, carried a coupon rate of 3% per annum.

Table 4.3 : Renminbi deposits in licensed banks

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

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

(b) Period average figures.

The debt market

4.12 The Government has constantly worked on introducing new debt instruments and enhancing liquidity of the debt market. The maiden launch of the RMB-denominated bond by the State Development Bank in Hong Kong on 26 June, amounting to RMB 5 billion, heralded an era of Hong Kong as an offshore centre for RMB bonds. At end-June 2007, the total outstanding value of all Hong Kong dollar debt securities rose by 10.4% over a year ago to \$776 billion⁽⁶⁾. This was equivalent to 24% of HK\$M3, or 19% of the Hong Kong dollar-denominated assets of the entire banking sector⁽⁷⁾. The majority of these outstanding debts were issued by the private sector and Multilateral Development Banks, while the remaining were mainly Exchange Fund papers and debt issued by the Government and statutory organizations.

4.13 In July, Fitch upgraded Hong Kong's long-term foreign-currency sovereign rating from "AA-" to "AA", attributing the upgrade to Hong Kong's strong external financial position, improving public finance, high level of fiscal reserves and a credible linked exchange rate system. This was followed by Moody's raising the Hong Kong Government's long-term foreign- and domestic-currency bond ratings from "Aa3" to "Aa2" with "Stable" outlook, and Standard & Poor's revising Hong Kong's ratings outlook from "Stable" to "Positive."⁽⁸⁾ While the above development reflects wide recognition for Hong Kong's strong economic fundamentals and improving public finance, it would also help to lower the borrowing costs for Hong Kong companies and thus favourable for economic expansion.

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

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

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

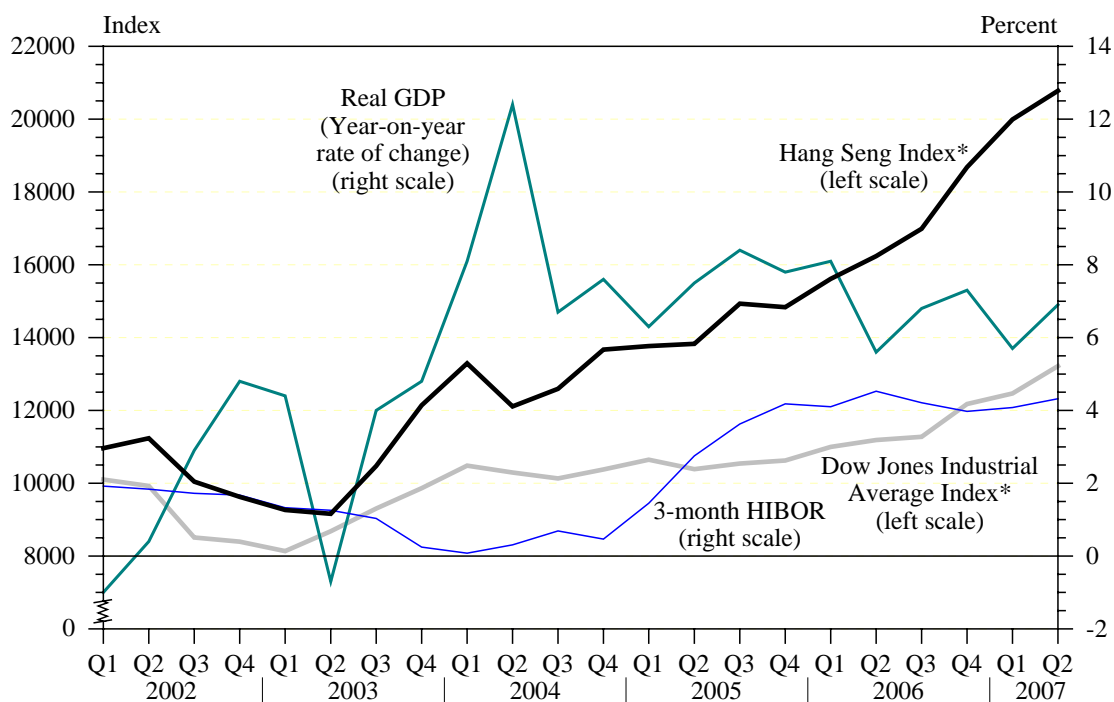
(a) AIs : Authorized Institutions.

(b) MDBs : Multilateral Development Banks.

The stock and futures markets

4.14 After a short-lived consolidation towards the end of the first quarter, the local stock market regained its strong momentum during the second quarter. The Hang Seng Index rose near the 22 000 level towards the end of the second quarter and subsequently even broke the 23 000 mark in mid-July. The positive sentiment from the intensive IPO activities in April, the generally buoyant world stock market during the quarter, and the announcement of further relaxation of the QDII, were all positive factors behind the rise. Trading activities were also hectic, with a record average daily turnover of \$66 billion in the second quarter.

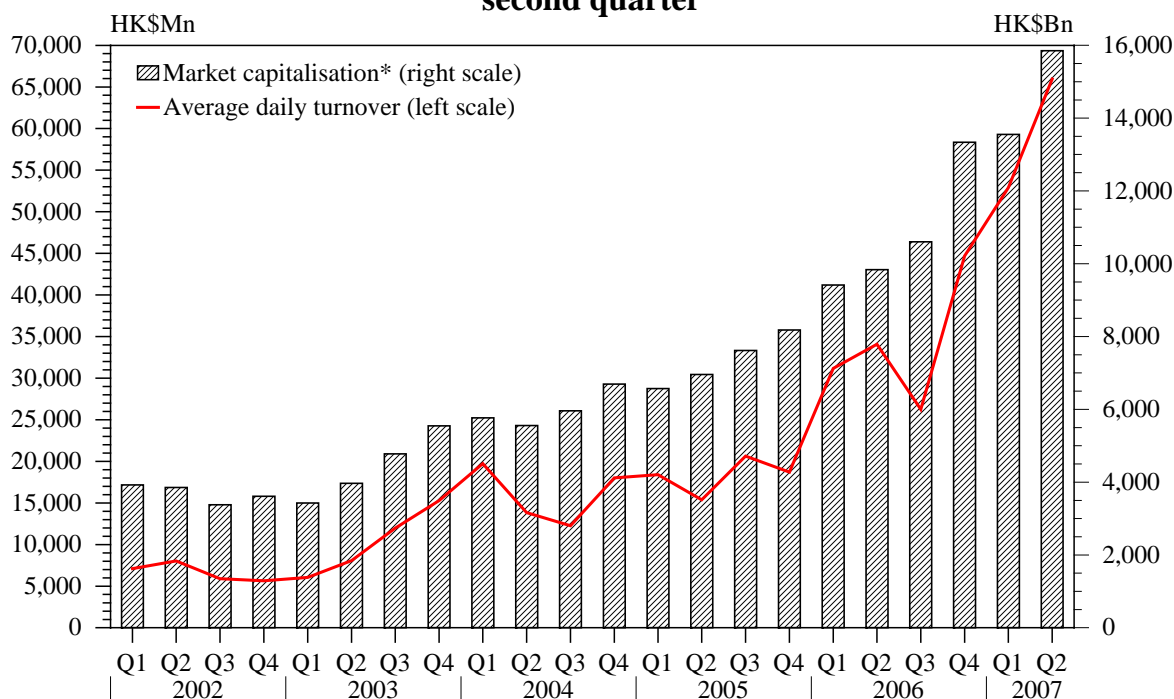
Diagram 4.6 : Stock market regained strong momentum in the second quarter



Note: (*) Period average figures.

4.15 The market capitalisation surged to another fresh record high of \$15,855 billion at end-June 2007 (comprising \$15,704 billion in the Main Board and \$150 billion in the Growth Enterprise Market (GEM)), up 17.0% from the end of March. This reflected the large number of new listings, particularly in April, and the rallying stock prices. According to the World Federation of Exchanges⁽⁹⁾, at end-June 2007, the Hong Kong stock market was the sixth largest in the world and second largest in Asia in terms of market capitalisation. In the second quarter of 2007, fund raising activities through new share floatation and post-listing in the Main Board and the GEM remained vibrant, with the amount of fund raised attaining \$123.8 billion⁽¹⁰⁾. Meanwhile, Hong Kong is ranked seventh by the World Federation of Exchanges in terms of total equity fund raised in the first six months of 2007 among all major exchanges in the world.

Diagram 4.7 : Both total market capitalisation and average daily turnover in the Hong Kong stock market surged to new highs in the second quarter



Note: (*) Position at end of quarter.

4.16 The premier position of Hong Kong as a fund-raising centre for the Mainland enterprises is well maintained. In the second quarter of 2007, the Mainland enterprises raised a total of \$82.2 billion from the Hong Kong stock market, taking up 66% of the total equity raised during the period. Since January 1993, \$1,597 billion of capital had been raised by Mainland enterprises in the Hong Kong stock market, accounting for 56% of the total funds raised. At end-June 2007, there were 377 Mainland enterprises (including 143 H-share companies, 91 “Red Chips” companies and 143 private enterprises) listed on the Hong Kong stock market, accounting for 32% of the total number of listed companies. The market capitalisation of these Mainland enterprises reached \$8.4 trillion, which continued to account for more than half of the total market capitalisation of the Hong Kong stock market. In the second quarter, 64% of equity turnover in the stock market was contributed by trading of the above Mainland-related stocks.

4.17 While the trading activities in the equity market had been hectic in the second quarter, *derivatives trading* also continued to surge. This also reflected the increasing popularity to use derivatives as a risk management tool. The average daily turnover of all kinds of derivatives contracts rose considerably in the second quarter of 2007 when compared to the same quarter last year⁽¹¹⁾.

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

		<u>Hang Seng Index Futures</u>	<u>Hang Seng Index Options</u>	<u>H-shares Index Futures</u>	<u>Stock Options</u>	<u>Stock Futures</u>
2006	Annual	51 491	16 582	19 759	73 390	413
	Q1	46 638	14 287	17 436	61 863	163
	Q2	54 535	17 141	22 703	65 038	299
	Q3	50 281	16 671	16 670	66 836	553
	Q4	54 770	18 278	22 564	100 169	628
2007	Q1	61 184	30 495	31 059	124 662	2 448
	Q2	62 301	31 774	34 783	137 742	824
% change over a year earlier		14.2	85.4	53.2	111.8	175.6

Fund management and investment funds

4.18 Fund management industry in Hong Kong showed rapid growth in recent years as Hong Kong has now developed as a major asset management centre in Asia (See **Box 4.1**). In the second quarter of 2007, gross retail sales of *mutual funds*⁽¹²⁾ amounted to US\$11,383 million, further surging from the previous high of US\$9,183 million in the first quarter. Funds managed under the *MPF schemes* likewise continued to increase in the second quarter of 2007. The aggregate net asset value of the approved constituent funds rose to \$229.9 billion at end-June 2007, from \$211.2 billion at end-March 2007⁽¹³⁾. There was also further expansion in retail hedge funds business in the second quarter⁽¹⁴⁾.

Insurance

4.19 Business activities for the insurance industry⁽¹⁵⁾ saw further expansion in overall terms in the first quarter of 2007. The softness of general business was more than compensated by the continual rapid growth in long-term business, which has increasingly become the mainstay of the whole insurance business as the individuals are more enthusiastic about their retirement planning and risk management.

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

	<u>General business :</u>			<u>Premium for long-term business# :</u>					Gross premium from long-term business and general business
	<u>Gross premium</u>	<u>Net premium</u>	<u>Underwriting profit</u>	<u>Individual life and annuity (non-linked)</u>	<u>Individual life and annuity (linked)</u>	<u>Other individual business</u>	<u>Non-retirement scheme group business</u>	<u>All long-term business</u>	
2006 Q1	6,795	4,881	637	4,868	7,284	37	52	12,241	19,036
Q2	5,337	3,951	723	5,360	9,195	41	38	14,634	19,971
Q3	5,894	4,024	674	4,792	6,630	58	45	11,525	17,419
Q4	5,248	3,731	845	5,908	9,019	67	24	15,018	20,266
Annual	23,274	16,587	2,879	20,928	32,128	203	159	53,418	76,692
2007 Q1	6,792	4,904	411	5,982	10,122	62	45	16,211	23,003
% change from 2006 Q1 to 2007 Q1	*	0.5	-30.8	22.9	39.0	67.6	-13.5	32.4	20.8

Note: (#) Figures refer to new businesses only. Retirement scheme businesses are excluded.
 (*) Change of less than 0.05%

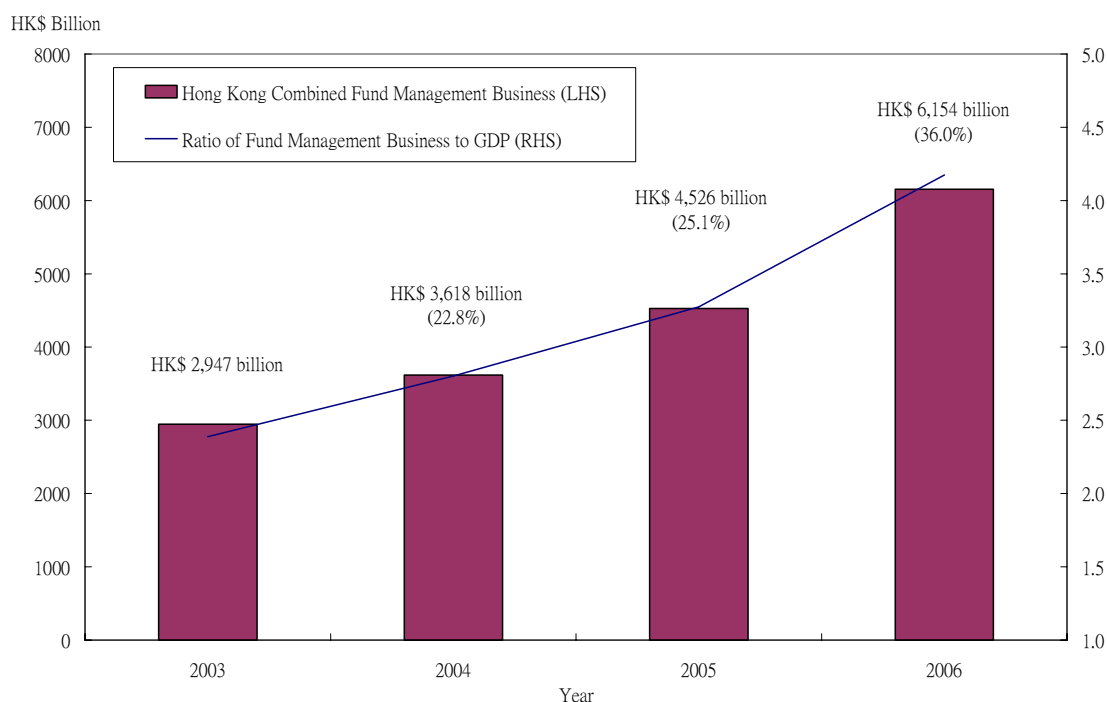
Box 4.1

Asset Management Industry in Hong Kong

The demand for asset management services rose considerably in recent years, as rapid global economic growth and the continual increase in asset prices created a surge in the number of wealthy individuals as well as the amount of wealth commanded by them. As it is generally perceived that asset management services can be of high value-added, both at the individual level and to the aggregate economy, it is of interest to see how the asset management industry fare in Hong Kong recently, both in terms of its contribution to the Hong Kong economy and its standing in global perspective.

Undisputedly, Hong Kong has now developed into a major asset management centre in Asia. In the latest survey done by the Securities and Futures Commission (SFC)⁽¹⁾, as at end-2006, the Combined Fund Management Business⁽²⁾ amounted to HK\$6,154 billion (US\$791 billion), 4.2 times the GDP in 2006. The asset management industry had been on an increasingly rapid surge since 2003, when such a survey was first conducted. The size of the business at-2006 had been more than doubled as compared to end-2003, and recorded a year-on-year surge of 36.0%, even higher than the already strong growth of 25.1% at end-2005. (See *Chart 1*)

Chart 1: Rapid expansion in asset management business in Hong Kong



Note: Figures in brackets refer to the year-on-year growth rate in the respective year.

⁽¹⁾ Fund Management Activities Survey 2006 (July 2007).

⁽²⁾ Combined fund management business comprises fund management business and SFC-authorized real estate investment trusts (REITs) management business. Fund management business comprises asset management business, advisory business and other private banking business.

Box 4.1 (Con't)

The size of asset management business in Hong Kong also compared favourably with that of Singapore. According to latest similar survey done by the Monetary Authority of Singapore (MAS)⁽³⁾, the size of “assets under management” in Singapore amounted to around HK\$4,519 billion (US\$581 billion) as at end-2006. With the growth in Hong Kong being much faster than that in Singapore, the lead by Hong Kong considering the size of business has also widened.

The development in policy has also been favourable to the industry. The abolition of estate duty as effective from July 2005, has encouraged more people, including local, Mainland and overseas investors, to hold assets in Hong Kong, thereby conducive to the long-term development of Hong Kong’s asset management business and the financial sector at large. The recent relaxation on the scheme of Qualified Domestic Institutional Investors (QDII) and the signing of the Supplement IV to the Closer Economic Partnership Arrangement (CEPA) will further facilitate the affluent Mainland residents as well as cash-rich Mainland enterprises, which become increasing sizable in the backdrop of continued rapid economic growth in the Mainland, to make use of the asset management services in Hong Kong.

The buoyant performance of the Hong Kong asset management industry in 2006 had also been reflected in the meteoric rise in the revenue received by the industry. According to the Census and Statistics Department (C&SD), the Business Receipt Index for the industry soared by 52% in 2006 over 2005. Stepping into 2007, business receipts in this sector still enjoyed spectacular growth at 31% year-on-year in the first quarter (See **Chart 2**).

Chart 2: Business receipt for the asset management industry had been on the surge

(Year 2005 average = 100)



⁽³⁾ 2006 Singapore Asset Management Industry Survey (July 2007).

Box 4.1 (Con't)

The operating characteristics of the asset management industry and its contribution to the aggregate economy are also of interest to policy maker. Latest annual survey data covering year 2005 indicates that the industry is high value-added with relatively low labour intensity. The average number of persons engaged per firm was fewer than 20. Yet the labour productivity for the industry had been high, with the value added per person engaged in the industry hitting more than HK\$2 million per year. As a result, the employees in the industry enjoyed markedly higher remuneration. While most (85%) of the business receipt came from rendering portfolio management and financial advisory services, the profit margin was also distinctly high, at around 31%.

The asset management industry should continue to flourish in the years ahead. On the top of the enormous business opportunities stemming from wealthy individuals and cash-rich enterprises in the Mainland as mentioned in previous paragraph, Hong Kong is in particular appealing to international investors seeking to tap into the rapidly growing Mainland market, as Hong Kong has accumulated ample experience and expertise in asset management over the years. The Hong Kong SAR Government also adopts multi-pronged measures to ensure the development of asset management business in Hong Kong. These include measures that enhance market development and facilitate innovation of investment products, tax measures, promotion work to overseas investors, as well as human resources development.

Notes :

- (1) At present, the Base Rate is set at either 150 basis points above the prevailing US Fed Funds Target Rate or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever is higher.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average costs of funds of banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

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

- (4) The various definitions of the money supply are as follows:
 - M1 : notes and coins with the public, plus customers' demand deposits with licensed banks.
 - M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.
 - M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

Among the various monetary aggregates, more apparent seasonal patterns are found in HK\$M1, currency held by the public, and demand deposits.

- (5) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2007, there were 140 licensed banks, 30 restricted licence banks and 31 deposit-taking companies in Hong Kong. Altogether, 201 authorized institutions (excluding representative offices) from 32 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposits (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.

- (8) Moody's also upgraded the Mainland government's long-term foreign currency bond rating by one notch to "A1" simultaneously, while Standard & Poor's also revised the Mainland's rating outlook from "Stable" to "Positive".
- (9) The ranking is sourced from the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 55 stock exchanges, covering almost all globally recognised stock exchanges.
- (10) At end-June 2007, there were 1 002 and 194 companies listed on the Main Board and GEM respectively.
- (11) At end-June 2007, there were 45 classes of stock options contracts and 44 classes of stock futures contracts.
- (12) These figures are sourced from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorized funds that have responded to the survey. To provide a more accurate picture of the retail fund market in Hong Kong, the survey has been revamped, with effect from 2005, such that it would cover only retail transactions (including switching) and exclude institutional transactions. At end-June 2007, there were a total of 1 119 authorized-funds covered by the Survey.
- (13) There were 19 approved trustees at end-June 2007. On MPF products, 34 master trust schemes, two industry schemes and two employer-sponsored schemes, comprising altogether 315 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 237 000 employers, 2.07 million employees and 283 000 self-employed persons have participated in MPF schemes.
- (14) There were 14 retail hedge funds authorised by the Securities and Futures Commission (SFC) and the net asset size of SFC-authorized hedge funds rose further to US\$1.74 billion as at end-June, up by 2.4% from US\$1.70 billion at end-March. The net asset size at end-June 2007 was more than 10 times larger than that as at end-2002, the year when the hedge funds guidelines were first issued
- (15) As at end-June 2007, there were 180 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 116 in general insurance business, and 18 in composite insurance business. These authorized insurers come from 24 countries and territories (including Hong Kong)

CHAPTER 5 : THE LABOUR SECTOR

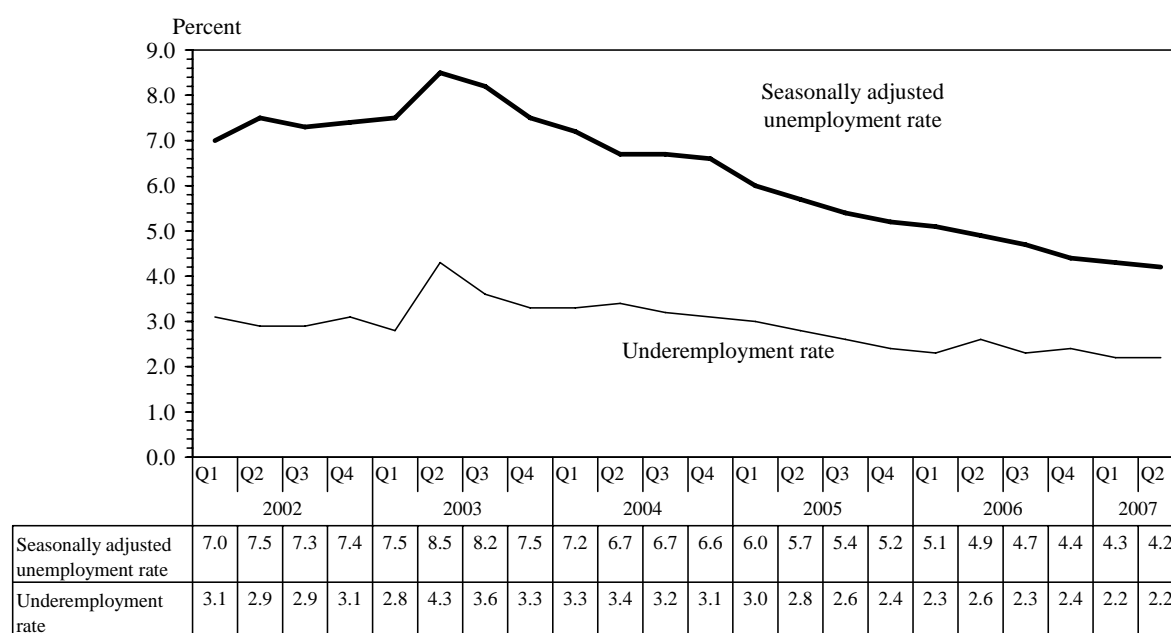
Summary

- *The overall employment situation improved further in the second quarter of 2007, led by strong labour demand which largely absorbed the concurrent expansion in labour supply.*
- *Both the labour force and total employment reached new highs at 3.64 million and 3.49 million respectively, while the seasonally adjusted unemployment rate edged further down to 4.2%, the lowest level since mid-1998. Job vacancies in the corporate sector also surged to a post-1997 high for the month of March.*
- *Overall labour earnings continued to register a moderate increase in early 2007, although considerable variations still existed among different economic sectors and occupations.*

Overall labour market situation

5.1 The labour market continued to fare well in the first half of 2007, especially during the second quarter when labour demand showed a renewed pick-up in growth momentum. Total employment rose to an all-time high of 3.49 million alongside the sustained economic upswing. This largely offset the expansion in labour supply, which was mainly caused by a usual influx of fresh graduates and school leavers into the labour market during the summer months. As a result, the number of unemployed persons showed a modest increase of 3 200 between the first and second quarters to 155 700. After discounting the influence of seasonal factors, the *seasonally adjusted unemployment rate*⁽¹⁾ actually edged down further from 4.3% to 4.2%, the lowest level in more than nine years. Meanwhile, the underemployment rate⁽²⁾ held steady at 2.2%.

Diagram 5.1 : Both the unemployment and underemployment rates edged down during the first half of 2007



Total employment and labour supply

5.2 *Total employment*⁽³⁾ hit an all-time high of 3 485 000 in the second quarter of 2007, up by 0.7% over the preceding quarter. Extensive employment gains were observed in many service sectors, including in particular business services, insurance, the import/export trades, and domestic and miscellaneous personal services. These gains more than offset the losses seen in the transport, amusement and recreational services, and decoration and maintenance sectors. Since most of the employment growth occurred at the upper end of the labour market, workers with better skills and higher education attainment were the ones benefiting more from such a development. In terms of year-on-year change, total employment had an even more notable expansion of 3.4%, faster than the 2.1% growth in 2006.

5.3 *Labour supply*⁽⁴⁾ likewise reached a record high of 3 640 700 in the second quarter of 2007, representing an increase of 0.8% over the first quarter. Apart from continued growth in the population of working age, a bounce-back in the labour force participation rate from 61.2% to 61.4% was the primary contributory factor. The increase in labour supply was concentrated in the service sectors notably the import/export trades, business services, insurance and welfare services, as well as among females particularly those aged 50 or above. Conceivably, more housewives had been tempted into the labour force in the more recent months, along with the revival of business activity from the temporary lull immediately after the Lunar New Year holidays. Compared

with a year earlier, the labour force grew by 2.7% in the second quarter of 2007, much exceeding the 1.2% increase in 2006.

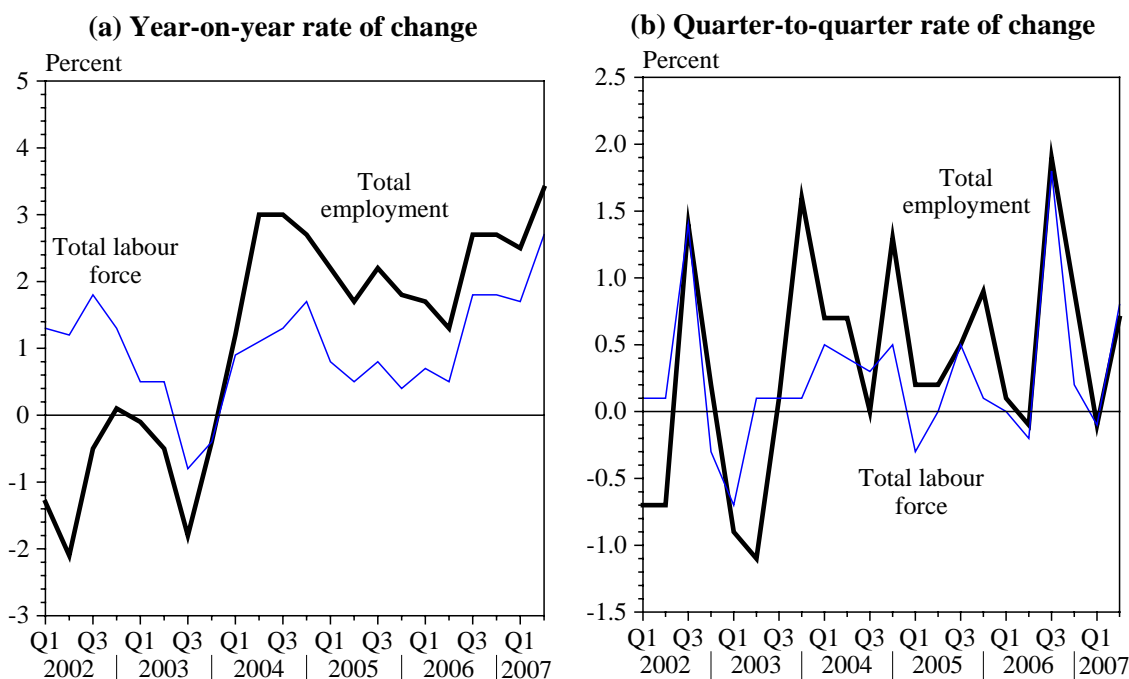
Table 5.1 : The labour force, and persons employed, unemployed and underemployed

	<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed</u> ^(a)	<u>Persons underemployed</u>
2006 Annual	3 581 400	(1.2)	3 410 200	(2.1)	171 200	86 200
Q1	3 552 400	(0.7)	3 374 900	(1.7)	177 500	80 100
Q2	3 546 100	(0.5)	3 369 900	(1.3)	176 200	93 000
Q3	3 610 600	(1.8)	3 433 100	(2.7)	177 500	84 000
Q4	3 616 500	(1.8)	3 462 900	(2.7)	153 600	87 500
2007 Q1	3 611 900	(1.7)	3 459 400	(2.5)	152 500	80 600
<i>Three months ending</i>						
Apr	3 618 300	(2.0)	3 462 000	(2.7)	156 300	77 600
May	3 630 600	(2.3)	3 475 100	(2.8)	155 500	79 600
Jun ^(b)	3 640 700	(2.7)	3 485 000	(3.4)	155 700	81 200
		<0.8>		<0.7>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 (b) Provisional figures.
 () Year-on-year % change.
 < > % change between Q1 and Q2 (i.e. Apr-Jun).

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Employment growth still outpaced labour supply growth on a year-on-year basis in Q2 2007



Profile of unemployment

5.4 The unemployment situation was broadly stable, as changes on the labour supply and demand sides virtually cancelled each other out. The seasonally adjusted unemployment rate edged down from 4.3% in the first quarter of 2007 to 4.2% in the second quarter, the lowest level recorded since mid-1998. Concurrently, the number of unemployed persons rose only modestly from 152 500 to 155 700. This increase was partly attributable to a new batch of fresh graduates and school leavers entering the labour market, as borne out by an upsurge in the proportion of first-time job-seekers in the total numbers unemployed from 4.2% to 7.8%, as well as by a jump in the unemployment rate for persons with upper secondary and matriculation education. Yet on the other hand, the number of long-term unemployed persons (i.e. those unemployed for six months or longer) kept decreasing, from 42 100 to 37 200 between the two quarters. When compared with a year earlier, both total unemployment and long-term unemployment were down noticeably by 11.7% and 19.3%. Analysed by economic sector and on a quarter-to-quarter comparison, business services, insurance, hotels and education services were the ones where more visible declines in unemployment rate were observed. These improvements came primarily as a result of increased creation of new jobs. Whereas the unemployment rate also moved lower in construction and sanitary services, this was mainly due to a shrinkage on the labour supply side. Analysed by other attributes, persons aged 40-59, those with lower secondary education or below, and those engaged as craft and related workers, clerks and professionals generally faced larger reductions in unemployment rate over the period.

Diagram 5.3 : Unemployment rate* declined across almost all the major economic sectors

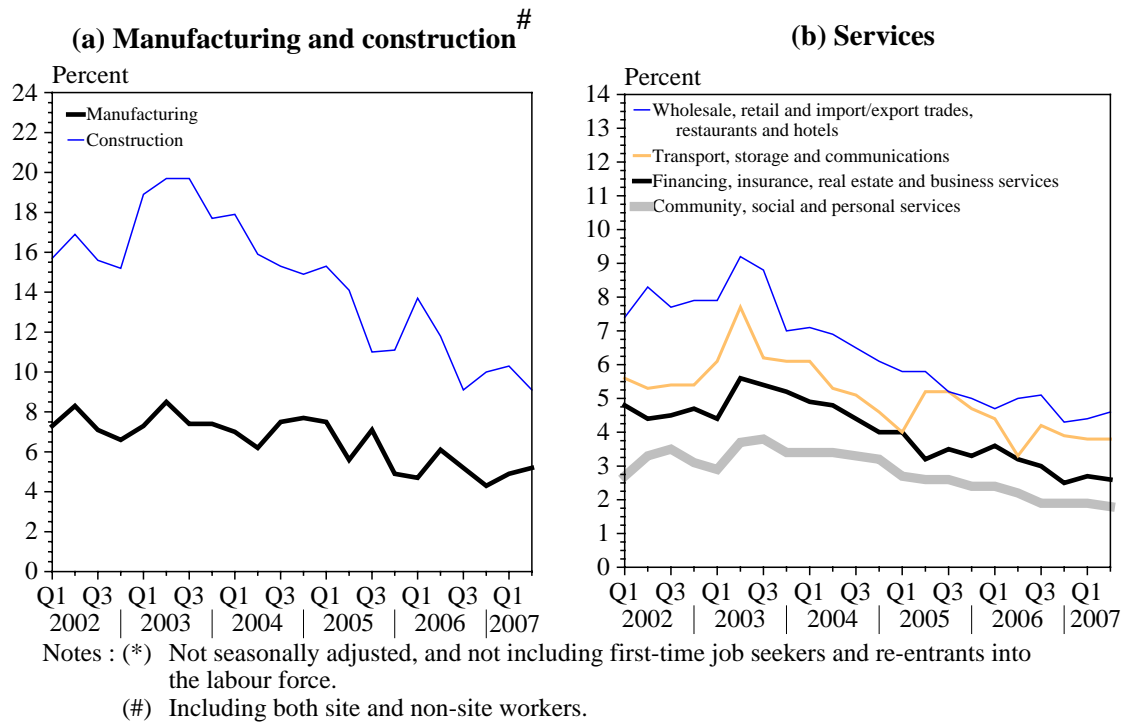


Diagram 5.4 : Unemployment rates* of higher-educated workers went up as school leavers and summer workers entered the labour market, whereas those of less-educated worked moved down

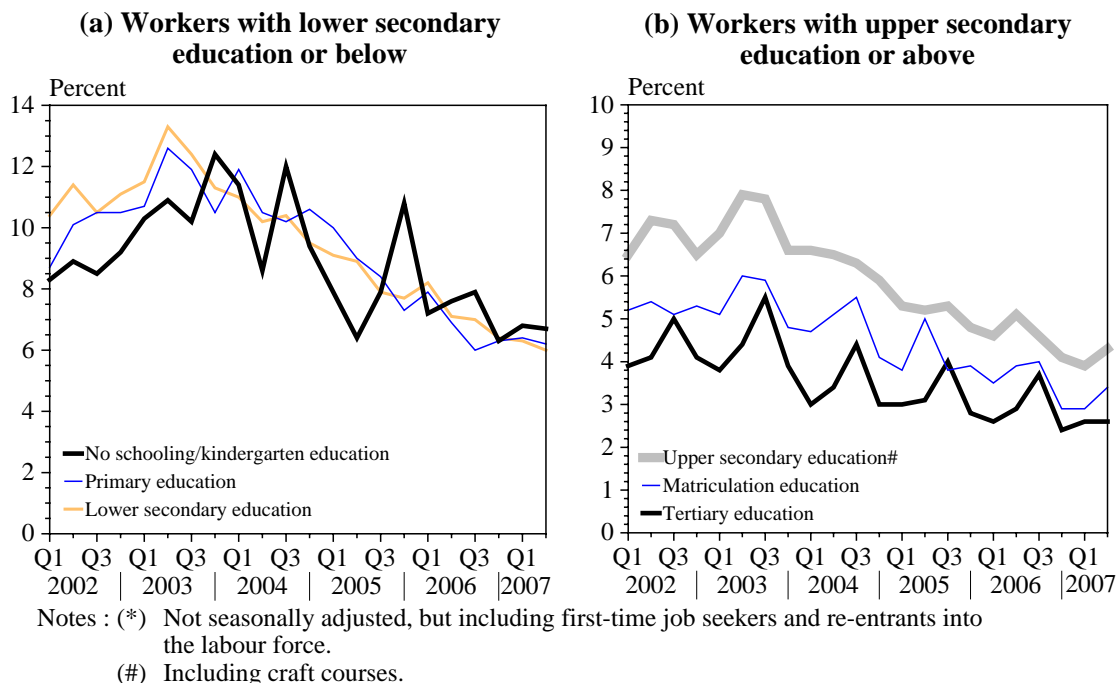
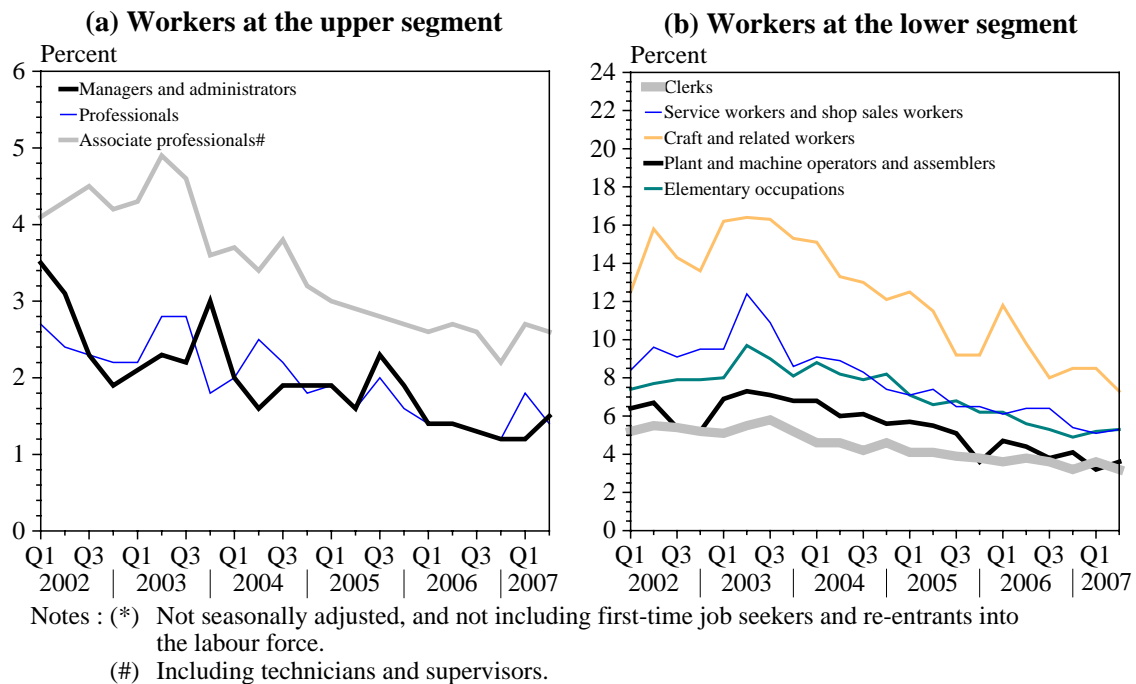


Diagram 5.5 : Unemployment rates* of lower-skilled workers generally fell, although they remained distinctly above those of higher-skilled workers



Profile of underemployment

5.5 The underemployment situation also held steady between the first and second quarters of 2007. The underemployment rate stood at 2.2% in both quarters, though having touched a nine-year low of 2.1% in the intervening three-month period ending April. In terms of numbers underemployed, there was only a slight increase of 600 between the two quarters to 81 200. Whilst increases in underemployment rate were found in the foundation and superstructure construction, and amusement and recreational services sectors, as well as among craft and related workers, these were mostly offset by the decreases seen in sanitary services, manufacturing, transport and the retail trade, as well as among plant and machine operators and assemblers and workers in elementary occupations.

Box 5.1

Recent employment situation of new immigrants⁽¹⁾ from the Mainland of China

The Mainland of China is the largest source of immigrants for Hong Kong. Since the One-way Permit (OWP) Scheme was launched in 1982, a total of nearly 1 million Mainland immigrants have been admitted through this route. In terms of new arrivals from the Mainland, the 2006 Population By-census revealed a figure of 217 100 for those who had arrived and settled in Hong Kong for less than seven years. Among these Mainland arrivals (MA)⁽²⁾, about a half, comprising predominantly middle-aged women, were economically active within the local workforce.

Education attainment of recent Mainland arrivals

In 2006, the 217 100 MA accounted for 3.2% of the total population in Hong Kong. Within this particular group of people, 69% were females, while 68% were aged between 15-64, with the remainder comprising younger ones aged 15 or below.

The data on population of working age⁽³⁾ showed that MA generally were less educated than their non-MA counterpart. The vast majority of MA attained secondary education or below. Only about 8% had post-secondary education, much smaller than the 23% for the entire population.

This notwithstanding, the education profile of MA had witnessed some improvement over the past decade. Reflecting this, the proportion of MA with secondary education or above increased from 70% in 1996 to 77% in 2006.

Table 1: Percentage share of working-age MA by education level

	1996	2001	2006
Primary or below	30.1 (32.1)	32.0 (28.9)	22.9 (25.4)
Secondary	59.2 (52.7)	62.3 (54.7)	69.2 (51.6)
Post-secondary	10.7 (15.2)	5.7 (16.4)	7.9 (23.0)

Note: Figures in brackets denote the respective percentage shares in the whole working-age population.

Participation in the labour force

Of all MA in the working-age population, over half (54%) were economically inactive, comprising mostly home-makers and students. The remainder (46%) participated in the labour market. They accounted for just about 2.0% of the total labour force.

(1) Refer to those Mainlanders who have arrived and resided in Hong Kong for less than seven years and are of Chinese nationality with place of domicile in Hong Kong.

(2) According to the "resident population" approach, Hong Kong Non-permanent Residents are covered only if they are present in Hong Kong at the reference moment of the enumeration. Hence, OWP holders who are not yet Hong Kong Permanent Residents are not covered if they are not in Hong Kong (e.g. temporarily away from Hong Kong) at the reference moment. Unless stated otherwise, all the figures presented hereafter are compiled from the Population Census or By-census.

(3) The figures quoted in the subsequent analysis relate to the population of working age for MA (i.e. persons aged 15 or above).

Box 5.1 (cont'd)

With most of the MA being home-makers and students, it was not surprising that the labour force participation rate (LFPR) for these newcomers was consistently below that for the whole population by a wide margin. In 2006, LFPR for MA was 45.7%, distinctly lower than 60.7% for non-MA and 60.3% for the total labour force. Also worth noting was that the trend of male LFPR for MA largely resembled that for their non-MA counterpart viz. the two LFPRs both declined over the period 1991-2006. Yet for females, whereas LFPR for non-MA went up from 49.4% to 52.8%, that for MA moved down from 53.4% to 41.5% as a greater proportion of the new arrivals comprised housewives and home-makers.

Labour force participation rates by gender



Occupation categories and employment earnings

Among those MA who were economically active in 2006, 63 900 were in employment. They accounted for 1.9% of the total numbers employed. Most of these people (82%) were engaged in lower-skilled jobs, mainly as service workers and shop sales workers and workers in elementary occupations. The ratios of these two lower-end occupations for MA, at 38% and 32% respectively, were distinctly higher than those for non-MA, at 16% and 19%.

On labour income, the median employment earnings of MA stayed at around \$6,000 both in 2001 and 2006. These were markedly lower than the median figures recorded for non-MA and the total workforce, both at \$10,000 in the two years. Even for some lower-skilled job categories, the employment earnings between MA and non-MA might differ considerably. For instance, the median employment earnings for MA as service workers and shop sales workers, at \$6,400, were 25% below those for non-MA, at \$8,500. Meanwhile, the median employment earnings for MA as workers in elementary occupations were broadly on a par with those for non-MA, at around \$5,000, though.

Impact on overall employment

Generally speaking, MA have been constrained in the local labour market by their lower education and skill levels and limited social network. Nevertheless, the situation can be expected to improve over time, as these newcomers acquire more knowledge and experience and become more integrated into the community.

Given that MA constitute only a minor share of the labour force aggregates in Hong Kong, it seems unlikely that their movements will have too much impact on the overall labour market situation. The occasional allegations in some quarters that the entry of MA has led to a serious worsening in Hong Kong's employment situation are deemed as grossly over-exaggerated.

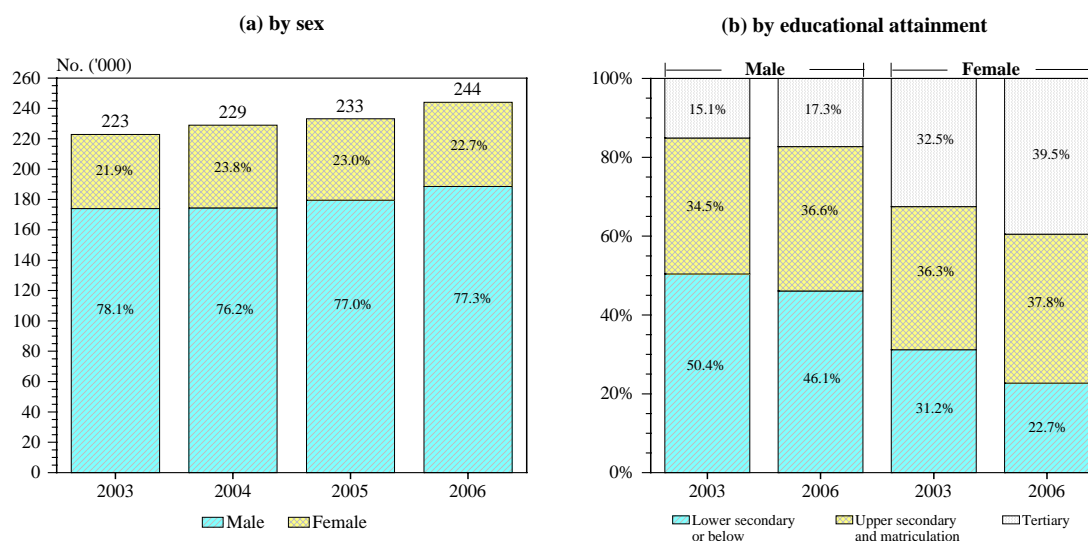
Box 5.2

Self-employment situation since 2003⁽¹⁾

Overall situation⁽²⁾

The number of people in self-employment rose from 222 900 in 2003 to 244 100 in 2006, in tandem with the improvement in overall employment situation. Their share in the total workforce however changed little, hovering at around 7.4-7.6% during the period.

Self-employment on a modest uptrend



Self-employment by sex and age

In 2006, 188 600 males and 55 500 females were self-employed persons (77.3% and 22.7% respectively of the total), up from 174 000 (78.1%) and 48 900 (21.9%) in 2003. Within the self-employed population, males generally had older age and lower education attainment than females. More specifically for males, the proportion of self-employed with tertiary education or above was 17.3% in 2006, distinctly smaller than that of 39.5% for females. This notwithstanding, the education levels of both sexes had improved over the past several years, at a pace faster than the total workforce. Analysed by age, people in the middle-age bracket of 35-59 accounted for nearly three-quarters (72.0%) of self-employment, far exceeding the corresponding share of 61.4% for total employment. These were the ones with better experience, work contacts and connections, which enabled them to take more risks as self-employed on more flexible terms. Also noteworthy was that about one-fifth (21.0%) of self-employed persons were working part-time, mostly on a voluntary basis. This was again larger than the share of 14.1% for the total workforce. Female workers, in particular, had a greater tendency to become part-timers, with as much as 35.7% of self-employed women being in such a status.

The 35-59 age group dominated the self-employment scene

Age groups	2001	2002	2003	2004	2005	2006
15-34	19.8%	19.2%	19.1%	20.4%	19.3%	19.5%
35-59	72.1%	72.5%	72.5%	71.7%	72.8%	72.0%
60+	8.1%	8.3%	8.5%	7.9%	7.9%	8.5%
Total	100%	100%	100%	100%	100%	100%

(1) A self-employed person is defined as one who, in his/her main employment (the job on which he/she spent most of his/her time at the time of enumeration), worked for profit or fees in his/her own business/profession and was neither employed by someone nor employing others.

(2) Foreign domestic helpers are excluded from this analysis.

Box 5.2 (cont'd)

Education attainment and occupation category

Of the total number of self-employed persons in 2006, 36.5% were in the higher-skilled category, up from 31.0% in 2003. Concurrently, the share of lower-skilled workers decreased from 69.0% to 63.5%. This trend was particularly apparent among females, for whom a notable reduction in lower-skilled work went hand in hand with the progressive upgrading in their education levels over the years. In terms of occupational profile, nearly one-third of males were self-employed as drivers and mobile machine operators in land transport activity, plausibly as taxi and truck drivers. As for females, a significant proportion of them worked as legal, accounting, business and related associated professionals like insurance advisers and agents, as well as own-account suppliers of a wide range of personal and professional services. Whereas a considerable proportion of females were also engaged as salespersons and models in the retail trade, the relevant share showed some decline over the period.

Share of top 3 occupation and industry subgroups among self-employed males, 2003 to 2006

<u>Occupation – industry</u>	2003	2006
(1) Drivers and mobile machine operators – Land transport	32.2%	32.0%
(2) Legal, accounting, business and related associate professionals – Import/Export trade and Insurance	13.8%	13.7%
(3) Extraction and building trades craftsmen – Construction	11.3%	11.3%

Share of top 3 occupation and industry subgroups among self-employed females, 2003 to 2006

<u>Occupation – industry</u>	2003	2006
(1) Personal and protective services workers – Domestic and miscellaneous services	22.9%	23.2%
(2) Legal, accounting, business and related associate professionals – Insurance and Import/Export trade	19.1%	22.0%
(3) Salespersons and models – Retail trade	21.5%	14.6%

Earnings of self-employed

Comparing 2006 with 2003, the median earnings of self-employed persons witnessed an across-the-board increase, whether in terms of gender, skill level or contractual arrangements. In 2006, the median earnings of these people engaging in higher- and lower-skilled jobs were \$13,000 and \$7,800 respectively, up from \$11,000 and \$7,000 in 2003. Meanwhile, the median employment earnings for all the higher-skilled and lower-skilled workers in the labour market were virtually static, at \$20,000 and \$8,000. Thus, by 2006 the earnings gap between the self-employed and other workers at the lower end had largely disappeared, while that at the upper end had progressively narrowed. The improved income for self-employed persons was probably one of the major reasons for increased self-employment in recent years.

Concluding remarks

There has been an increasing trend of workers at older age and with better skills and experience taking up self-employed jobs on a freelance basis since 2003, when such employment opportunities became increasingly available alongside the economic recovery. Concurrently, more and more females at younger age and with higher education levels joined in, say, as insurance advisers and agents. Apart from the economic ups and downs, some structural or institutional factors like implementation of the Mandatory Provident Fund Scheme since December 2000, the changing work arrangements in some trades and industries, etc. also played an important part in getting more people to become self-employed. Another development worth noting was that self-employment increased in number not only during the current phase of economic recovery, but also during the preceding economic downturn when more housewives and retrenched middle- to older-aged employees turned into self-employed workers to tide over the difficulties. To that extent, self-employment had helped to cushion the blow brought about by the economic setback to the local workforce.

Profile of employment in establishments

5.6 Comparing March 2007 with a year earlier, employment in *private sector establishments* grew by 2.1%. The services sector remained the principal engine of employment growth, with the job gains outweighing the losses seen in the manufacturing sector and at building and construction sites⁽⁵⁾. Employment growth was particularly visible in the financing, insurance, real estate and business services; restaurants and hotels; and community, social and personal services sectors, as the sustained economic growth and rising incomes had the effect of whetting the general appetite for consumer goods and services as well as for financial and other assets. Meanwhile, the number of workers at building and construction sites dropped by 8.3%. This largely reflected the continued absence of major new projects in the public and private sectors. Employment in local manufacturing firms also fell by 1.7%, albeit smaller than the 2.5% decline in 2006. Analysed by size of establishment, small and medium-sized enterprises (SMEs)⁽⁶⁾ played a more prominent role in employment creation than previously, contributing about half of the job gains over the past year.

5.7 Civil service employment remained on the decrease. In March 2007, the number of civil servants was 0.8% fewer than a year earlier. However, the recent lifting of the general open recruitment freeze as from 1 April should help to arrest, if not reverse, the prolonged downtrend established since the second half of 1999.

Table 5.2 : Employment by major economic sector

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

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

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

(b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in Hong Kong Economic and Trade Offices abroad, and other Government employees such as non-civil service contract staff are not included.

() % change over a year earlier.

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

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

Vacancies

5.8 Vacancies in *private sector establishments* increased by 8.3% over a year earlier to 49 300 in March 2007, hitting a post-1997 high for that particular month. The vacancy rate likewise edged up, to 2.0%. The new job opportunities were mainly concentrated in the service sectors, where more notable gains were recorded in community, social and personal services; financing, insurance, real estate and business services; and restaurants and hotels. The manufacturing sector also posted a strong vacancy growth, although the absolute numbers involved were relatively moderate. When the unemployment figures were brought in for comparison, this gave a ratio of 32 job vacancies per 100 job-seekers in March 2007, up from 26 a year ago. While the corresponding ratio for lower-skilled jobs increased from 18 to 24, that for higher-skilled jobs rose only marginally from 81 to 82. This was owing to a much faster growth in job openings at the lower end than at the upper end, by 11.9% as against 4.1%, indicating that the sustained and broad-based economic upturn had increasingly trickled down to the lower segment of the labour market. Analysed by size of establishment, SMEs were the primary source of new vacancies in March 2007, as manifested by a leap of 15.8% over a year earlier, much outpacing the 0.7% growth for large establishments. As regards the *civil service*, vacancies were reduced by 55.0% from a year earlier, but the actual numbers involved were still small at 1 200 in March 2007.

5.9 Statistics supplied by the Employment Services of the Labour Department provide a rough indication of the most recent changes in job vacancies. The figures showed that in the second quarter of 2007, the number of private sector job vacancies registered with the department reverted to a year-on-year increase of 8.8% to 130 045. On a working day basis, an average of over 2 200 vacancies was thus received. Meanwhile, the department achieved 33 110 placements in the second quarter, up by 3.6% over a year earlier.

5.10 In addition to regular employment services, the Labour Department has periodically arranged general or theme-specific job fairs at different locations. In the first half of 2007, 5 large-scale and 58 district-based job fairs were organised to facilitate job matching especially at the lower end of the labour market. The larger-scale job fairs were well attended by over 80 prospective employers, offering some 6 400 vacancies. The most recent one was held in Tuen Mun on 26-27 June. To cater for the new batch of young school leavers seeking to enter the labour market, the Labour Department has

pressed ahead with its two flag-ship youth employment programmes, namely the Youth Pre-employment Training Programme and the Youth Work Experience and Training Scheme. Joint application of the two programmes for 2007/08 has commenced on 25 July 2007.

Diagram 5.6 : Vacancies for March reached a post-1997 high, with larger increases observed for lower-end jobs

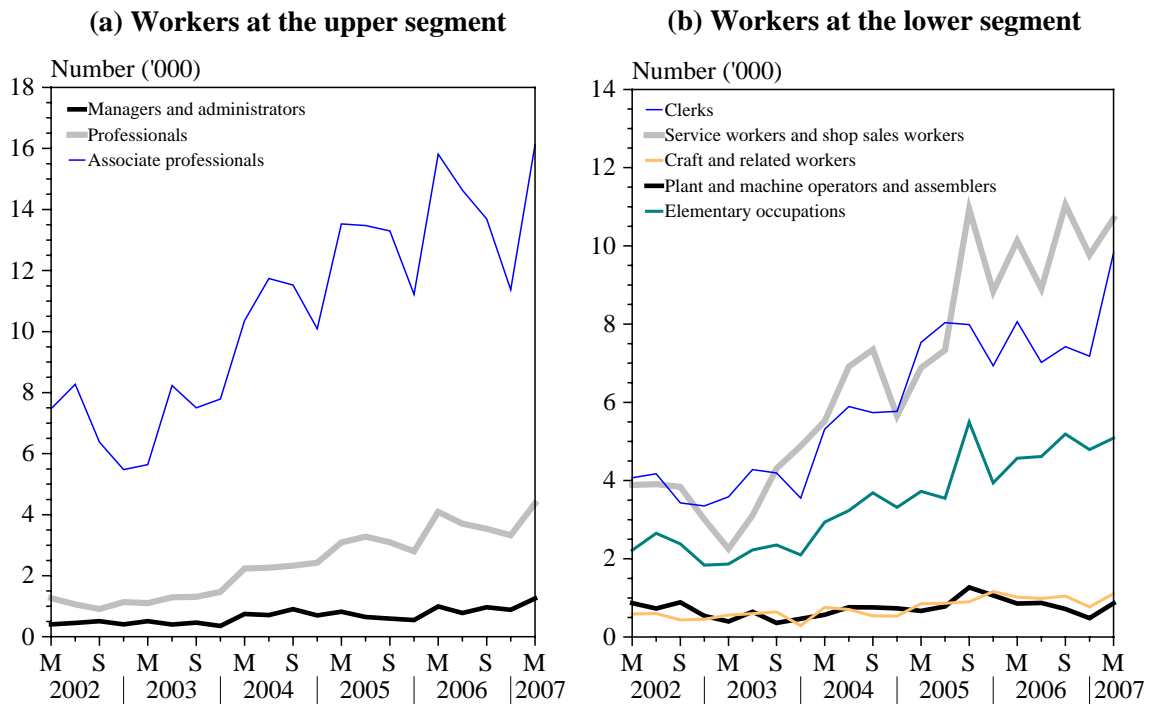


Table 5.3 : Vacancies by major economic sector

	<u>No. of vacancies</u>						Vacancy rate in Mar 2007 (%)
	<u>Annual average</u>	<u>2006</u>				<u>2007</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Wholesale, import and export trades	8 400 (-8.2)	10 600 (3.0)	8 300 (-10.8)	7 800 (-14.2)	6 800 (-12.9)	10 400 (-1.8)	1.7
Retail trade	4 300 (16.2)	4 800 (58.7)	3 800 (17.4)	4 400 (-9.1)	4 200 (13.2)	5 100 (5.5)	2.2
Restaurants and hotels	4 200 (22.6)	4 000 (63.4)	4 000 (45.3)	5 000 (17.6)	3 700 (-11.3)	4 300 (6.8)	1.8
Transport and storage	2 000 (6.5)	2 000 (20.1)	2 200 (17.5)	1 800 (-19.6)	1 700 (17.5)	2 200 (7.1)	1.4
Communications	700 (0.8)	800 (93.0)	800 (52.6)	700 (-42.6)	700 (-15.4)	800 (3.0)	2.5
Financing, insurance, real estate and business services	12 300 (13.2)	13 600 (29.6)	12 300 (9.6)	12 800 (6.8)	10 500 (7.6)	14 600 (7.7)	2.9
Community, social and personal services	8 600 (20.7)	7 900 (15.6)	8 100 (13.3)	9 200 (15.1)	9 300 (40.6)	9 600 (22.3)	2.0
Manufacturing	1 900 (-6.4)	1 900 (-3.4)	2 000 (6.1)	1 900 (-3.7)	1 700 (-22.5)	2 400 (23.3)	1.5
Building and construction sites	# (-7.0)	# (66.7)	# (*)	# (*)	# (-23.8)	# (660.0)	0.1
<i>All establishments surveyed in the private sector^(a)</i>	42 300 (9.1)	45 500 (22.8)	41 500 (9.3)	43 600 (0.1)	38 600 (5.7)	49 300 (8.3)	2.0
		<2.5>	<-5.6>	<3.3>	<5.9>	<4.6>	
<i>Civil service^(b)</i>	2 500 (166.7)	2 600 (76.3)	2 500 (131.6)	2 900 (308.8)	2 100 (304.0)	1 200 (-55.0)	0.8

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

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

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. A general open recruitment freeze to the civil service was imposed during the period from 1 April 2003 to 31 March 2007. The civil service vacancies during this period refer only to the number of vacant posts for which exemptions from open recruitment freeze have been granted.

() % change over a year earlier.

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

(#) Less than 50.

(*) Less than 0.05%.

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

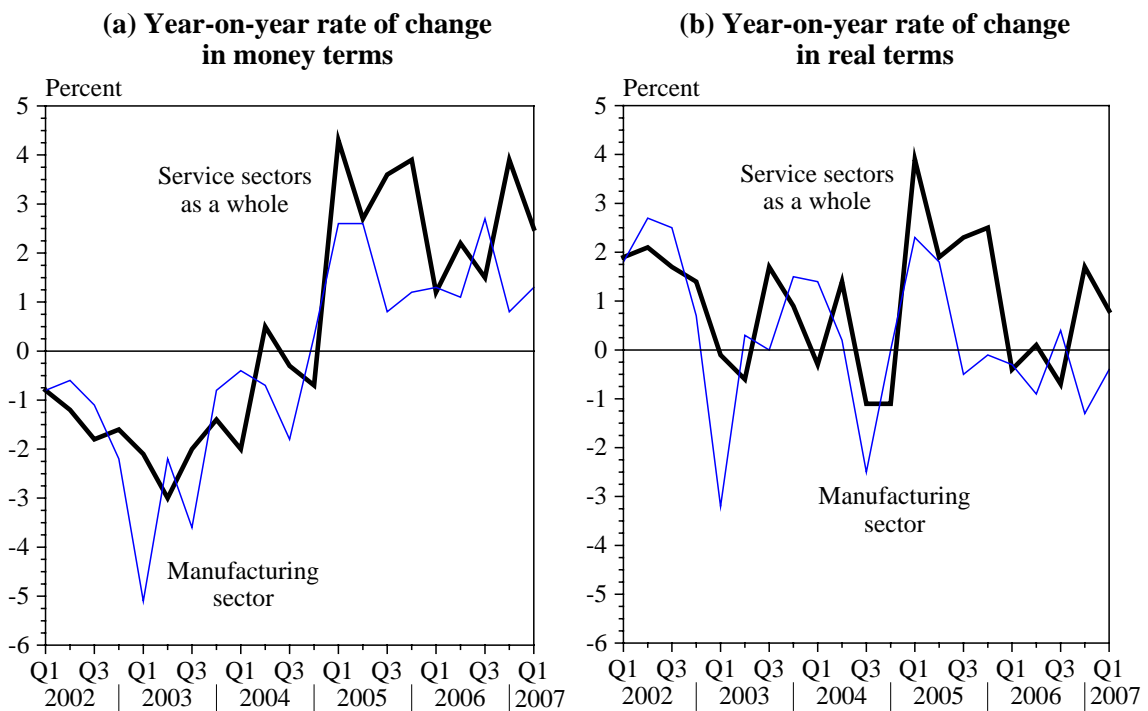
Earnings and wages

5.11 The uptrend in employment income, which began in early 2005, extended well into the first quarter of 2007. As an indicator, *labour earnings*⁽⁷⁾, measured by payroll per person engaged in the private sector, rose by 2.4% in money terms in the first quarter of 2007 over a year earlier, same as the increase in 2006. After adjusting for price change, labour earnings were higher by 0.7% in real terms⁽⁸⁾.

5.12 Increases in nominal pay were seen across-the-board in the first quarter of 2007. However, the magnitude of upward adjustment varied fairly widely among different sectors. Financial institutions, where a greater proportion of high-skilled personnel were found, continued to be the star-performer with their nominal payroll lifted by 11.7% year-on-year, almost five times the economy-wide average. This was attributable in part to a surge in discretionary bonus payments in the financial sector following the robust corporate results, and in part to the more competitive remuneration packages offered for attracting and retaining experienced professionals amid the rising staff turnover rate in the trade. For some of those service sectors with a large proportion of lower-skilled workers like restaurants and hotels; and transport, storage and communications, the payroll gains were also appreciable, though less substantial, at around 4%. By comparison, labour earnings in the local manufacturing sector exhibited a more modest rise by 1.3%.

5.13 The more up-to-date data from the General Household Survey pointed to a further improvement in overall employment earnings in the second quarter of 2007, albeit by a smaller magnitude of 0.6% year-on-year in money terms. This slowdown in income growth should however be viewed in conjunction with the notable increase in lesser-skilled and lower-paid workers over the past year, which tended to neutralise the boosting effect arising from the larger pay hikes for higher-skilled workers.

Diagram 5.7 : Nominal earnings maintained a modest rise in early 2007



5.14 *Labour wages*, as a measure of regular payments to employees at the supervisory level or below, recorded a year-on-year rise of 2.0% in money terms in March 2007 over a year earlier. After discounting the price change, wages showed little change with a minor decrease of only 0.2% in real terms.

5.15 Analysed by economic sector, nominal wages displayed a broad-based increase, same as the nominal payroll. Among the major economic sectors, personal services; and financing, insurance, real estate and business services were the ones having larger wage hikes, by 5.7% and 3.1% respectively over a year earlier. Meanwhile, the wholesale, retail and import/export trades; manufacturing; and restaurants and hotels experienced smaller upward revisions in wages by 1-2%. So did transport services, by only 0.3%. After discounting the effect of price change, increases in real wages were seen only in personal services; and financing, insurance, real estate and business services. In terms of occupation categories, supervisory and technical workers, together with service workers and craftsmen, received greater upward revisions in wages, by 3.0%, 2.2% and 2.1% respectively in money terms. They were also the groups enjoying steady to modestly higher wages in real terms.

Notes :

- (1) For a person aged 15 or above to be classified as unemployed, he or she should: (a) not have a job and not be performing any work for pay or profit during the reference period (i.e. seven days before enumeration); and (b) be available for work during the reference period; and (c) be seeking work during the 30 days before enumeration.

Notwithstanding the above, the following types of persons are also considered unemployed: (a) persons without a job, having sought work but not available for work because of temporary sickness; (b) persons without a job, available for work but not having sought work because they will take up new jobs or start business at a subsequent date, or expect to return to their original jobs; and (c) discouraged workers not having sought work because they believe work is not available to them.

Even at full employment, some frictional unemployment is bound to exist as workers move between jobs in order to obtain better terms of employment. The precise level of unemployment which can be described as purely frictional varies amongst economies, depending on the structure and characteristics of their labour markets.

In April 2001, the Census and Statistics Department put out a revised series of seasonally adjusted unemployment rate compiled by reference to the X-11 ARIMA method, which adjusts for all seasonal variations in employment and unemployment (i.e. the changes due to holiday effects, seasonally ups and downs in economic activity, seasonal variations in first-time job-seekers, etc). This replaces the former series which adjusts only for seasonal variations in the proportion of first-time job-seekers in the labour force. For more details, see Note (3) at the end of Chapter 5 of the Half-yearly Economic Report 2001.

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

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

- (2) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

Following these criteria, employed persons taking no-pay leave due to slack work during the reference period are also classified as underemployed if they had worked less than 35 hours or were on leave for the entire reference period.

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

- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually increased by 4.1% in the second quarter of 2007 over a year earlier.

Employment for the construction sector as a whole is enumerated from the General Household Survey carried out by the Census and Statistics Department. Apart from site workers, it also includes non-site workers engaged in minor alteration and addition, repair, maintenance and interior decoration work on existing buildings. In addition, it includes professionals, administrative and other support personnel engaged in that sector, such as engineers, architects, surveyors and contract managers, as well as general clerical staff.

- (6) Manufacturing enterprise with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (7) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.

CHAPTER 6 : PRICES

Summary

- *Headline consumer price inflation went down to 1.3% in the second quarter of 2007, because of the rates concession for two quarters. Netting off this effect, underlying consumer price inflation remained moderate at 2.4%.*
- *The recent consumer price inflation was mainly led by imported inflation, an outcome of the weakness of the US dollar and the appreciating renminbi. Most price pressures were seen in the import prices of foodstuffs, owing to the additional cost push from the worldwide food inflation lately.*
- *Local cost pressures were kept under control and therefore provided an effective cushion against increasing imported inflation to Hong Kong. Unit labour cost changed little as rising labour incomes were largely outweighed by rapid labour productivity growth. Meanwhile, shop rentals picked up in the recent quarter, yet rapid business expansion helped to keep the growth in unit rental cost moderate. Consequently, underlying consumer price inflation was still rather benign.*
- *Apart from the exchange rate and food price factors, the recent strengthening of oil prices is another area to watch out in the near term. However, the inflation number will be kept low by various one-off measures including the rates concession until September, the public housing rental cut and the Pre-Primary Education Voucher Scheme.*

Consumer prices

6.1 Headline consumer price inflation, as measured by the *Composite Consumer Price Index*⁽¹⁾ (CCPI), went down further from 1.7% in the first quarter of 2007 to 1.3% in the second quarter. The inflation number was lowered by 1.1 percentage points for the second quarter as a whole by the rates concession for two quarters, which would last until September this year. Discounting the effect of the rates concession as well as the rental waiver of public housing in February 2007, underlying consumer price inflation edged down marginally from 2.5% in the first quarter to 2.4% in the second quarter, which was still rather benign. The recent underlying trend of inflation was mainly led by imported inflation as a result of the weakness of the Hong Kong

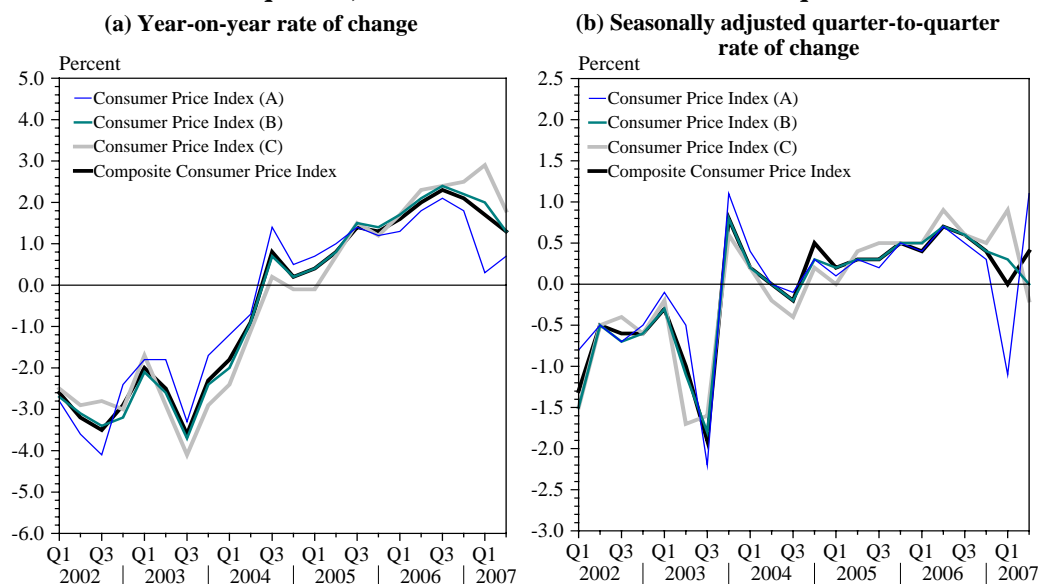
dollar and the appreciation of the renminbi, with most inflationary pressures being observed in foodstuffs given the world-wide phenomenon of food inflation in addition to the exchange rate effect. However, local business pressures remained mild to curb further pick-up in inflation – thanks to the largely level unit labour cost and the moderate increase in unit rental cost – a consequence of rapid labour productivity growth and vibrant expansion in business turnover (**Box 6.1**). Going forward, higher oil prices and volatility in food prices may add some uncertainty to inflation outlook. Yet, headline inflation should continue to be kept low by various one-off measures, including the rates concession, cut in public housing rentals and implementation of the Pre-Primary Education Voucher Scheme.

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

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

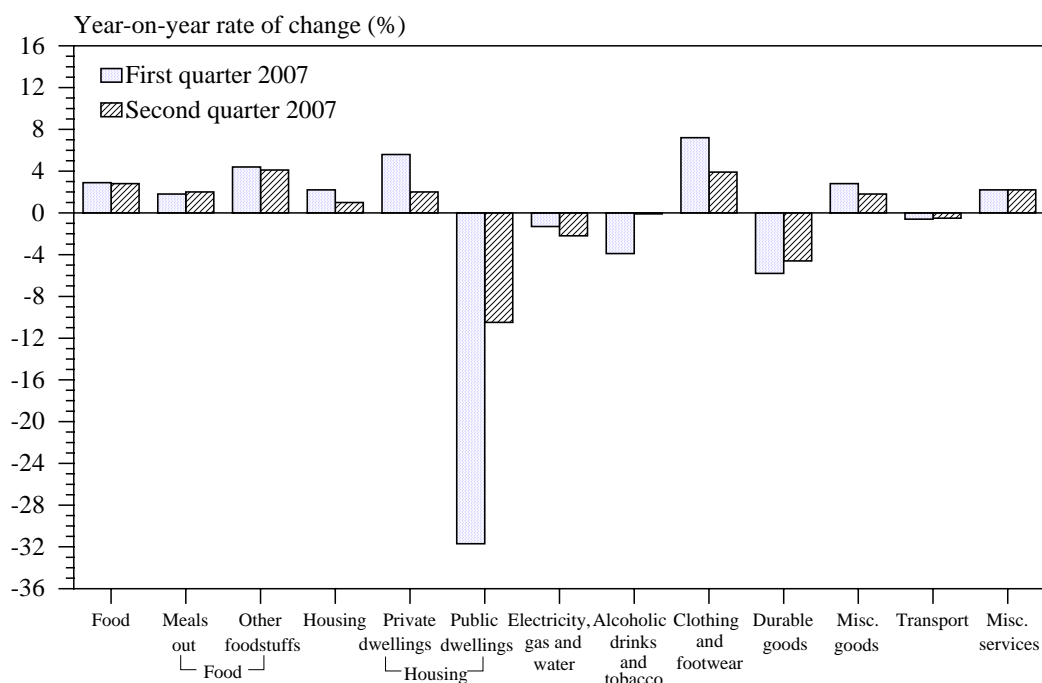
Notes : Figures in brackets are the seasonally adjusted quarter-to-quarter rates of change.
(*) Change of less than 0.05%

Diagram 6.1 : Consumer price inflation went down further in the second quarter, due to the rates concession for two quarters.



6.2 The main drivers of inflation among the major components of CCPI in the second quarter of 2007 were food, private housing and miscellaneous services. While food continued to contribute most to CCPI inflation, prices of food items are rather volatile as their prices and supplies are easily disturbed by external shocks like weather or animal infectious diseases (**Box 6.2**). The effect from private housing was milder, thanks to the rates concession for two quarters, which would last until September this year. The contribution from miscellaneous services was considerable given its relatively high weighting. This reflected the stronger pricing power of service providers under the favourable macroeconomic environment. Yet still, prices of miscellaneous services had been rising rather steadily. For other items, clothing and footwear showed a slower increase in prices, while miscellaneous goods saw largely modest price pressures. Furthermore, prices of durable goods; transport; electricity, gas and water; and alcoholic drinks and tobacco were still on the decline. Taken all these developments together, overall underlying inflation remained largely stable in the second quarter.

Diagram 6.2 : Inflation has become increasingly food-led, yet largely offset by the rates concession



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

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

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

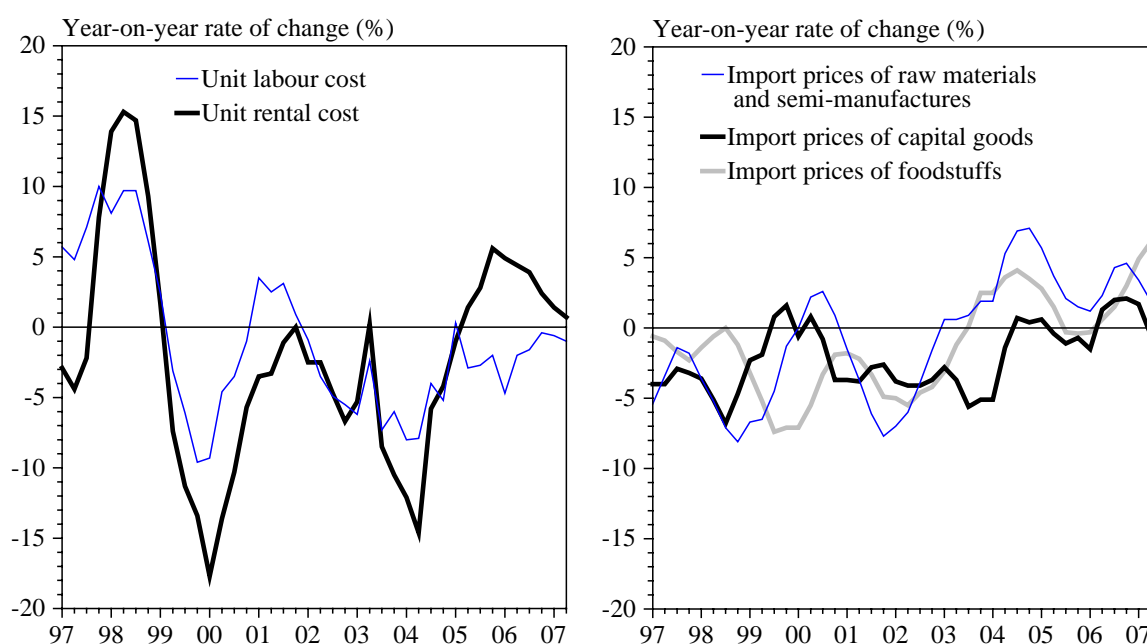
Costs of factor inputs

6.3 Local pressures on business costs remained under control as the growth in unit rental cost remained mild while unit labour cost was largely flat. The pick-up in shop rentals in the second quarter was somewhat offset by the relatively moderated rise in office rentals. Coupled with the rapid expansion in business, the rise in *unit rental cost* still retained its moderate pace. On the other hand, *unit labour cost*⁽²⁾ was kept down by an even faster growth in labour productivity, despite rising labour income and the improving labour market. However, as the labour market would turn somewhat tighter amidst the continued above-trend economic growth, upward pressures on unit labour cost might build up gradually in the period ahead.

Diagram 6.3 : Costs of factor inputs

(a) Local cost pressures remained under control

(b) Imported inflation was building up moderately



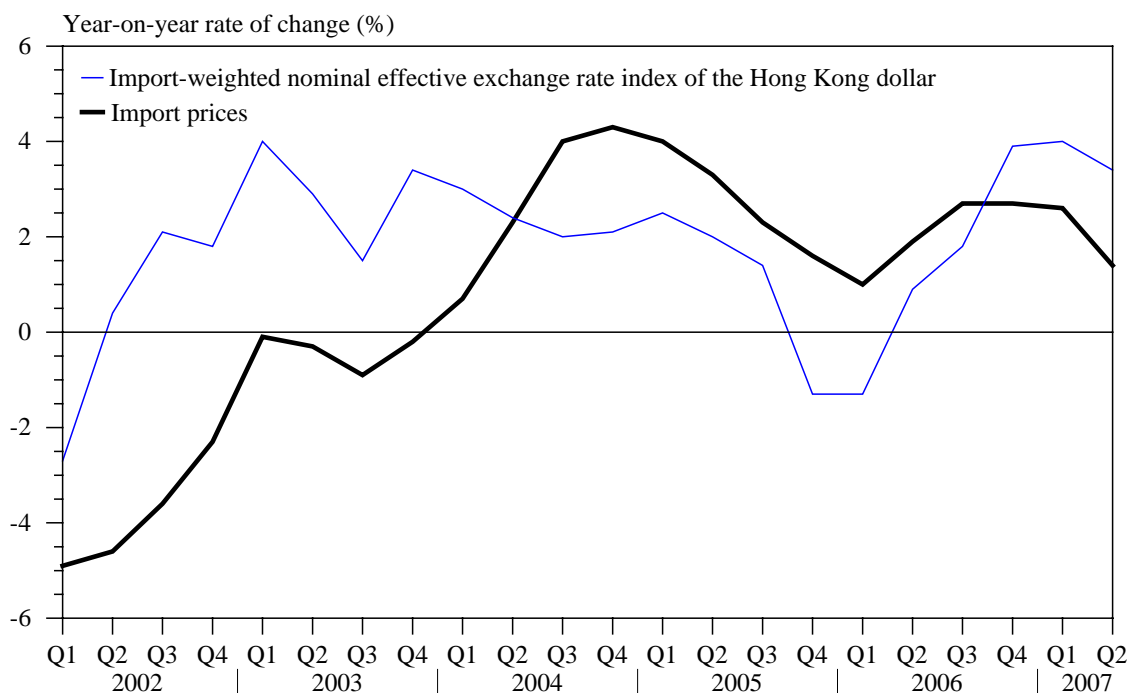
6.4 Overall import prices went up moderately in the second quarter of 2007, generally a result of the depreciation of the Hong Kong dollar and the appreciation of the renminbi. Foodstuffs saw the largest pick-up in import prices, because of the recent worldwide food inflation, including the food inflation in the Mainland, on top of the weaker exchange rate. Import prices of consumer goods also picked up, but at a milder pace, because of the soft consumer good inflation in the Mainland and the weakness of the yen as Japan is one of Hong Kong's largest import sources of consumer goods. Yet, the further moderated rise in import prices of raw materials, together with the falling import prices of capital goods and fuels, offered some offsetting effect so that overall import prices did not pick up further.

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

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2006	Annual	1.2	0.5	3.2	16.6	1.1	2.1
	H1	0.2	0.3	1.8	27.5	*	1.5
	H2	2.3	0.7	4.4	7.6	2.1	2.7
	Q1	-0.3	0.5	1.2	32.4	-1.5	1.0
	Q2	0.6	0.1	2.3	23.7	1.3	1.9
	Q3	1.5	0.4	4.3	13.6	2.0	2.7
	Q4	3.0	1.1	4.6	2.0	2.1	2.7
2007	H1	5.4	2.8	3.0	0.3	0.7	2.2
	Q1	4.9	2.3	3.4	1.9	1.7	2.6
	Q2	6.0	3.2	2.6	-2.0	-0.1	1.9

Note : (*) Change of less than 0.05%

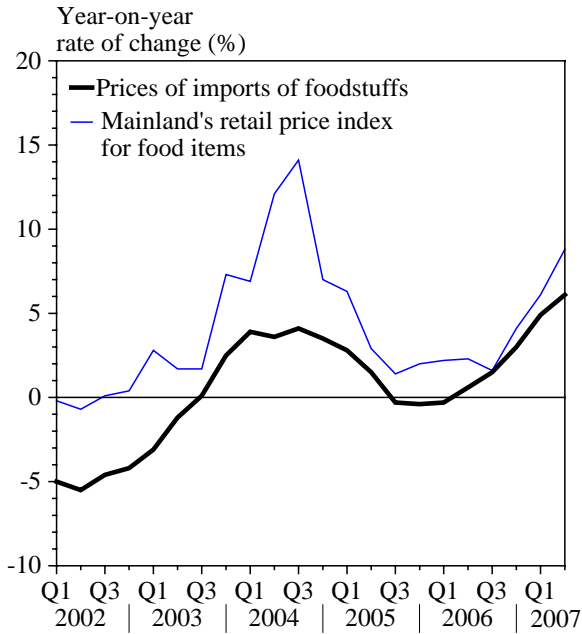
Diagram 6.4 : Along with the milder Hong Kong Dollar depreciation, import prices did not show further pick-up in overall terms



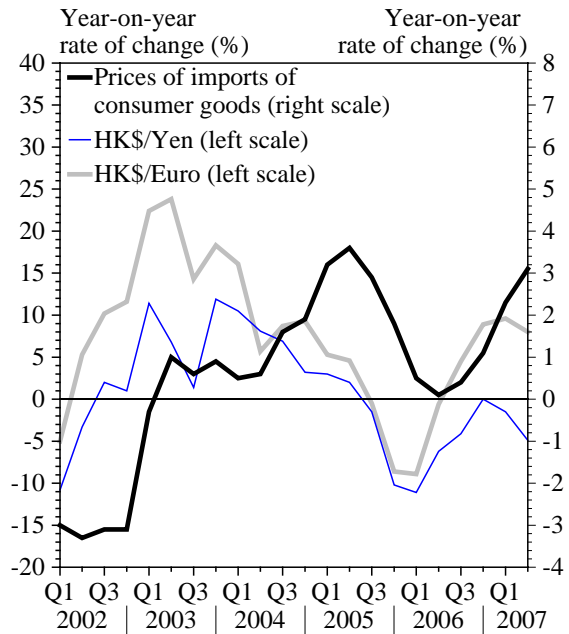
Note : The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

Diagram 6.5 : Prices of imports by end-use category

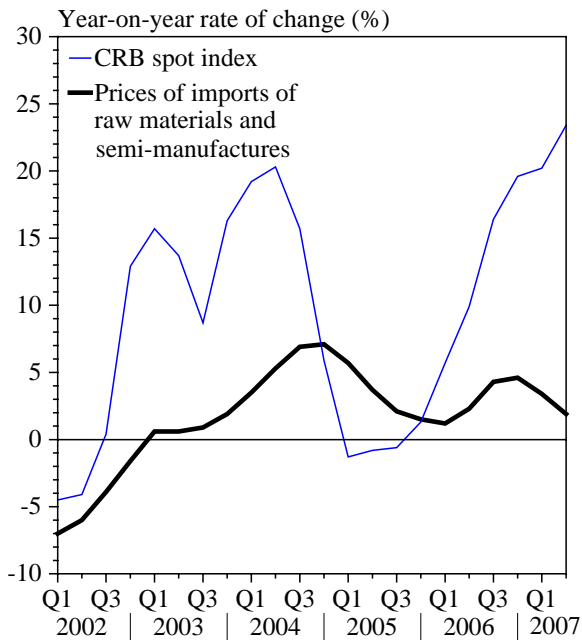
(a) Pick-up in import prices of foodstuffs most evident



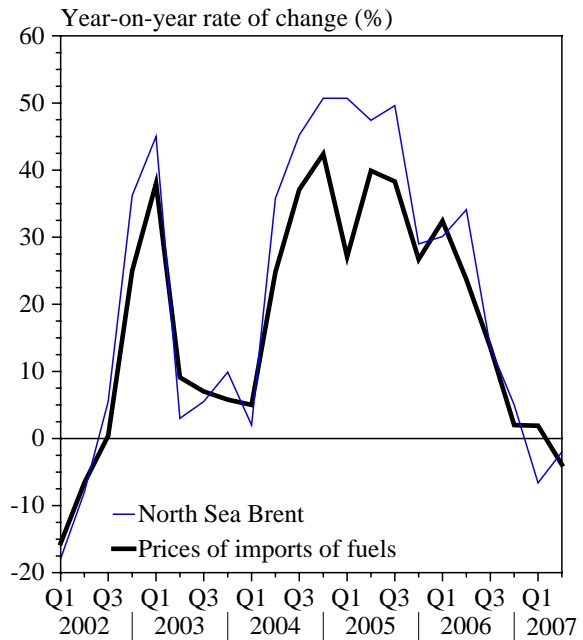
(b) ...milder for consumer goods



(c) Growth in import prices of raw materials further moderated



(d) Import prices of fuels fell, thanks to lower oil prices



Box 6.1

Analysis of unit labour costs in different economic sectors

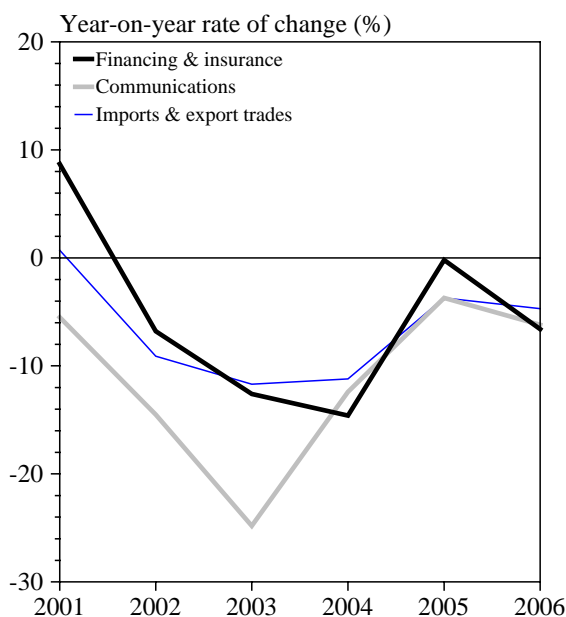
Since the return to positive inflation in late 2004 amidst the strong economic upswing, consumer price inflation has been creeping up at a moderate pace. This high-growth-low-inflation era is the best performance in our recent history. Such a benign inflation despite the strong economic growth in Hong Kong was largely a result of the persistently declining unit labour cost over the past five years, which in turn was driven down by the distinct labour productivity growth in Hong Kong. This article analyses the movements of unit labour costs in individual sectors to examine whether the decline in unit labour cost is a broad-based phenomenon.

Unit labour cost is defined as the share of labour cost per unit of output. In this analysis, total labour cost in the selected economic sectors is based on the total nominal payroll as obtained by multiplying the per capita nominal payroll index with the total employment in the respective sectors. The output in individual sectors is measured by the value added in 2000 constant prices compiled under the GDP production based framework. Unit labour cost in a specific sector is thus calculated as the ratio of total labour cost in that sector to its output.

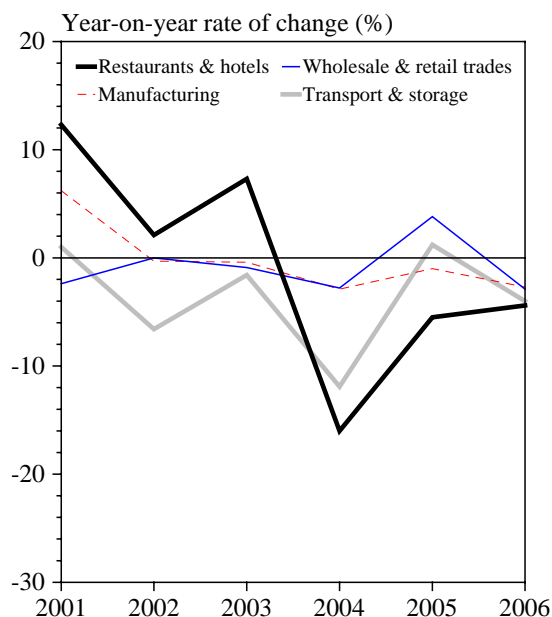
The year-on-year rates of change of unit labour costs in some major economic sectors from 2001-2006 are presented in Chart 1.

Chart 1 : The year-on-year rates of change of unit labour costs in major economic sectors

(a) Financing and insurance; communications; and import and export trades showed sharper falls in unit labour costs over the past 6 years



(b) while wholesale and retail trades; restaurants and hotels; manufacturing; and transport and storage showed smaller declines



Box 6.1 (cont'd)

A number of salient features stand out from the sectoral analysis of the trends in unit labour cost :

- (1) Unit labour cost has shown a broad-based decline in all sectors since 2002, one exception being “restaurants and hotels” which saw further growth in unit labour cost until the sharp fall in 2004. The high unit labour cost in the restaurant sector during 2001-03 in fact signified the need to scale back on the size of workforce in that sector when restaurant business went down along with the cyclical downturn at that time, more so in 2003 when business was severely hit by the outbreak of SARS.
- (2) Despite the rise-back in wages and per capita payrolls in all sectors since 2005, unit labour costs continued to decline across-the-board in general from 2005 through to the first quarter of 2007. Analysed by individual sectors, the decline in unit labour cost was particularly sharp in booming sectors like “financing and insurance”, “communications” and “import and export trades”. It is interesting to note that the increase in per capita payroll in “financing and insurance” was actually very distinct at 5.5% in 2005 followed by an even stronger rise at 10.0% in 2006, the fastest amongst other sectors last year. This tied in well with the buoyant job market in the financing and insurance business, with unemployment rate of only 2.0% and vacancy rate of 2.7% for 2006 as a whole. But with the payroll rise more than compensated by an even faster productivity growth, this sector actually saw the largest decrease in unit labour cost amongst the major sectors.
- (3) Similarly, the decline in unit labour cost in “communications” was mainly a reflection of the very rapid growth in labour productivity bolstered by fast technological advancement in that sector. The same is observed for “import and export trades” over the same period.
- (4) As such, increasing payroll cost is not a cause for inflation concern if it is well matched by vibrant business and productivity growth. While the rapid productivity growth in recent years was partly driven by technological advancement and an on-going capital deepening process, a larger part of it was due to the significant upgrading of the quality of our workforce, thanks to education and experience accumulation of the workers themselves.
- (5) Just as high unit labour cost can be a warning of the poor performance in business and the need to cut cost in order to restore profitability, declining unit labour cost signals the need to increase manpower in the sector to gear in with the anticipated rise in output. The broad-based decline in unit labour cost suggests that while economic activity in all sectors has continued to thrive, so far it has not yet generated significant cost pressures to undermine the competitiveness or profitability at the macro economy level, nor at the individual sector level.

Box 6.2**An examination of the sources of recent food price hike
and its impact on Hong Kong's inflation**

The movements of import prices in Table 6.3 indicate that much of the import price rise in 2006 came from raw materials and fuels, but the sources have switched to consumer goods and especially foodstuffs in recent months. In tandem, the edge-up in underlying consumer price inflation over the past six months was also increasingly associated with the rise in food prices. This article examines the sources of food price rise and analyses to what extent higher food prices in Hong Kong's major import sources have transmitted to retail food prices and hence CCPI inflation in Hong Kong. The key finding is that food-led inflation was not only seen in Hong Kong, but also in quite a number of countries which are Hong Kong's major sources of food supplies, including the Mainland, US, Japan, Australia, and Thailand. For Hong Kong, there was of course an additional cost-push from the weakness of the US dollar and renminbi appreciation, although the past experience is that higher import prices may not necessarily feed through to the local retail price levels to the full extent.

The pick-up in import prices of foodstuffs since mid-2006 was a result of two factors, viz. the depreciation of the Hong Kong dollar along with the US dollar and the appreciation of the renminbi (the exchange rate factor), and higher food inflation in Hong Kong's import sources. On the latter factor, the pick-up in food prices in the Mainland was often quoted as the key source of Hong Kong's food-led inflation, given that the Mainland is Hong Kong's largest source of food imports, especially for fresh food supplies like pork; live poultry; vegetables and fruits; and eggs. Indeed, import prices of these fresh food items have been generally rising over the past 12 months, and retail food prices in Hong Kong and hence consumer price inflation have risen in tandem.

Further examination of the trends of import prices of foodstuffs however indicates that the pick-up was in fact almost across-the-board for most sources. Amongst the major sources of food imports into Hong Kong, Thailand actually showed the largest increase in prices, at a rate which was much faster than that from the Mainland, presumably largely due to the appreciation of the Thai baht but to some extent also driven by rising food prices in Thailand. The increase in prices of imported foodstuffs from Australia was more modest, even though the Australian dollar has appreciated against the Hong Kong dollar by some 14% over the past year or so. In contrast, prices of foodstuffs imported from Japan showed softer increase than those from the Mainland, as a result of the weakness of the yen.

Table 1 : Import prices of foodstuffs from Hong Kong's major sources*
(year-on-year rate of change (%))

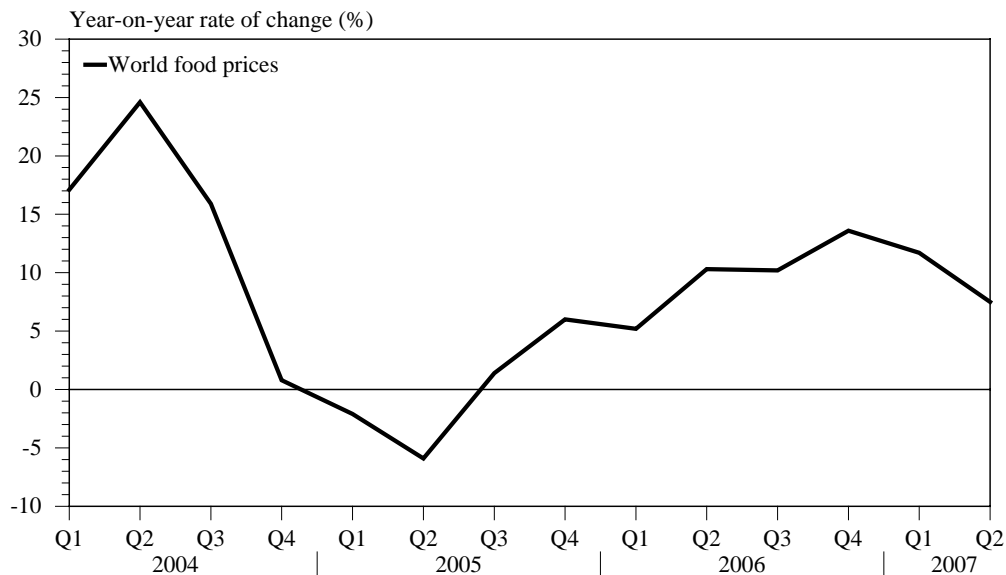
	<u>China</u> (26.2%)	<u>USA</u> (10.4%)	<u>Japan</u> (5.9%)	<u>Australia</u> (5.8%)	<u>Thailand</u> (5.7%)
2004	2.5	6.8	4.3	6.1	0.8
2005	0.5	0.8	3.6	6.0	-2.0
2006	0.6	2.1	4.4	1.0	8.7
2007 H1	3.1	4.3	2.2	3.6	8.3

() percentage share of respective source of Hong Kong's total imports of foodstuffs in 2006

Box 6.2 (cont'd)

In fact, we have seen a global trend of food inflation since late 2005 (Chart 1). According to International Monetary Fund (IMF)'s data source, world food prices reverted to increase after the second quarter of 2005 and then picked up progressively in 2006. In the first half of 2007, the cumulative increase in world food prices over a year was nearly 10%. IMF attributed the recent food price hike to a number of factors, including poor wheat crop in major producing countries; rising US demand for ethanol (which uses corn as an input); and prospects of higher biodiesel demand (which uses soybean oil and other edible oils). Higher prices of corn and soybean oil would in turn push up the price of partial substitutes, such as wheat and rice, and other edible oils. As corn and soybean is the predominant source of feedstock, there would also be spillover to prices of meat, dairy, and poultry prices due to higher animal rearing costs.

Chart 1: There is a global trend of food inflation since late 2005



Source: International Monetary Fund

To the extent that the current supply shortage was triggered by the cut back in production in response to the earlier price fall, stronger demand for and the price hike of foodstuffs should now work in the other way to stimulate production, although this will take some time to work through. All in all, while the global-wide food inflation is likely to remain for some time, it should hopefully wane once the supply response works through to restore a better demand/supply balance.

Box 6.2 (cont'd)

To what extent has global-wide food price hike transmitted to higher inflation in Hong Kong? It is worthwhile to note that while global food prices have been rising at a rate of over 10% in recent periods, import prices of foodstuffs rose by a lesser extent of 5.4% in the past two quarters. Likewise, only part of the Mainland's food price hike and renminbi appreciation has fed through to raise prices of foodstuffs imported from the Mainland. 2004 was a case in point. In that year, food prices in the Mainland soared by around 10%, yet prices of food imports from the Mainland rose by only 2.5%. Similarly, in the first half of 2007, food prices in the Mainland (gauged in terms of the Mainland's CPI) rose by 7.6%, and when coupled with the 5% cumulative appreciation in the renminbi against the Hong Kong dollar, this should have translated into an around 13% rise in import cost of foodstuffs from the Mainland assuming full feed-through. Yet prices of Hong Kong's food imports from the Mainland actually rose by 3.1% over the period.

Chart 2: Food inflation in the Mainland does not necessarily fully pass through to the retail food price level

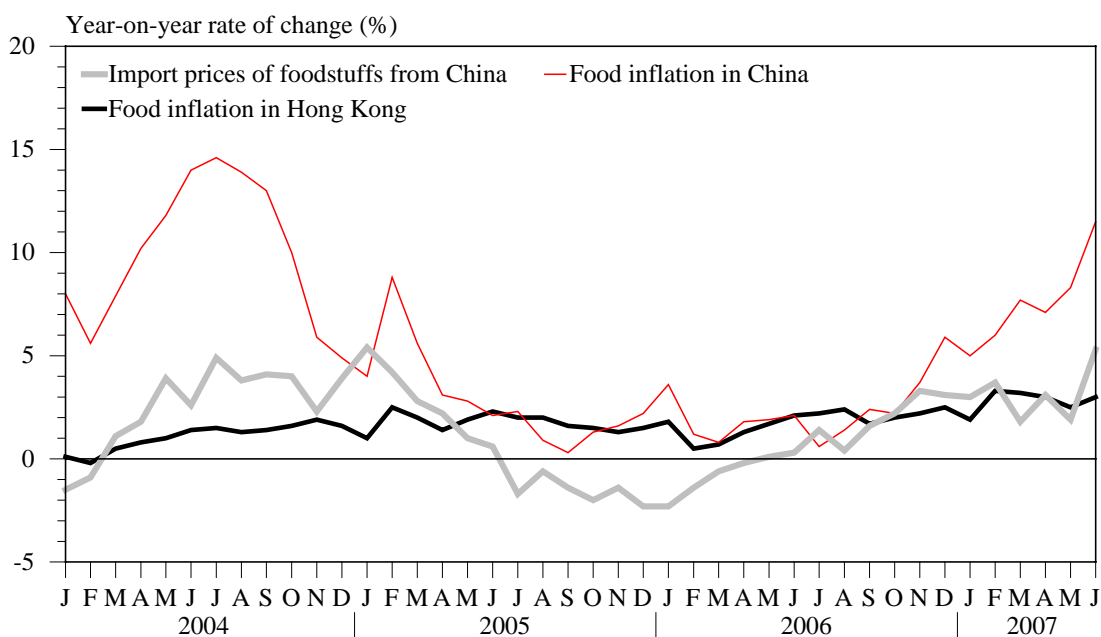


Table 2 below provides some broadbrush estimates of the impact of rising food prices on CCPI inflation, with reference to the weighting of basic foodstuffs in the CCPI. The estimates suggest that of the pick-up in CCPI inflation from 1.8% in the first half of 2006 to that of 2.4% (after adjusted for the effect of one-off measures) in the first half of 2007, around 0.3% point was due to food price hikes. The impact would be slightly higher, at around 0.4% point, if the induced indirect lifting effect from the ensuing increase in prices of meals out is also taken into account. Clearly, the global-wide rise in food prices would continue to pose an upside risk to Hong Kong's inflation in the near term, although there would be cushions from the on-going process of productivity upgrading and from the various one-off measures by the government in the year. Yet, the impact on CPI(A) should be relatively higher compared with other CPIs, given its larger weighting on foodstuffs.

Box 6.2 (cont'd)**Table 2 : Food price hike and its impact on Hong Kong's inflation****(Year-on-year rate of increase (%))**

		World food prices*	Import prices of foodstuffs	of which : from China	Underlying CCPI after netting out one-off measures	of which : due to rising prices of basic foodstuffs	
2006	Q1	5.2	-0.3	-1.5	1.6	0.10	(0.25)
	Q2	10.3	0.6	0.1	2.0	0.23	(0.46)
	Q3	10.2	1.5	1.1	2.3	0.32	(0.56)
	Q4	13.6	3.0	2.8	2.1	0.35	(0.60)
	H1	7.8	0.2	-0.7	1.8	0.17	(0.35)
	H2	11.9	2.3	2.0	2.2	0.33	(0.58)
Annual		9.8	1.2	0.6	2.0	0.25	(0.47)
2007	Q1	11.7	4.9	2.8	2.5	0.44	(0.77)
	Q2	7.5	6.0	3.4	2.4	0.41	(0.75)
	H1	9.6	5.4	3.1	2.4	0.43	(0.76)

(*) International Monetary Fund data

() Respective figures if prices of meals out are also taken into account. It has to be noted, however, that part of the rise in prices of meals out is also driven by rising domestic costs such as rentals and improved profitability.

Output prices

6.5 Output prices for selected service sectors, as measured by the *Producer Price Indices*⁽³⁾, showed different movements in the first quarter of 2007. Output prices in marine transport and air transport rose slightly, while those in land transport softened somewhat. Reflecting technological advancement, prices in telecommunications continued to decline. In contrast, the hotel sector saw a further sharp rise in prices, thanks to the strong growth in the number of visitor arrivals in that quarter. Prices of local manufacturing output rose moderately in the first quarter, in line with the movement of export prices.

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

<u>Industry group</u>	<u>Annual</u>	<u>2006</u>				<u>2007@</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	2.3	2.0	2.4	2.6	2.0	2.5
Selected service sector ^(#)						
Hotels and boarding houses	10.1	10.1	9.2	9.2	12.5	8.4
Land transport	*	1.0	0.6	-0.2	-1.2	-0.8
Maritime transport	-1.9	-3.6	-3.4	-1.8	1.1	1.6
Air transport	-1.1	0.2	-0.5	-1.1	-3.0	0.8
Telecommunications	-6.1	-7.5	-6.3	-4.0	-6.7	-3.4
Miscellaneous communications services	0.4	1.5	1.4	1.3	-2.6	-0.3

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

(*) Change of less than 0.05%

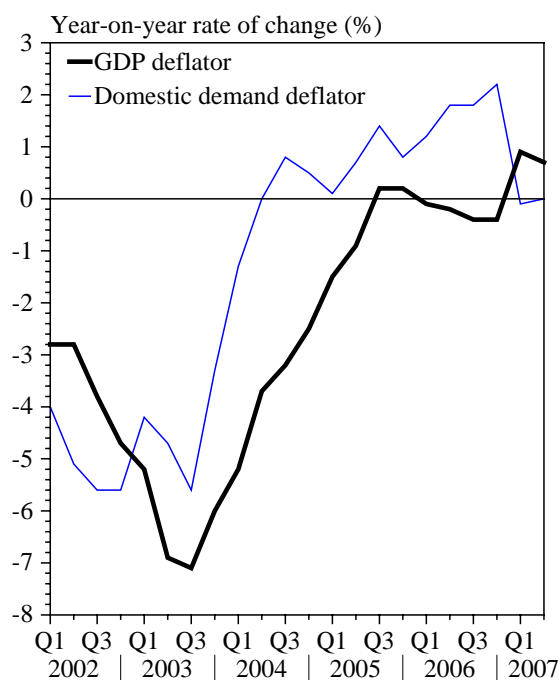
(@) Provisional figures

GDP deflator

6.6 As a broad indicator of overall price changes of the economy, the *GDP deflator*⁽⁴⁾, continued to rise slightly in the second quarter of 2007 after the return to an increase in the preceding quarter. This was due to the ongoing improvement in the *terms of trade*⁽⁵⁾, a dominant item in the GDP deflator given the size of trade in the Hong Kong economy. Excluding the terms of trade effect, the *domestic demand deflator* showed little change in the second quarter, mainly affected by the decrease in the price deflator for machinery and equipment.

Diagram 6.6

(a) GDP deflator continued to rise slightly



(b) ...thanks to the more favourable terms of trade

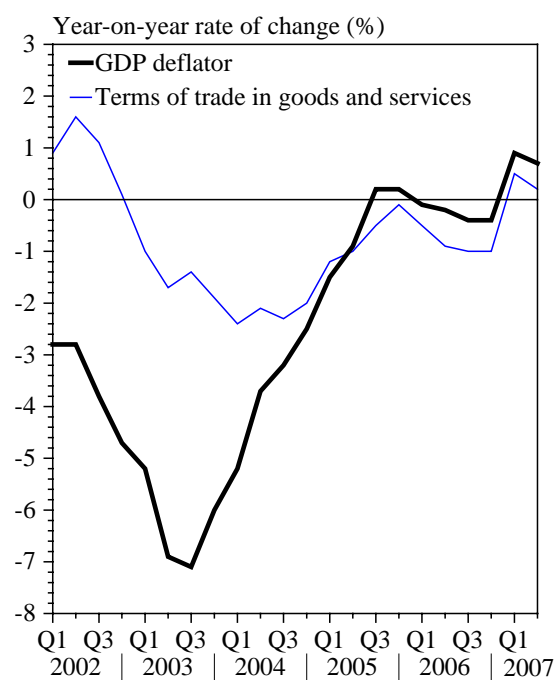


Table 6.5 : GDP deflator and the main expenditure component deflators (year-on-year rate of change (%))

	<u>2006</u>					<u>2007</u>	
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1#</u>	<u>Q2+</u>
Private consumption expenditure	1.6	1.8	1.5	1.4	1.5	1.9	1.7
Government consumption expenditure	1.4	1.3	1.3	1.4	1.4	1.6	4.0
Gross domestic fixed capital formation	2.8	-1.5	2.6	5.7	4.2	-5.5	-6.5
Total exports of goods	-0.5	-1.8	-0.7	-0.4	0.2	0.9	0.6
Imports of goods	1.4	*	1.4	1.7	2.1	0.7	0.1
Exports of services	4.7	4.6	5.5	5.2	3.5	3.3	1.7
Imports of services	1.0	*	0.8	1.4	1.8	2.0	2.1
Gross Domestic Product	-0.4	-0.1	-0.2	-0.4	-0.4	0.9	0.7
		<-0.2>	<-0.1>	<*>	<*>	<1.1>	<-0.3>
Total final demand	0.8	*	0.9	1.0	1.3	1.0	0.5
Domestic demand	1.8	1.2	1.8	1.8	2.2	-0.1	*

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

(#) Revised figures

(+) Preliminary figures

<> Seasonally adjusted quarter-to-quarter % change

(*) Change of less than 0.05%

Notes :

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

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

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

The weightings of the various components in the 2004/05-based CPIs are as follows:

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

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

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

Statistical Appendix

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
	(\$Mn)					
Private consumption expenditure	833,825	795,948	765,282	774,280	782,587	747,850
Government consumption expenditure	112,751	116,550	119,993	120,172	128,866	131,291
Gross domestic fixed capital formation	451,891	388,731	325,328	347,375	333,036	286,020
<i>of which:</i>						
Building and construction	223,264	208,235	171,930	155,441	142,651	131,752
Machinery, equipment and computer software	190,760	165,177	141,349	180,204	180,011	144,832
Changes in inventories	12,313	-15,651	-10,612	14,399	-4,060	5,660
Total exports of goods	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987	1,562,121
Domestic exports	211,410	188,454	170,600	180,967	153,520	131,079
Re-exports	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467	1,431,041
Imports of goods	1,589,876	1,408,317	1,373,500	1,636,711	1,549,222	1,601,527
Exports of services	286,595	262,099	276,385	315,012	320,799	347,836
Imports of services	198,424	194,245	185,174	192,427	194,180	202,494
GDP	1,365,024	1,292,764	1,266,702	1,314,789	1,298,813	1,276,757
<i>Per capita GDP (\$) [®]</i>	<i>210,350</i>	<i>197,559</i>	<i>191,736</i>	<i>197,268</i>	<i>193,440</i>	<i>189,315</i>
GNP	1,363,409	1,317,362	1,291,470	1,323,543	1,327,356	1,282,409
<i>Per capita GNP (\$) [®]</i>	<i>210,101</i>	<i>201,318</i>	<i>195,485</i>	<i>198,581</i>	<i>197,691</i>	<i>190,153</i>
Total final demand	3,153,324	2,895,326	2,825,376	3,143,927	3,042,215	3,080,778
Total final demand excluding re-exports ^(a)	2,130,313	1,952,900	1,886,191	2,045,858	1,982,896	1,923,066
Domestic demand	1,410,780	1,285,578	1,199,991	1,256,226	1,240,429	1,170,821
Private	1,233,803	1,107,816	1,014,347	1,075,654	1,053,568	985,985
Public	176,977	177,762	185,644	180,572	186,861	184,836
External demand	1,742,544	1,609,748	1,625,385	1,887,701	1,801,786	1,909,957

Definitions of Terms :

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

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

(\$Mn)

	<u>2003</u>	<u>2004</u>	<u>2005[#]</u>	<u>2006[#]</u>	<u>2007</u> Q1 [#]	Q2 [#]
Private consumption expenditure	719,304	767,479	804,579	860,169	220,875	233,104
Government consumption expenditure	130,151	127,328	121,419	123,331	34,360	30,404
Gross domestic fixed capital formation	261,367	275,000	289,223	320,788	73,095	81,970
<i>of which:</i>						
Building and construction	116,419	107,658	105,964	98,750	25,481	26,199
Machinery, equipment and computer software	136,537	150,545	163,369	205,246	42,912	50,422
Changes in inventories	9,111	7,076	-4,761	-2,020	1,409	5,127
Total exports of goods	1,749,089	2,027,031	2,251,744	2,467,357	587,298	656,509
Domestic exports	122,126	126,386	136,324	138,759	23,524	30,021
Re-exports	1,626,964	1,900,645	2,115,419	2,328,598	563,774	626,487
Imports of goods	1,794,059	2,099,545	2,311,091	2,576,340	621,522	702,713
Exports of services	362,420	429,563	495,799	565,049	144,830	146,160
Imports of services	203,400	242,507	264,237	284,015	69,741	75,237
GDP	1,233,983	1,291,425	1,382,675	1,474,319	370,604	375,324
<i>Per capita GDP (\$) [@]</i>	<i>183,334</i>	<i>190,377</i>	<i>202,941</i>	<i>215,006</i>	--	--
GNP	1,262,474	1,314,835	1,384,323	1,479,433	398,025	N.A.
<i>Per capita GNP (\$) [@]</i>	<i>187,567</i>	<i>193,828</i>	<i>203,182</i>	<i>215,752</i>	--	--
Total final demand	3,231,442	3,633,477	3,958,003	4,334,674	1,061,867	1,153,274
Total final demand excluding re-exports ^(a)	1,895,705	2,061,644	2,212,782	2,401,938	593,935	633,290
Domestic demand	1,119,933	1,176,883	1,210,460	1,302,268	329,739	350,605
Private	938,326	1,001,110	1,047,722	1,144,215	285,999	313,217
Public	181,607	175,773	162,738	158,053	43,740	37,388
External demand	2,111,509	2,456,594	2,747,543	3,032,406	732,128	802,669

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.

(@) Population figures since 2001 have been revised based on the results of the 2006 Population By-census available in February 2007 as the up-to-date benchmark data. Per capita GDP and per capita GNP figures from 2001 to 2005 have been revised accordingly.

(--) Not applicable.

N.A. Not available.

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

(%)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Private consumption expenditure	6.2	-6.6	1.4	6.0	2.1	-1.0
Government consumption expenditure	2.4	0.7	3.1	2.1	6.0	2.5
Gross domestic fixed capital formation	12.6	-7.3	-16.6	11.0	2.6	-4.5
<i>of which:</i>						
Building and construction	10.5	-2.4	-15.5	-7.6	-1.1	-1.1
Machinery, equipment and computer software	13.1	-7.9	-18.2	27.0	6.2	-7.6
Total exports of goods	6.1	-4.3	3.7	17.1	-3.3	8.7
Domestic exports	2.1	-7.9	-7.2	7.5	-10.2	-11.2
Re-exports	6.8	-3.7	5.4	18.5	-2.4	11.0
Imports of goods	7.3	-7.3	*	18.2	-1.9	7.9
Exports of services	-0.4	-3.5	8.8	12.1	6.4	10.9
Imports of services	3.9	1.6	-4.4	4.2	2.0	3.9
GDP	5.1	-5.5	4.0	10.0	0.6	1.8
<i>Per capita GDP (\$) @</i>	<i>4.2</i>	<i>-6.2</i>	<i>3.0</i>	<i>9.0</i>	<i>-0.1</i>	<i>1.4</i>
GNP	6.0	-3.5	4.0	8.6	2.2	0.1
<i>Per capita GNP (\$) @</i>	<i>5.1</i>	<i>-4.3</i>	<i>3.0</i>	<i>7.6</i>	<i>1.4</i>	<i>-0.4</i>
Total final demand	6.2	-6.0	1.3	14.4	-0.6	5.1
Total final demand excluding re-exports ^(a)	5.8	-7.6	-1.7	11.3	0.4	2.0
Domestic demand	8.2	-9.2	-4.4	10.3	1.0	-0.7
Private	9.5	-9.9	-5.4	12.3	0.7	-1.0
Public	-1.0	-3.8	2.1	-2.8	3.3	1.2
External demand	5.3	-4.3	4.4	16.4	-1.7	9.1

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.

(@) Population figures since 2001 have been revised based on the results of the 2006 Population By-census available in February 2007 as the up-to-date benchmark data. Per capita GDP and per capita GNP figures from 2001 to 2005 have been revised accordingly.

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

(%)

	<u>2003</u>	<u>2004</u>	<u>2005[#]</u>	<u>2006[#]</u>	<u>2007</u>		Average annual rate of change:	
					Q1 [#]	Q2 [#]	10 years 1996 to 2006 [#]	5 years 2001 to 2006 [#]
Private consumption expenditure	-0.9	7.2	3.3	5.2	5.3	6.6	2.2	2.7
Government consumption expenditure	1.9	0.7	-3.1	0.2	2.4	2.8	1.6	0.4
Gross domestic fixed capital formation	0.9	3.1	4.6	7.9	4.7	11.1	1.1	2.3
<i>of which:</i>								
Building and construction	-5.6	-11.6	-8.4	-7.3	-2.6	5.3	-5.2	-6.9
Machinery, equipment and computer software	6.7	11.0	12.9	17.2	6.8	13.1	5.2	7.7
Total exports of goods	14.2	15.3	11.2	10.2	8.2	11.3	7.6	11.9
Domestic exports	-7.3	2.4	7.6	2.3	-33.1	-17.8	-2.4	-1.5
Re-exports	16.3	16.3	11.4	10.7	11.0	13.1	8.8	13.1
Imports of goods	13.1	14.1	8.6	10.0	8.6	12.9	6.7	10.7
Exports of services	7.9	17.9	11.3	8.9	8.9	10.9	7.9	11.3
Imports of services	-2.1	14.6	7.4	6.4	4.1	8.0	3.6	5.9
GDP	3.2	8.6	7.5	6.9	5.7	6.9	4.1	5.6
<i>Per capita GDP (\$) [®]</i>	<i>3.4</i>	<i>7.7</i>	<i>7.1</i>	<i>6.2</i>	<i>--</i>	<i>--</i>	<i>3.5</i>	<i>5.1</i>
GNP	5.1	8.0	5.8	7.2	10.7	N.A.	4.3	5.2
<i>Per capita GNP (\$) [®]</i>	<i>5.3</i>	<i>7.2</i>	<i>5.3</i>	<i>6.5</i>	<i>--</i>	<i>--</i>	<i>3.6</i>	<i>4.7</i>
Total final demand	8.1	12.0	8.1	8.6	7.2	10.4	5.6	8.4
Total final demand excluding re-exports ^(a)	3.5	9.2	5.9	7.1	4.7	8.5	3.5	5.5
Domestic demand	0.1	5.1	2.1	5.8	5.0	8.7	1.7	2.4
Private	-0.2	6.3	3.5	7.2	5.9	9.5	2.1	3.1
Public	1.7	-1.6	-6.9	-4.0	-0.6	2.2	-1.2	-2.0
External demand	13.1	15.8	11.2	10.0	8.3	11.2	7.7	11.8

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

(--) Not applicable.

N.A. Not available.

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

	<u>2001</u>		<u>2002</u>		<u>2003</u>		<u>2004</u>		<u>2005[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,003	0.1	1,002	0.1	824	0.1	886	0.1	847	0.1
Mining and quarrying	174	*	136	*	116	*	72	*	100	*
Manufacturing	59,760	4.8	51,396	4.2	44,403	3.7	44,455	3.5	45,547	3.4
Electricity, gas and water	37,957	3.1	39,609	3.2	38,839	3.2	39,726	3.2	39,924	3.0
Construction	57,167	4.6	51,534	4.2	44,910	3.7	40,376	3.2	38,538	2.9
Services	1,088,211	87.5	1,091,272	88.4	1,073,941	89.3	1,130,695	90.0	1,221,064	90.7
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>309,926</i>	<i>24.9</i>	<i>310,500</i>	<i>25.1</i>	<i>308,872</i>	<i>25.7</i>	<i>345,092</i>	<i>27.5</i>	<i>386,726</i>	<i>28.7</i>
<i>Transport, storage and communications</i>	<i>117,526</i>	<i>9.4</i>	<i>121,766</i>	<i>9.9</i>	<i>117,420</i>	<i>9.8</i>	<i>126,820</i>	<i>10.1</i>	<i>135,119</i>	<i>10.0</i>
<i>Financing, insurance, real estate and business services</i>	<i>251,495</i>	<i>20.2</i>	<i>247,045</i>	<i>20.0</i>	<i>251,085</i>	<i>20.9</i>	<i>266,834</i>	<i>21.2</i>	<i>294,666</i>	<i>21.9</i>
<i>Community, social and personal services</i>	<i>262,960</i>	<i>21.1</i>	<i>265,746</i>	<i>21.5</i>	<i>261,917</i>	<i>21.8</i>	<i>264,008</i>	<i>21.0</i>	<i>260,273</i>	<i>19.3</i>
<i>Ownership of premises</i>	<i>146,304</i>	<i>11.8</i>	<i>146,214</i>	<i>11.8</i>	<i>134,648</i>	<i>11.2</i>	<i>127,940</i>	<i>10.2</i>	<i>144,280</i>	<i>10.7</i>
GDP at factor cost	1,244,271	100.0	1,234,949	100.0	1,203,034	100.0	1,256,209	100.0	1,346,020	100.0
Taxes on production and imports	53,917		43,325		48,057		58,729		62,891	
Statistical discrepancy (%)	*		-0.1		-1.4		-1.8		-1.9	
GDP at current market prices	1,298,813		1,276,757		1,233,983		1,291,425		1,382,675	

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

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

(*) Less than 0.05%.

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

	(%)									
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005[#]</u>	<u>2006[#]</u>	<u>2006</u>			<u>2007</u>
							Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Agriculture and fishing	4.1	-0.7	-5.6	2.0	-1.9	-3.2	-4.4	-2.5	-4.8	-8.4
Mining and quarrying	-14.1	-11.1	2.2	-17.0	10.3	9.3	11.4	15.9	4.3	25.0
Manufacturing	-9.1	-10.0	-10.3	1.7	2.1	2.2	5.3	-0.6	-1.4	-1.5
Electricity, gas and water	1.7	3.8	1.8	2.1	2.5	0.9	2.2	4.5	-4.0	1.5
Construction	-2.2	-1.5	-4.9	-9.7	-9.2	-7.9	-4.6	-10.9	-3.1	-5.7
Services	1.8	2.8	4.5	10.1	8.0	8.7	7.6	8.1	9.6	7.8
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>0.3</i>	<i>4.5</i>	<i>9.1</i>	<i>15.1</i>	<i>14.4</i>	<i>10.0</i>	<i>7.1</i>	<i>10.4</i>	<i>10.0</i>	<i>7.9</i>
<i>Transport, storage and communications</i>	<i>1.9</i>	<i>6.5</i>	<i>0.7</i>	<i>13.9</i>	<i>8.0</i>	<i>8.8</i>	<i>6.4</i>	<i>8.4</i>	<i>9.4</i>	<i>4.6</i>
<i>Financing, insurance, real estate and business services</i>	<i>0.5</i>	<i>2.7</i>	<i>5.7</i>	<i>13.1</i>	<i>8.7</i>	<i>14.5</i>	<i>15.2</i>	<i>11.8</i>	<i>17.4</i>	<i>15.7</i>
<i>Community, social and personal services</i>	<i>4.0</i>	<i>-0.6</i>	<i>0.6</i>	<i>2.9</i>	<i>0.2</i>	<i>2.2</i>	<i>1.5</i>	<i>2.5</i>	<i>3.2</i>	<i>1.1</i>
<i>Ownership of premises</i>	<i>3.4</i>	<i>2.0</i>	<i>2.7</i>	<i>1.4</i>	<i>3.1</i>	<i>2.6</i>	<i>2.9</i>	<i>2.2</i>	<i>2.1</i>	<i>2.2</i>
Taxes on production and imports	-1.1	-0.1	3.4	13.0	1.0	8.4	7.5	3.3	19.6	11.8
GDP at constant (2000) market prices	0.6	1.8	3.2	8.6	7.5	6.9	5.6	6.8	7.3	5.7

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

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

	(\$Mn)								
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2006</u>			<u>2007</u>
						Q2 [#]	Q3 [#]	Q4 [#]	Q1 [#]
Current account	96,800	128,240	122,491	157,338	159,905	14,737	51,900	56,261	62,765
Goods	-39,406	-44,970	-72,514	-59,347	-108,983	-35,369	-18,569	-25,243	-34,224
Services	145,342	159,020	187,056	231,562	281,034	61,479	74,757	81,781	75,089
Income	5,652	28,491	23,410	1,648	5,114	-7,622	238	4,446	27,421
Current transfers	-14,787	-14,301	-15,461	-16,524	-17,260	-3,750	-4,526	-4,722	-5,521
Capital and financial account	-151,179	-179,086	-184,640	-182,431	-201,722	-26,394	-60,115	-66,028	-54,005
Capital and financial non-reserve assets (net change)	-169,720	-171,497	-159,155	-171,752	-154,987	-16,330	-46,962	-53,972	-41,633
Capital transfers	-15,686	-8,292	-2,561	-4,939	-2,226	472	-1,729	-554	-1,196
Financial non-reserve assets (net change)	-154,033	-163,205	-156,594	-166,812	-152,761	-16,803	-45,233	-53,418	-40,437
<i>Direct investment</i>	-60,685	63,372	-91,038	49,996	-4,402	-29,913	-15,817	13,967	1,299
<i>Portfolio investment</i>	-302,484	-264,619	-306,368	-245,017	-258,082	-78,343	17,248	-231,005	5,840
<i>Financial derivatives</i>	51,563	78,288	44,319	30,502	38,873	14,544	8,312	13,742	26,380
<i>Other investment</i>	157,573	-40,247	196,492	-2,294	70,850	76,910	-54,975	149,879	-73,957
Reserve assets (net change) ^(a)	18,541	-7,589	-25,486	-10,679	-46,735	-10,063	-13,153	-12,056	-12,372
Net errors and omissions	54,379	50,846	62,149	25,093	41,817	11,656	8,215	9,766	-8,760
Overall balance of payments	-18,541	7,589	25,486	10,679	46,735	10,063	13,153	12,056	12,372

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

(a) A negative value for net change in reserve assets represents a net increase, and a positive value represents a net decrease.

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

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

	(\$Mn)								
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005[#]</u>	<u>2006[#]</u>	<u>2006</u>		<u>2007</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Total exports of goods	1,562,121	1,749,089	2,027,031	2,251,744	2,467,357	667,228	674,929	587,298	656,509
Imports of goods	1,601,527	1,794,059	2,099,545	2,311,091	2,576,340	685,797	700,172	621,522	702,713
Visible trade balance	-39,406	-44,970	-72,514	-59,347	-108,983	-18,569	-25,243	-34,224	-46,204
	(-2.5)	(-2.5)	(-3.5)	(-2.6)	(-4.2)	(-2.7)	(-3.6)	(-5.5)	(-6.6)
Exports of services	347,836	362,420	429,563	495,799	565,049	150,732	155,913	144,830	146,160
Imports of services	202,494	203,400	242,507	264,237	284,015	75,975	74,132	69,741	75,237
Invisible trade balance	145,342	159,020	187,056	231,562	281,034	74,757	81,781	75,089	70,923
	(71.8)	(78.2)	(77.1)	(87.6)	(99.0)	(98.4)	(110.3)	(107.7)	(94.3)
Exports of goods and services	1,909,957	2,111,509	2,456,594	2,747,543	3,032,406	817,960	830,842	732,128	802,669
Imports of goods and services	1,804,021	1,997,459	2,342,052	2,575,328	2,860,355	761,772	774,304	691,263	777,950
Visible and invisible trade balance	105,936	114,050	114,542	172,215	172,051	56,188	56,538	40,865	24,719
	<5.9>	<5.7>	<4.9>	<6.7>	<6.0>	<7.4>	<7.3>	<5.9>	<3.2>

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

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

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

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>2006</u>		<u>2007</u>	
	(% change)				(% change)	(\$Mn)	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
							(% change over a year earlier)			
All markets	5.4	11.7	15.9	11.4	9.4	2,461,027	8.4	11.9	9.0	11.7
Mainland of China	12.3	21.1	19.7	14.0	14.2	1,156,210	13.5	17.0	13.3	15.9
United States	1.0	-2.6	5.4	5.6	2.9	371,130	0.7	7.3	1.9	1.3
Japan	-4.5	12.3	14.4	10.3	1.6	120,422	*	-2.2	1.5	3.1
Germany	-5.3	15.1	11.9	15.6	4.0	75,663	0.3	3.6	-0.9	10.9
United Kingdom	-2.0	5.8	14.8	5.2	6.3	73,632	7.9	10.2	11.6	1.8
Taiwan	-2.2	22.2	16.2	2.7	3.3	52,106	8.6	6.8	3.9	10.0
Republic of Korea	17.2	16.9	24.0	9.5	7.5	51,873	9.8	-4.3	-5.5	5.0
Singapore	6.8	13.0	22.0	6.8	4.4	48,612	13.7	8.8	4.7	3.9
Rest of the world	3.5	7.1	17.3	13.3	8.5	511,380	6.3	11.7	10.4	14.6

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

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>2006</u>		<u>2007</u>	
	(% change)				(% change)	(\$Mn)	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
	(% change over a year earlier)									
All sources	3.3	11.5	16.9	10.3	11.6	2,599,804	10.7	14.0	9.0	12.6
Mainland of China	5.1	9.6	16.9	14.3	13.7	1,192,952	10.8	16.6	10.3	16.5
Japan	3.4	17.2	19.7	0.1	4.5	268,140	5.1	9.7	8.2	9.3
Taiwan	7.4	8.0	22.8	9.4	15.9	194,917	20.4	7.0	0.4	4.8
Singapore	3.9	19.6	22.5	21.8	21.9	164,837	17.0	22.6	13.6	26.1
United States	-12.8	7.9	13.4	6.5	3.6	123,569	5.1	14.7	16.3	12.6
Republic of Korea	7.3	15.0	15.0	2.6	16.1	119,647	7.7	23.8	1.6	-2.9
Rest of the world	2.2	12.1	13.6	8.4	7.6	535,742	10.1	8.3	8.4	8.4

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>		<u>2006</u>		<u>2007</u>	
	(% change)				(% change)	(\$Mn)	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
	(% change over a year earlier)									
Overall	-9.0	2.6	14.8	7.3	14.3	668,809	12.7	8.2	1.5	10.3
Foodstuffs	0.2	1.5	8.6	3.1	4.3	52,952	4.6	1.0	10.1	10.6
Consumer goods	-5.2	-1.8	7.4	5.5	3.1	131,832	-6.6	-12.1	-4.1	8.8
Raw materials and semi-manufactures	-1.6	10.7	17.6	4.2	8.8	234,899	5.9	9.4	8.4	19.3
Fuels	3.9	12.9	37.5	23.5	22.8	69,944	15.0	20.4	7.9	20.8
Capital goods	-24.9	-6.6	13.3	10.8	33.2	179,339	45.7	24.9	-8.5	-4.9

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005[#]</u>	<u>2006[#]</u>		<u>2006</u>	<u>2007</u>		
	(% change)				(% change)	(\$Mn)	Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
							(% change over a year earlier)			
Exports of services	8.4	4.2	18.5	15.4	14.0	565,049	14.6	12.8	12.5	12.7
Transportation	10.8	3.8	25.5	16.9	9.5	173,074	8.7	9.5	4.1	7.0
Travel	25.4	-4.4	26.1	14.2	12.8	90,340	12.5	12.8	17.5	15.5
Trade-related	9.0	12.2	12.6	10.7	12.1	181,760	13.1	11.0	12.5	13.5
Other services	-5.9	-1.4	12.7	22.9	25.5	119,875	29.3	21.5	20.8	18.1
Imports of services	4.3	0.4	19.2	9.0	7.5	284,015	6.6	8.4	6.1	10.3
Transportation	-4.7	7.8	29.4	20.3	8.0	87,893	7.1	8.2	4.8	9.3
Travel	0.8	-8.0	15.9	0.1	4.9	108,537	2.3	6.9	3.5	7.8
Trade-related	24.2	9.2	3.2	12.8	2.9	19,169	3.6	1.2	3.2	4.6
Other services	20.0	8.2	19.7	10.5	12.6	68,416	14.4	13.6	12.9	17.3
Net exports of services	14.8	9.4	17.6	23.8	21.4	281,034	24.1	17.2	19.2	15.4

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

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

Table 11 : Incoming visitors by source

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>	<u>2007</u>	<u>2007</u>	<u>2007</u>
						<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<u>('000)</u>									
All sources	16 566.4	15 536.8	21 810.6	23 359.4	25 251.1	6 374.7	6 679.1	6 615.8	6413.6
Mainland of China	6 825.2	8 467.2	12 245.9	12 541.4	13 591.3	3 492.3	3 392.6	3 778.2	3321.5
South and Southeast Asia	1 905.2	1 359.6	2 077.7	2 413.0	2 659.7	601.8	818.6	566.3	749.1
Taiwan	2 428.8	1 852.4	2 074.8	2 130.6	2 177.2	599.0	538.4	525.7	540.4
Europe	1 083.9	780.8	1 142.7	1 398.0	1 548.2	360.0	472.1	413.8	419.5
Japan	1 395.0	867.2	1 126.3	1 210.8	1 311.1	336.9	348.4	337.3	305.2
United States	1 000.8	683.8	1 051.7	1 143.1	1 159.0	276.4	318.4	277.4	311.7
Others	1 927.4	1 525.8	2 091.7	2 522.6	2 804.5	708.3	790.6	716.9	766.0
<u>(% change over a year earlier)</u>									
All sources	20.7	-6.2	40.4	7.1	8.1	6.7	4.3	6.3	7.4
Mainland of China	53.4	24.1	44.6	2.4	8.4	6.0	0.9	5.2	6.6
South and Southeast Asia	9.1	-28.6	52.8	16.1	10.2	10.5	8.9	4.2	7.7
Taiwan	0.4	-23.7	12.0	2.7	2.2	4.4	-0.5	-0.2	5.3
Europe	6.3	-28.0	46.3	22.3	10.7	9.4	13.8	17.7	15.1
Japan	4.4	-37.8	29.9	7.5	8.3	11.0	6.9	5.2	*
United States	7.0	-31.7	53.8	8.7	1.4	0.5	1.4	5.1	3.8
Others	5.9	-20.8	37.1	20.6	11.2	7.9	13.9	14.2	13.0

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

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

Table 12 : Property market

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	18 202	22 278	35 322	25 790	26 262	31 052	26 397
Commercial property	705	945	634	160	208	304	417
<i>of which :</i>							
Office space	456	737	428	96	76	166	299
Other commercial premises ^(b)	249	208	206	64	132	138	118
Industrial property ^(c)	343	300	191	62	45	29	15
<i>of which :</i>							
Industrial-cum-office premises	72	145	40	37	14	0	15
Conventional flatted factory space	181	31	4	19	30	3	0
Storage premises ^(d)	90	124	147	6	0	27	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	16 046	14 267	26 733	40 944	47 590	20 154	13 948
Subsidized sales flats ^(e)	21 535	21 993	26 532	22 768	26 174	2 224	320
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5	790.0	1 038.4
Commercial property	599.0	395.7	287.5	337.5	265.0	365.3	200.0
Industrial property ^(f)	461.6	69.5	84.9	129.2	45.7	107.1	0.8
Other properties	259.2	201.5	125.8	240.2	75.0	109.3	444.2
Total	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	172 711	85 616	77 087	65 340	69 667	72 974	71 576
Primary market	15 806	23 441	18 325	13 911	18 366	23 088	26 498
Secondary market	156 905	62 175	58 762	51 429	51 301	49 886	45 078
Selected types of non-residential properties ^(h)							
Office space	N.A.	N.A.	N.A.	1 724	1 774	1 639	1 817
Other commercial premises	N.A.	N.A.	N.A.	2 411	2 989	3 167	4 142
Flatted factory space	N.A.	N.A.	N.A.	N.A.	N.A.	3 756	3 813

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

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

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

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

Table 12 : Property market (cont'd)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> Q3	Q4	<u>2007</u> Q1	Q2
Completion of new property by the private sector							
<i>('000 m² of internal floor area)</i>							
Residential property ^(a) (in units)	26 036	17 321	16 579	3 555	4 474	2 273	647
Commercial property	371	145	291	42	178	33	172
<i>of which :</i>							
Office space	280	34	108	36	43	10	161
Other commercial premises ^(b)	91	111	183	6	134	24	11
Industrial property ^(c)	1	17	27	4	2	0	0
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	0	0	0
Conventional flatted factory space	1	0	0	0	0	0	0
Storage premises ^(d)	0	13	27	4	2	0	0
Production of public housing							
<i>(in units)</i>							
Rental housing flats ^(e)	20 947	24 691	4 430	0	0	4 795	0
Subsidized sales flats ^(e)	0	0	0	0	0	1 200	0
Building plans with consent to commence work in the private sector							
<i>('000 m² of usable floor area)</i>							
Residential property	530.0	550.7	706.7	343.9	99.4	48.7	300.4
Commercial property	161.3	481.9	468.4	38.4	313.6	127.6	46.1
Industrial property ^(f)	16.4	35.1	23.9	8.2	1.2	11.0	70.2
Other properties	407.1	408.0	199.2	98.7	25.9	71.9	44.9
Total	1 114.8	1 475.8	1 398.2	489.1	440.0	259.1	461.6
Agreements for sale and purchase of property							
<i>(Number)</i>							
Residential property ^(g)	100 630	103 362	82 472	22 241	20 696	23 328	30 293
Primary market	25 694	15 994	13 986	5 902	3 767	3 095	5 876
Secondary market	74 936	87 368	68 486	16 339	16 929	20 233	24 417
Selected types of non-residential properties ^(h)							
Office space	3 213	3 431	2 874	671	760	721	947
Other commercial premises	7 833	7 143	4 402	1 026	1 093	1 086	1 436
Flatted factory space	5 889	6 560	7 409	1 819	1 862	1 899	2 562

Notes (e) The Housing Authority's housing production figures have been revised as from 1998. The revision is to exhaustively cover all housing production and to count projects (including surplus HOS projects) which undergo transfer of usage at the time of disposal and according to their actual usage. Moreover, surplus HOS courts and blocks pending disposal are excluded from production statistics until they are disposed. Rental and sales flats projects of the Housing Society are included.

(f) These include multi-purpose industrial premises designed also for office use.

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

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

N.A. Not available.

Table 13 : Property prices and rentals

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

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

(b) Since 2000, price and rental indices for office space in the private sector have been recomputed according to the revised grading criteria for office space. Hence, the figures from 2000 onwards are not strictly comparable to those in the earlier years.

(c) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known.

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

	<u>2004</u>	<u>2005</u>	<u>2006[#]</u>	<u>2006</u> Q3	Q4 [#]	<u>2007</u> Q1 ⁺	Q2 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	78.0	92.0	92.7	92.7	93.3	96.6	99.6
Office space ^(b)	99.3	133.0	139.3	143.9	142.7	148.7	154.8
Shopping space	119.3	149.3	153.5	153.9	154.1	158.1	166.2
Flatted factory space	88.6	125.0	158.5	164.5	170.7	175.3	191.5
Property rental indices ^(c) :							
Residential flats	77.7	86.5	91.6	92.2	94.2	96.0	99.2
Office space ^(b)	78.1	96.4	117.4	120.3	121.6	125.6	129.2
Shopping space	92.8	100.5	104.3	104.1	106.9	107.6	111.0
Flatted factory space	77.3	82.6	91.0	92.7	94.7	96.4	98.9
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	26.6	17.9	0.8	-1.0	3.6	5.6	6.9 <68.0> {-41.2}
Office space ^(b)	58.9	33.9	4.7	4.6	5.4	13.5	11.0 <162.4> {-31.2}
Shopping space	39.5	25.1	2.8	3.4	2.1	4.3	7.6 <105.2> {-14.1}
Flatted factory space	23.6	41.1	26.8	24.5	25.0	21.5	23.9 <173.6> {10.4}
Property rental indices ^(c) :							
Residential flats	5.6	11.3	5.9	4.4	4.8	7.5	9.1 <38.0> {-28.6}
Office space ^(b)	4.7	23.4	21.8	20.5	15.4	14.1	10.1 <80.2> {-18.7}
Shopping space	7.4	8.3	3.8	1.2	3.4	4.3	8.0 <32.0> {-10.9}
Flatted factory space	3.2	6.9	10.2	12.4	12.1	11.7	9.6 <37.0> {-26.0}

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

(+) Provisional figures.

< > % change from the trough in 2003.

{ } % change from the peak in 1997.

Table 14 : Monetary aggregates

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

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placements of less than one month in the monetary aggregates. As such, figures at end-1997 cannot be compared with those at end-1996.

Total Money Supply:

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

Table 14 : Monetary aggregates (cont'd)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u> Q3	Q4	<u>2007</u> Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	412,629	348,248	387,918	367,188	387,918	418,842	505,498
M2 ^(a)	2,208,591	2,329,669	2,777,823	2,651,516	2,777,823	2,948,372	3,193,742
M3 ^(a)	2,219,557	2,345,838	2,795,688	2,669,052	2,795,688	2,966,455	3,211,875
Total money supply (\$Mn)							
M1	484,494	434,684	491,657	470,389	491,657	534,416	643,944
M2	4,166,706	4,379,057	5,062,604	4,856,149	5,062,604	5,271,752	5,602,922
M3	4,189,544	4,407,188	5,098,012	4,886,507	5,098,012	5,302,225	5,633,240
Deposit ^(b) (\$Mn)							
HK\$	2,017,911	2,131,579	2,568,426	2,441,962	2,568,426	2,736,438	2,987,105
Foreign currency	1,848,145	1,936,322	2,197,121	2,108,527	2,197,121	2,236,227	2,350,545
Total	3,866,056	4,067,901	4,765,547	4,550,489	4,765,547	4,972,665	5,337,650
Loans and advances (\$Mn)							
HK\$	1,666,740	1,797,350	1,917,437	1,931,779	1,917,437	2,070,264	2,209,937
Foreign currency	488,964	514,637	550,392	566,351	550,392	601,228	649,107
Total	2,155,704	2,311,987	2,467,828	2,498,130	2,467,828	2,671,492	2,859,044
Nominal Effective Exchange Rate Indices (Jan 2000 =100) ^{(c)(d)}							
Trade-weighted	98.3	97.4	96.1	95.8	94.9	93.7	92.7
Import-weighted	99.2	98.1	96.8	96.5	95.6	94.3	93.5
Export-weighted	97.3	96.7	95.5	95.1	94.2	93.0	92.0
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	16.3	-15.6	11.4	4.7	11.4	17.4	43.1
M2 ^(a)	4.8	5.5	19.2	16.3	19.2	20.2	27.4
M3 ^(a)	4.6	5.7	19.2	16.3	19.2	20.1	27.3
Total money supply :							
M1	17.2	-10.3	13.1	9.1	13.1	21.7	43.9
M2	9.3	5.1	15.6	14.4	15.6	16.6	20.8
M3	8.6	5.2	15.7	14.4	15.7	16.5	20.7
Deposit ^(b)							
HK\$	4.5	5.6	20.5	17.4	20.5	21.7	29.9
Foreign currency	13.0	4.8	13.5	14.2	13.5	14.1	15.8
Total	8.4	5.2	17.2	15.9	17.2	18.2	23.3
Loans and advances							
HK\$	6.0	7.8	6.7	9.5	6.7	15.5	18.7
Foreign currency	5.8	5.3	6.9	12.1	6.9	12.2	16.8
Total	5.9	7.2	6.7	10.1	6.7	14.8	18.3
Nominal Effective Exchange Rate Indices ^{(c)(d)}							
Trade-weighted	-2.4	-0.9	-1.3	-1.8	-3.8	-4.0	-3.6
Import-weighted	-2.4	-1.1	-1.3	-1.8	-3.9	-4.0	-3.4
Export-weighted	-2.5	-0.6	-1.2	-1.9	-3.6	-4.1	-3.8

- Notes : (a) Adjusted to include foreign currency swap deposits.
- (b) Starting from April 1997, deposits include short-term Exchange Fund placements of less than one month. As such, figures at end-1997 cannot be compared with those at end-1996.
- (c) Period average.
- (d) The Effective Exchange Rate Indices (EERIs) from January 2000 onwards are compiled on the basis of the average merchandise trade pattern from 1999 to 2000. The EERIs for the earlier periods are compiled on the basis of the average merchandise trade pattern in a much earlier period from 1991 to 1993, and have been re-scaled to the new base period for linking up with the new index series.
- (--) Not applicable.

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

	(%)								
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>			<u>2007</u>
						Q2	Q3	Q4	Q1
Wholesale trade	-10.7	-5.0	4.7	5.6	7.9	5.7	14.1	7.5	7.3
Retail trade	-4.1	-2.3	10.8	6.8	7.3	6.7	7.7	8.8	9.4
Import/export trade	-2.8	6.5	12.4	10.6	10.2	8.4	11.0	11.1	7.5
Restaurants	-5.4	-9.7	10.1	6.0	9.5	11.1	7.1	10.9	11.8
Hotels	-2.3	-19.7	39.4	22.1	13.8	15.4	14.4	11.4	15.9
Transport ^(a)	2.3	0.5	22.8	17.8	10.6	12.6	6.4	7.6	5.9
Storage	-19.6	-4.5	17.0	10.4	10.2	5.0	10.7	15.6	18.4
Communications	-2.6	-2.4	1.0	5.1	0.8	2.5	-0.4	-0.1	5.8
Banking	-0.8	*	4.4	10.9	19.5	24.1	11.5	24.1	27.3
Financing (other than banking)	-14.3	17.3	33.2	14.3	47.9	57.2	25.9	58.5	35.0
Insurance	10.3	19.1	22.3	16.0	21.3	21.9	14.1	16.0	16.0
Real estate	-2.5	6.2	13.5	16.0	-0.4	-5.3	4.6	5.6	25.7
Business services	-5.8	0.5	8.3	4.9	19.6	18.1	22.9	18.3	14.8
Film entertainment	-9.1	2.3	3.7	5.0	1.7	-0.7	5.8	1.1	4.5
Tourism, convention and exhibition services [#]	10.7	-7.3	26.5	12.9	14.0	14.5	14.5	12.6	12.5
Computer and information services	5.7	5.7	20.5	23.4	9.7	-1.5	21.1	0.1	3.7

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

(#) Revised figures.

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

Table 16 : Labour force characteristics[#]

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>		<u>2007</u>	
						Q3	Q4	Q1	Q2
<u>(%)</u>									
Labour force participation rate	61.8	61.4	61.3	61.0	61.3	61.8	61.6	61.2	61.5
Seasonally adjusted unemployment rate	7.3	7.9	6.8	5.6	4.8	4.7	4.4	4.3	4.2
Underemployment rate	3.0	3.5	3.2	2.7	2.4	2.3	2.4	2.2	2.2
<u>('000)</u>									
Population of working age	5 620.7	5 652.4	5 733.1	5 801.4	5 845.9	5 856.5	5 885.6	5 899.0	5 928.6
Labour force	3 474.0	3 472.5	3 515.9	3 538.1	3 581.4	3 610.6	3 616.5	3 611.9	3 640.7
Persons employed	3 220.3	3 197.4	3 276.5	3 340.8	3 410.2	3 433.1	3 462.9	3 459.4	3 485.0
Persons unemployed	253.8	275.1	239.4	197.3	171.2	177.5	153.6	152.5	155.7
Persons underemployed	103.9	121.4	114.1	96.3	86.2	84.0	87.5	80.6	81.2
<u>(% change over a year earlier)</u>									
Population of working age	0.8	0.6	1.4	1.2	0.8	0.8	0.9	1.5	1.7
Labour force	1.4	*	1.3	0.6	1.2	1.8	1.8	1.7	2.7
Persons employed	-1.0	-0.7	2.5	2.0	2.1	2.7	2.7	2.5	3.4
Persons unemployed	45.3	8.4	-13.0	-17.6	-13.2	-12.4	-13.9	-14.1	-11.7
Persons underemployed	22.4	16.9	-6.0	-15.6	-10.5	-9.2	0.7	0.6	-12.7

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

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

Table 17 : Employment in selected major economic sectors

Major economic sector	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>			<u>2007</u>	No.
	(% change)					<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
						(% change over a year earlier)				
Manufacturing	-9.0	-10.3	-3.0	-2.0	-2.5	-0.5	-3.7	-4.8	-1.7	158 728
<i>of which :</i>										
Printing, publishing and allied industries	-6.4	-5.2	-1.2	-3.1	2.0	0.4	1.7	3.7	2.3	37 660
Food, manufacturing	0.9	-2.6	3.9	5.4	5.2	4.0	8.5	4.3	10.3	23 261
Wearing apparel, except footwear	-19.3	-11.6	-0.8	-4.7	-10.5	0.3	-18.6	-19.0	-16.5	17 270
Textiles	-1.1	-16.8	-11.1	0.5	-4.4	-1.6	-5.7	-7.0	1.8	19 133
Electronics	-13.1	-18.9	-2.3	-4.7	-12.9	-9.5	-14.1	-16.1	-14.6	11 441
Transport equipment, manufacturing	-5.3	-0.4	-3.3	8.6	3.6	6.2	4.3	0.7	10.2	10 306
Wholesale, retail, import/export trades, restaurants and hotels	-2.3	-3.0	2.9	2.6	1.9	1.8	1.7	2.3	1.9	1 048 318
<i>of which :</i>										
Wholesale, retail and import/export trades	-1.6	-1.9	2.1	2.3	1.1	0.9	0.7	1.8	1.2	816 613
Restaurants and hotels	-4.8	-7.3	6.0	3.6	5.1	5.3	5.5	4.3	4.4	231 705
Transport, storage and communications	-1.8	-4.4	3.7	2.6	1.1	-0.2	1.4	1.7	1.1	186 107
<i>of which :</i>										
Land transport	-0.3	0.5	-2.2	-1.5	0.3	0.6	*	1.2	0.2	37 853
Water transport	1.0	-3.6	0.1	-0.3	-4.4	-8.1	-3.5	-2.1	-3.7	25 559
Services allied to transport	1.1	-3.7	10.3	7.9	3.4	3.2	3.9	2.9	2.5	63 335
Financing, insurance, real estate and business services	-1.3	-1.9	3.6	4.4	5.0	4.1	5.5	5.8	5.1	492 049
<i>of which :</i>										
Financial institutions	-5.6	-6.5	1.1	4.7	5.9	4.5	6.8	8.1	7.9	139 622
Insurance	0.3	1.2	2.4	5.9	-1.2	-4.8	-1.1	-1.0	-0.7	28 493
Real estate	5.2	0.7	2.2	6.8	5.3	5.7	4.0	3.2	2.0	99 342
Business services except machinery and equipment rental and leasing	-1.2	-0.2	6.0	2.9	5.3	4.5	6.4	6.7	5.5	223 751
Community, social and personal services	5.9	2.9	3.2	4.5	3.6	3.4	4.0	3.1	2.9	464 206
<i>of which :</i>										
Sanitary and similar services	13.8	6.0	1.5	2.4	2.5	1.6	0.4	3.7	3.1	61 009
Education services	2.5	2.9	1.8	1.8	4.9	3.6	7.5	4.5	3.7	140 944
Medical, dental and other health services	3.2	-0.3	2.5	1.6	4.0	4.4	4.5	4.5	5.9	82 491
Welfare institutions	11.9	13.9	2.1	-0.4	1.5	4.0	-0.1	*	1.3	54 747
Civil Service^(a)	-3.7	-2.4	-3.8	-2.7	-1.3	-1.5	-1.4	-1.1	-0.8	153 805

Notes : (a) These figures cover only those employed on Civil Service terms of appointment. Judicial officers, consultants, contract staff and temporary staff not appointed on Civil Service terms are not included.

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

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

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	Jun	<u>2006</u> Sep	Dec	<u>2007</u> Mar
<u>(number)</u>									
Building sites									
Private sector	40 017	33 892	33 619	31 556	30 993	30 997	31 261	29 556	28123
Public sector ^(a)	11 727	16 183	13 325	10 135	7 643	7 822	7 588	6 850	8394
Sub-total	51 744	50 074	46 944	41 690	38 636	38 819	38 849	36 406	36517
Civil engineering sites									
Private sector	2 869	2 755	2 564	2 198	1 569	1 707	1 540	1 434	1 674
Public sector ^(a)	18 611	17 466	16 772	15 378	12 661	11 747	12 897	13 164	12 175
Sub-total	21 480	20 221	19 336	17 576	14 230	13 454	14 437	14 598	13 849
Total	73 223	70 295	66 280	59 266	52 865	52 273	53 286	51 004	50 366
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.3	-15.3	-0.8	-6.1	-1.8	-0.9	1.9	-2.5	-12.5
Public sector ^(a)	-31.8	38.0	-17.7	-23.9	-24.6	-22.0	-28.2	-19.0	1.0
Sub-total	-10.4	-3.2	-6.3	-11.2	-7.3	-6.0	-5.8	-6.1	-9.8
Civil engineering sites									
Private sector	9.0	-4.0	-6.9	-14.3	-28.6	-25.2	-17.2	-8.1	-5.0
Public sector ^(a)	-6.6	-6.2	-4.0	-8.3	-17.7	-28.5	-6.1	-6.8	-5.1
Sub-total	-4.8	-5.9	-4.4	-9.1	-19.0	-28.1	-7.4	-6.9	-4.0
Total	-8.8	-4.0	-5.7	-10.6	-10.8	-12.9	-6.3	-6.3	-8.3

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

Table 19 : Average labour earnings by major economic sector

	(\$)								
	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>			<u>2007</u>
Major economic sector						Q2	Q3	Q4	Q1
Wholesale, retail and import/export trades	12,500 (-1.6) <1.4>	12,300 (-1.5) <1.1>	12,400 (0.4) <0.9>	13,300 (7.3) <6.3>	13,800 (4.1) <2.0>	12,500 (3.4) <1.3>	13,000 (5.3) <3.0>	14,100 (5.1) <2.9>	15,600 (0.3) <-1.4>
Restaurants and hotels	8,700 (-4.2) <-1.2>	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,300 (1.9) <0.9>	8,500 (2.6) <0.6>	8,000 (0.7) <-1.3>	8,200 (2.9) <0.6>	8,700 (8.1) <5.8>	9,400 (4.1) <2.3>
Transport, storage and communications	18,900 (-0.2) <2.9>	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	19,200 (5.0) <4.1>	19,600 (2.1) <0.1>	18,700 (4.2) <2.1>	18,500 (2.1) <-0.2>	21,400 (5.8) <3.6>	20,600 (4.1) <2.4>
Financing, insurance, real estate and business services	18,800 (-2.2) <0.8>	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	19,100 (2.8) <1.8>	20,100 (5.6) <3.6>	19,000 (5.0) <2.9>	18,200 (5.6) <3.3>	21,200 (6.3) <4.1>	23,500 (5.9) <4.2>
Community, social and personal services	19,800 (-1.3) <1.8>	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	18,000 (-2.2) <-3.1>	17,900 (-0.1) <-2.0>	17,800 (-0.1) <-2.1>	18,200 (0.2) <-2.0>	18,100 (-0.1) <-2.2>	17,900 (0.7) <-1.0>
Manufacturing	11,800 (-1.2) <1.9>	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	11,600 (1.8) <0.9>	11,700 (1.4) <-0.6>	11,400 (1.1) <-0.9>	10,900 (2.7) <0.4>	11,700 (0.8) <-1.3>	13,100 (1.3) <-0.4>
All sectors surveyed	15,300 (-1.1) <2.0>	15,000 (-1.8) <0.8>	14,900 (-0.7) <-0.2>	15,400 (3.5) <2.6>	15,800 (2.4) <0.4>	14,900 (2.2) <0.1>	14,900 (2.2) <-0.1>	16,300 (4.0) <1.8>	17,500 (2.4) <0.7>

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

< > % change over a year earlier in real terms.

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

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

(%)

Selected major economic sector	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>			<u>2007</u>
						Jun	Sep	Dec	Mar
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	-0.6	-1.7	-1.6	1.6	1.1	1.6	1.6	1.6	1.7
Restaurants and hotels	-2.6	-4.1	-2.2	*	1.0	1.5	1.6	0.9	1.4
Transport services	0.6	-1.9	-1.0	1.0	-0.6	-1.7	*	0.4	0.3
Financing, insurance, real estate and business services	-0.8	-0.1	-0.5	*	3.2	2.0	3.5	3.4	3.1
Personal services	-1.5	-3.1	1.3	-1.5	2.5	0.6	4.8	6.1	5.7
Manufacturing	-1.4	-2.7	-1.3	1.2	2.9	1.1	4.6	3.2	1.6
All sectors surveyed	-1.0	-1.9	-1.1	0.8	1.5	1.1	2.2	2.0	2.0
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	1.7	0.4	-1.7	0.4	-0.6	-0.3	-0.2	-0.3	-0.5
Restaurants and hotels	-0.4	-2.1	-2.3	-1.3	-0.8	-0.4	-0.2	-0.9	-0.7
Transport services	2.9	0.1	-1.0	-0.2	-2.3	-3.6	-1.8	-1.5	-1.8
Financing, insurance, real estate and business services	1.5	2.0	-0.6	-1.2	1.5	0.1	1.7	1.5	0.9
Personal services	0.8	-1.1	1.3	-2.7	0.7	-1.3	3.0	4.2	3.4
Manufacturing	0.8	-0.7	-1.4	-0.1	1.1	-0.8	2.8	1.2	-0.5
All sectors surveyed	1.3	0.2	-1.2	-0.4	-0.3	-0.7	0.3	0.1	-0.2

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

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

Table 21 : Rates of change in prices

(%)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
GDP deflator	5.6	0.2	-5.8	-5.6	-1.8	-3.5	-6.4	-3.6
Domestic demand deflator	4.5	0.4	-2.3	-5.0	-2.3	-4.9	-4.5	*
Consumer Price Indices ^(a) :								
Composite CPI	5.8	2.8	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4
CPI(A)	5.7	2.6	-3.3	-3.0	-1.7	-3.2	-2.1	*
CPI(B)	5.8	2.8	-4.7	-3.9	-1.6	-3.1	-2.7	-0.5
CPI(C)	6.1	3.2	-3.7	-4.5	-1.5	-2.8	-2.9	-0.9
Unit Value Indices :								
Domestic exports	-2.4	-2.8	-2.4	-1.0	-4.7	-3.3	0.2	1.5
Re-exports	-1.5	-3.9	-2.8	-0.1	-2.0	-2.7	-1.5	1.1
Total exports of goods	-1.6	-3.8	-2.7	-0.2	-2.3	-2.7	-1.4	1.2
Imports of goods	-2.3	-4.9	-2.0	0.8	-3.1	-3.9	-0.4	2.9
Terms of Trade Index	0.7	1.2	-0.7	-1.0	0.9	1.2	-1.0	-1.7
Producer Price Index for all manufacturing industries	-0.3	-1.8	-1.6	0.2	-1.6	-2.7	-0.3	2.2
Construction Labour and Material Cost Index	9.3	7.5	1.4	1.8	0.3	-0.3	-1.0	-1.2
Tender Price Indices :								
Public sector building projects	17.6	9.1	-4.4	-13.1	-8.5	-11.7	-0.3	-1.5
Public housing projects	18.9	9.0	-3.3	-11.9	-15.1	-9.6	-10.0	3.5

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

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

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

N.A. Not available.

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

(%)

	<u>2005</u>	<u>2006</u>	<u>2006</u>		<u>2007</u>		<u>Average annual rate of change:</u>	
			Q3	Q4	Q1	Q2	10 years	5 years
							1996 to 2006	2001 to 2006
GDP deflator	-0.4 #	-0.4 #	-0.4 #	-0.4 #	0.9 #	0.7	-2.2 #	-2.9 #
Domestic demand deflator	0.8 #	1.8 #	1.8 #	2.2 #	-0.1 #	*	-1.2 #	-1.4 #
Consumer Price Indices ^(a) :								
Composite CPI	1.0	2.0	2.3	2.1	1.7	1.3	-0.4	-0.6
CPI(A)	1.1	1.7	2.1	1.8	0.3	0.7	-0.2	-0.5
CPI(B)	1.0	2.1	2.4	2.2	2.0	1.3	-0.5	-0.7
CPI(C)	0.8	2.2	2.4	2.5	2.9	1.8	-0.4	-0.7
Unit Value Indices :								
Domestic exports	2.2	-2.1	-1.3	-0.8	0.4	0.6	-1.5	-0.3
Re-exports	1.2	1.1	1.5	2.0	2.8	2.1	-1.1	-0.1
Total exports of goods	1.3	1.0	1.4	1.9	2.7	2.0	-1.1	-0.1
Imports of goods	2.7	2.1	2.7	2.7	2.6	1.9	-0.8	0.7
Terms of Trade Index	-1.4	-1.1	-1.3	-0.9	0.1	0.1	-0.3	-0.8
Producer Price Index for all manufacturing industries	0.8	2.3	2.6	2.0	2.5	N.A.	-0.3	0.4
Construction Labour and Material Cost Index	-2.1	0.1	1.3	2.5	4.0	N.A.	1.5	-0.9
Tender Price Indices :								
Public sector building projects	1.4	5.0	4.6	13.2	15.0	N.A.	-1.1	-1.6
Public housing projects	7.7	11.2	15.8	17.9	21.9	N.A.	-0.6	0.2

Table 22 : Rates of change in Composite Consumer Price Index

(%)

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

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

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

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

N.A. Not available.

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

		(%)								
	Weight	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>		<u>2007</u>		Average annual <u>rate of change:</u>	
					Q3	Q4	Q1	Q2	10 years 1996 to 2006	5 years 2001 to 2006
All items	100.0	-0.4	1.0	2.0	2.3	2.1	1.7	1.3	-0.4	-0.6
Food	26.94	1.0	1.8	1.7	2.1	2.2	2.9	2.8	0.1	0.2
<i>Meals bought away from</i>	<i>(16.86)</i>	<i>0.2</i>	<i>0.9</i>	<i>1.3</i>	<i>1.5</i>	<i>1.5</i>	<i>1.8</i>	<i>2.0</i>	<i>0.3</i>	<i>-0.1</i>
<i>Food, excluding meals bought</i> <i>away from home</i>	<i>(10.08)</i>	<i>2.5</i>	<i>3.2</i>	<i>2.5</i>	<i>3.1</i>	<i>3.5</i>	<i>4.4</i>	<i>4.1</i>	<i>-0.1</i>	<i>0.6</i>
Housing ^(a)	29.17	-5.2	0.1	4.7	4.8	4.8	2.2	1.0	-1.5	-2.3
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-6.6</i>	<i>-0.1</i>	<i>5.6</i>	<i>5.7</i>	<i>5.6</i>	<i>5.6</i>	<i>2.0</i>	<i>-2.0</i>	<i>-2.9</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>2.5</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>-31.7</i>	<i>-10.5</i>	<i>N.A.</i>	<i>1.8</i>
Electricity, gas and water	3.59	11.4	4.1	2.1	4.1	-2.8	-1.3	-2.2	1.9	2.2
Alcoholic drinks and tobacco	0.87	*	0.4	-3.7	-4.1	-4.3	-3.9	-0.1	1.5	-0.2
Clothing and footwear	3.91	6.4	2.0	1.0	1.7	5.0	7.2	3.9	-2.4	1.4
Durable goods	5.50	-2.2	-3.2	-6.4	-6.9	-6.3	-5.8	-4.6	-4.1	-4.9
Miscellaneous goods	4.78	3.6	1.5	1.7	1.9	2.6	2.8	1.8	2.0	2.2
Transport	9.09	0.4	1.4	0.7	0.2	-0.1	-0.6	-0.5	1.1	0.3
Miscellaneous services	16.15	-0.2	1.0	1.9	2.5	2.1	2.2	2.2	0.3	-0.6

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

(%)

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Private consumption expenditure	3.9	2.1	-5.2	-4.5	-1.0	-3.4	-2.9
Government consumption expenditure	6.4	2.6	-0.1	-1.9	1.1	-0.6	-2.7
Gross domestic fixed capital formation	6.0	-7.2	0.4	-3.8	-6.6	-10.1	-9.4
Total exports of goods	-1.9	-3.3	-3.4	-0.5	-2.6	-2.9	-2.0
Imports of goods	-1.9	-4.4	-2.6	0.8	-3.5	-4.2	-0.9
Exports of services	0.8	-5.1	-3.1	1.6	-4.3	-2.2	-3.4
Imports of services	0.7	-3.6	-0.3	-0.3	-1.1	0.4	2.6
Gross Domestic Product	5.6	0.2	-5.8	-5.6	-1.8	-3.5	-6.4
Total final demand	1.3	-2.3	-3.7	-2.7	-2.6	-3.7	-3.0
Domestic demand	4.5	0.4	-2.3	-5.0	-2.3	-4.9	-4.5

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

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

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

(%)

	<u>2004</u>	<u>2005[#]</u>	<u>2006[#]</u>	<u>2006</u>		<u>2007</u>		Average annual <u>rate of change:</u>	
				Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]	10 years 1996 to 2006 [#]	5 years 2001 to 2006 [#]
Private consumption expenditure	-0.5	1.5	1.6	1.4	1.5	1.9	1.7	-0.9	-0.8
Government consumption expenditure	-2.9	-1.6	1.4	1.4	1.4	1.6	4.0	0.1	-1.3
Gross domestic fixed capital formation	2.1	0.5	2.8	5.7	4.2	-5.5	-6.5	-2.7	-3.0
Total exports of goods	0.5	-0.1	-0.5	-0.4	0.2	0.9	0.6	-1.7	-1.0
Imports of goods	2.5	1.3	1.4	1.7	2.1	0.7	0.1	-1.2	*
Exports of services	0.4	3.7	4.7	5.2	3.5	3.3	1.7	-0.7	0.6
Imports of services	4.0	1.5	1.0	1.4	1.8	2.0	2.1	0.5	1.9
Gross Domestic Product	-3.6	-0.4	-0.4	-0.4	-0.4	0.9	0.7	-2.2	-2.9
Total final demand	0.4	0.8	0.8	1.0	1.3	1.0	0.5	-1.5	-1.0
Domestic demand	*	0.8	1.8	1.8	2.2	-0.1	*	-1.2	-1.4

