

## **Press Release**

(embargoed until 4:30 p.m. on 13 November 2009)

### **Economic Situation in the Third Quarter of 2009 and Latest GDP and Price Forecasts for 2009**

The Government released today (Friday) the Third Quarter Economic Report 2009, together with the preliminary figures on Gross Domestic Product for the third quarter of 2009.

The Government Economist, Mrs Helen Chan, described the economic situation in the third quarter of 2009 and provided the latest GDP and price forecasts for the year.

#### **MAIN POINTS**

- \* The Hong Kong economy improved further after a strong rebound during the second quarter, leading to a further tapering of the year-on-year decline in real GDP to 2.4% in the third quarter. This was led mainly by the further improvement in the domestic sector, offsetting the drag from the weak external demand. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded further by 0.4% in the third quarter over the second quarter.
- \* Although the global economy had entered the initial stage of recovery, import demand in the advanced economies remained sluggish and continued to weigh heavily on exports of Asian economies. Against this backdrop, Hong Kong's merchandise exports still declined notably year-on-year in the third quarter, although the pace of decline slowed distinctly towards the end of the quarter.
- \* In contrast, exports of services improved more visibly in the third quarter, supported by further revival in financial market activities and a rebound in inbound tourism. Yet trade-related service exports were still weak under the drag of sluggish trade flows.
- \* Local consumer sentiments revived further in the third quarter, as economic prospects got better, the labour market stabilized, Government's relief measures yielded further results, and asset markets remained supportive. Private consumption expenditure, having fallen for four consecutive quarters, bottomed out in the third quarter on a year-on-year basis. Business sentiments turned up distinctly, with overall investment reverting to a small increase after three consecutive quarters of double-digit decline.
- \* Labour market showed initial signs of improvement after a period of successive worsening since late 2008. The seasonally adjusted unemployment rate fell slightly to 5.3% in the third quarter, the first decline since the onset of the global financial crisis.

- \* Following the exceptionally large stimulus measures by governments and central banks to shore up demand and stabilize the financial markets, the global economy is finally expanding again. Despite this, labour markets in many advanced economies continued to worsen. These economies are still confronted by impaired financial systems and an on-going adjustment process to deleverage and rebuild savings. Yet in Asia, the improvement has been more evident, with the Mainland economy taking the lead in the return to a faster growth path. With global trade flows still notably down as compared to the pre-crisis level, there are indications that orders are gradually coming back in recent months and the onset of a modest global recovery and the restocking process should help Hong Kong's external trade going forward.
- \* Domestically, local consumer sentiments should continue to be supported by an improving labour market and the cushion rendered by the Government's relief measures. As for businesses, the results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in September and early October indicated that many large business establishments have turned more upbeat about their near-term business prospects. Also, public sector investment should continue apace to shore up aggregate demand, as part of the Government's counter-cyclical strategy in the current global downturn.
- \* With both domestic and external sectors likely to show further improvement in the fourth quarter, and taking into account the actual outturn so far, GDP for 2009 as a whole is now forecast to contract by 3.3% in real terms, up from the forecast decline of 3.5-4.5% in the August round.
- \* Although the downside risks in the external environment seem to have receded for the time being, the global economic outlook in the period ahead remains subject to considerable uncertainties. The clear risk is that the global recovery could stall after the exceptionally fiscal boost begins to fade out. The "toxic assets" in the US and European financial systems and the deleveraging process to restore health in the banking sector are the key drags to the recovery process. Another major risk is the timing and pace of the exit strategies by governments and central banks, and the possible fluctuations in the asset markets they may cause. The potential rise in protectionist sentiment is another concern.
- \* On inflation outlook, both local and external price pressures are virtually absent, as local costs remain contained and as the supply capacity of the global economy still out-runs demand by a sizable margin. Underlying Composite CPI went lower by 0.3% in the third quarter from a year earlier, but the underlying deflationary pressure had tended to stabilise towards the end of the quarter on a seasonally adjusted basis. Hence, the deflationary pressure facing the economy has been relatively contained thus far. With the development on the price front largely in line with the earlier expectations, the forecast headline and underlying consumer price inflation rates remain unchanged, at 0.5% and 0.9% respectively for 2009 as a whole.

## DETAIL

### GDP

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP registered a decline of 2.4% in the third quarter over a year earlier. The decline was narrower than the 3.6% (revised upwards from an earlier estimate of -3.8%) decline in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, GDP expanded by 0.4% in real terms in the third quarter (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2009 are presented in *Table 1*. Developments in different segments of the economy in the third quarter of 2009 are described below.

### External trade

3. *Total exports of goods* continued to fall notably by 13.2% in real terms year-on-year in the third quarter of 2009, following the decline of 12.4% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods dipped by 2.8% in the third quarter after an exceptionally strong rebound of 11.6% in the previous quarter. With global trade flows still languishing at a relatively low level, many other Asian economies continued to record double-digit declines in exports in the quarter. Yet the pace of decline in Hong Kong's merchandise exports slowed distinctly towards the end of the quarter.

4. *Exports of services* showed visible improvement in the third quarter of 2009. On a seasonally adjusted quarter-to-quarter basis, exports of services expanded rapidly by 4.6% in the third quarter, leading to a distinct tapering in the year-on-year rate of decline to just 0.9%, from that of 5.2% in the second quarter. Exports of financial services continued to improve alongside the further revival in financial market activities. Exports of travel services likewise reverted to an increase, in tandem with a rebound in visitor arrivals. Yet exports of transportation services and trade-related services were still weak, under the drag of the much slackened trade flows in goods.

### Domestic sector

5. Local consumer sentiments revived further in the third quarter, riding on a generally improved labour market, and Government's several rounds of relief measures, and further aided by favourable asset market conditions. *Private consumption expenditure (PCE)* expanded further by 0.5% in real terms in the third quarter on a seasonally adjusted quarter-to-quarter basis after a strong rebound in the second quarter. The year-on-year change also reversed back to a small increase of 0.2%, after falling for four consecutive quarters.

6. Business sentiments turned up distinctly in the third quarter. *Overall investment spending* returned to a small growth of 1.4% in the third quarter over a year earlier. Yet this represented a distinct improvement from the 13.6% decline in the second quarter. Expenditure on building and construction rose by 3.4% in the third quarter, arresting the decline of 4.7% in the second quarter. The growth in public sector construction work accelerated significantly further amidst the Government's efforts to expedite public sector projects, while private sector construction work also saw a further relative improvement. The year-on-year decline in machinery and equipment investment also eased notably to 4.0% in the third quarter from the 18.0% decline in the second quarter.

### **The labour sector**

7. Labour market showed initial signs of improvement, after a period of successive worsening since late 2008. In the third quarter, the seasonally adjusted *unemployment rate* fell slightly to 5.3%, the first decline since the onset of the global financial crisis in September 2008. The *underemployment rate* registered only a slight increase by 0.1 percentage point to 2.4%, with its movement holding broadly stable in recent months. Meanwhile, earnings and wages remained on a decline in the second quarter.

### **Prices**

8. Inflationary pressure has basically subsided, as local business costs were contained and import prices softened in the aftermath of the global financial tsunami. *Underlying consumer price inflation* turned slightly negative at -0.3% in the third quarter, while *headline consumer price inflation*, being kept down by the one-off measures (mainly the electricity subsidy in July and August), went even lower to -0.9%. Nevertheless, on a seasonally adjusted basis, the underlying deflationary pressure had tended to stabilise towards the end of the quarter. As to the *GDP deflator*, a slight increase of 0.4% was recorded in the third quarter, as the deflator for machinery and equipment increased notably and the terms of trade rose marginally.

### **Latest GDP and price forecasts for 2009**

9. Following the exceptionally large stimulus measures by governments and central banks to shore up demand and stabilize the financial markets, the global economy is finally expanding again. Despite this, labour markets in many advanced economies continued to worsen. These economies are still confronted by impaired financial systems and an on-going adjustment process to deleverage and rebuild savings. Yet in Asia, the improvement has been more evident, with the Mainland economy taking the lead in the return to a faster growth path. With global trade flows still notably down as compared to the pre-crisis level, there are indications that orders are gradually coming back in recent months and the onset of a modest global recovery and the restocking process should help Hong Kong's external trade going forward.

10. Domestically, local consumer sentiments should continue to be supported by an improving labour market and the cushion rendered by the Government's relief measures. As for businesses, the results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in September and early October indicated that many large business establishments have turned more upbeat about their near-term business prospects. Also, public sector investment should continue apace to shore up aggregate demand, as part of the Government's counter-cyclical strategy in the current global downturn.

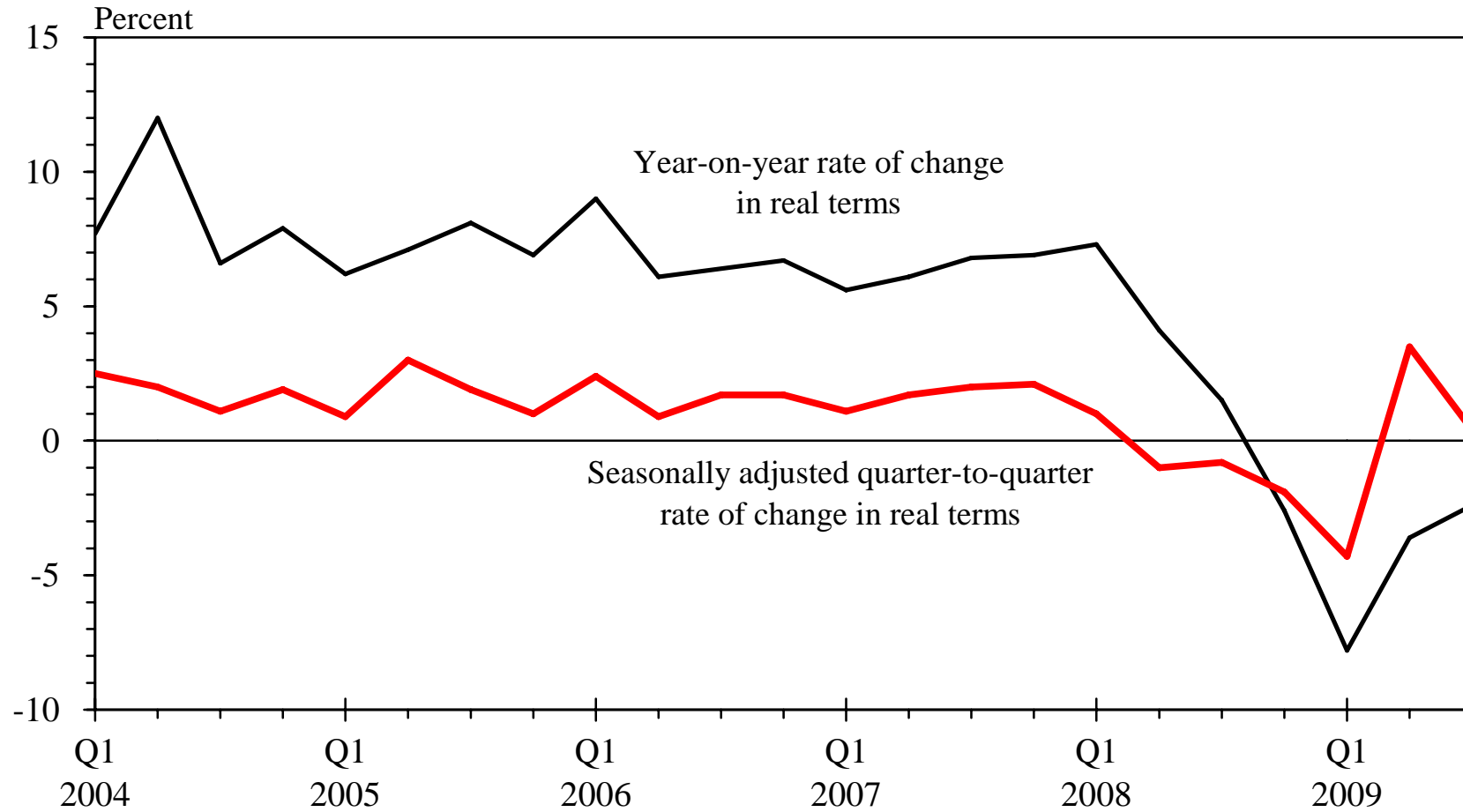
11. With both domestic and external sectors likely to show further improvement in the fourth quarter, and taking into account the actual outturn so far, GDP for 2009 as a whole is now forecast to contract by 3.3% in real terms, up from the forecast decline of 3.5-4.5% in the August round (*Table 2*). By comparison, most private sector analysts are currently projecting the economy to contract by 2.5-5.0%, averaging at around -3.6%.

12. Although the downside risks in the external environment seem to have receded for the time being, the global economic outlook in the period ahead remains subject to considerable uncertainties. The clear risk is that the global recovery could stall after the exceptionally fiscal boost begins to fade out. The "toxic assets" in the US and European financial systems and the deleveraging process to restore health in the banking sector are the key drags to the recovery process. Another major risk is the timing and pace of the exit strategies by governments and central banks, and the possible fluctuations in the asset markets they may cause. The potential rise in protectionist sentiment is another concern.

13. On inflation outlook, both local and external price pressures are virtually absent, as local costs remain contained and as the supply capacity of the global economy still out-runs demand by a sizable margin. Nevertheless, the underlying deflationary pressure had tended to stabilise towards the end of the quarter on a seasonally adjusted basis, and hence the deflationary pressure facing the economy has been relatively contained thus far. With the development on the price front largely in line with the earlier expectations, the forecast headline and underlying consumer price inflation rates remain unchanged, at 0.5% and 0.9% respectively for 2009 as a whole.

(The Third Quarter Economic Report 2009 is now available for online download, free of charge at <http://www.hkeconomy.gov.hk/en/reports/index.htm>. The Report of the Gross Domestic Product, Third Quarter 2009, which contains the GDP figures up to the third quarter of 2009, is also available for online download, free of charge at the homepage of the Census and Statistics Department (<http://www.censtatd.gov.hk>). Users can purchase the print version of these two publications online at the Government Bookstore at <http://www.bookstore.gov.hk>, or by calling the Publications Sales Unit of the Information Services Department at 2537 1910. The print version of the two reports is available for sale at \$90 and \$49 per issue respectively, plus postage charge.)

# Hong Kong's Gross Domestic Product



Note : Figures for the third quarter of 2009 are preliminary estimates.

**Table 1**

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

	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>				<u>2009</u>		
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	8.5	1.5	8.0 (*)	3.0 (-1.3)	-0.2 (-0.6)	-4.1 (-2.2)	-6.0 (-2.0)	-1.1 (3.9)	0.2 (0.5)
Government consumption expenditure	3.0	1.7	0.6 (-0.3)	3.1 (1.6)	1.6 (-0.5)	1.8 (0.8)	1.4 (-0.3)	1.7 (1.6)	3.3 (1.3)
Gross domestic fixed capital formation	3.4	-0.5	9.9	5.1	2.9	-17.8	-13.7	-13.6	1.4
<i>of which :</i>									
Building and construction	-0.3	1.6	9.1	-0.1	-2.8	0.1	-10.9	-4.7	3.4
Machinery, equipment and computer software	3.0	-0.3	4.3	7.4	10.7	-21.1	-6.6	-18.0	-4.0
Total exports of goods	7.0	1.9	8.3 (0.9)	4.4 (0.1)	1.3 (-1.8)	-4.9 (-4.3)	-22.7 (-16.8)	-12.4 (11.6)	-13.2 (-2.8)
Imports of goods	8.8	1.8	8.4 (-1.7)	4.8 (1.9)	2.0 (-1.2)	-6.4 (-5.6)	-21.4 (-15.9)	-12.7 (10.9)	-8.3 (3.6)
Exports of services	14.1	5.7	10.1 (1.5)	8.4 (0.3)	4.8 (0.1)	0.4 (-1.3)	-6.3 (-5.6)	-5.2 (1.7)	-0.9 (4.6)
Imports of services	12.1	3.3	11.2 (1.3)	3.8 (-2.6)	2.2 (-0.1)	-3.4 (-1.8)	-9.6 (-5.5)	-5.6 (1.8)	-3.8 (1.9)
<b>Gross Domestic Product</b>	<b>6.4</b>	<b>2.4</b>	<b>7.3 (1.0)</b>	<b>4.1 (-1.0)</b>	<b>1.5 (-0.8)</b>	<b>-2.6 (-1.9)</b>	<b>-7.8 (-4.3)</b>	<b>-3.6 (3.5)</b>	<b>-2.4 (0.4)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>2.9</b>	<b>1.4</b>	<b>2.3 (-1.5)</b>	<b>1.9 (0.6)</b>	<b>2.0 (0.9)</b>	<b>-0.2 (-0.2)</b>	<b>0.4 (-0.8)</b>	<b>1.1 (1.3)</b>	<b>0.4 (0.1)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>2.0</b>	<b>4.3</b>	<b>4.6 (0.9)</b>	<b>5.7 (1.5)</b>	<b>4.6 (-0.2)</b>	<b>2.3 (0.1)</b>	<b>1.7 (0.3)</b>	<b>-0.1 (-0.2)</b>	<b>-0.9 (-1.1)</b>
<b>Underlying<sup>^</sup></b>	<b>2.8</b>	<b>5.6</b>	<b>4.9 (2.0)</b>	<b>5.7 (1.5)</b>	<b>6.3 (1.3)</b>	<b>5.4 (0.4)</b>	<b>3.1 (-0.2)</b>	<b>1.2 (-0.3)</b>	<b>-0.3 (-0.1)</b>
<b><u>Change in nominal GDP (%)</u></b>	<b>9.5</b>	<b>3.8</b>	<b>9.7</b>	<b>6.1</b>	<b>3.5</b>	<b>-2.8</b>	<b>-7.4</b>	<b>-2.5</b>	<b>-2.0</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

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



**Table 2**

**Economic forecasts for 2009  
(rate of change (%))**

	Forecasts for 2009 as released <u>on 14.8.2009</u> (%)	Latest forecasts for 2009 <u>on 13.11.2009</u> (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	-3.5 to -4.5	-3.3
<i>Nominal GDP</i>	-3.5 to -4.5	-2.8
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	0.5	0.5
<i>Underlying CCPI</i>	0.9	0.9
<b>GDP Deflator</b>	0	0.5



# Third Quarter Economic Report 2009

Government of the Hong Kong  
Special Administrative Region

# ***THIRD QUARTER ECONOMIC REPORT 2009***

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

*November 2009*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

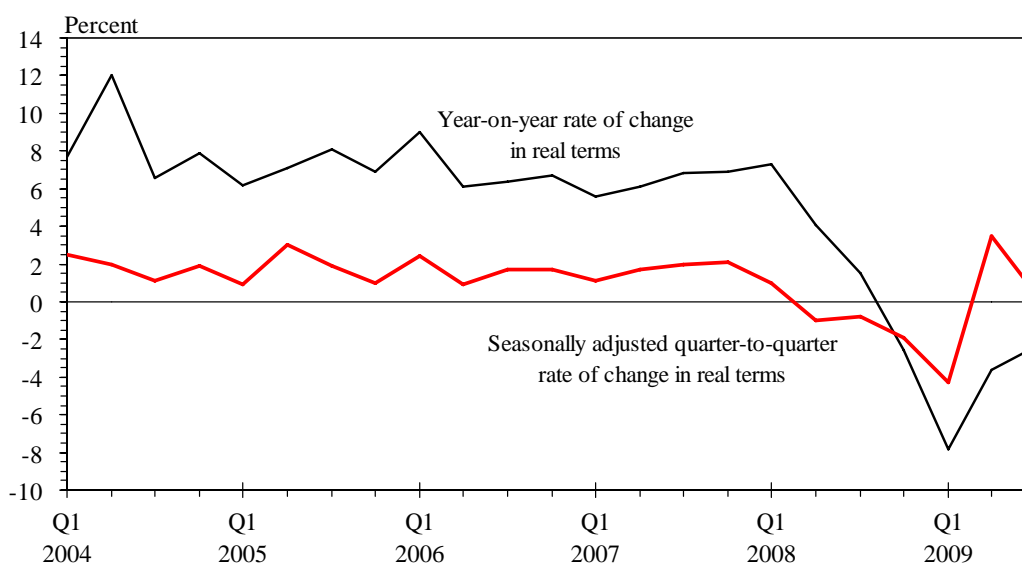
- *The Hong Kong economy improved further after a strong rebound during the second quarter, leading to a further tapering of the year-on-year decline in real GDP to 2.4% in the third quarter. This was led mainly by the further improvement in the domestic sector, offsetting the drag from the weak external demand. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded further by 0.4% in the third quarter.*
- *Although the global economy had entered the initial stage of recovery, import demand in the advanced economies remained sluggish and continued to weigh heavily on exports of Asian economies. Against this backdrop, Hong Kong's merchandise exports still declined notably year-on-year in the third quarter, although the pace of decline slowed towards the end of the quarter.*
- *In contrast, exports of services improved more visibly in the third quarter, supported by further revival of financial market activities and a rebound in inbound tourism. Yet trade-related services were still weak under the drag of sluggish trade flows.*
- *Local consumer sentiments revived further in the third quarter, as economic prospects got better, the labour market stabilized, Government's relief measures yielded positive results, and asset markets saw further gains. Private consumption expenditure, having fallen for four consecutive quarters, bottomed out in the third quarter on a year-on-year basis. Business sentiments turned up distinctly, with fixed investment reverting to an increase after three consecutive quarters of decline.*
- *Labour market showed initial sign of improvement following a period of successive worsening since late 2008. The seasonally adjusted unemployment rate fell slightly to 5.3% in the third quarter, the first decline since the onset of the global financial crisis.*
- *Consumer price inflation turned slightly negative in terms of both the headline and the underlying Composite Consumer Price Index in the third quarter. Local and external price pressures were virtually non-existent, as local costs remained depressed and as the supply capacity of the global economy still out-ran demand by a sizable margin.*

## Overall situation

1.1 The Hong Kong economy entered the nascent stage of recovery, with the overall situation improving further, after a notable rebound in the second quarter. The domestic sector improved visibly further, as consumer confidence was well supported by the stabilized labour market, Government's relief measures, and the stronger asset market situation. Business sentiments also apparently turned more positive. However, external trade continued to pose a drag on the overall economy. Despite the gradual recovery of the global economy, the sluggish import demand in the advanced economies continued to weigh heavily on Asian exports. In fact, the decline in global trade flows in the current crisis was even larger than that during the Great Depression in 1930s (see **Box 1.1** for details). Nevertheless, exports of services fared relatively better, supported by the revival in financial market activities and a notable rebound in inbound tourism. The seasonally adjusted unemployment rate edged lower in the third quarter, the first decline since the onset of the global financial crisis, while consumer price inflation turned slightly negative.

1.2 The year-on-year decline of *Gross Domestic Product (GDP)*<sup>(1)</sup> tapered further to 2.4% in real terms in the third quarter from 3.6% in the second quarter. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP rose further by 0.4% in real terms in the third quarter following the strong rebound in the second quarter that ended the contraction in the preceding four quarters.

**Diagram 1.1 : Overall situation of the Hong Kong economy improved further in the third quarter**



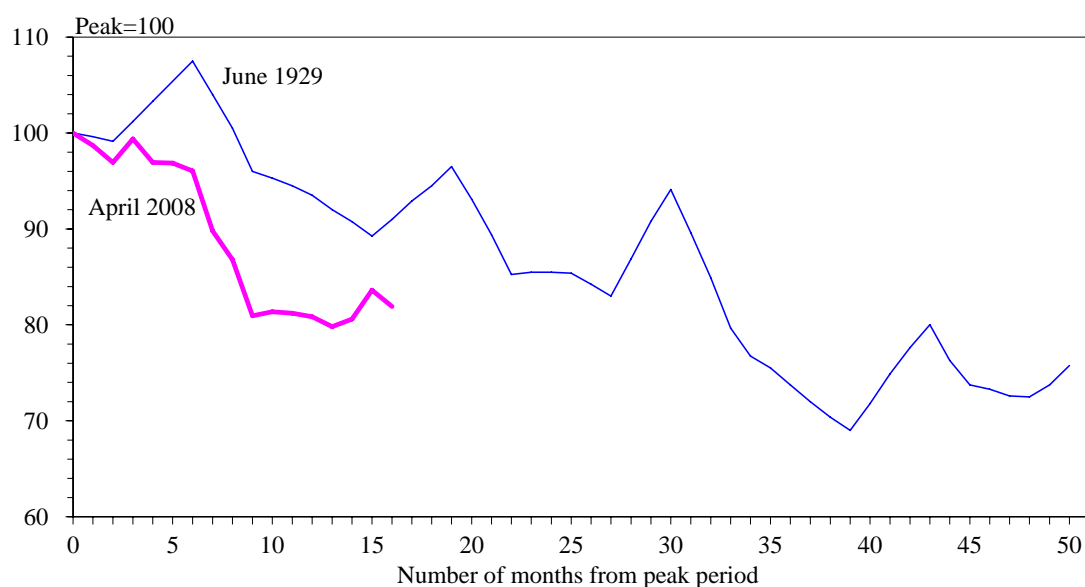
## Box 1.1

### The performance of world trade during the Great Depression and the current crisis

The global economy slid into the deepest recession in more than 60 years after the outbreak of the financial tsunami. The collapse in global demand led to drastic declines in world merchandise trade in the final quarter of 2008 and the beginning months of 2009. While global economic activities in terms of industrial production showed signs of gradual recovery in recent months, along with improving consumer and business sentiments in many major economies, world trade remained notably lower than the pre-crisis levels.

In a study by Eichengreen and O'Rourke (2009)<sup>(1)</sup>, a comparison was made between the performance of world trade during the current crisis and that during the Great Depression in the 1930s. It was noted that during the current crisis the volume of world trade slumped by around 20% in June 2009 from its pre-crisis peak in April 2008. By comparison, during the Great Depression the volume of world trade fell by around 10% over the same 14-month span from its pre-crisis peak in June 1929 (*Chart 1*). Thus the severity of the contracting impact on world trade is even more pronounced in the current crisis than that in the comparable stage of the Great Depression. While the more recent data showed that global trade stabilized somewhat in July and August, the total trade volume remained around 17% below its peak in April 2008.

**Chart 1: Performance of world trade volume during the current crisis and the Great Depression**



Source: Eichengreen and O'Rourke (2009). Data for the current crisis extended to August 2009.

(1) (<http://www.voxeu.org/index.php?q=node/3421>)



### **Box 1.1 (Cont'd)**

The plunge in world trade during the current episode can be attributable to the rapid inventory drawn-down due to the loss of business confidence, extremely tight credit conditions in the advanced economies, as well as the extensive use of global supply chain as a result of trade liberalization and technology advancement over the decades. Compared to the 1930s, the use of global supply chain is much more widespread, giving rise to increased trade involving intermediate goods through exports and imports and to closer trade links among economies. Thus the impact of the collapse in import demand in advanced economies on world trade had been amplified by these trade links during the current crisis.

In the recent months, many major economies saw nascent recovery thanks to the strong policy actions by the respective governments in shoring up aggregate demand and credit supply. Nevertheless, their unemployment situation continued to deteriorate and this trend is widely expected to remain well into next year. These would easily trigger protectionist sentiments, which many major economies had pledged to fight against in many multilateral arenas. According to a report jointly prepared by the World Trade Organization, the Organization for Economic Cooperation and Development, and the United Nations Conference on Trade and Development<sup>(2)</sup> for the G-20 Leaders' Meeting in Pittsburgh in September, there was no indication of a descent into high-intensity protectionism. Yet the report noted "policy slippage" since the beginning of the current round of global recession. It also highlighted the possibility of the governments of major economies to continue to cede ground to protectionist pressures as the main risk to world trade and thus global economic activity.

As *Chart 1* indicates, during the Great Depression the volume of world trade fell for several years, with a peak-to-trough decline of over 30%. An important reason was the enactment of the Smoot-Hawley Tariff Act in 1930 in the United States and the subsequent retaliatory actions taken by its trading partners. The rise in protectionism that exacerbated the global downturn during the Great Depression was a grave mistake that the world today needs to avoid. In this regard, the recent increased incidences of trade disputes among the world's major trading entities are a concern.

For an economy as externally-oriented as Hong Kong, the revival in world merchandise trade is critical to Hong Kong's economic recovery process. This in turn hinges on the sustainability and strength of economic rebound in the major advanced economies after public policy support is withdrawn. On this, it is of utmost importance that governments will continue to guard against the rise in protectionism, to ensure that the conditions for a sustainable recovery remain in place.

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(2) Report on G20 Trade and Investment Measures  
(<http://www.pittsburghsummit.gov/documents/organization/129863.pdf>)

1.3 The global economy is finally expanding again, as the stimulus measures by governments and central banks have helped to shore up demand and stabilize the financial markets. Nevertheless, labour markets in many advanced economies continued to worsen, albeit at a slower pace. These economies were still confronted by impaired financial systems and consumers with much less propensity to consume. On the other hand, the improvement had been more evident in the emerging Asian economies, with the Mainland economy taking the lead in the return to a faster growth path. With global trade flows still distinctly down, most Asian economies continued to report double-digit year-on-year rates of decline in exports in the third quarter.

1.4 Against this background, Hong Kong's merchandise exports continued to register a notable year-on-year decline of 13.2% in real terms in the third quarter. On a seasonally adjusted quarter-to-quarter comparison, there was a moderate relapse in exports in the third quarter, after an exceptionally strong rebound in the second quarter. Nevertheless, the year-on-year decline narrowed notably again in September, and the declines experienced by Hong Kong were less than those by many other Asian economies. The rather unsteady merchandise export performance in recent periods was indicative of the high degree of uncertainty in the external environment.

1.5 Exports of services improved more visibly in the third quarter, with a rapid growth of 4.6% in real terms on a seasonally adjusted quarter-to-quarter basis, resulting in a much smaller year-on-year decline of 0.9%. Exports of financial services continued to benefit from the further revival of financial market activities, while inbound tourism also reverted to increase in the third quarter in tandem with the pick-up in Mainland visitors. However, exports of trade-related services, and the accompanying transportation services, were still weighed by the sluggish trade flows.

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

	<u>2007#</u>	<u>2008#</u>	<u>2008</u>				<u>2009</u>		
			<u>Q1#</u>	<u>Q2#</u>	<u>Q3#</u>	<u>Q4#</u>	<u>Q1#</u>	<u>Q2#</u>	<u>Q3+</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	8.5	1.5	8.0 (*)	3.0 (-1.3)	-0.2 (-0.6)	-4.1 (-2.2)	-6.0 (-2.0)	-1.1 (3.9)	0.2 (0.5)
Government consumption expenditure	3.0	1.7	0.6 (-0.3)	3.1 (1.6)	1.6 (-0.5)	1.8 (0.8)	1.4 (-0.3)	1.7 (1.6)	3.3 (1.3)
Gross domestic fixed capital formation	3.4	-0.5	9.9	5.1	2.9	-17.8	-13.7	-13.6	1.4
<i>of which :</i>									
Building and construction	-0.3	1.6	9.1	-0.1	-2.8	0.1	-10.9	-4.7	3.4
Machinery, equipment and computer software	3.0	-0.3	4.3	7.4	10.7	-21.1	-6.6	-18.0	-4.0
Total exports of goods	7.0	1.9	8.3 (0.9)	4.4 (0.1)	1.3 (-1.8)	-4.9 (-4.3)	-22.7 (-16.8)	-12.4 (11.6)	-13.2 (-2.8)
Imports of goods	8.8	1.8	8.4 (-1.7)	4.8 (1.9)	2.0 (-1.2)	-6.4 (-5.6)	-21.4 (-15.9)	-12.7 (10.9)	-8.3 (3.6)
Exports of services	14.1	5.7	10.1 (1.5)	8.4 (0.3)	4.8 (0.1)	0.4 (-1.3)	-6.3 (-5.6)	-5.2 (1.7)	-0.9 (4.6)
Imports of services	12.1	3.3	11.2 (1.3)	3.8 (-2.6)	2.2 (-0.1)	-3.4 (-1.8)	-9.6 (-5.5)	-5.6 (1.8)	-3.8 (1.9)
<b>Gross Domestic Product</b>	<b>6.4</b>	<b>2.4</b>	<b>7.3 (1.0)</b>	<b>4.1 (-1.0)</b>	<b>1.5 (-0.8)</b>	<b>-2.6 (-1.9)</b>	<b>-7.8 (-4.3)</b>	<b>-3.6 (3.5)</b>	<b>-2.4 (0.4)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>2.9</b>	<b>1.4</b>	<b>2.3 (-1.5)</b>	<b>1.9 (0.6)</b>	<b>2.0 (0.9)</b>	<b>-0.2 (-0.2)</b>	<b>0.4 (-0.8)</b>	<b>1.1 (1.3)</b>	<b>0.4 (0.1)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>2.0</b>	<b>4.3</b>	<b>4.6 (0.9)</b>	<b>5.7 (1.5)</b>	<b>4.6 (-0.2)</b>	<b>2.3 (0.1)</b>	<b>1.7 (0.3)</b>	<b>-0.1 (-0.2)</b>	<b>-0.9 (-1.1)</b>
<b>Underlying^</b>	<b>2.8</b>	<b>5.6</b>	<b>4.9 (2.0)</b>	<b>5.7 (1.5)</b>	<b>6.3 (1.3)</b>	<b>5.4 (0.4)</b>	<b>3.1 (-0.2)</b>	<b>1.2 (-0.3)</b>	<b>-0.3 (-0.1)</b>
<b>Change in nominal GDP (%)</b>	<b>9.5</b>	<b>3.8</b>	<b>9.7</b>	<b>6.1</b>	<b>3.5</b>	<b>-2.8</b>	<b>-7.4</b>	<b>-2.5</b>	<b>-2.0</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

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

1.6 Local consumer sentiments revived further in the third quarter, riding on generally improved labour market, and Government's several rounds of relief measures, and further aided by favourable asset market conditions. *Private consumption expenditure (PCE)* expanded further by 0.5% in real terms in the third quarter on a seasonally adjusted quarter-to-quarter basis after a strong rebound in the second quarter, with the year-on-year rate of change reverting to an increase of 0.2%. *Government consumption expenditure* picked up in the third quarter to a 3.3% year-on-year growth, reflecting the Government's measures to shore up demand in the economy.

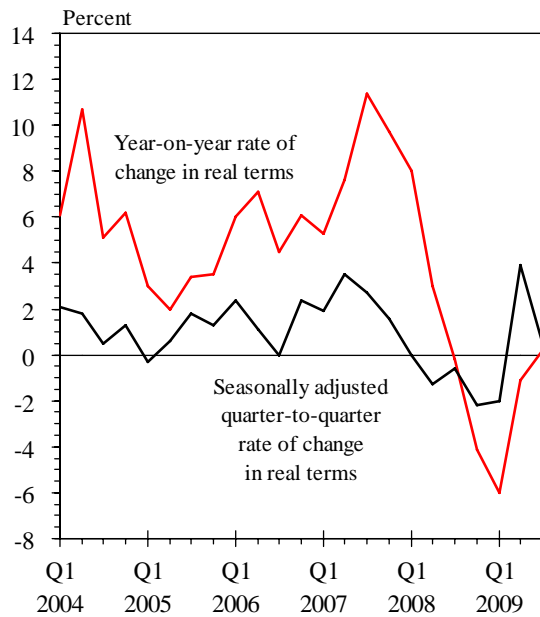
**Table 1.2 : Consumer spending by major components<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

		<i>Of which :</i>							
		Total consumer spending in the domestic market <sup>(a)</sup>	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
2008	Annual	2.2	0.8	10.6	4.8	0.4	-1.1	6.1	1.5
	Q1	7.6	3.4	18.8	11.4	5.6	10.7	7.2	8.0
	Q2	4.3	1.6	13.8	8.4	2.2	-6.7	7.6	3.0
	Q3	0.8	0.4	13.5	3.1	-1.8	-1.5	7.3	-0.2
	Q4	-3.1	-1.8	-1.1	-2.1	-3.9	-6.1	3.0	-4.1
2009	Q1	-4.4	-3.7	-5.5	-5.7	-3.9	-4.1	10.0	-6.0
	Q2	-1.9	-2.4	-7.9	-5.9	0.4	7.4	-1.4	-1.1
	Q3	0.5	-1.2	-2.4	-1.5	1.9	0.1	2.8	0.2

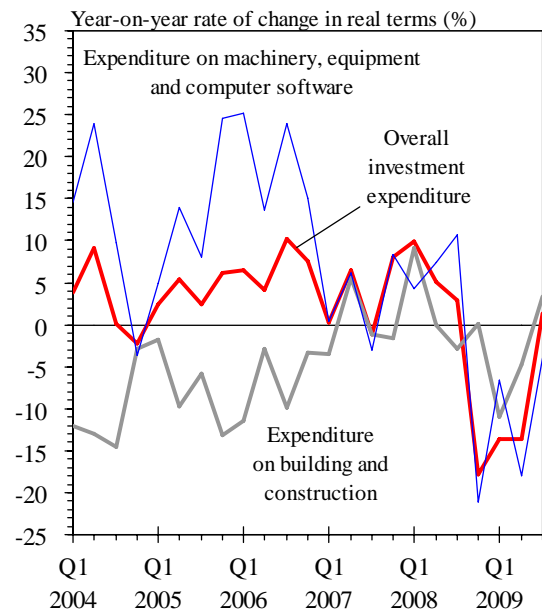
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

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

**Diagram 1.2 : Private consumption resumed growth in the third quarter**



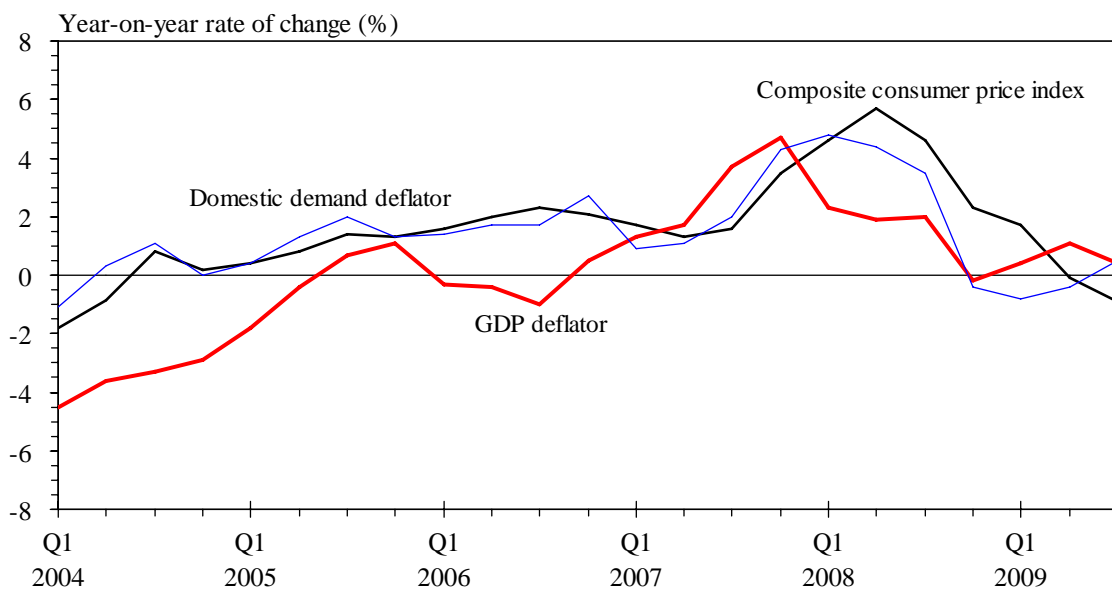
**Diagram 1.3 : Overall investment reverted to an increase as business sentiments turned more upbeat**



1.7 Overall investment spending in terms of *gross domestic fixed capital formation* reverted to a small increase of 1.4% in the third quarter over a year earlier. This represented a notable improvement from the 13.6% decline in the second quarter. Expenditure on building and construction rose by 3.4% in the third quarter, arresting the decline of 4.7% in the second quarter. The growth in public sector construction work accelerated significantly further amidst the Government's efforts to expedite public sector projects, while private sector construction work saw further relative improvement. The year-on-year decline in machinery and equipment investment also eased notably to 4.0% in the third quarter from that of 18.0% in the second quarter. The results of latest Quarterly Business Tendency Survey conducted by the Census and Statistics Department in September and early October indicated that many large business establishments had turned more upbeat about the near-term business prospects.

1.8 Inflationary pressure basically subsided, as local business costs were contained and import prices softened in the aftermath of the global financial tsunami. *Underlying consumer price inflation* turned slightly negative at -0.3% in the third quarter, while *headline consumer price inflation*, being dragged by the one-off measures (mainly the electricity subsidy in July and August), went even lower to -0.9%. As to the *GDP deflator*, a slight increase of 0.4% was recorded in the third quarter, as the deflator for machinery and equipment increased notably and the terms of trade rose marginally.

**Diagram 1.4 : Price pressure remained subdued in the third quarter**



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

	<u>2008</u>					<u>2009</u>	
	<u>2008</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	-6.6	-4.4	-4.1	-6.7	-10.4	-12.2	-10.8
Construction	2.7	9.2	-0.3	-1.5	2.8	-7.0	-2.2
Services <sup>(b)</sup>	2.4	7.1	4.0	1.7	-2.3	-7.2	-3.7
Wholesale, retail and import and export trades, restaurants and hotels	4.1	9.0	7.2	4.2	-2.1	-15.7	-11.3
Import and export trade	4.6	9.7	8.0	4.9	-1.9	-18.4	-12.4
Wholesale and retail trades	2.9	9.1	6.0	2.2	-3.6	-10.0	-7.8
Restaurants and hotels	2.1	4.4	3.7	1.8	-1.2	-5.6	-7.9
Transport, storage and communications	2.2	7.6	3.9	2.0	-4.3	-8.8	-8.8
Transport and storage	1.9	8.3	3.8	1.5	-5.4	-10.8	-10.7
Communications	3.5	4.4	4.6	4.3	0.8	0.3	-0.4
Financing, insurance, real estate and business services	1.6	10.0	2.8	-0.5	-4.9	-6.7	-0.2
Financing and insurance services	1.4	11.1	2.2	-0.5	-6.1	-8.4	*
Real estate and business services	2.1	7.9	3.6	-0.1	-2.4	-3.3	-0.5
Community, social and personal services	1.4	1.5	1.7	1.7	0.7	0.6	1.3

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

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

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

(\*) Change of less than 0.05%.

## **GDP by major economic sector**

1.9 Many service sectors showed relative improvements in the second quarter after contracting sharply in the first quarter. Net output of services sector as a whole declined notably less by 3.7% in the second quarter over a year earlier as compared to the 7.2% decline in the first quarter. Analyzed by sector, import and export trade still showed the largest decline in net output, followed by transport and storage, restaurants and hotels, and wholesale and retail trades. On the other hand, net output of financing and insurance, real estate, and business services held largely stable on a year-on-year comparison. Community, social and personal services posted a modest increase, nevertheless. Manufacturing output fell markedly again, while construction output declined only moderately, thanks to a strong rebound in the public sector segment.

## **Some highlights of economic policy**

1.10 The Government has adopted the strategy of “stabilizing the financial system, supporting enterprises and preserving employment” to counter the worst global recession in decades brought about by the financial tsunami. The various support measures have helped stabilize the local economy without impairing the Government’s long-term fiscal position.

1.11 As an open and mature market economy, Hong Kong must keep up its competitiveness and continue to evolve into a high value-added, knowledge-based economy to maintain its leading edge over global competitors and create more quality jobs. The Government’s role is to make flexible adjustments in response to market needs and remove the barriers so as to ensure the smooth running of the markets for the benefit of the public and society. The Government will adhere to the principle of “Big Market, Small Government”.

1.12 Having endorsed the recommendations of the Task Force on Economic Challenge, the Government announced measures in the 2009-10 Policy Address to promote the six industries where Hong Kong enjoys clear advantages. The Government has the responsibility to examine whether the existing use of resources, particularly land resources, can support the new direction of economic development, facilitate the on-going economic restructuring, and unleash the factors of production that have been tied up by outdated policies. Therefore, the Government proposed a string of measures to release the potential of over 1000 old industrial buildings through policies that encourage the redevelopment or conversion of industrial buildings by owners.



## Box 1.2

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

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

The findings of the consultation exercise available up to October 2009 indicated that business situation in many sectors was still worse than that before the outbreak of the financial tsunami. Nevertheless, the overall situation had stabilized with some sectors showing more discernible improvement in recent months (*Table 1*). Specifically, business situation in travel agents saw some visible improvement in business situation on entering June, along with the rebound in inbound tourism, while SMEs in restaurants and retail trade had largely steady business situation amid improved local consumer sentiment. Business situation in real estate turned markedly better during the third quarter in tandem with the increased activity in the property market, before showing some deterioration on entering October (*Chart 1a*). With the revival of financial market activities, business situation for financing institutions improved notably in recent months compared with the early months of the year. The declines in business receipts for SMEs in trading and logistics, though narrowed, remained significant in recent months, as external demand continued to be weak (*Chart 1b*). It should be noted that given the coverage and nature of the consultation exercise, the consultation findings should be interpreted with considerable caution. They nevertheless can serve as rough indicator to enable high frequency monitoring of SMEs' situation.

Regarding the employment situation, the results of the consultation indicated that SMEs' employment situation remained weak in recent months. Among the various sectors, employment in real estate and construction, logistics, financing institutions and business services remained more severely hit than the others (*Table 2*).

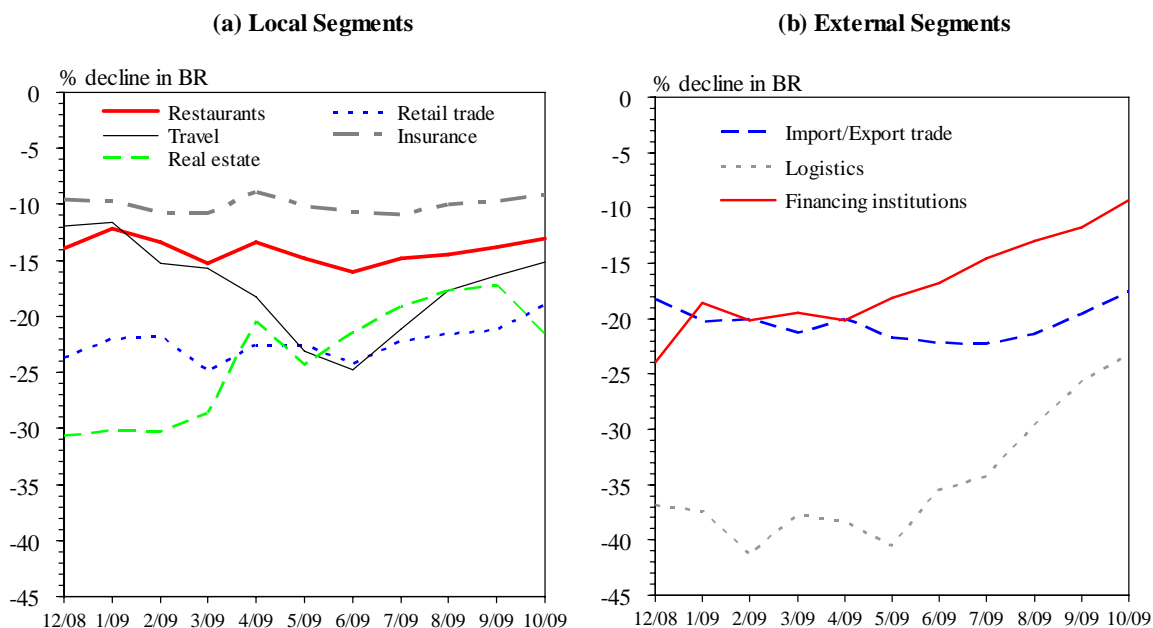
Credit access situation turned stable more recently, having improved notably in the previous months. The proportion of SMEs reporting tighter-than-normal credit access went down distinctly to about 6.6% in October from above 12% in late November last year (*Table 3* and *Chart 2*). The supplementary information provided by SMEs surveyed indicated that credit pricing likewise held broadly stable over the past few months. This encouraging development reflected the improved financial conditions as well as the effectiveness of the Government's efforts to help to ease credit strains facing SMEs, especially those under the enhanced and special loan guarantee schemes. As at end-October, some 14 600 companies benefited under these schemes, involving approved loan amount of about 59.4 billion. This also indirectly helped to secure the jobs for those employed by these companies, totaling over 250 000.

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

**Box 1.2 (Cont'd)**

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



**Table 1: Impact on business receipts as compared with normal situation**

SMEs by sectors	<u>% decline as compared with normal situation</u>										
	<u>2008</u>	<u>2009</u>									
	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Wholesale trade	-16.3	-8.3	-9.3	-16.2	-18.7	-19.4	-15.2	-15.4	-16.9	-16.3	-13.8
Retail trade	-23.6	-22.0	-21.8	-24.8	-22.5	-22.6	-24.2	-22.2	-21.6	-21.2	-19.0
Import and export trade	-18.2	-20.3	-20.0	-21.2	-20.1	-21.7	-22.2	-22.3	-21.3	-19.6	-17.6
Restaurants	-13.9	-12.1	-13.4	-15.3	-13.4	-14.8	-16.1	-14.8	-14.5	-13.8	-13.1
Logistics	-36.9	-37.4	-41.4	-37.7	-38.5	-40.5	-35.5	-34.2	-29.7	-25.7	-23.2
Travel agents	-11.9	-11.7	-15.3	-15.8	-18.2	-23.1	-24.8	-21.2	-17.7	-16.4	-15.2
Financing institutions	-23.9	-18.6	-20.2	-19.5	-20.1	-18.1	-16.8	-14.6	-13.0	-11.8	-9.3
Insurance agents and brokers	-9.6	-9.7	-10.8	-10.8	-9.0	-10.2	-10.7	-10.9	-10.0	-9.7	-9.2
Real estate and construction	-30.7	-30.2	-30.3	-28.7	-20.5	-24.3	-21.5	-19.1	-17.7	-17.2	-21.7
Business services	-9.0	-10.6	-14.2	-14.8	-15.1	-15.0	-13.7	-11.9	-11.6	-11.2	-9.4
All the above sectors	-18.3	-19.3	-19.4	-20.9	-20.0	-21.5	-21.5	-21.4	-20.5	-19.0	-17.0

**Box 1.2 (Cont'd)****Table 2: Impact on employment as compared with normal situation**

<u>SMEs by sectors</u>	<u>% change as compared with normal situation</u>										
	<u>2008</u>	<u>2009</u>									
	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Wholesale trade	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-0.3	-1.8	-2.6	-2.4
Retail trade	-0.5	-0.5	-0.6	-0.4	-0.2	-0.2	-0.4	-0.5	-0.7	-0.8	-0.9
Import and export trade	-1.1	-0.9	-1.0	-0.6	-0.9	-1.2	-1.4	-1.4	-1.4	-1.8	-1.7
Restaurants	-3.1	-3.2	-3.7	-2.6	-1.7	-1.2	-1.8	-2.0	-1.8	-2.0	-1.8
Logistics	-6.5	-3.7	-3.0	-3.2	-3.4	-3.3	-4.8	-5.8	-5.8	-6.0	-6.9
Travel agents	0.2	-0.1	0.1	0.2	0.2	0.2	0.4	0.3	0.7	0.7	0.5
Financing institutions	-0.9	-0.7	-1.4	-1.6	-2.3	-3.9	-3.7	-3.0	-2.9	-2.8	-2.8
Insurance agents and brokers	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.9	1.0	0.8	0.8
Real estate and construction	-7.3	-8.2	-8.0	-8.0	-8.0	-8.4	-9.9	-9.1	-7.7	-8.6	-8.4
Business services	-3.0	-3.0	-3.7	-3.8	-3.8	-4.1	-3.4	-2.6	-2.7	-2.9	-2.3
All the above sectors	-1.8	-1.6	-1.8	-1.5	-1.5	-1.6	-1.8	-1.8	-1.9	-2.2	-2.1

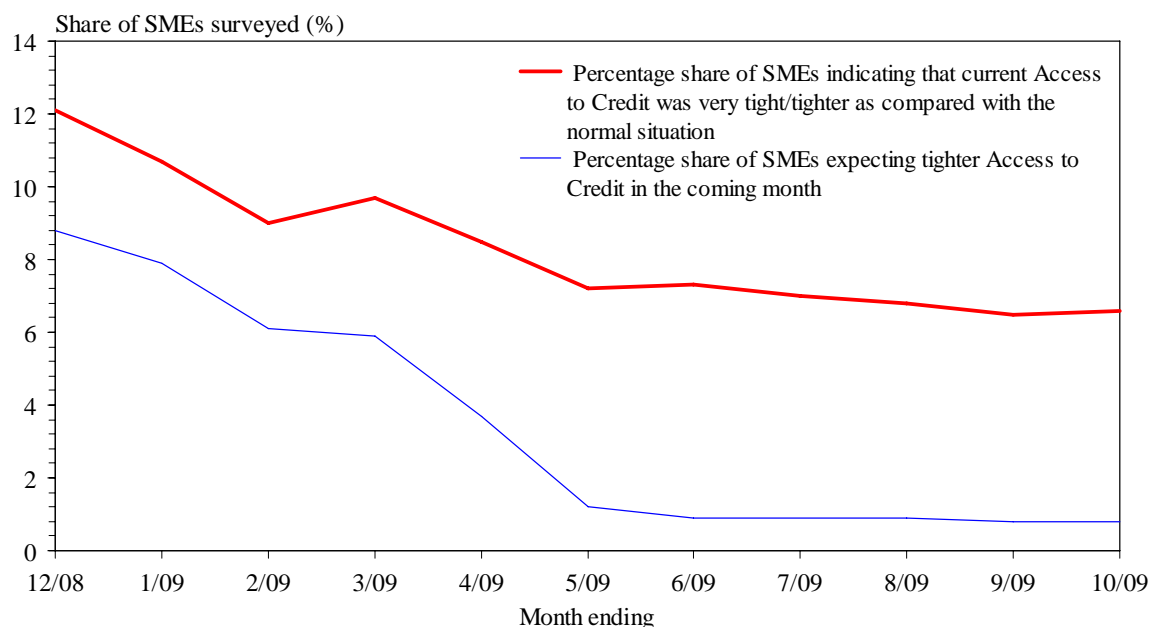
**Box 1.2 (Cont'd)**

**Table 3: Impact on access to credit as compared with normal situation**

<u>SMEs by sectors</u>	<u>% SMEs reporting very tight/tighter credit access</u>										
	<u>2008</u>	<u>2009</u>									
	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Wholesale trade	10.0	5.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Retail trade	8.8	6.5	6.6	4.6	3.5	3.5	2.7	1.8	2.5	2.6	2.6
Import and export trade	17.0	15.7	14.0	14.5	13.7	11.3	12.1	12.1	11.3	10.4	10.6
Restaurants	10.7	11.8	11.8	8.6	7.1	5.5	5.2	5.4	5.1	5.2	5.2
Logistics	11.8	17.6	12.5	26.3	16.7	11.1	10.5	10.5	10.5	10.5	10.5
Travel agents	3.8	3.7	3.6	3.7	3.7	3.6	3.3	3.3	3.3	3.3	3.3
Financing institutions	10.8	7.9	7.7	8.3	7.9	7.7	7.7	2.6	2.6	2.6	2.6
Insurance agents and brokers	10.0	5.6	10.0	10.5	10.0	10.0	10.0	5.3	5.3	5.3	5.3
Real estate and construction	5.9	5.7	6.1	8.8	8.8	8.8	8.8	8.8	8.8	8.8	8.8
Business services	6.1	0.0	0.0	2.9	3.1	2.9	3.0	3.0	3.0	3.1	3.1
All the above sectors	11.9	10.2	9.0	9.7	8.5	7.2	7.3	7.0	6.8	6.5	6.6

**Chart 2: Access to credit turned stable**

**Impact on Access to Credit**



1.13 The Government also proposed a number of specific measures to promote the six industries. Some of the more notable measures are highlighted below:-

*i. Educational Services*

Reserve two sites for operators providing self-financing degree programmes, which are expected to provide some 4 000 places.

*ii. Medical Services*

Reserve four sites for private hospital developments; and facilitate the development of Chinese medicine by expediting the setting of standards for Chinese herbal medicines commonly used in Hong Kong.

*iii. Testing and Certification Services*

Draw up a three-year development plan for the industry.

*iv. Environmental Industries*

Expand the Government's green procurement list and actively apply green specifications in procurement procedures to promote the green procurement policy.

*v. Innovation and Technology*

Allocate about \$200 million to launch an "R&D Cash Rebate Scheme" to encourage enterprises to invest in research and development.

*vi. Cultural and Creative Industries*

Support local cultural and creative industries to further develop the Mainland market through CEPA.

1.14 The Outline of the Plan for the Reform and Development of the Pearl River Delta has elevated the platform of co-operation between Hong Kong and Guangdong on all fronts to a national strategic level. By providing for the early and pilot implementation of various measures in Guangdong, there will be tremendous opportunities in the PRD market for the six industries. As part of the regional co-operation, Hong Kong will participate in the development of Qianhai in Shenzhen, so as to promote and enhance Hong Kong's own service industries and to contribute to the development of service industries in the Mainland. Also, in response to the latest development in cross-Strait relations, the Government will enhance exchanges between Hong Kong and Taiwan on various fronts.

1.15 At the same time, the Government will strive to consolidate the strengths of the traditional four pillar industries, namely financial services, tourism, trading and logistics, and professional services, through trying every means to enhance the flow of people, goods, capital and information that are related to the four pillar industries. The financial services sector is the most important pillar supporting the economy. Specific plans will be formulated to continue to develop Hong Kong as a global financial centre, asset management centre and offshore Renminbi centre attracting capital and talent from within and outside the country.

**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*

- *While the global economy has bottomed out and is expanding again, the recovery process has yet to translate into a revival in import demand in the advanced economies. Exports of Asian economies remained under immense pressure. Hong Kong's merchandise exports in the third quarter were still visibly lower than a year earlier. Nevertheless, exports of services improved more visibly, thanks to the bounce-back in financial services and inbound tourism.*
- *Merchandise exports fell notably by 13.6% in real terms in the third quarter. With global trade flows still languishing at a relatively low level, many other Asian economies continued to record double-digit declines in exports in the quarter. Yet the pace of decline in Hong Kong's merchandise exports slowed distinctly towards the end of the quarter.*
- *In contrast, exports of services turned up distinctly with a much smaller year-on-year decline in the third quarter, and a further large rise on a seasonally adjusted quarter-to-quarter comparison. Exports of financial services continued to improve alongside the further revival in financial market activities. Exports of travel services likewise reverted to an increase, in tandem with a rebound in visitor arrivals. Yet exports of transportation services and trade-related services remained under the drag of the much slackened trade flows in goods.*
- *A number of international trade disputes emerged as elevated unemployment in many major economies triggered rising protectionist sentiments. Leaders of the G20 reiterated to fight against protectionism and support and promote free trade and investment at their meeting in September.*
- *The Government will continue to increase co-operation with the Guangdong authority in developing the Pearl River Delta market, where tremendous opportunities for the development of the six industries lie, and also as a huge market for Hong Kong's services sector as a whole. The Government will also promote multi-faceted, multi-level exchanges with Taiwan in response to the latest development in cross-Strait relations.*

## Visible trade

### *Total exports of goods*

2.1 *Total exports of goods* (comprising re-exports and domestic exports) again declined notably in the third quarter of 2009, by 13.6% in real terms<sup>(1)</sup> over a year earlier, as compared to the decline of 10.8% in the preceding quarter. Yet the pace of decline slowed towards the end of the quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods dipped by 4.7% in the third quarter after the strong rebound of 13.0% in the second quarter.

2.2 The global economy has by now returned to the growth path, on the back of the strong policy actions taken by governments and central banks to support aggregate demand and stabilise the financial markets. In October, the International Monetary Fund<sup>(2)</sup> estimated that the world economy was finally expanding again after a deep global recession in the earlier quarters, and would expand by 3.1% in 2010. The outlook improved more noticeably for the emerging Asian economies, with the Mainland economy leading the recovery. Yet import demand in advanced economies was still sluggish, dragging exports of Asian economies, many of which continued to see double-digit decline in the third quarter. Meanwhile, worsening unemployment situation in many major economies had triggered a general rise in protectionist sentiments. In face of the challenge, leaders of the G20 reiterated at their meeting in September their commitment to fight against protectionism in order to revive world trade and investment.

2.3 *Re-exports*<sup>(3)</sup> were the backbone of Hong Kong's merchandise exports, accounting for 97.7% by total value in the third quarter of 2009. In the face of the still weak import demand in the advanced economies, re-exports posted a larger decline of 12.9% in real terms in the third quarter over a year earlier, following a decrease of 9.9% in the second quarter. *Domestic exports*, which only constitute a small share of total exports, continued to plunge, by 35.1% in the third quarter, after contracting by 37.0% in the second quarter.



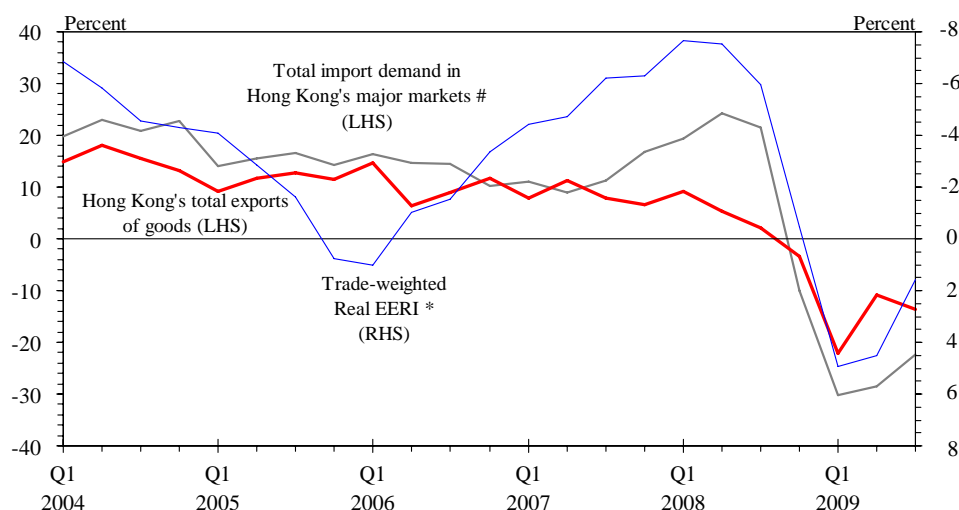
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

	<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>			
2008 Annual	5.1	2.9	3.8	6.0	4.0	3.8	-16.8	-22.0	5.1			
H1	9.1	7.1	3.3	9.8	8.0	3.3	-7.8	-13.3	4.2			
H2	1.7	-0.7	4.4	2.8	0.5	4.3	-24.4	-29.4	6.3			
Q1	10.5	9.1	(1.2)	2.6	10.9	9.6	(1.6)	2.6	0.3	-5.0	(-7.3)	3.3
Q2	7.8	5.4	(0.2)	3.9	8.8	6.6	(0.5)	3.9	-14.3	-20.0	(-9.5)	5.0
Q3	5.5	2.1	(-1.5)	4.8	6.5	3.3	(-1.1)	4.7	-17.8	-26.1	(-12.9)	6.4
Q4	-2.1	-3.5	(-3.7)	4.1	-0.9	-2.3	(-3.5)	4.0	-31.1	-32.8	(-8.2)	6.2
2009 H1	-17.2	-16.3		1.6	-16.3	-15.5		1.6	-41.9	-40.1		1.2
Q1	-21.9	-22.2	(-17.1)	2.5	-21.1	-21.4	(-17.1)	2.5	-44.3	-43.3	(-19.4)	2.5
Q2	-12.9	-10.8	(13.0)	0.8	-12.0	-9.9	(13.4)	0.8	-39.6	-37.0	(-1.9)	*
Q3	-14.3	-13.6	(-4.7)	0.2	-13.5	-12.9	(-4.6)	0.3	-38.7	-35.1	(-9.5)	-2.2

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

(\*) Change of less than 0.05%.

**Diagram 2.1 : Merchandise exports remained on a notable decline  
in the third quarter of 2009  
(year-on-year rate of change)**

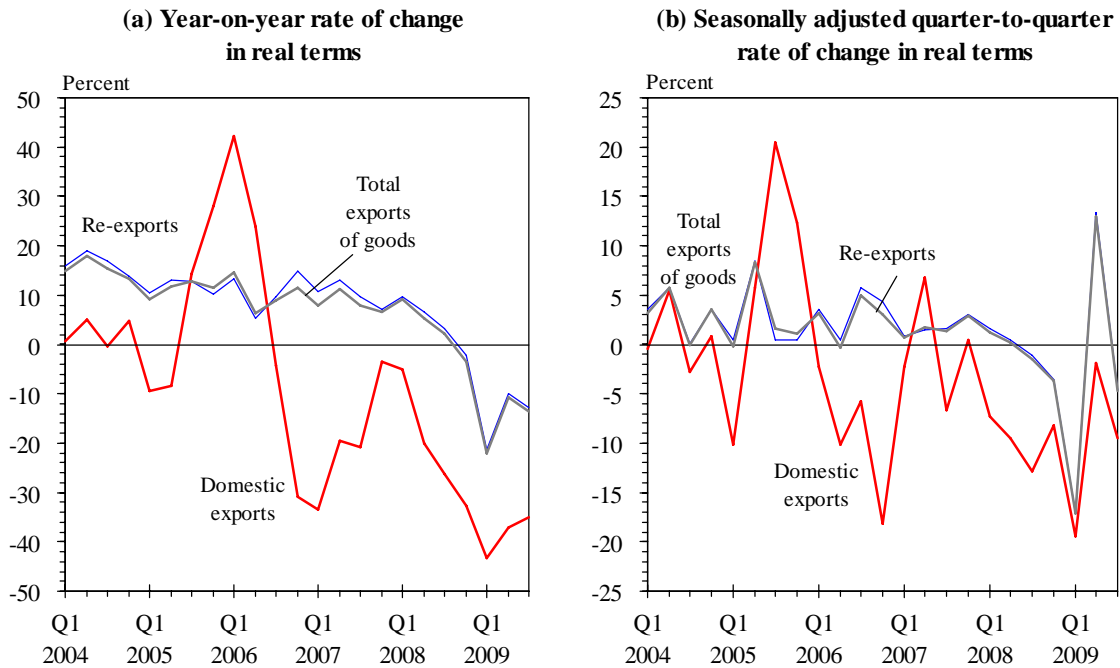


Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

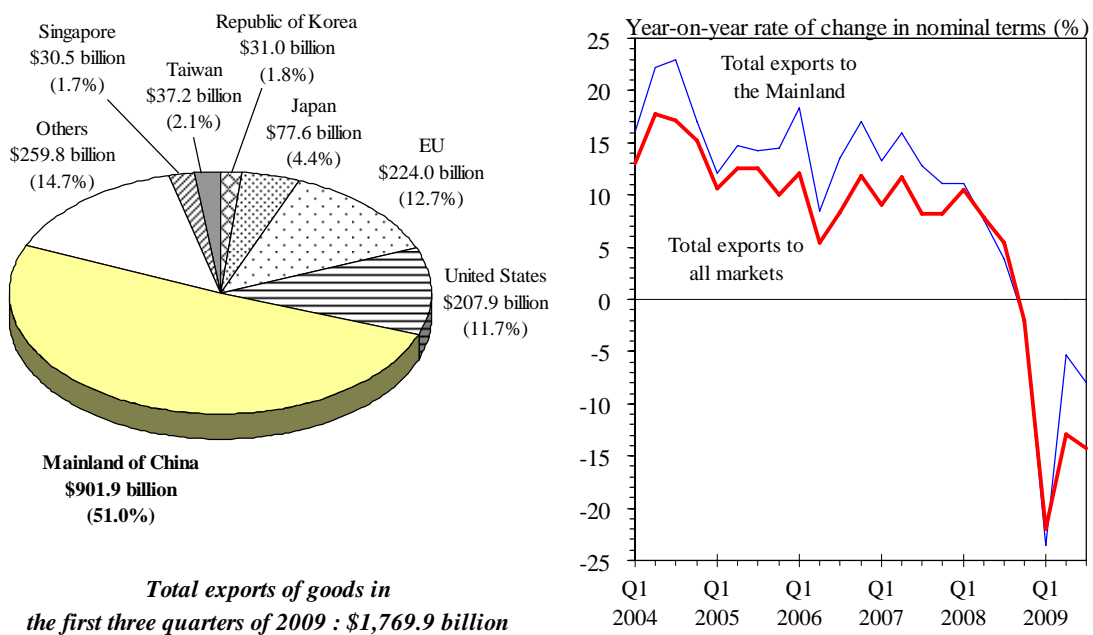
(\*) The real EERI in this graph is inverted in scale for easier comprehension. A positive change denotes real appreciation of the Hong Kong dollar.

(#) Import demand figure for the third quarter of 2009 is based on statistics for July and August 2009.

**Diagram 2.2 : Both re-exports and domestic exports dipped after a strong rebound**



**Diagram 2.3 : The decline in exports to the Mainland, Hong Kong's largest market, widened again in the third quarter of 2009**

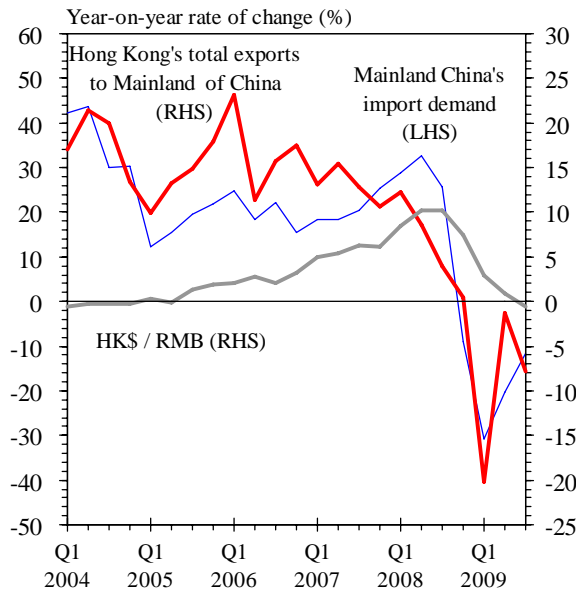


**Table 2.2 : Total exports of goods by major market  
(year-on-year rate of change in real terms (%))**

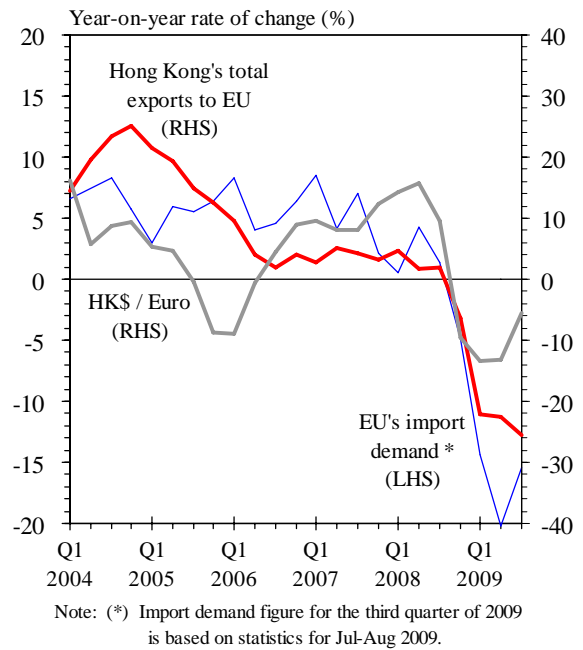
		<u>Mainland of China</u>	<u>United States</u>	<u>European Union</u>	<u>Japan</u>	<u>Republic of Korea</u>	<u>Taiwan</u>	<u>Singapore</u>
2008	Annual	5.9	-8.5	0.2	-2.4	-8.2	-1.6	6.2
	H1	10.3	-6.6	3.0	-3.7	-1.6	1.2	17.7
	H2	2.1	-10.0	-2.2	-1.1	-14.5	-4.2	-3.9
	Q1	12.2	-5.8	4.6	-3.2	2.8	-0.2	21.6
	Q2	8.6	-7.4	1.6	-4.1	-5.7	2.6	13.8
	Q3	3.9	-7.1	2.0	-1.2	-5.7	-2.5	-0.5
	Q4	0.4	-13.0	-6.3	-1.0	-23.2	-5.9	-7.2
2009	H1	-10.3	-23.0	-22.3	-18.7	-26.3	-18.1	-32.6
	Q1	-20.2	-24.6	-22.1	-17.8	-31.9	-27.4	-37.0
	Q2	-1.3	-21.6	-22.6	-19.6	-20.8	-9.6	-27.9
	Q3	-7.9	-22.5	-25.6	-8.2	-11.5	-0.8	-20.2

2.4 Hong Kong's merchandise exports to many markets remained under the heavy drag of the much slackened global trade flows. Reflecting this, exports to the European Union and the United States continued to fall sharply in the third quarter over a year earlier. Asian regional trade also suffered as the decline in exports to the Mainland widened again in the third quarter following the visible improvement in the previous quarter. The declines in exports to South Korea and Singapore were still sizable, despite some relative improvement in the quarter. Exports to Japan and Taiwan nevertheless had much tapered year-on-year declines in the third quarter.

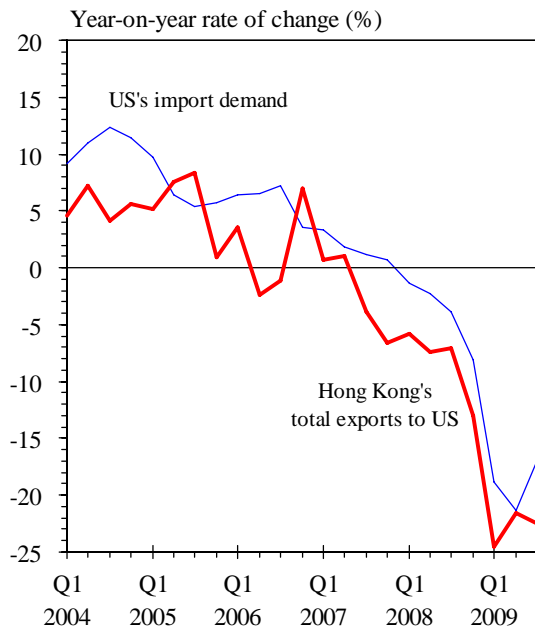
**Diagram 2.4 : Exports to the Mainland fell more again as Asian regional trade suffered**



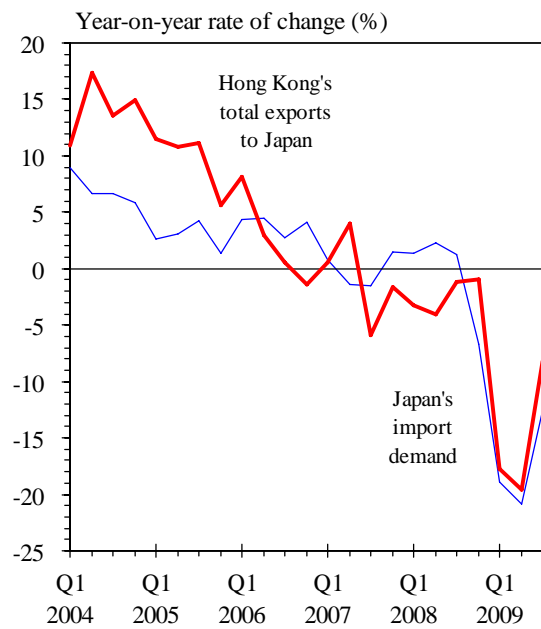
**Diagram 2.5 : Exports to EU remained on a distinct decline amid the weak import demand there**



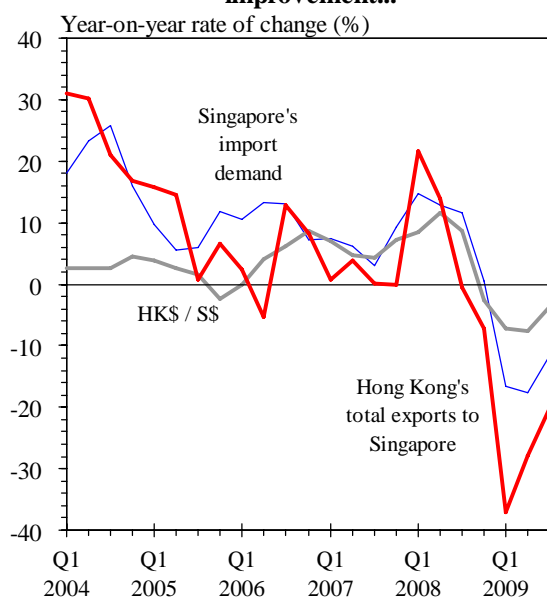
**Diagram 2.6 : Exports to US continued to fall sharply during the third quarter**



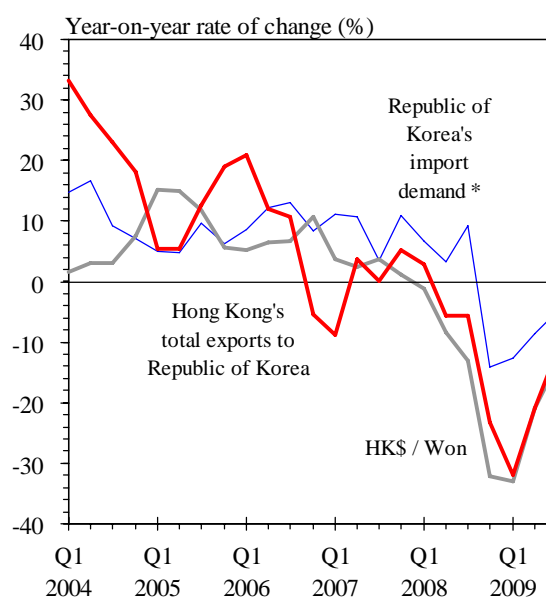
**Diagram 2.7 : Exports to Japan showed relative improvement**



**Diagram 2.8 : Exports to Singapore were still sharply down despite some relative improvement...**



**Diagram 2.9 : ...and so did exports to Republic of Korea**



Note: (\*) Import demand figure for the third quarter of 2009 is based on statistics for Jul-Aug 2009.

### *Imports of goods*

2.5 *Imports of goods* fell at a smaller rate of 7.9% in real terms in the third quarter of 2009, as compared to the 12.3% decrease in the second quarter. *Retained imports*, referring to the imports for domestic uses, rose back by 7.3% in real terms in the third quarter, representing a notable reversal from a fall of 18.6% in the previous quarter. Analysed by end-use, retained imports of raw materials and semi-manufactures reverted to a sharp increase and consumer goods a marginal increase, while those of foodstuffs and fuels picked up further. Although retained imports of capital goods were still weak, the rate of decline tapered visibly as compared to the preceding quarters.

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

		<u>Imports of goods</u>				<u>Retained imports</u> <sup>(a)</sup>		
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2008	Annual	5.5	2.6	4.4	5.3	-1.4	7.6	
	H1	10.3	7.5	4.3	13.1	6.0	8.4	
	H2	1.3	-1.7	4.6	-1.8	-8.0	6.9	
	Q1	11.6	9.6	(-1.9)	15.1	9.6	(-10.9)	
	Q2	9.1	5.6	(1.6)	11.4	3.0	(4.9)	
	Q3	7.0	2.7	(-0.6)	10.0	0.8	(0.9)	
	Q4	-4.2	-6.0	(-5.4)	-12.5	-16.0	(-10.5)	
2009	H1	-18.6	-17.0	*	-24.9	-21.3	-4.3	
	Q1	-22.8	-22.2	(-17.2)	-27.4	-24.2	(-17.7)	
	Q2	-14.9	-12.3	(12.3)	-22.7	-18.6	(9.0)	
	Q3	-10.4	-7.9	(4.2)	-1.3	7.3	(31.7)	

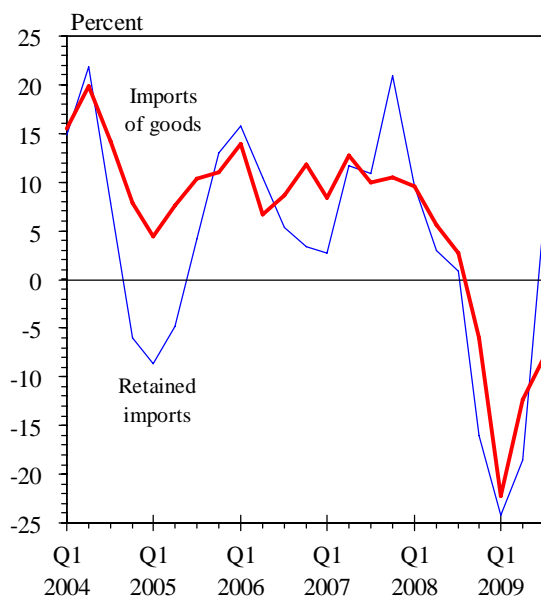
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

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

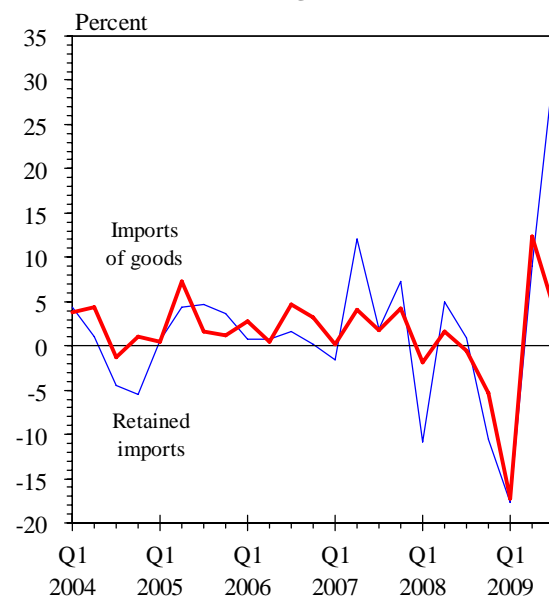
(\*) Change of less than 0.05%.

**Diagram 2.10 : Total imports turned up further in the third quarter**

**(a) Year-on-year rate of change in real terms**



**(b) Seasonally adjusted quarter-to-quarter rate of change in real terms**



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

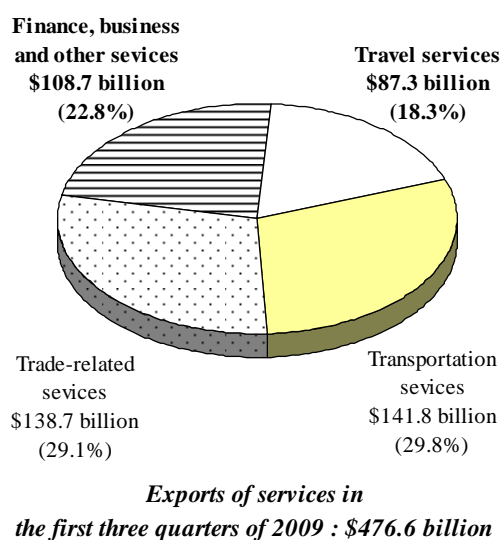
		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2008	Annual	12.4	13.3	7.5	-29.9	-3.9
	H1	22.6	15.8	12.7	-16.9	-9.2
	H2	3.2	10.8	3.1	-41.9	1.4
	Q1	30.3	12.7	14.5	-11.7	-11.3
	Q2	16.2	19.0	11.2	-20.8	-7.0
	Q3	9.8	9.0	20.0	-35.4	0.9
	Q4	-3.3	12.6	-11.1	-47.9	1.9
2009	H1	-26.4	1.5	-10.9	-57.4	24.0
	Q1	-30.7	-3.4	-8.1	-69.5	30.8
	Q2	-22.4	6.3	-13.4	-47.4	17.4
	Q3	0.1	11.1	-3.7	41.1	24.1

## **Invisible trade**

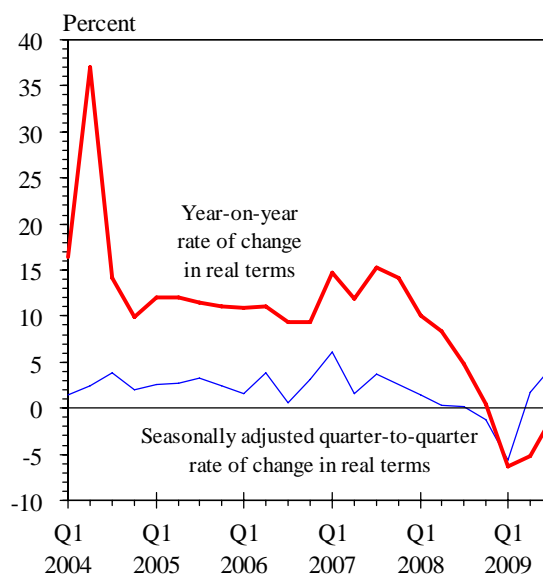
### *Exports of services*

2.6 Compared to merchandise exports, *exports of services* showed visible improvement in the third quarter of 2009, with the year-on-year rate of decline tapering distinctly to just 0.9% from that of 5.2% in the second quarter. On a seasonally adjusted quarter-to-quarter basis, it expanded further by 4.6% in the third quarter. As fund-raising and other financial market activities revived further during the quarter, exports of finance, business and other services went up more significantly in the third quarter, although partly affected by the low base of comparison caused by the outbreak of the global financial crisis a year earlier. Thanks to the rebound in the number of visitor arrivals, exports of travel services reverted to an increase in the third quarter. However, exports of transportation services and trade-related services (mainly offshore trade) were still down owing to the sluggish global trade flows.

**Diagram 2.11 : Travel and finance, business and other services accounting for over 40% of service exports**



**Diagram 2.12 : Exports of services displayed more resilience amid the further resumption in financial activities and rebound in inbound tourism**



**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 <sup>(a)</sup>	Transportation services	Travel services <sup>(b)</sup>	Finance, business and other services	
2008	Annual	5.7	5.8	2.2	6.2	9.6	
	H1	9.3	9.7	4.6	7.5	15.9	
	H2	2.6	3.0	0.0	5.0	3.5	
	Q1	10.1	(1.5)	9.6	5.2	17.7	
	Q2	8.4	(0.3)	9.9	4.1	13.7	
	Q3	4.8	(0.1)	6.0	1.2	6.2	
	Q4	0.4	(-1.3)	0.3	-1.4	3.0	0.7
	2009	H1	-5.8	-13.2	-6.0	4.6	-4.3
Q1		-6.3	(-5.6)	-14.6	-8.1	10.0	-6.4
Q2		-5.2	(1.7)	-11.7	-4.1	-1.4	-1.6
Q3		-0.9	(4.6)	-8.5	-2.7	2.8	9.6

Notes : (a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

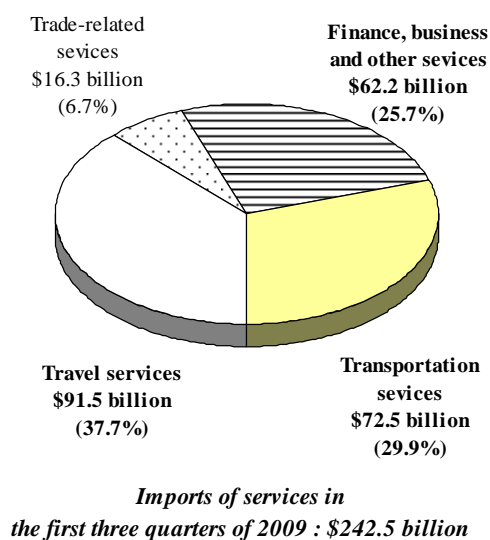
( ) Seasonally adjusted quarter-to-quarter rate of change.



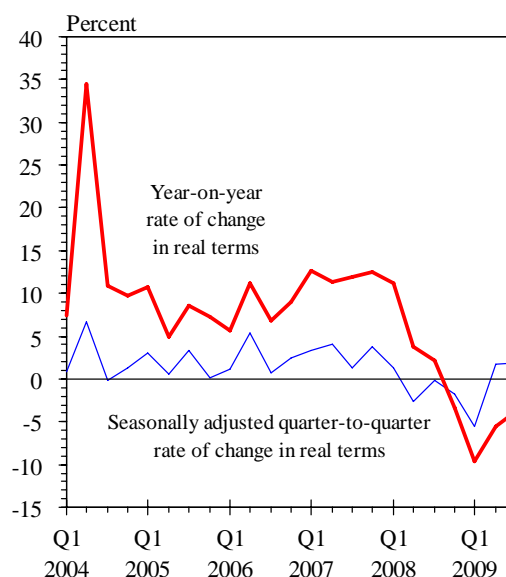
## Imports of services

2.7 *Imports of services* contracted by 3.8% in real terms in the third quarter of 2009 over a year earlier, narrowed from the 5.6% decline in the second quarter. Imports of finance, business and other services held up rather well, as the financial and commercial activities actually picked up in the third quarter. Imports of travel services only registered a marginal increase despite the further improvement in local consumer sentiment during the quarter. Meanwhile, imports of trade-related services and transportation services remained on a decline, dragged by the continued setback in external trade.

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



**Diagram 2.14 : Imports of services saw a smaller decrease**



**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<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>	<u>Finance, business and other services</u>	
2008	Annual	3.3	2.2	1.8	6.3	5.9	
	H1	7.5	5.7	7.7	10.3	8.9	
	H2	-0.5	-1.1	-3.5	3.5	3.0	
	Q1	11.2	(1.3)	13.1	10.2	10.1	
	Q2	3.8	(-2.6)	-1.3	5.5	7.5	
	Q3	2.2	(-0.1)	1.4	0.8	4.2	
	Q4	-3.4	(-1.8)	-3.7	0.8	1.9	
2009	H1	-7.6	0.2	-14.7	-13.6	-7.9	
	Q1	-9.6	(-5.5)	-4.2	-16.4	-7.9	
	Q2	-5.6	(1.8)	4.9	-13.1	-7.9	
	Q3	-3.8	(1.9)	0.2	-10.6	1.4	

Notes : (+) Comprising mainly outbound travel spending.

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

### 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 sizable surplus of \$24.8 billion was recorded in the combined visible and invisible trade balance in the third quarter of 2009, equivalent to 3.1% of the total value of imports of goods and services. This compared with the corresponding figures of \$56.8 billion and 6.3% in the same quarter last year. The sizable surplus continued to highlight Hong Kong's strengths and resilience in meeting challenges during the global financial crisis.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2008	Annual	2,844	719	3,024	357	-180	362	182	5.4
	H1	1,359	341	1,467	177	-108	164	56	3.4
	H2	1,485	378	1,557	180	-72	198	126	7.2
	Q1	651	174	697	90	-46	84	38	4.9
	Q2	709	167	771	87	-62	80	18	2.1
	Q3	764	194	806	95	-41	98	57	6.3
	Q4	720	184	751	85	-31	99	69	8.2
2009	H1	1,131	297	1,205	153	-74	143	69	5.1
	Q1	512	151	547	76	-35	75	40	6.5
	Q2	619	146	658	77	-39	68	29	3.9
	Q3	657	180	723	89	-66	91	25	3.1

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

## **Other developments**

2.9 The 2009-10 Policy Address announced by the Chief Executive on 14 October 2009 outlined a blueprint to promote Hong Kong's economic development and sustainable growth. On the front of regional co-operation, the Government will continue to increase co-operation with the Guangdong authority on developing the Pearl River Delta market, where tremendous opportunities for the six economic industries lies, as well as those for the services sector as a whole. A framework agreement for Hong Kong-Guangdong co-operation is being formulated between the governments of Hong Kong and Guangdong, to translate macro policies in The Outline of the Plan for the Reform and Development of the Pearl River Delta promulgated in January 2009 into concrete measures conducive to the development of both places. The Government will continue to promote the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), ensure its effective implementation, and seek further liberalization and facilitation measures under it.

2.10 Also, by participating in the development of Qianhai in Shenzhen, Hong Kong will be able to promote and enhance its own service industries and thereby fostering its long term economic growth.

2.11 In response to the latest development in cross-Strait relations, the Government will establish a co-operation framework and foster bilateral economic co-operation with Taiwan, and also play an active role in financial, economic and trade, tourism and other exchanges between the Mainland, Taiwan and Hong Kong.

**Notes :**

- (1) Changes in merchandise exports and imports in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates. Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. The real growth figures reported here are based on the constant price measures adopted for compiling the external trade quantum index numbers. They are not strictly comparable with the real trade aggregates under GDP (reported in Chapter 1) which are based on the chain volume measures using the preceding-year prices as weights for aggregating the components.
- (2) In October 2009, the International Monetary Fund (IMF) revised upwards its global growth forecast for 2009 and 2010 from -1.4% and 2.5% to -1.1% and 3.1% respectively, amidst the strong policy actions taken by governments and the re-stocking phase in an inventory cycle. Separately, the IMF estimated that actual and potential global write-downs on US-originated assets held by banks and other financial institutions until 2010 would reach US\$3.4 trillion, down from US\$4.1 trillion estimated in April 2009.
- (3) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

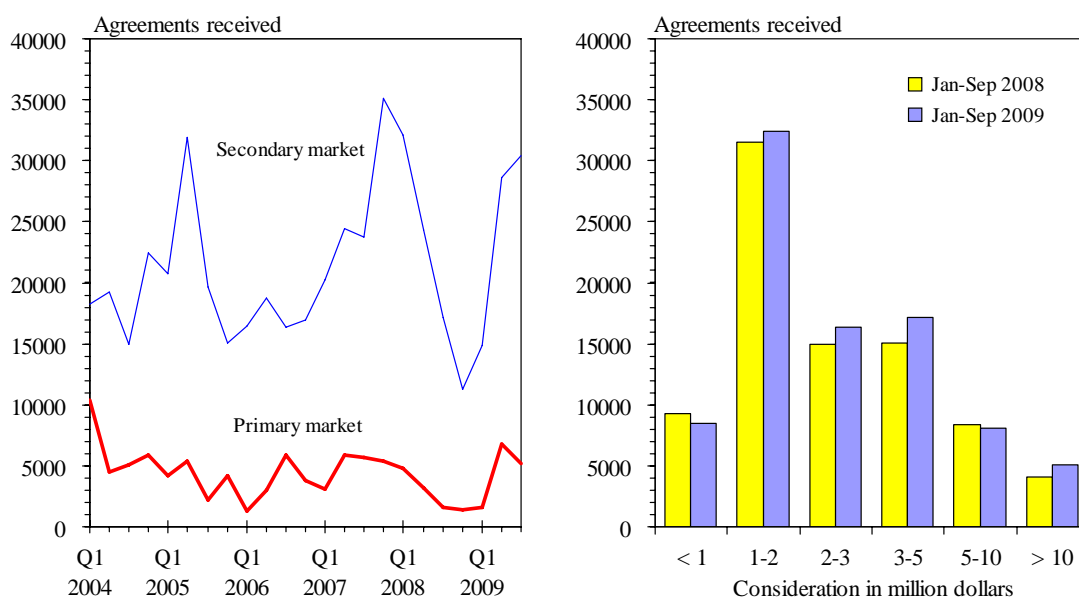
### *Summary*

- *The residential property market continued to firm up in the third quarter of 2009, as improved economic conditions and low mortgage rates sustained strong buying interest. Consequential to the uptrend established since the beginning of this year, the overall flat prices in September 2009 have surpassed their preceding highs in mid-2008 by around 2%. The markets for non-residential properties were likewise active, with more notable price increases observed for the quality premises in prime locations.*
- *Inbound tourism showed signs of recovery in the third quarter, as the global economy gradually pulled out of recession. Both long-haul and Mainland visitor arrivals experienced a modest rebound, which helped cushion the impact of reduced visitors from the short-haul markets.*
- *The logistics sector remained generally subdued, though there seemed to be signs of moderating decline in throughput.*

### **Property**

3.1 The *residential property market* maintained its upward momentum in the third quarter of 2009. Trading activities, sale prices and rentals all went up further during the quarter, on the back of strong property demand amid improved economic conditions and low mortgage rates. The total number of sale and purchase (S&P) agreements of residential property received by the Land Registry jumped by 89% over a year earlier to 35 558 in the third quarter, but the rise was exaggerated by the low base of comparison when the property market was hard hit by the global financial crisis. This was also partly due to realisation of pent-up demand that had been held back amid the immense economic uncertainties in the first half of this year. Taking the first nine months of 2009 as a whole, the total number of S&P agreements went up by only 5% over a year earlier. Trading activities rose across flats of most price ranges, with those of luxurious flats posting more distinct increases.

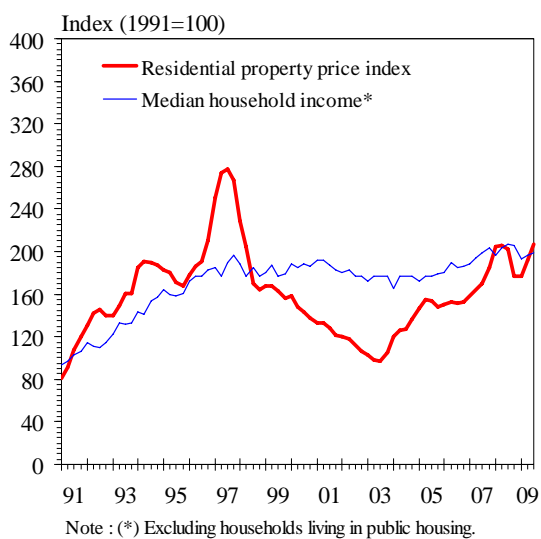
**Diagram 3.1 : Transaction volume in the residential property market picked up further in the third quarter of 2009 amid recovered buying interest**



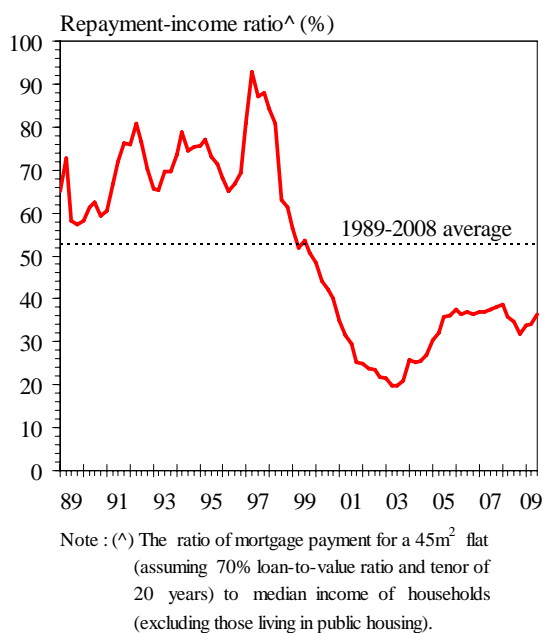
3.2 Sale prices of residential property stayed on an uptrend, rising by 6% between June and September 2009. Compared with December 2008, the prices posted a cumulative gain of 23%, but this should be viewed against the sharp fall of 17% between June and December 2008 when the market came under the severe shocks from the global financial crisis. As a result, overall flat prices have moved back to a level slightly higher than the peaks in June 2008. Analysed by size of property, the prices of small/medium-sized and large flats in September were up by 6% and 11% over June. Compared with the peaks reached in 2008, prices of small/medium-sized flats were only 2% higher while those for large flats were little changed.

3.3 While the exorbitant prices fetched by some luxurious flats in the primary market were particularly eye-catching, the luxury end accounted for only 1-2% in terms of both the stock and transactions. Indeed, nearly 90% of all transactions in the secondary market in the first nine months of 2009 fell in the category of flats with saleable area of less than 70 square metres. Transactions for flats valued at over \$10 million amounted to less than 6% of total transactions. Also, reflecting the combined effects of property prices, income and mortgage rate, the home purchase affordability (i.e. the ratio of mortgage payment for a 45-square metre flat to median income of households, excluding those living in public housing) notched up to 36% in the third quarter of 2009, yet still comfortably lower than the average of 53% over the past 20 years. The level of speculative activities in the first nine months of this year was still slightly lower than the average in the past five years, indicating that the market was largely end-user led.

**Diagram 3.2 : The rise in property prices has been largely in line with household income**



**Diagram 3.3 : Home purchase affordability remained healthy**

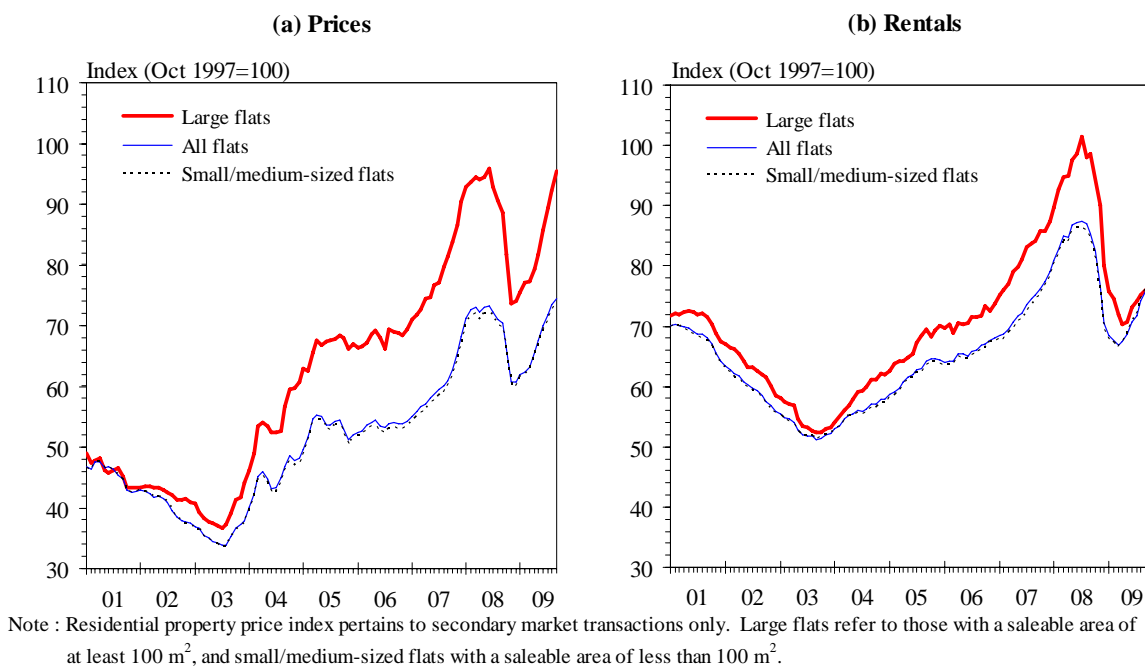


3.4 With a view to maintaining banking stability and enhancing banks' risk management on mortgage lending to high end residential properties, on 23 October 2009 the HKMA advised banks to cap the loan-to-value ratio at 60% for residential properties valued at \$20 million or more and set the maximum loan amount at \$12 million for mortgages on properties valued at below \$20 million. The HKMA also reminded lenders to be prudent in valuating properties and calculating borrowers' debt servicing ratios. Initial signs suggested that the property market might have eased back somewhat as a consequence.

3.5 The Government's policy is to maintain a fair and stable environment to enable the sustained and healthy development of the property market. It is the Government's wish to see the market developing naturally, adjusting and regulating by itself according to market forces. The Government is mindful that sharp fluctuations in property prices could affect the macroeconomic stability as well as social stability, and hence would act prudently when considering appropriate measures to stabilise the property market if necessary. As announced by the Chief Executive in his Policy Address, the Government will closely monitor the development and changes, including supply and demand, in the private property market in the coming months. When necessary, the Government will fine-tune the land supply arrangements and discuss with the Urban Renewal Authority and MTR Corporation Limited with a view to quickening the pace of bringing readily available residential sites to the market. The Government is of the view that developers should ensure and enhance market transparency when launching their projects for sale.

3.6 Having fallen by a cumulative 23% between July 2008 and March 2009, flat rentals began to pick up in April and rose by a further 7% between June and September. However, compared with the peaks in 2008, flat rentals in September were still 13% lower. The average rental yield for residential flats in September stayed at 3.6%.

**Diagram 3.4 : Both flat prices and rentals continued to firm up**

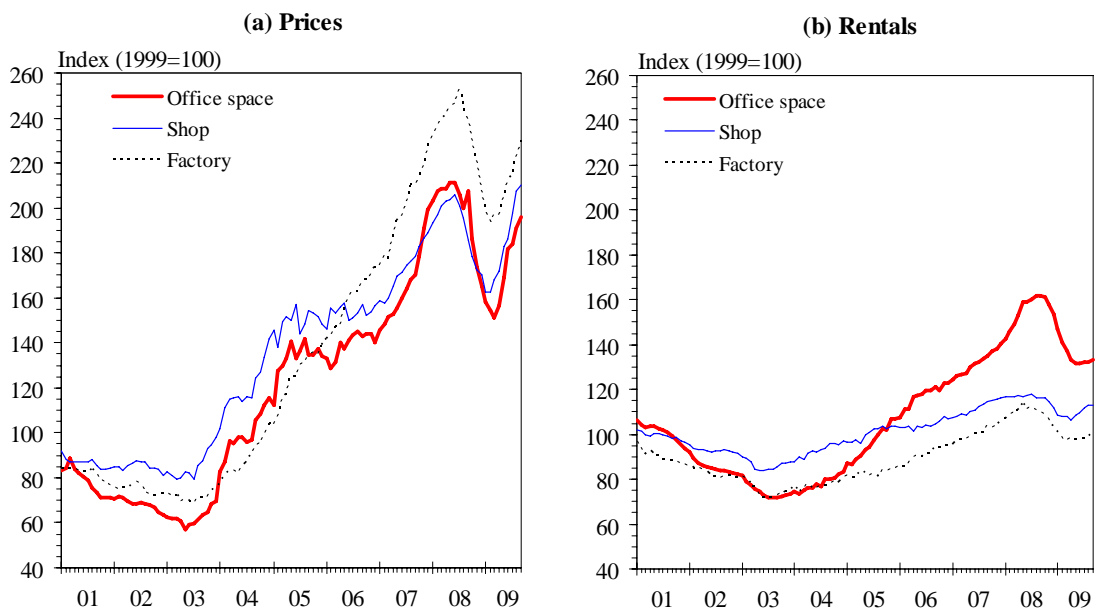


3.7 Regarding *commercial and industrial properties*, both sale prices and rentals firmed up alongside the gradual revival in business activities. For *office space*, overall prices rose further, by 8% between June and September, but the level in September was still 7% lower than the peaks in 2008. Prices for both Grade A and B offices registered gains of 8% between June and September while those for Grade C recorded an increase of 7%. Meanwhile, office rentals managed to reverse their downtrend seen in the first half of the year and rose slightly by 1% during June to September. Compared with the peaks in 2008, office rentals in September were sharply lower, by 18%. Analysed by type of office space, rentals for Grade A and C offices increased by 1% and 3% respectively whereas those for Grade B offices were little changed. As a result of the faster increases in sale prices than in rentals, the average rental yield for Grade A, B and C offices declined from 3.6%, 4.2% and 4.4% in June to 3.4%, 3.9% and 4.2% in September respectively.



3.8 On *retail shop space*, sale prices in September jumped by 13% over June. But again this should be viewed against the 21% plunge following the outbreak of the global financial crisis. Compared with the peaks in 2008, prices were only 2% higher. By comparison, shop rentals recorded a lesser gain of 3% between June and September, and were still 4% lower than the peaks in 2008. For *flatted factory space*, while prices in September were distinctly higher by 8% over the level in June, they were still 9% lower than the peaks in 2008. Rentals in September registered a more moderate increase of 3% over June, which represented a decrease of 11% from the peaks in 2008. The average rental yields for retail shop space and flatted factory space both fell noticeably from 4.2% and 5.7% in June to 3.8% and 5.4% in September respectively.

**Diagram 3.5 : Prices rallied in the non-residential property market while rentals also showed some gains**



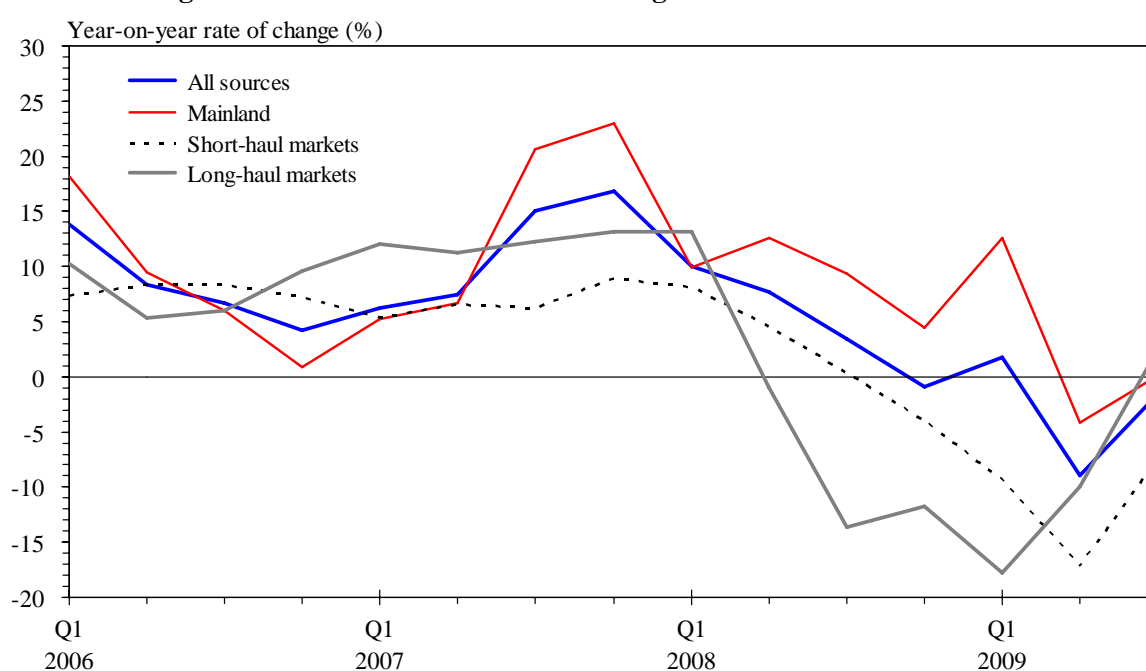
## Land

3.9 The land sales market remained lacklustre, with only scanty transactions recorded in the third quarter of 2009 notwithstanding the buoyancy in the local property market. During the period, only two sites were sold via public tender at a total of \$238 million. No land site was successfully triggered for auction through the *Application List* system.

## Tourism

3.10 Inbound tourism showed signs of stabilisation in the third quarter of 2009, as the negative impact of human swine flu gradually subsided. While the total number of *incoming visitor arrivals* still declined by 1.6% from a year earlier to 7.5 million in the third quarter, this represented a considerable improvement over the 8.9% fall in the second quarter. Analysed by source market, visitor arrivals from the Mainland (61.3% of which were visitors under the Individual Visit Scheme) and the long-haul markets grew by 0.1% and 2.4% respectively over a year earlier. On the other hand, visitor arrivals from the short-haul markets exhibited a relatively poor performance with a drop of 7.5%.

**Diagram 3.6 : Inbound tourism showed signs of stabilisation in recent months**



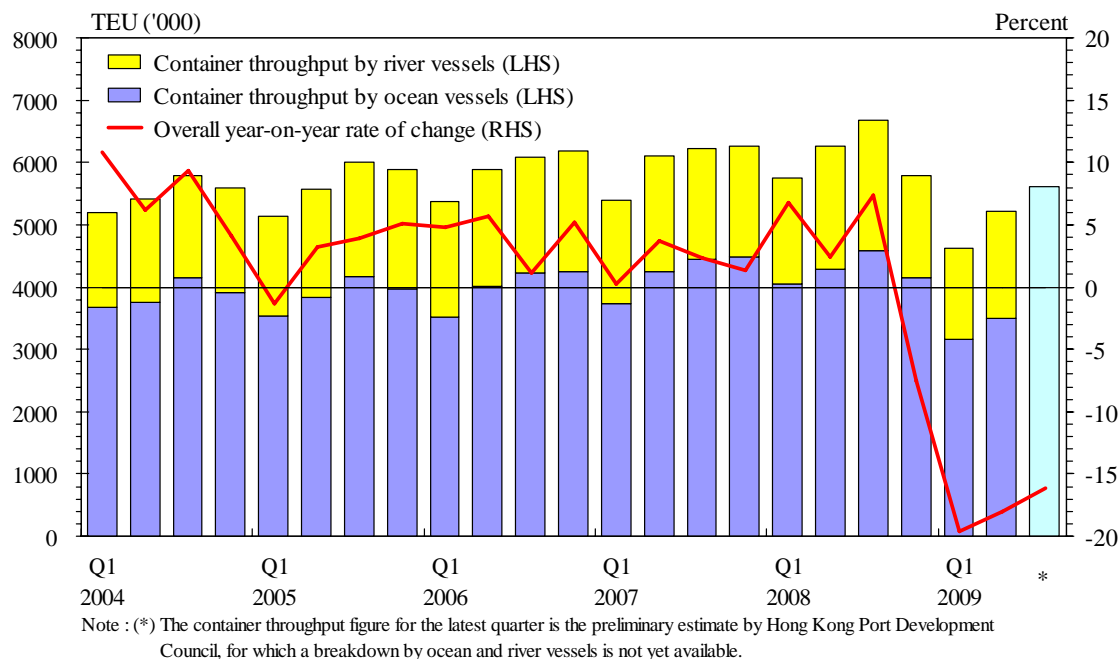
3.11 Analysed by length of stay, the number of same-day visitors went up by 2.9% year-on-year in the third quarter, while the number of overnight visitors fell by 4.7%. Consequently, the share of same-day visitors in total arrivals in the quarter rose to 42.9% from 41.1% a year earlier, while that for overnight visitors decreased from 58.9% to 57.1%.

3.12 Hotel room occupancy rate fell to 76% in the third quarter from 84% a year earlier, reflecting the combined effect of an increase in the supply of hotel rooms and a decline in number of overnight visitors<sup>(1)</sup>. The achieved hotel room rate was down by 18% over the period to \$935.

## Logistics

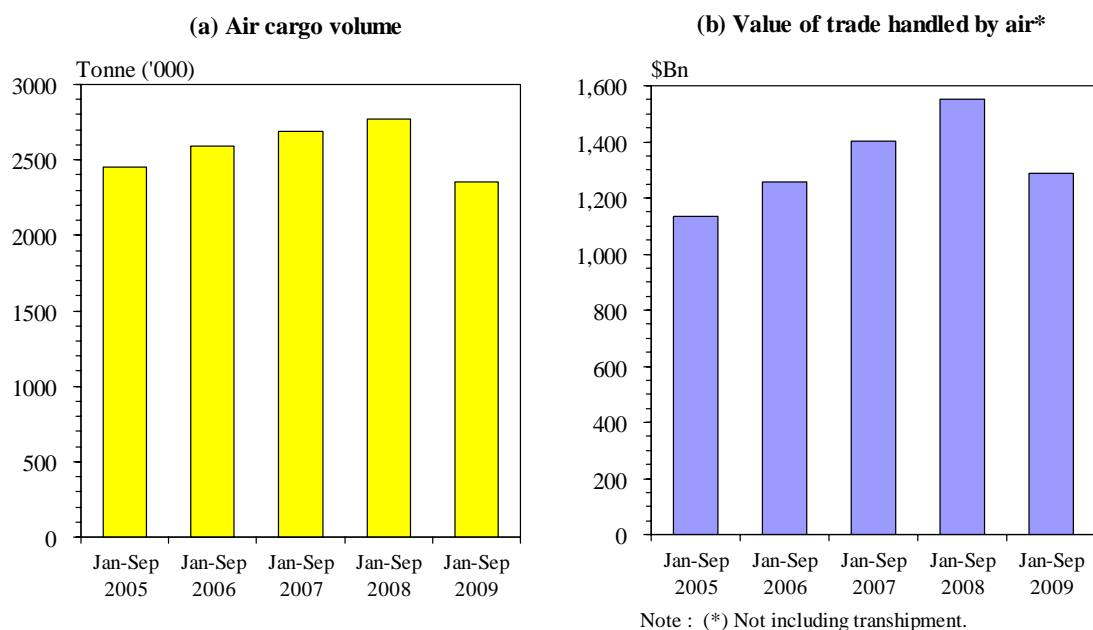
3.13 The logistics sector remained generally subdued. The *total container throughput* continued to fall sharply, by 16.1% over a year earlier to 5.6 million TEUs in the third quarter of 2009. The value of trade handled at the Hong Kong Port recorded a more distinct drop of 18.6% over the period, and its share in Hong Kong's overall trade value declined to 29.1%.

**Diagram 3.7 : Port container traffic continued to record sharp fall**



3.14 Meanwhile, the rate of decline in air freight volume tapered, as the severe drag from the global recession diminished. *Air freight throughput* amounted to 890 000 tonnes in the third quarter, representing a year-on-year decline of 5.9% that is much improved from the plunge of 17.0% in the second quarter. While the total value of trade by air still witnessed a visible drop of 12.3%, its share in overall trade value edged up to 34.2%.

**Diagram 3.8 : Air freight traffic volume showed moderated decline though the value of trade involved continued to plunge**



## Transport

3.15 Having suffered a significant drop in the first half of 2009, air passenger traffic stabilised somewhat in the third quarter, thanks to the improved global economic conditions and alleviated concerns about human swine flu. The number of air-borne passengers, at 11.8 million in the third quarter of 2009, was still down by 3.5% from a year earlier. Again, this was already a distinct improvement when compared with the 9.2% drop in the second quarter. Meanwhile, the number of water-borne passenger trips fell by 15.3% over a year earlier to 5.9 million.

3.16 Land-based cross-boundary traffic movements fared better. Land-based passenger trips recorded a year-on-year growth of 1.4% to an average of 466 000 per day in the third quarter. Passenger vehicle movements grew in tandem by 4.9% to an average of 19 900 per day, although overall cross-boundary vehicular movements still recorded a 3.2% decrease to a daily average of 43 000.

3.17 Work on the large-scale transport infrastructure projects remained in good progress. Regarding the Hong Kong-Zhuhai-Macao Bridge (HZMB), the construction works of the Link Road and the Hong Kong Boundary Crossing Facilities (HKBCF) were both gazetted in August 2009. Works will start in mid-2010 and mid-2011 respectively and are expected to be completed by 2015-2016.

3.18 On the domestic front, the construction works of the Mass Transit Railway (MTR) West Island Line (WIL) have commenced after the Finance Committee approved the funding support in July. The WIL is an extension of the MTR Island Line from Sheung Wan to Kennedy Town and is expected to be commissioned in 2014. The proposed railway scheme of the South Island Line (SIL) (East) was also gazetted in July. The SIL (East) will provide passenger service between Admiralty and South Horizons with three intermediate stations near the Ocean Park and at Wong Chuk Hang and Lei Tung Estate, and is aimed at commencing construction in 2011 for commissioning in 2015.

3.19 The construction of the Tuen Mun-Chek Lap Kok Link was gazetted in August. The project will link up Tuen Mun and the HZMB HKBCF at the north-east of Hong Kong International Airport (HKIA). The new road link is planned to meet the anticipated traffic demand between Northwest New Territories and North Lantau, as well as to serve as an alternative access to the HKIA in addition to the existing North Lantau Highway.

### **Creativity and innovation**

3.20 The Hong Kong Council for Testing and Certification was established on 17 September 2009. This demonstrates the staunch support from the Government for the sustained growth of the testing and certification industry, which has been identified by the Task Force on Economic Challenges as one of the six industries where Hong Kong enjoys clear advantages. The priority task of the Council is to work with the industry to formulate a three-year market-oriented development plan.

3.21 The fourth meeting of the Mainland/Hong Kong Science and Technology Co-operation Committee was held on 25 September. At the meeting, the Central Government and SAR Government discussed the progress of work and mapped out future innovation and technology co-operation projects between the two sides. The meeting also agreed to set up the “Working Group on Pilot Implementation for Guangdong-Hong Kong Technology Co-operation” to study and formulate measures for pilot implementation in Guangdong. It was also agreed that the governments would follow up on the establishment of seven Partner State Key Laboratories in Hong Kong.

## **Energy**

3.22 On 22 September 2009, the Executive Council gave approval for CLP Power Hong Kong Limited to extend the contract for supply of nuclear electricity from Daya Bay Nuclear Power Station for another 20 years from May 2014 to May 2034. This is in accordance with the Memorandum of Understanding on Energy Co-operation signed between the Government and the National Energy Administration of the Central Government in August 2008, which indicated support for the extension of nuclear electricity supply upon expiry. The projected average unit price of nuclear electricity from Daya Bay in the extended contract period will be 6-12% lower in real terms than the average unit price during 2006 to 2008.

3.23 The Energy Efficiency (Labelling of Products) Ordinance (Amendment of Schedule 1) Order 2009 was submitted to the Legislative Council on 30 September to introduce the second phase of the Mandatory Energy Efficiency Labelling Scheme (MEELS). The second phase of the MEELS will extend its coverage by including washing machines and dehumidifiers. It is estimated that the extension of the scheme will bring about an additional annual energy saving of around 25 GWh, or a saving of about \$25 million in household electricity bills every year.

### **Note :**

- (1) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

## CHAPTER 4 : THE FINANCIAL SECTOR<sup>#</sup>

### *Summary*

- *Amid the improved economic conditions and ample liquidity, financial asset prices in Hong Kong rose notably in the recent months, in line with the uptrend in the overseas markets. In parallel, there has been a general expansion in most types of financial sector activities.*
- *Hong Kong dollar interbank interest rates remained low in the third quarter of 2009. The money supply recorded further growth on the back of continued inflow of funds and improved demand for loans locally. Under the strong demand for the Hong Kong dollar, the HKMA was prompted to passively sell Hong Kong dollars against US dollars to banks several times.*
- *Under the linked exchange rate system, the Hong Kong dollar Effective Exchange Rate Indices moved lower during the third quarter, along with the softening of the US dollar.*
- *Local share prices rose further in active trading during the third quarter, propelled by growing optimism about the economic outlook. Fund raising activities showed an accelerated increase, with initial public offerings recovering towards the latter part of the period to level comparable to that before the global financial crisis.*
- *With the issuance of renminbi sovereign bonds in Hong Kong by the Central Government in September, the role of Hong Kong as a renminbi centre outside the Mainland is further strengthened. At the same time, considerable headway was made in cross-boundary co-operation in financial services and increasing the breadth and depth of the local financial sector.*

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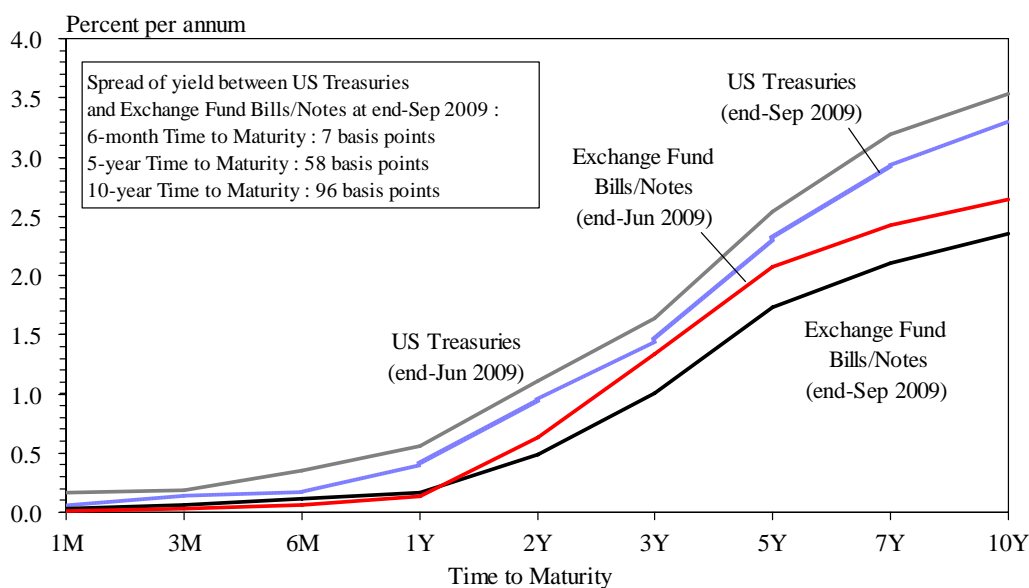
(#) This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.

## Interest rates and exchange rates

4.1 The *Hong Kong dollar interbank interest rates* remained low throughout the third quarter of 2009. Broadly tracking the movement in their US dollar counterparts, the overnight HIBOR was little changed during the period and stood at 0.13% at end-September 2009, while the three-month HIBOR eased from 0.25% at end-June to 0.13% at end-September. As the US Federal Funds Target Rate was steady at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA was unchanged at 0.5% during the quarter<sup>(1)</sup>.

4.2 Hong Kong dollar interest rates remained lower than US dollar interest rates during the third quarter, with the discount of the three-month HIBOR to the corresponding Euro-dollar deposit rate widening from 40 basis points at end-June to 64 basis points at end-September. Meanwhile, the *Hong Kong dollar yield curve* flattened somewhat between end-June and end-September. Alongside decreases in the yields of US Treasuries in August and September, the yields of longer-term Exchange Fund paper declined in the period. On the other hand, the implied yields of one-week and one-month Exchange Fund Bills reverted to positive again after dipping below zero in late June and early July.

**Diagram 4.1 : The Hong Kong dollar longer-term rates declined in the third quarter of 2009 alongside their US dollar counterparts**

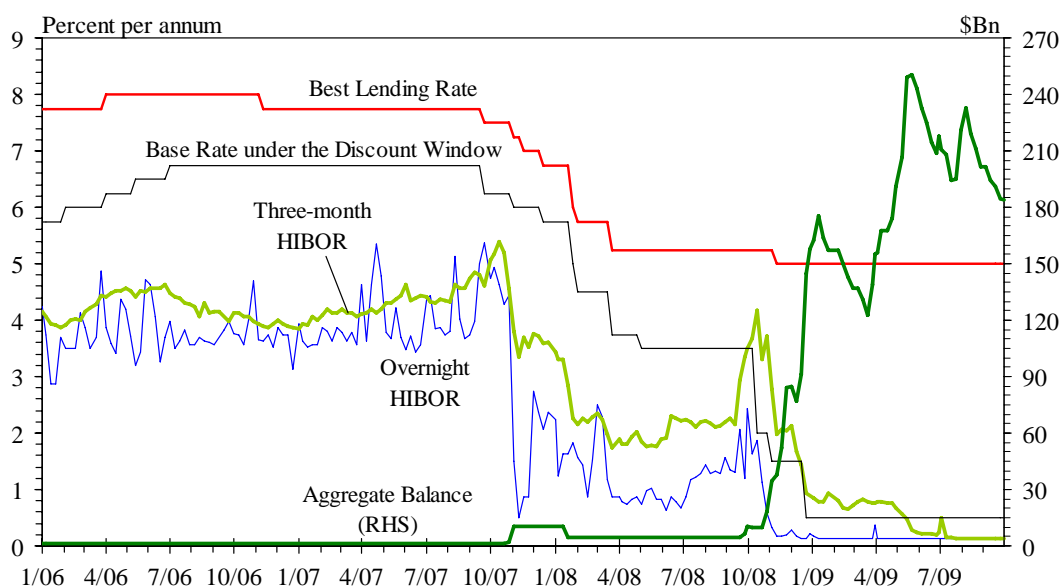




4.3 At the retail level, banks continued to keep their Best Lending Rates (BLRs) unchanged at 5.00% and 5.25% throughout the third quarter. Deposit interest rates also remained steady at very benign levels, with the average savings deposit rate and one-month time deposit rate quoted by major banks both staying at around 0.01%. The composite interest rate, which indicates the average cost of funds for banks, edged down to 0.13% at end-September from 0.19% at end-June<sup>(2)</sup>. On the mortgage front, the proportion of newly approved mortgage loans with reference to rates other than the BLR (mostly HIBOR) climbed further to a record high of 54.5% in September, reflecting banks' aggressive stance in the mortgage market and borrowers' increased inclination to take advantage of the prevailing low interbank interest rates.

4.4 Amid buoyant stock market activities, demand for the Hong Kong dollar remained strong during the third quarter. As the strong-side Convertibility Undertaking (CU) was repeatedly triggered between mid-July and early August, the Aggregate Balance rose to a high of \$234.2 billion on 4 August 2009, from \$217.7 billion at end-June. Despite sporadic triggering of strong-side CU in September, the Aggregate Balance subsequently declined to \$184.2 billion at end-September following the additional issuance of Exchange Fund Bills to meet the increased demand by banks for liquidity management purposes.

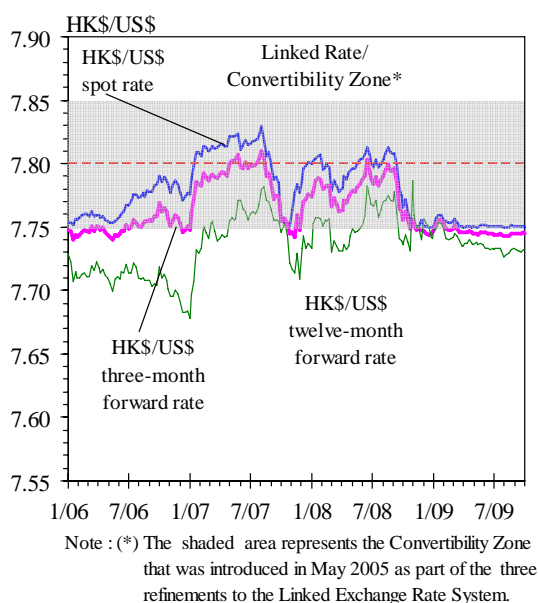
**Diagram 4.2 : Hong Kong dollar interbank interest rates remained exceptionally low in the third quarter under abundant liquidity (end for the week)**



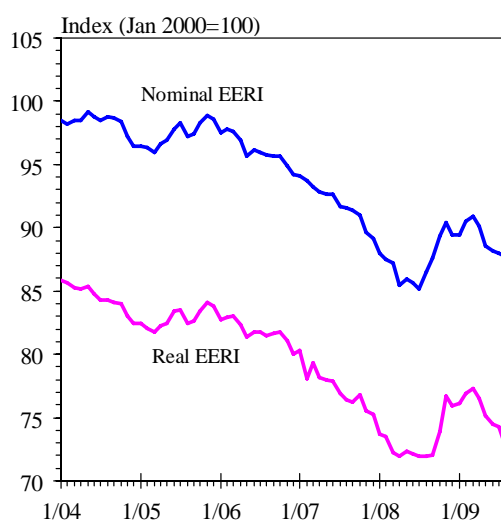
4.5 Due to strong inflow of funds, the Hong Kong dollar spot exchange rate stayed on the strong side of the link, close to 7.75 per US dollar during the third quarter. Meanwhile, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* to the spot rates narrowed slightly from 61 and 180 pips (each pip equivalent to HK\$0.0001) at end-June to 48 and 179 pips at end-September respectively.

4.6 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those in the US dollar. As the US dollar depreciated against other major currencies, the trade-weighted *Hong Kong dollar Nominal and Real Effective Exchange Rate Indices* in the third quarter softened by 1.5% and 3.1% respectively from the second quarter<sup>(3)</sup>.

**Diagram 4.3 : Forward spreads shrank marginally in the third quarter (end for the week)**



**Diagram 4.4 : Trade-weighted EERIs weakened further in the period (average for the month)**

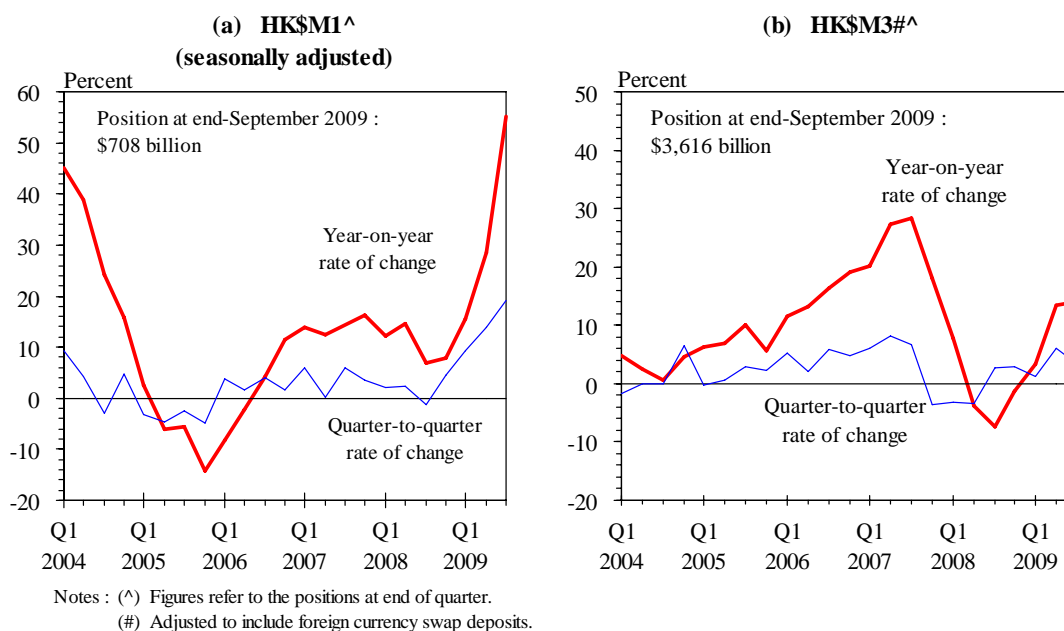


## Money supply and banking sector

4.7 Reflecting the expansion in outstanding Hong Kong dollar loan and continued inflow of funds, Hong Kong dollar *money supply* posted further growth in the third quarter of 2009<sup>(4)</sup>. Seasonally adjusted narrow money supply (HK\$M1) jumped by 19.2% in the period after expanding 13.9% in the second quarter, as depositors shifted to more liquid deposits given the extremely low term deposit interest rates. For broad money supply (HK\$M3), the amount outstanding rose by another 3.3% in the third quarter, though slowing from the 6.0% growth in the preceding quarter. *Total deposits* with authorised

institutions (AIs) also increased, by 2.4% in the third quarter to \$6,424 billion<sup>(5)</sup>. Among the total, Hong Kong dollar deposit outstanding grew by 3.4% to \$3,392 billion while foreign currency deposits edged up by 1.3% to \$3,032 billion.

**Diagram 4.5 : Money supply expanded further amid continued inflow of funds**



4.8 *Total loans and advances* outstanding expanded further during the third quarter, by 2.3% to \$3,278 billion at end-September (comprising Hong Kong dollar loans of \$2,381 billion and foreign currency loans of \$897 billion). Partly reflecting the increased optimism on the local economy, loans for use in Hong Kong edged up by 1.6% during the third quarter. Analysed by economic use, growth in residential mortgage loans accelerated to 3.5% due to the buoyant residential property market and accommodative mortgage interest rates. Trade finance grew further by 2.3% as external trade performance gradually improved. Lending to financial concerns rebounded by 2.1% while loans to stockbrokers dropped notably by 17.2% from the high base of comparison at end-June amid strong initial public offering (IPO)-related activities. Notwithstanding the revived loan demand, the Hong Kong dollar loan-to-deposit ratio declined further from 72.1% at end-June to 70.2% at end-September.

**Table 4.1 : Loans and advances**

All loans and advances for use in Hong Kong

		Loans to :								All loans and advances for use outside Hong Kong <sup>(c)</sup>	Total loans and advances
		Trade finance	Manu- facturing	Wholesale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock-brokers	Total <sup>(b)</sup>		
% change during the quarter											
2008	Q1	8.4	16.1	16.6	6.2	2.4	7.2	-4.2	6.3	10.4	7.0
	Q2	15.2	4.9	15.5	4.6	2.7	1.4	-19.0	4.7	10.1	5.6
	Q3	-2.9	4.5	*	4.4	0.7	8.1	-20.6	2.7	0.6	2.3
	Q4	-16.2	-5.3	-3.3	1.9	-1.4	-5.4	-10.4	-3.5	-6.7	-4.1
2009	Q1	-15.1	-1.5	-5.5	-1.0	-0.3	-14.5	-10.3	-3.8	-2.8	-3.6
	Q2	3.3	-5.8	1.9	-0.5	2.0	-9.0	443.6	1.6	-1.0	1.2
	Q3	2.3	1.9	3.8	-2.3	3.5	2.1	-17.2	1.6	5.6	2.3
Total amount at end-September 2009 (\$Bn)		167	139	152	662	685	225	42	2,693	584	3,278
% change over a year earlier		-24.8	-10.5	-3.3	-1.8	3.8	-24.8	261.8	-4.1	-5.2	-4.3

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

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

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

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

(\* ) Change of less than 0.05%

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

4.10 Despite the recent global financial crisis, Hong Kong's banking system remained resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. Under the capital adequacy framework promulgated by the Basel Committee on Banking Supervision (commonly referred to as "Basel II"), the capital adequacy ratio (CAR) of these institutions stayed high at an average of 16.5% at end-June. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA. To address the lessons learnt from the recent global financial crisis, the Basel Committee issued a final package of proposals in July for enhancements of the Basel II capital framework. The HKMA is supportive of the Committee's initiative in this regard and is taking steps to implement the enhanced international standards in consultation with the banking industry.

4.11 Asset quality of the local banking sector remained sound. The ratio of classified loans rose slightly to 1.51% at end-June from 1.47% at end-March, following the relatively more notable deterioration in asset quality earlier on when the global financial turmoil was at its height, but was still low by historical standards. On the other hand, arrears for over three months in credit card repayment edged up only marginally from 0.49% to 0.50%. The delinquency ratio for residential mortgage loans, at 0.05% at end-September, was little changed from end-June.

**Table 4.2 : Asset quality of retail banks\***

(as % of total loans)

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

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

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

4.12 Since February 2004, banks in Hong Kong have been offering renminbi services to customers including deposit-taking, currency exchange and remittance. With the implementation of a pilot scheme in July to allow eligible Mainland enterprises to use renminbi to settle trade transactions with their trade counterparts in selected areas outside the Mainland, the scope of renminbi banking business in Hong Kong has expanded further. Boosted by the renminbi trade settlement pilot scheme and demand induced by the issuance of renminbi-denominated bonds by the Ministry of Finance and Mainland subsidiaries of Hong Kong banks, renminbi deposits outstanding in Hong Kong rose from RMB54.4 billion at end-June to RMB58.2 billion at end-September.

**Table 4.3 : Renminbi deposits in Hong Kong**

<u>As at end of period</u>		Demand and savings deposits (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Interest rates on<sup>(a)</sup></u>		Number of authorised institutions engaged in RMB business
					<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)	
2008	Q1	39,364	18,221	57,585	0.46	0.65	40
	Q2	51,242	26,398	77,640	0.46	0.65	40
	Q3	47,508	22,443	69,951	0.46	0.65	40
	Q4	38,119	17,942	56,061	0.46	0.64	39
2009	Q1	35,166	17,944	53,110	0.46	0.64	39
	Q2	35,924	18,457	54,381	0.46	0.64	40
	Q3	40,559	17,616	58,174	0.46	0.66	44
% change over a year earlier		-14.6	-21.5	-16.8	N.A.	N.A.	N.A.

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

(b) Period average figures.

N.A. Not available.

## **The debt market**

4.13 The Hong Kong dollar *debt market* expanded further in the third quarter of 2009, with total gross issuance of Hong Kong dollar debt securities in the period rising considerably by 262.0% over a year earlier. As the HKMA continued to raise the supply of short-dated Exchange Fund paper to meet the demand from banks for liquidity management purposes, issuance of Exchange Fund Bills and Notes increased sharply by 395.9% and accounted for 87.5% of all new debt issuance in the quarter. Consequently, total outstanding balance of Hong Kong dollar debt stood at a record level of \$992.5 billion at end-September 2009, up by 38.5% over a year earlier<sup>(6)</sup>. This was equivalent to 27.4% of HK\$M3 or 23.0% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(7)</sup>.

4.14 With a view to promoting the sustainable development of the local bond market, the Financial Secretary in the 2009-10 Budget announced to implement a Government Bond Programme, under which Government Bonds will be issued in a systematic and consistent manner. The Government Bond Programme is divided into two parts, namely, the Institutional Bond Issuance Programme and the Retail Bond Issuance Programme. The inaugural issue of Government bonds under the Institutional Bond Issuance Programme, a two-year bond with an issue size of \$3,500 million, was tendered on 2 September 2009 while the second issue under the Institutional Bond Issuance Programme, a five-year bond with an issue size of \$2,000 million, was tendered on 2 November. Both issues were well-received by investors. The HKMA, as the representative of the Government to assist in the implementation of the Programme, will continue to maintain close dialogues with market players and consider measures to encourage primary market participation, promote secondary market liquidity, and broaden investor base. Regarding the Retail Bond Issuance Programme, the Government will take into account the advice of the co-arrangers and prevailing market conditions in determining the timing of issue.

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

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New issuance</b>											
2008	Annual	285.9	24.3	-	310.2	45.2	14.3	51.6	111.2	3.0	424.4
	Q1	62.8	5.5	-	68.2	8.6	1.2	6.1	15.9	-	84.1
	Q2	77.2	8.7	-	85.9	15.4	8.4	22.3	46.2	-	132.0
	Q3	67.3	3.5	-	70.8	14.7	4.1	15.8	34.6	-	105.3
	Q4	78.6	6.7	-	85.3	6.5	0.6	7.5	14.5	3.0	102.8
2009	Q1	130.7	8.6	-	139.4	5.6	2.8	29.6	38.0	5.8	183.1
	Q2	191.1	10.6	-	201.8	15.0*	4.8	21.2	41.0*	6.2	248.9*
	Q3	333.8	9.4	3.5	346.7	11.4	5.2	17.6	34.2	0.4	381.4
	% change over a year earlier	395.9	171.2	N.A.	389.9	-22.5	28.8	11.4	-1.0	N.A.	262.0
<b>Outstanding (as at end of period)</b>											
2008	Q1	143.3	60.3	7.7	211.3	121.4	60.8	320.7	502.9	12.5	726.7
	Q2	144.3	64.5	7.7	216.5	106.5	68.4	318.6	493.5	12.5	722.4
	Q3	145.0	62.7	5.0	212.7	103.8	67.5	320.2	491.6	12.4	716.6
	Q4	157.7	64.6	5.0	227.3	95.1	67.0	313.0	475.1	14.3	716.6
2009	Q1	218.9	63.5	5.0	287.4	86.2	67.7	325.2	479.1	19.3	785.8
	Q2	288.4	68.1	5.0	361.5	80.9*	72.0	322.9	475.8*	25.5	862.9*
	Q3	413.0	74.4	5.0	492.5	82.6	73.7	319.8	476.1	23.9	992.5
	% change over a year earlier	184.9	18.7	0.0	131.6	-20.4	9.1	-0.1	-3.1	93.5	38.5

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

(a) AIs : Authorised institutions.

(b) MDBs : Multilateral Development Banks.

(\*) Revised figures.

N.A. Not available.

4.15 In September, the Ministry of Finance launched its first issuance of RMB sovereign bonds in Hong Kong totaling RMB6 billion. Two Mainland subsidiaries of Hong Kong banks also issued renminbi bonds that raised RMB6 billion in total during the third quarter. The latest developments represent a significant expansion of RMB bond issuer base in Hong Kong, and have helped enhance the breadth and depth of Hong Kong's bond market.

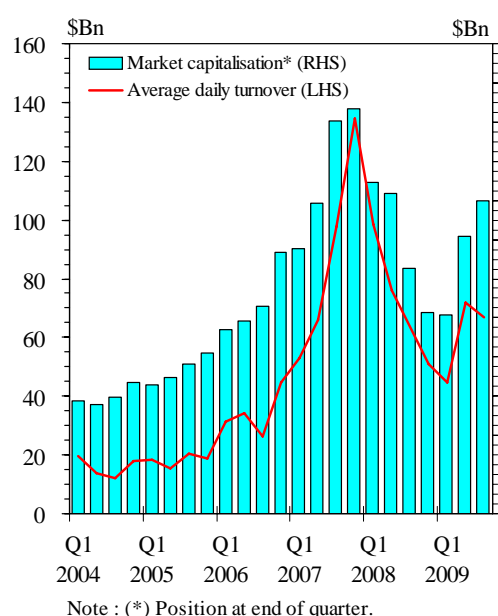


## The stock and derivatives markets

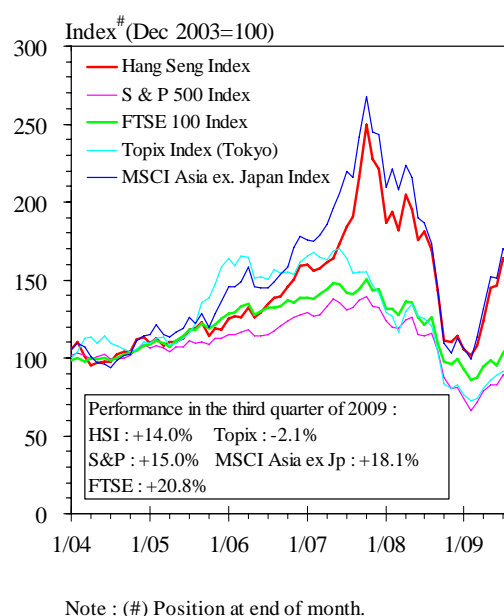
4.16 The *local stock market* gained further strength in the third quarter of 2009. The *Hang Seng Index (HSI)* went up by another 14.0% during the quarter to 20 955 at end-September, as investors turned more optimistic about the economic outlook. Compared with the closing low of 11 345 on 9 March, the HSI has soared by 84.7%. This is broadly in line with the gain in other Asian markets, as indicated by the 85.7% jump in the MSCI Asia excluding Japan index over the same period. The *daily turnover* averaged at \$66.7 billion in the third quarter, 5.0% higher than a year earlier though 6.9% lower than that recorded in the previous quarter.

4.17 The *market capitalisation* moved up in tandem, by 12.8% during the third quarter to \$16.0 trillion at end-September. The local bourse remained the seventh largest in the world and the third largest in Asia, according to the *World Federation of Exchanges*<sup>(8)</sup>. As to fund raising activities, equity capital raised through new share flotation and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM) amounted to \$147.4 billion in the third quarter, representing a sharp 144.4% jump over the low base a year earlier<sup>(9)</sup>. A resurgence of interest in IPOs was observed in September, when a total of eight new companies were listed on the Main Board and GEM, matching the high level seen in June 2008.

**Diagram 4.6 : The local stock market gathered further momentum**



**Diagram 4.7 : Most major stock markets continued to trend up**



4.18 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-September, there were 483 Mainland enterprises (including 153 H-share companies, 96 “Red Chips” companies and 234 private enterprises) listed on the market, accounting for 38% of the total number of listed companies and 57% of the total market capitalisation. In the third quarter, Mainland-related stocks accounted for 72% of equity turnover and 73% of equity capital raised respectively.

4.19 Yet trading in *derivatives market* quieted down somewhat. The average daily trading volume for futures and options contracts in the third quarter fell by 14.2% year-on-year<sup>(10)</sup>. Among these contracts, turnover of HSI futures, H-shares index futures and stock options fell by 11.7%, 18.1% and 23.3% respectively, more than offsetting the 18.9% gain in turnover of HSI options. Similarly, the average daily trading value for securitised derivatives decreased by 7.9% from a year earlier. The decrease was entirely due to a 16.8% drop in trading of derivative warrants, as trading in callable bull/bear contracts increased by 4.5% (**Box 4.1**).

**Table 4.5 : Average daily turnover of derivative products of the Hong Kong market**

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options traded <sup>*</sup>	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn) <sup>^</sup>
2008	Annual	89 368	15 723	59 428	225 074	432 126	14,015	4,243	18,258
	Q1	89 686	15 072	61 088	266 199	472 052	26,851	1,395	28,247
	Q2	78 668	13 890	50 653	212 191	388 939	15,715	2,886	18,601
	Q3	95 335	18 381	58 217	220 110	435 527	8,964	6,394	15,359
	Q4	93 607	15 476	67 742	202 782	432 561	4,972	6,183	11,155
2009	Q1	80 094	17 167	54 785	194 279	389 778	5,240	5,856	11,096
	Q2	95 356	21 465	55 346	217 696	449 160	6,770	7,720	14,490
	Q3	84 197	21 857	47 683	168 876	373 514	7,458	6,681	14,139
% change over a year earlier		-11.7	18.9	-18.1	-23.3	-14.2	-16.8	4.5	-7.9

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

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

## **Box 4.1**

### **The Callable Bull/Bear Contract market in Hong Kong**

Callable Bull/Bear Contracts (CBBCs) are a type of structured product that tracks the performance of an underlying asset without requiring investors to pay the asset's full price<sup>1</sup>. In essence, CBBCs allow investors to take a leveraged bullish or bearish view on the underlying asset, with an inbuilt stop-loss mechanism. The CBBC market has grown rapidly since its launch in the Hong Kong Exchanges and Clearing Limited (HKEx)'s securities market on 12 June 2006 and has now become a major activity area.

#### **Basic features of CBBCs**

The following are some key features of the CBBCs listed on HKEx :

- CBBCs are issued either as Bull or Bear contracts with a fixed expiry date;
- They are issued with the condition that during their lifespan they can be called back (i.e. terminated) by the issuers if the price of the underlying asset reaches a level known as the call price (such event is referred to as a mandatory call event, MCE), and investors could suffer losses if the call price is reached before expiry and the CBBC is terminated immediately;
- There are 2 categories of CBBCs - Category N and Category R : Category N CBBCs have no residual value at call (though Category N CBBCs are rare in Hong Kong) while Category R CBBCs have residual value at expiry or at call;
- They have a lifespan of 3 months to 5 years and are settled in cash only; and
- At 13 October 2009, 30 Hong Kong stocks, 3 local indices and 4 overseas stock indices are eligible assets for CBBC issuance.

There are a number of similarities and differences between CBBCs and derivative warrants (DWs), which are another type of securitised derivatives traded on the HKEx :

#### **Both CBBCs and DWs**

- are regarded as structured products issued by third parties;
- have maturity not exceeding 5 years;
- are not subjected to stamp duty; and
- will be adjusted for capital changes in the underlying securities.

On the other hand,

- CBBCs can have a shorter minimum maturity (3 months, versus 6 months for DWs);
- price movements of CBBCs tend to track closely the price of the underlying asset while the price of a DW depends on various factors including the volatility of the underlying asset's price and time to maturity;
- DWs do not have the mandatory call feature of CBBCs; and
- DWs have a wider coverage of eligible stocks (177 stocks, at 19 October).

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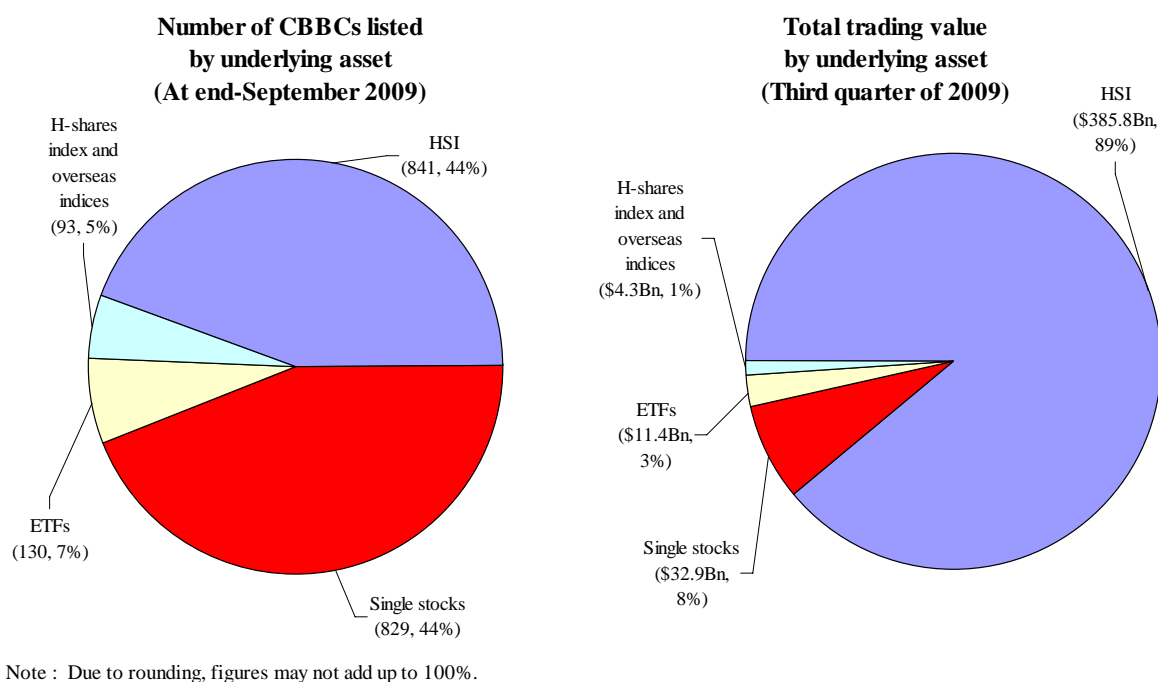
<sup>1</sup> Products of a similar nature traded in overseas markets are commonly known as contracts for difference or "knock-out"/"stop-loss" certificates.

## Box 4.1 (Cont'd)

### Development of the HKEx CBBC market

At end-September 2009, 1 893 CBBCs were listed on the HKEx and together they constituted 29.1% of the total number of listed securities. In terms of turnover, CBBCs recorded an average daily turnover of \$6.7 billion in the third quarter of 2009, accounting for 10.0% of total value of securities market turnover.

Regarding underlying asset types, Hang Seng Index (HSI) and single stocks were the most popular. At end-September, there were 841 HSI-related CBBCs and 829 single-stock CBBCs listed on the HKEx, accounting for 44.4% and 43.8% respectively of all the listed CBBCs. However, HSI-related issues dominated the trading volume and took up 88.8% of the turnover in CBBCs in the third quarter. Apparently there is room for the HKEx CBBC market to broaden in terms of asset coverage and issuer participation.



4.20 Considerable efforts have been directed to enhancing the product offerings and services in the local securities market. On 11 September, the Hong Kong Exchanges and Clearing Limited (HKEx) published a consultation paper on proposals to update Hong Kong's regulatory framework for listed mineral and exploration companies, bringing the framework in line with international best practice and ensuring investors will be provided with information that is both material and reliable. In addition, on 18 September the HKEx launched a consultation on proposals to streamline certain requirements on listed issuers' circulars and listing documents, with the aim of making the contents of these documents more relevant to shareholders and encouraging more timely dispatch of the documents.

4.21 Cross-strait co-operation is an area that offers ample opportunities for the local securities industry. Following the signing of a Side Letter to a Memorandum of Understanding between the Securities and Futures Commission (SFC) and the Taiwan Financial Supervisory Commission in May this year, three Hong Kong exchange traded funds (ETFs) were successfully listed on the Taiwan Stock Exchange, and the first Taiwan ETF was listed on the HKEx in mid-August. In early October, the Taiwan financial regulator added H-shares Index products to its list of overseas futures and options contracts with trading authorisation, thereby giving Taiwan investors access to these investment products.

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

4.22 According to SFC's latest Fund Management Activities Survey, the combined assets under management by fund management businesses in Hong Kong amounted to \$5,850 billion at end-2008. This was 39.3% lower than the level at end-2007, due to the poor performance across most financial markets during the year. Hedge fund activities of SFC-licensed managers/advisors were likewise affected (**Box 4.2**). Nonetheless, Hong Kong continued to be a premier choice for setting up regional headquarters by international asset management companies. Latest statistics shows that 175 licensed corporations and registered institutions in asset management business have set up their regional headquarters in Hong Kong in 2008, up from 170 in 2007. Managing assets from the Mainland is widely regarded as an important source of new business for the sector.

4.23 Wealth management business continued to revive in the third quarter of 2009, along with the gradual return of investor confidence. Gross retail sales of *mutual funds* jumped by 60.9% over a year earlier to US\$4.7 billion in the third quarter<sup>(11)</sup>. Meanwhile, the aggregate net asset value of the approved constituent funds under the *MPF schemes* increased by 12.3% between end-June and end-September 2009, to \$292 billion<sup>(12)</sup>. As to retail hedge funds, business showed slight improvement in the third quarter<sup>(13)</sup>.

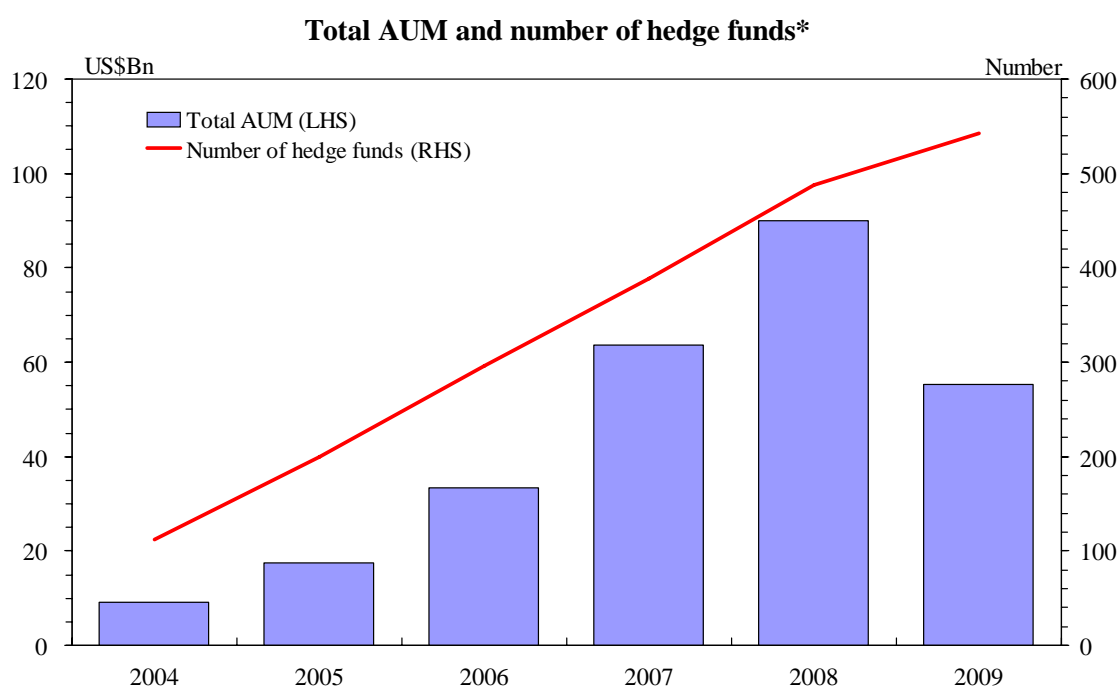
## Box 4.2

### Hedge fund activities of SFC-licensed managers/advisors

In view of the rapid development of the hedge fund industry, the Securities and Futures Commission (SFC) has conducted a fact-finding survey on the industry, taking 31 March 2009 as the reference date<sup>1</sup>. The following are some of the key findings of the survey.

#### Growth of the local hedge fund industry

Affected by the adverse market conditions, the total assets under management/advisory (AUM) of hedge funds managed in Hong Kong dropped to US\$55.3 billion at end-March 2009, 38.6% lower than a year earlier. Yet over a longer-term horizon, significant growth in AUM was observed, by more than five times over the US\$9.1 billion at end-March 2004. Moreover, the number of hedge funds managed by SFC-licensed managers has grown to 542 at end-March 2009, almost five times that at end-March 2004.



Note : (\*) Both AUM and number of funds are positions at end-March.

<sup>1</sup> There is no formal definition of hedge funds. For SFC's survey, funds (including managed portfolios) are regarded as hedge funds if they exhibit the following characteristics : (1) use of alternative investment strategies, leverage, use of derivatives for trading purposes, and/or arbitrage techniques; (2) pursuit of absolute returns, rather than measuring investment performance relative to a benchmark; (3) charging of performance-based fees in addition to a management fee based solely on AUM; and/or (4) adoption of investment mandates that give managers more flexibility to shift strategies.

SFC does not directly regulate hedge funds unless they are offered to the public. However, hedge fund managers, like other fund managers, are required to be licensed by the SFC if they carry out asset management or advisory activities in Hong Kong. Once licensed, they are subject to the SFC's ongoing supervision. Also, although the SFC does not regulate private hedge funds directly, all hedge funds using the Hong Kong platform are still subject to the law against fraud, insider dealing and market misconduct.

## **Box 4.2 (Cont'd)**

### **Features of hedge funds managed in Hong Kong**

Hedge funds managed in Hong Kong were mainly Asia Pacific-focused. At end-March 2009, 59.1% of the total AUM was invested in the Asia Pacific markets, with the fund invested in the Hong Kong and Mainland markets accounting for a combined share of 26.7%. Regarding source of investors by location, they were mainly from the Americas (49.1%) and Europe (34.9%). Hong Kong investors, on the other hand, constituted only 1.9% of the investor base. In terms of investor type, funds of funds dominated with a share of 37.6% of the investor base, followed by high-net-worth individuals/family offices (16.6%), financial institutions (14.4%), pensions (11.1%) and endowments/foundations/charitable organisations (10.3%).

Hedge funds managers operating in Hong Kong are typically considered boutique funds as far as AUM is concerned. At end-March 2009, 60.7% of the hedge fund managers had an AUM of US\$100 million or less, while another 25.7% of managers had AUM of US\$100-500 million. Only 6.3% of the hedge fund managers in Hong Kong had more than US\$1 billion under management.

On employment, the 209 hedge fund managers covered by the survey reported that a total of 1 967 staff were involved in their hedge fund business in Hong Kong at end-March 2009, 86.8% higher than the 1 053 at end-March 2006. Among the total, 38.7% of their staff was involved in investment management, advisory and research. The proportion of hedge fund managers with more than 20 staff increased from 6.0% to 10.1% during the past three years, in tandem with the expansion of the assets managed during the period.

## Insurance sector

4.24 Gross premium income from long-term business for the *insurance sector* contracted sharply by 43.9% in the second quarter of 2009 from a year earlier, though already recovered notably from the troughs seen in late 2008 and early 2009<sup>(14)</sup>. While performance for non-linked insurance plans have improved to a level comparable to that in the pre-crisis period, business for investment-linked products remained subdued. Regarding general business, gross premium in the second quarter declined marginally by 0.8% from a year earlier.

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

		General business			Premium for long-term business <sup>^</sup>					
		Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	Gross premium from long-term business and general business
2008	Annual	27,019	19,158	1,510	24,054	36,107	256	218	60,635	87,654
	Q1	7,640	5,478	638	8,212	13,308	64	49	21,633	29,273
	Q2	6,618	4,773	188	6,089	13,345	67	58	19,559	26,177
	Q3	6,676	4,723	-12	5,937	6,949	63	73	13,022	19,698
	Q4	6,085	4,184	696	3,816	2,505	62	38	6,421	12,506
2009	Q1	7,940	5,647	694	6,223	2,198	54	69	8,544	16,484
	Q2	6,568	4,853	600	7,040	3,827	69	37	10,973	17,541
	% change over a year earlier	-0.8	1.7	219.1	15.6	-71.3	3.0	-36.2	-43.9	-33.0

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

(^) Figures refer to new businesses only. Retirement scheme businesses are excluded.

4.25 Market confidence is the cornerstone of any sustainable insurance market. In this connection, the Government has proposed the establishment of a Policyholders' Protection Fund (PPF) in collaboration with the insurance industry. An actuarial consultancy study will commence in early 2010 to examine the scope of coverage, levy rates, target fund size, and other detailed arrangements for the proposed PPF.



## **Some highlights of market developments**

4.26 The authorities continued to put much effort in increasing the breadth and depth of the financial markets. In September, the Hong Kong International Airport Precious Metals Depository has commenced operation. The depository would allow storage and physical settlement activities, thus paving the way for the launch of new commodity-related financial products. Also in September, the HKMA signed a Memorandum of Understanding with Bank Negara Malaysia on co-operation in the development of the financial services industry, particularly in the area of Islamic finance.

4.27 Following the global financial crisis, many international organisations and overseas authorities are striving to reform the financial sector, with the aim of forestalling another crisis in the future. Back in Hong Kong, to instil greater investor confidence in the market and its regulatory framework, the Government will consult the public on proposals to establish an Investor Education Council and a Financial Services Ombudsman by the end of 2009.

## Notes :

- (1) Prior to 9 October 2008, the Base Rate was set at either 150 basis points above the prevailing US Federal Funds Target Rate (FFTR) or the average of the five-day moving averages of the overnight and one-month HIBORs, whichever was higher. Between 9 October 2008 and 31 March 2009, this formula for determination of the Base Rate was temporarily changed by reducing the spread of 150 basis points above the prevailing FFTR to 50 basis points and by removing the other leg relating to the moving averages of the relevant interbank interest rates. After a review of the appropriateness of the new Base Rate formula, the narrower 50 basis point spread over the FFTR was retained while the HIBOR leg was re-instated in the calculation of the Base Rate after 31 March 2009.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average cost of funds for banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

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

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

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

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, held outside the monetary sector as well as short-term Exchange Fund placements of less than one month.

M3 : M2 plus customers' deposits with restricted licence banks and deposit-taking companies, plus NCDs issued by such institutions and held outside the monetary sector.

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

- (5) Authorised institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2009, there were 146 licensed banks, 26 restricted licence banks and 28 deposit-taking companies in Hong Kong. Altogether, 200 AIs (excluding representative offices) from 30 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from authorised institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposit (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (8) The ranking is made by the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 53 securities exchanges (as of 29 October 2009), covering almost all globally recognised stock exchanges.
- (9) At end-September 2009, there were 1 114 and 172 companies listed on the Main Board and GEM respectively.
- (10) At end-September 2009, there were 51 classes of stock options contracts and 41 classes of stock futures contracts.
- (11) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-September 2009, there were 1 249 authorised funds, according to the survey.
- (12) At end-September 2009, there were 19 approved trustees. On MPF products, 35 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 365 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 239 000 employers, 2.20 million employees and 265 000 self-employed persons have participated in MPF schemes.
- (13) At end-September 2009, there were 13 SFC-authorised retail hedge funds with combined net asset size of US\$675 million. The amount of net assets under management represented a 1.4% increase over end-June 2009 though it was still 12.3% lower than the end-2008 level. It was more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (14) At end-September 2009, there were 172 authorised insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 107 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 23 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

### *Summary*

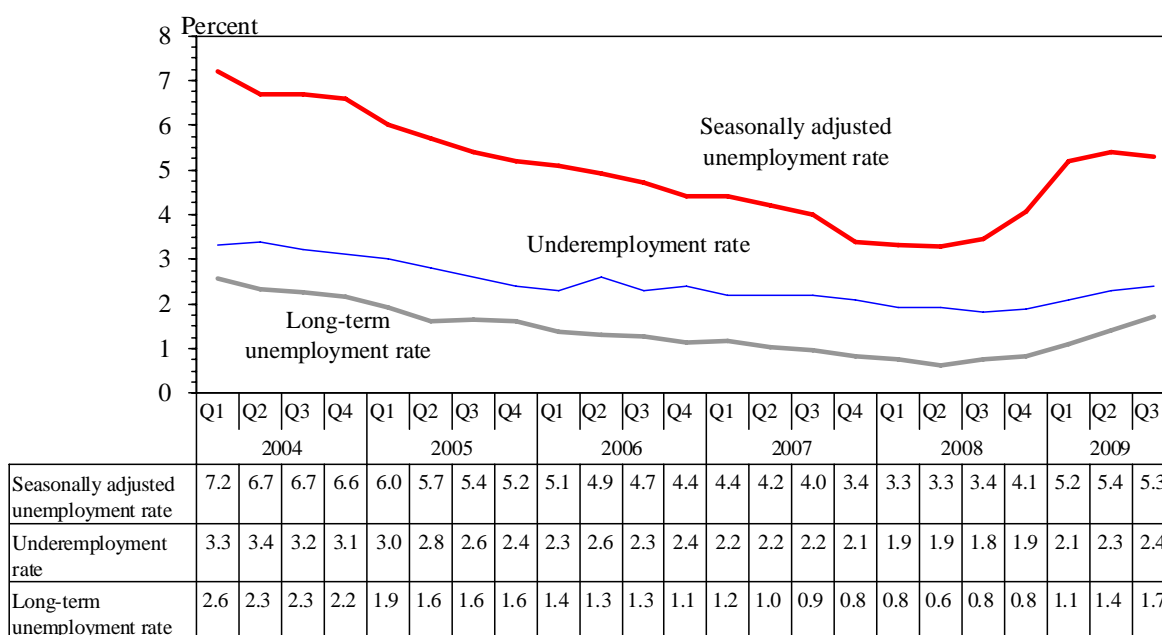
- *Following the economic rebound in the second quarter, the labour market also showed signs of stabilisation in the third quarter. The seasonally adjusted unemployment rate fell to 5.3% in the quarter, the first decline since the onset of the global financial crisis in September 2008. The underemployment rate registered only a slight increase by 0.1 percentage point to 2.4%, with its movement holding broadly stable in recent months.*
- *Total employment was still lower on a year-on-year basis, yet the job loss has generally slowed towards the end of the third quarter. The year-on-year decline in private sector vacancies also narrowed somewhat in June 2009 as compared to March 2009. Most recent data from vacancies received by the Labour Department was more encouraging, marked by a significant rebound of 33% in September over June.*
- *With the economy still facing a shortfall in demand relative to capacity, labour earnings in June remained on a decline in most sectors, in both nominal and real terms. Yet, in tandem with the economic recovery, more up-to-date information from the General Household Survey likewise showed relative improvement in average employment earnings in the third quarter.*
- *The near term employment outlook will very much depend on the pace of economic recovery, which in turn hinges on a sustained improvement on the external front. If business conditions continue to improve, employers can be expected to adopt a more positive attitude towards hiring new hands, which would then help ease the pressure on unemployment in the near term.*

### **Overall labour market situation**

5.1 Labour market conditions, after a period of successive worsening, stabilised during the third quarter of 2009 in tandem with the economic rebound. Though still exhibiting a considerable degree of weakness, a number of more positive developments emerged in the labour market towards the end of the third quarter. The most encouraging sign was the decline in the seasonally adjusted unemployment rate<sup>(1)</sup> by 0.1 percentage point to 5.3% in the third quarter of 2009. This marked the first decline since the onset of global economic and financial crisis in September 2008<sup>(2)</sup>, in which the seasonally adjusted unemployment rate has successively risen by a cumulative 2.1 percentage points from 3.3% in June – August 2008 to 5.4% in the second

quarter of 2009. At the same time, the pace of worsening in underemployment situation also tapered. Having risen by 0.2 percentage point each in the first quarter and second quarter of 2009, the underemployment rate<sup>(3)</sup> notched up only slightly by 0.1 percentage point over the second quarter to 2.4% in the third quarter of 2009.

**Diagram 5.1 : The unemployment rate decreased by 0.1 percentage point in the third quarter of 2009**



## Total employment and labour supply

5.2 *Total employment*<sup>(4)</sup> remained on a decline, both on a year-on-year and seasonally adjusted quarter-to-quarter basis. These figures suggest that the labour market was still lagging behind in the initial stage of economic recovery and that it would still take some time for employment to catch up. Yet, compared to the situation in the Asian Financial Crisis, labour market conditions in many sectors have exhibited a greater degree of resilience in the current global financial crisis, even though in terms of the scale of disruptions the current crisis is much more severe than the regional crisis ten years ago (see Box 5.1 for details).

5.3 Analysed by occupation, the higher-skilled segment registered a job loss of 3.5% in the third quarter over a year earlier, larger than the 1.1% decline in the second quarter. On the other hand, the lower-skilled segment recorded a job gain of 0.8% in the third quarter, somewhat larger than the 0.2% increase in the second quarter. Conceivably, the divergence of employment change in two skill segments is due to some down-drift in the job hierarchy as some previously engaged in higher-skilled jobs moved down to the lower-skilled

segment. When compared with the employment level just before the outbreak of global financial crisis (June – August 2008), the higher-skilled segment suffered a cumulative job loss of 3.9% (51 100 jobs), while the lower-skilled segment recorded a marginal job gain of 0.7% (15 700 jobs).

5.4 Even though employment went down when compared to the second quarter, the pace of job loss actually tapered significantly towards the end of the third quarter. Further analysis of employment composition in the third quarter also indicated some subtle and initial signs of improvement. Specifically, the fall in employment in the third quarter was mainly concentrated in part-time workers, which may be related in part to the drop-out of middle aged females from the workforce. The number of full-time employee jobs held up better, with nil change in the third quarter over the year, as against an overall 0.8% decline in total employment over the same period. As a result, the share of full-time employees in total employment rose to 83.1% in the third quarter, from 82.4% a year earlier.

5.5 The *labour force*<sup>(5)</sup>, after some exceptionally strong growth in the first half of this year, returned to a growth that was broadly in line with the growth in population of working age. The labour force growth was particularly fast earlier on, due to the increase in middle aged females seeking work, a common phenomenon during economic recession. With the economy progressively stabilising, total labour force amongst the middle aged females gradually edged back to a more normal level. As a result, the overall labour force participation rate (LFPR) moved back to 61.0% in the third quarter of 2009, only marginally higher than that of 60.9% a year earlier.

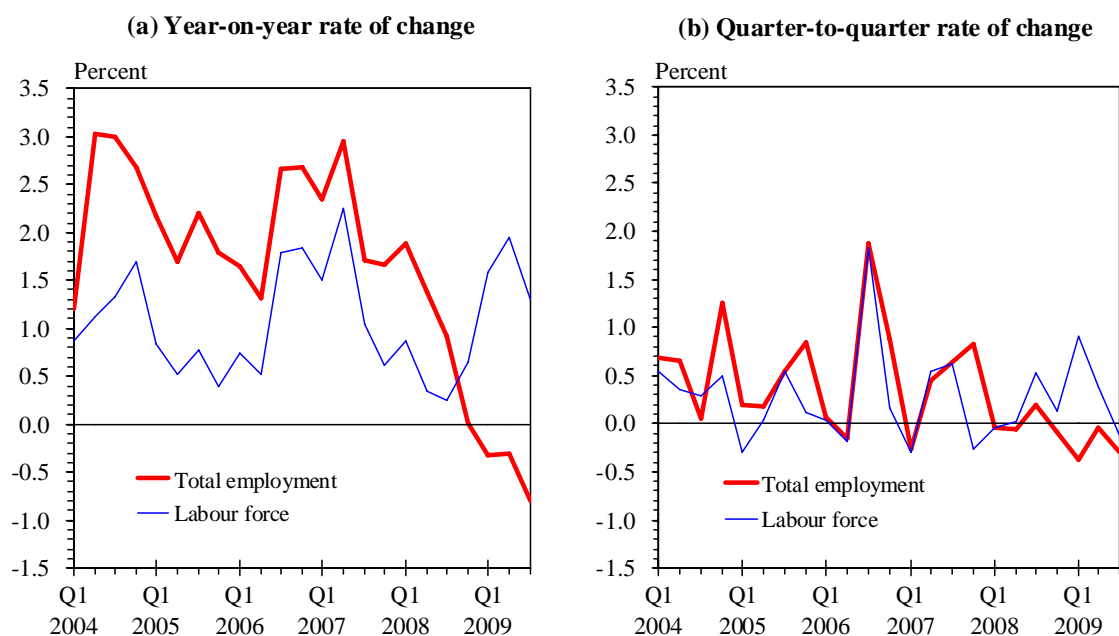
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> <sup>(a)</sup>	<u>Persons underemployed</u>
2008	Annual	3 648 900 (0.5)	3 518 800 (1.0)	130 100	69 000
	Q1	3 637 100 (0.9)	3 519 000 (1.9)	118 200	69 900
	Q2	3 638 200 (0.3)	3 517 100 (1.4)	121 100	67 900
	Q3	3 657 400 (0.2)	3 523 700 (0.9)	133 600	66 300
	Q4	3 661 900 (0.6)	3 520 700 (#)	141 200	69 000
2009	Q1	3 694 900 (1.6)	3 507 600 (-0.3)	187 200	79 200
	Q2	3 709 200 (2.0)	3 506 200 (-0.3)	203 000	84 900
<i>Three months ending</i>					
	Jul	3 719 000 (2.1)	3 505 300 (-0.4)	213 800	88 600
	Aug	3 712 100 (1.4)	3 495 300 (-1.0)	216 800	88 200
	Sep	3 704 700 (1.3)	3 495 500 (-0.8)	209 100	89 900
		<-0.1>	<-0.3>		

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

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Employment contraction continued due to a decrease in total labour force in the third quarter**



## Profile of unemployment

5.6 The unemployment rate fell in the third quarter of 2009, as the drag of global recessionary forces on the local domestic front eased somewhat. The growth in the number of unemployed persons likewise kept on tapering. On a quarter-to-quarter comparison, the number of unemployed persons increased by 6 100 to 209 100 in the third quarter, but this was merely due to the usual seasonal surge during the summer months. After adjusting for seasonality, the seasonally adjusted unemployment rate decreased by 0.1 percentage point to 5.3% in the third quarter of 2009. Over the same period, the movements of unemployment rate (not seasonally adjusted) varied between different skill segments, with that for the higher-skilled holding steady at 3.1%, while that for the lower-skilled falling by 0.3 percentage point to 5.8%. Compared to the situation just before the outbreak of global financial crisis (June – August 2008), the unemployment rate for lower-skilled workers had risen by a total of 2.1 percentage points, while that for higher-skilled workers registered a smaller increase of 1.7 percentage points.

5.7 Analysed by economic sector, the improvement in unemployment situation during the third quarter was most distinct in the construction sector, thanks to the Government's efforts in boosting public construction works and also the revival in the property market. As the external sector stabilised, unemployment situation in the import/export trades and trade-related sectors such as the manufacturing and transportation, storage, postal and courier services sectors generally improved over the period. Unemployment situation in the financing and real estate sectors also improved in tandem with the asset market rebound. In terms of other socio-economic characteristics, the decrease in unemployment rate was most apparent among individuals engaged as craft and related workers, associate professionals and elementary occupations, as well as workers aged 35-54 and workers with lower secondary education.

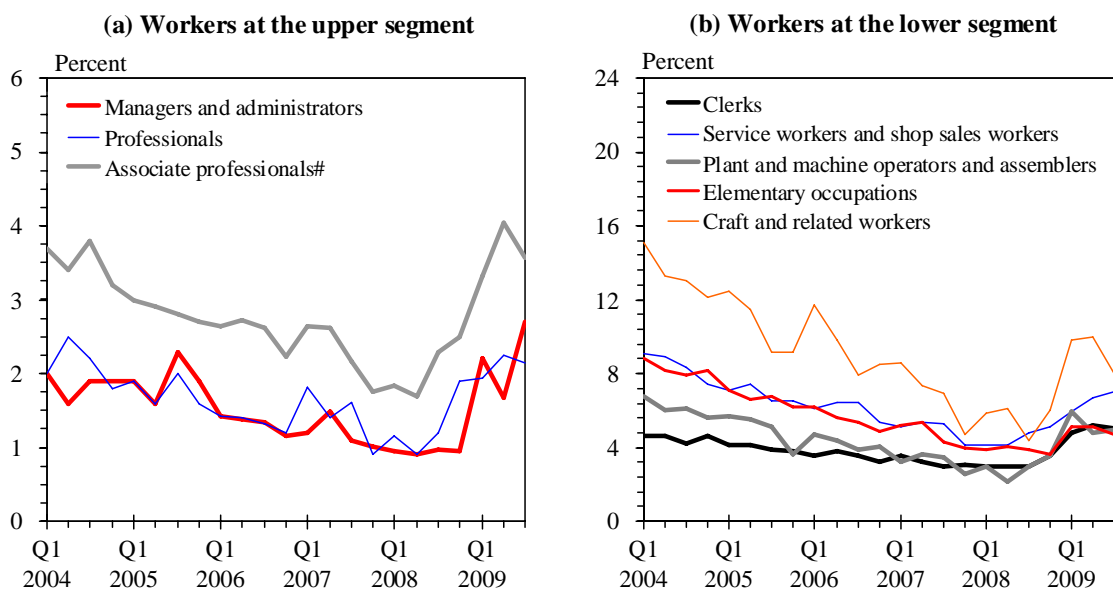


**Table 5.2 : Unemployment rate by major economic sector**

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

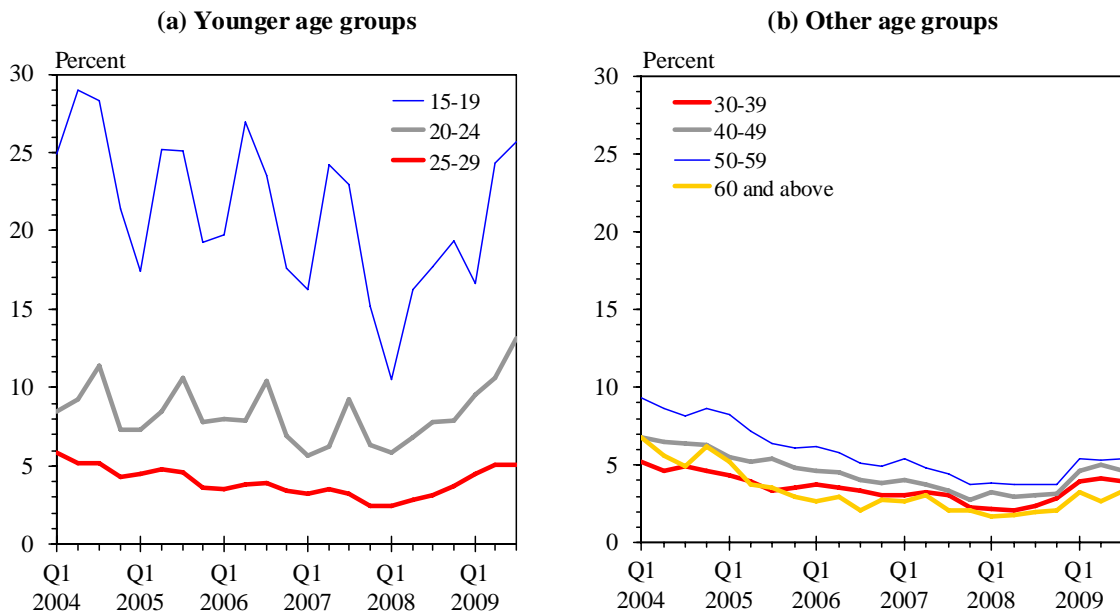
Source : General Household Survey, Census and Statistics Department.

**Diagram 5.3 : Unemployment rate\* in most occupations also showed decreases in the third quarter**



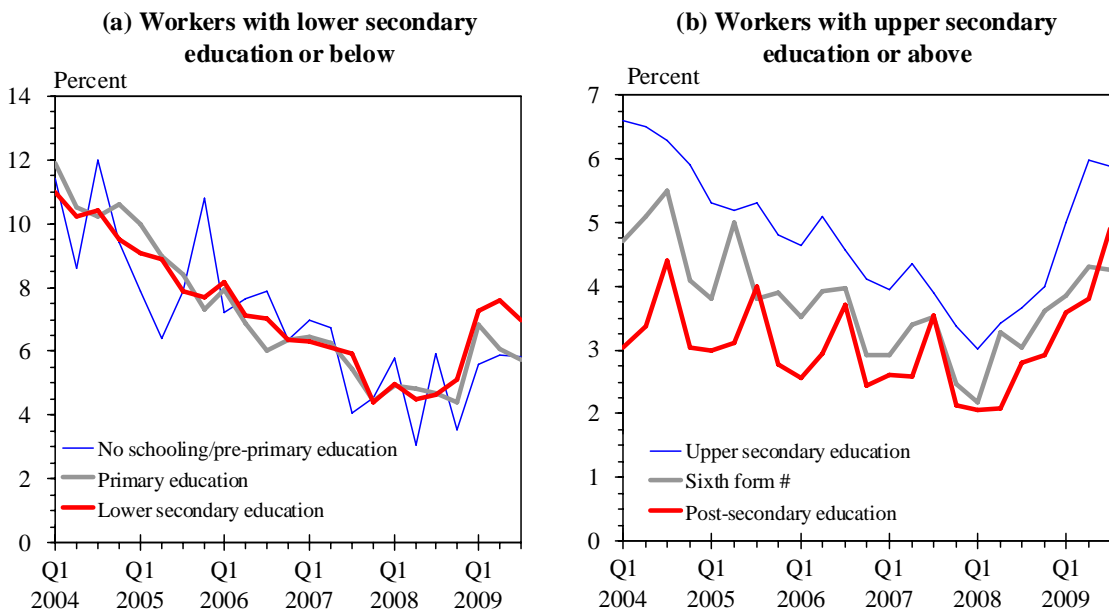
Notes : (\*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.  
 (#) Including technicians and supervisors.

**Diagram 5.4 : Except for the younger age groups, unemployment situation\* held stable for most age groups in the third quarter**



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

**Diagram 5.5 : Except for those with post-secondary education, unemployment situation\* in most groups either held stable or improved in the third quarter**



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

5.8 Indicators measuring the intensity of unemployment still indicated considerable slack in the labour market. The long-term unemployment rate (i.e. six months or longer) rose further from 1.4% to 1.7% over the period. Yet signs of stabilisation also began to emerge in other indicators. Specifically, the median duration of unemployment lengthened only slightly to 89 days in the third quarter of 2009 from 87 days in the preceding quarter. This already

represented a relative improvement as against the drastic increase by 13 days in the median duration of unemployment between the first and the second quarters. Also, the proportion of layoffs among the unemployed (excluding first-time job seekers) fell further, from 70.7% in the second quarter to 68.5% in the third quarter of 2009.

### **Profile of underemployment**

5.9 The pace of worsening in underemployment situation likewise slowed, with the underemployment rate up only slightly to 2.4% in the third quarter from 2.3% in the second quarter. Yet, the rise was still very distinct in sectors like cleaning services (up by 1.2 percentage points to 3.7%) and food services (up by 1.0 percentage point to 3.3%). Analysed by occupation, service workers and shop sale workers recorded the largest increase in underemployment rate, by 0.8 percentage point to 2.6%.

## Box 5.1

### Comparison of current labour market conditions by selected sectors with the situation following the Asian Financial Crisis of 1997

Further to the analysis of labour market conditions by skill segment in the preceding report, this box article compares the current performance of selected sectors as against the situation under the Asian Financial Crisis (AFC) in 1997.

Sectors hardest hit under the current crisis in terms of employment, namely the trading, retail, food services, construction and financial services sectors are selected for analysis. These sectors altogether accounted for 56% of the increase in number of total unemployed persons between June – August 2008 and July – September 2009 (Table 1).

**Table 1: Increases in unemployment among selected sectors**

	% of labour force at Jul-Sep 09	Unemployment rate			Proportion of increase in overall unemployed persons
		Jun – Aug 08 (before the outbreak of global financial crisis)	Jul – Sep 09	Change over the period (% point)	
<b>Trading<sup>(*)</sup></b>	<b>15.9%</b>	<b>2.2%</b>	<b>4.9%</b>	<b>+2.7</b>	<b>18.9%</b>
<b>Food services</b>	<b>6.5%</b>	<b>5.5%</b>	<b>9.1%</b>	<b>+3.6</b>	<b>11.2%</b>
<b>Retail</b>	<b>8.5%</b>	<b>4.3%</b>	<b>6.7%</b>	<b>+2.4</b>	<b>9.6%</b>
<b>Construction</b>	<b>7.8%</b>	<b>6.3%</b>	<b>9.4%</b>	<b>+3.1</b>	<b>11.3%</b>
<b>Financial services<sup>(^)</sup></b>	<b>6.0%</b>	<b>1.5%</b>	<b>3.3%</b>	<b>+1.8</b>	<b>4.8%</b>
<b>Total</b>	<b>100.0%</b>	<b>3.5%</b>	<b>5.6%</b>	<b>+2.1</b>	<b>100.0%</b>

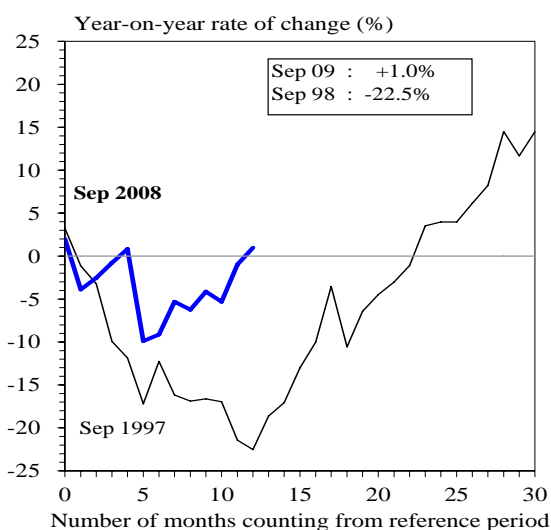
Notes: (\*) The trading sector includes import/export trades and wholesale trade.

(^) The financial services sector includes financing and insurance.

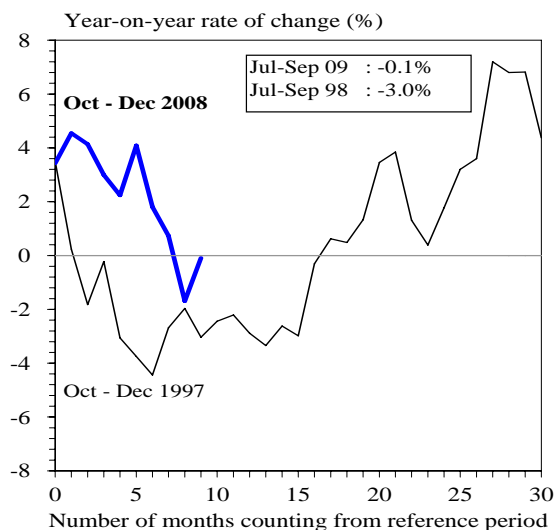
### Consumption-related sectors

In July – September 2009, the retail and food services sectors together took up 15% of total labour force. Shortly after the outbreak of the global financial crisis, unemployment rates in these two sectors rose sharply and accounted for 21% of the increase in number of total unemployed persons between June – August 2008 and July – September 2009 (Table 1). However, when compared to the AFC, local consumer sentiment this time round held up much better, buttressed mainly by a rebound in asset markets and support from Government's relief measures (Charts 1a and 2a). As a result, the job loss in the retail sector was much lesser in the current crisis than that during the AFC (Chart 1b). The decline in employment in the food services sector was also much less drastic in the first six months after the outbreak of the global crisis, though with slightly more job loss in the latest period (Chart 2b).

**Chart 1a : Retail sales volume index (s.a.)**

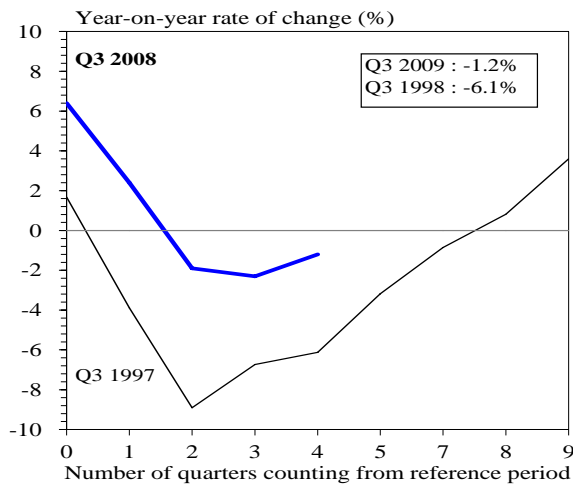


**Chart 1b : Employment in the retail sector**

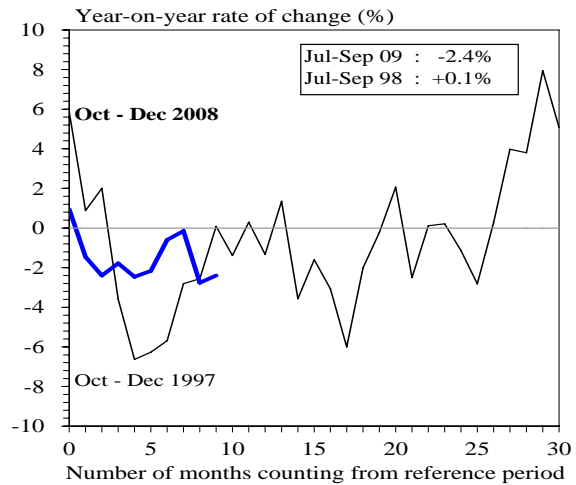


## Box 5.1 (Cont'd)

**Chart 2a : Restaurant receipts (volume)**



**Chart 2b : Employment in the food services sector**

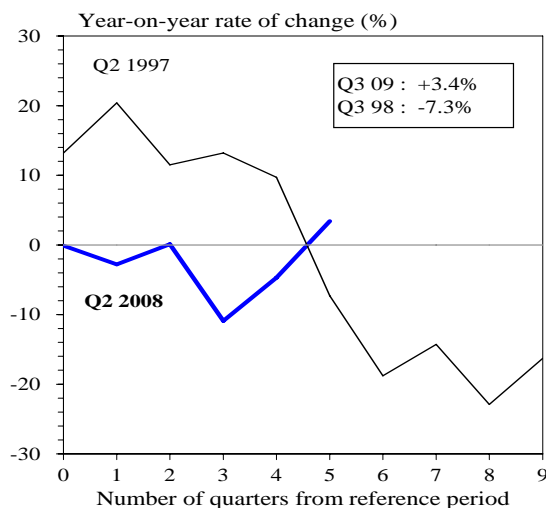


## Construction sector

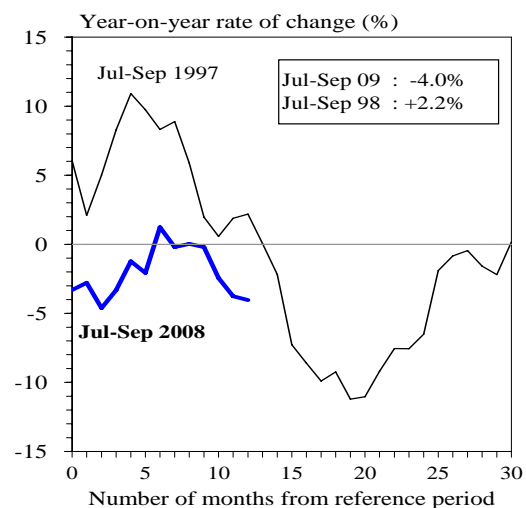
The construction sector made up 8% of the total labour force in July – September 2009 and accounted for 11% of the increase in number of total unemployed persons between June – August 2008 and July – September 2009 (Table 1). The construction sector suffered heavily under the negative shocks of the current crisis, exacerbating the sluggishness in private construction works which were already apparent before the crisis (Chart 3a). As a result, employment conditions in this sector worsened significantly and almost instantly after the outbreak of the global financial tsunami, at a pace that was much more drastic than in the AFC (Chart 3b). However, the job losses would have been even larger if not for the Government’s efforts in expediting the small construction projects and the launch of “Operation Building Bright” in May 2009.

Reflecting Government’s efforts on this front, public sector building and construction grew sharply by 11.1% in the second quarter and then by 34.4% in the third quarter, partially offsetting the respective declines of 8.4% and 4.5% in private sector works over this period. As a result, when compared to the pre-crisis level at June – August 2008, the cumulative job loss amounted to only 6 600 in July – September 2009. Unemployment rate in the construction sector also went successively lower, from 12.7% in February – April 2009 to 9.4% in July – September 2009. In contrast, the unemployment rate kept on rising during the AFC. With the recent rebound in property market, the construction sector is expected to show further improvement in the coming months.

**Chart 3a: Real gross value of investment in building and construction**



**Chart 3b: Employment in the construction sector**

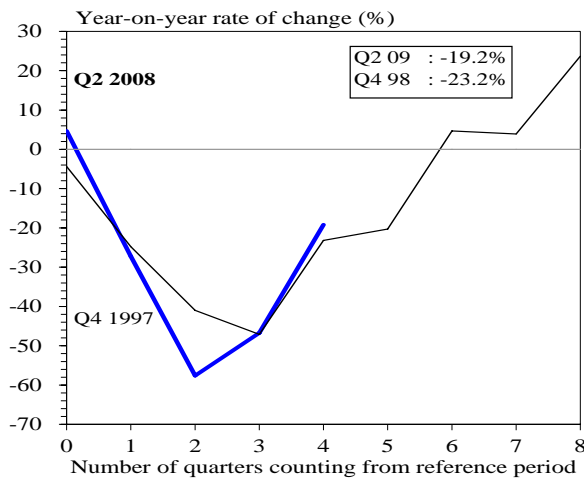


## Box 5.1 (Cont'd)

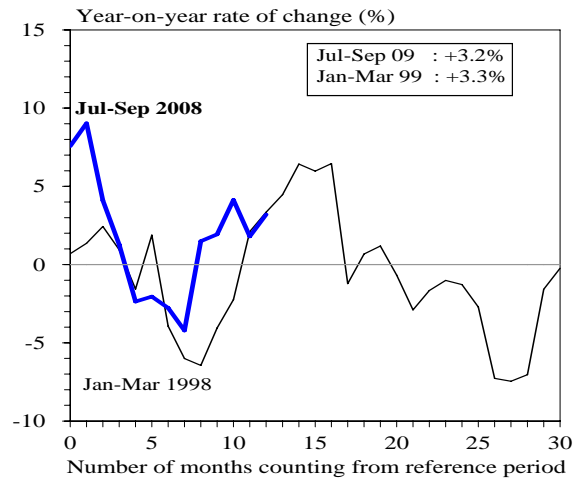
### Financial services sector

The financial services sector, as a high value-added sector, contributed only 6% of total labour force in July – September 2009 (Table 1). While activities in this sector plummeting sharply in the aftershock of the global crisis, the employment situation held up much better this time as compared to the AFC. Alongside the recent rebound in this sector (Chart 4a), job shedding was largely arrested by the first quarter of 2009, and employment reverted to positive year-on-year increases since March – May 2009. By the third quarter of 2009, there was actually a cumulative job gain of 2 300 when compared to the pre-crisis level (Chart 4b).

**Chart 4a : Business receipt index in the financing sector**

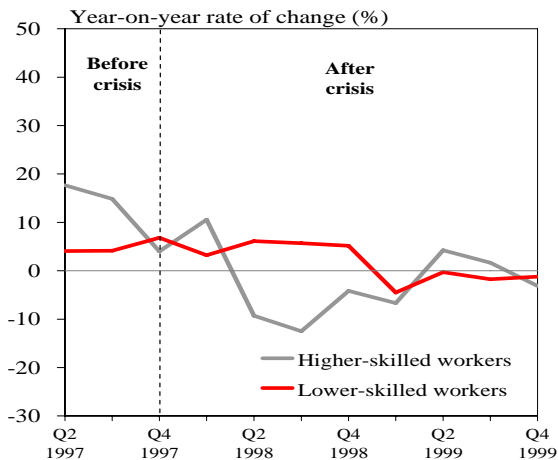


**Chart 4b : Employment in the financial services sector**



A greater reduction in earnings immediately following the current crisis as compared with the AFC also helped to prevent large scale job shedding. Recently, some financial institutions have begun to award bonuses which have been held back in late 2008 / early 2009. A strong rebound in employment earnings in this sector was therefore observed (Charts 5a and 5b).

**Chart 5a : Average earnings\* of the financial services in AFC**



**Chart 5b : Average earnings\* of the financial services in the current crisis**



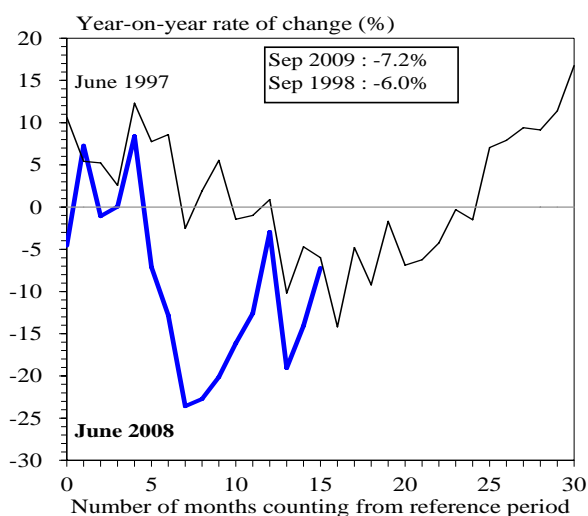
Note: (\*) Excluding foreign domestic helpers.

## Box 5.1 (Cont'd)

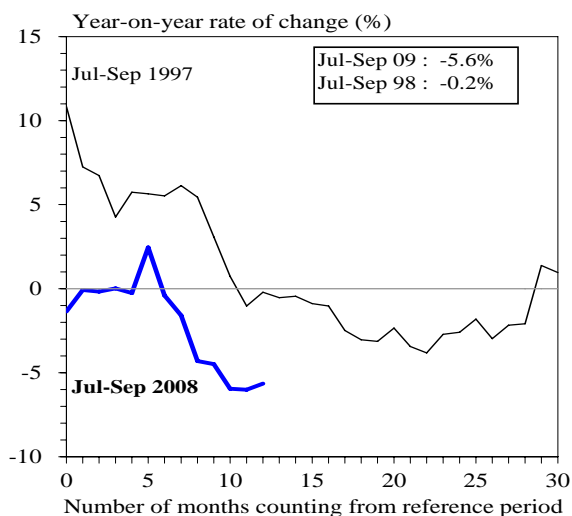
### Trading sector

Under the current crisis, recession swept through almost all economies on a global scale, leading to a severe contraction in global trade worst in decades. The extent of negative shocks was clearly much more drastic than that during the AFC. This explains the sharp plunge in Hong Kong's exports and hence the heavier drag on employment in the trading sector as compared to the situation in 1997/98 (Charts 6a and 6b). This sector alone accounted for 16% of total labour force and 19% of the increase in number of total unemployed persons between June – August 2008 and July – September 2009 (Table 1). Employment in this sector went down by 5.6% in July – September 2009 year-on-year, as compared to only 0.2% decline in July – September 1998.

**Chart 6a : Hong Kong's exports (volume)**



**Chart 6b : Employment in the trading sector**



### Conclusion

The negative external shocks of this once-in-a-century crisis were truly on a global scale, and clearly much more severe than that in the AFC. Despite this, Hong Kong's labour demand has exhibited greater resilience in most sectors, thanks to the Government efforts in preserving employment in various sectors, greater restraint on the part of employers in laying off workers, and employees' willingness in accommodating reduction in earnings and shorter working hours.

## **Profile of employment in establishments**

5.10 Quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only after a considerable time lag, with the latest figures referring only to June 2009. In view of this limitation, attempts have been made to bring the analysis more up-to-date, using information from supplementary sources.

5.11 Comparing June 2009 with a year earlier, total employment in private sector establishments contracted by 1.5%, larger than the 1.0% decline in March 2009. By economic sector, notable job losses were observed in the manufacturing (down 6.2%), import/export trade and wholesale (down 5.3%), and information and communications (down 3.3%) sectors; offsetting the job gains recorded in the sectors of human health services (up 4.9%), education (up 4.5%), and cleaning and similar services (up 2.7%). By establishment size, larger enterprises in the private sector still retained some capacity for job creation with a gain of 5 500 jobs (0.4%), whereas jobs in small and medium-sized enterprises (SMEs)<sup>(6)</sup> were down by 43 700 (3.6%) from a year earlier. Meanwhile, the number of employees in the civil service rose by another 1.1% over a year earlier, same as the increase in March 2009. This reflected accelerated recruitment, as part of the Government's measures to mitigate the impact of the global recession.

5.12 In addition to regular employment and placement services, the Labour Department (LD) has organised large-scale and mini-job fairs at various locations to respond speedily to the recruitment needs of employers and offer convenient services to job seekers. In the first nine months of 2009, the LD has organised fourteen large-scale job fairs and 314 mini-job fairs. At the same time, the Employees Retraining Board responded flexibly to the training needs of the society by adjusting the allocation of training places. The Board plans to provide 123 000 training places in 2009-10 and has reserved resources to provide an additional 20 000 training places should the need arise.

5.13 Faced with the entry of fresh graduates and school leavers into the labour market in recent months, the Government has enhanced its employment programmes to encourage employment among youths and launched the "Internship Programme for University Graduates" in August this year. By the end of September, about 800 graduates have secured employment in Hong Kong through the Programme. The participating tertiary institutions and LD will continue to provide job-matching services to assist graduates to secure internship positions.



**Table 5.3 : Employment by major economic sector**

	<u>2008</u>					<u>2009</u>	
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>
Import/export trade and wholesale	582 500 (-0.6)	586 200 (0.1)	585 400 (-0.1)	582 000 (-0.5)	576 600 (-1.8)	559 800 (-4.5)	554 200 (-5.3)
Retail	236 000 (2.8)	233 400 (3.3)	236 100 (2.8)	237 800 (3.6)	236 900 (1.5)	232 000 (-0.6)	232 600 (-1.5)
Accommodation and food services	241 500 (2.0)	238 200 (1.8)	241 900 (3.7)	245 100 (2.5)	240 700 (*)	238 200 (*)	238 800 (-1.3)
Transportation, storage, postal and courier services <sup>(a)</sup>	156 300 (3.5)	155 500 (5.1)	157 000 (3.1)	156 900 (3.8)	155 800 (1.8)	158 000 (1.6)	156 900 (-0.1)
Information and communications	88 600 (3.6)	86 900 (2.2)	89 800 (5.3)	89 900 (5.2)	87 700 (1.7)	86 100 (-0.9)	86 900 (-3.3)
Financing and insurance, real estate, professional and business services <sup>(a)</sup>	577 100 (3.4)	573 700 (5.2)	578 600 (3.8)	581 800 (3.7)	574 400 (1.1)	572 700 (-0.2)	577 500 (-0.2)
Social and personal services <sup>(a)</sup>	401 600 (3.6)	396 600 (3.3)	399 000 (2.9)	405 000 (4.5)	406 000 (3.8)	407 100 (2.6)	411 600 (3.2)
Manufacturing	132 500 (-3.5)	135 200 (-2.9)	133 000 (-3.7)	131 300 (-3.7)	130 600 (-3.8)	125 700 (-7.0)	124 700 (-6.2)
Construction sites (manual workers only) <sup>(7)</sup>	49 400 (-1.5)	50 500 (0.3)	49 600 (-3.0)	48 100 (-2.1)	49 400 (-1.3)	51 900 (2.8)	48 900 (-1.2)
<i>All establishments surveyed in the private sector<sup>(a)(b)</sup></i>	<i>2 476 400 (1.8)</i>	<i>2 467 200 (2.5)</i>	<i>2 480 800 (2.1)</i>	<i>2 488 900 (2.2)</i>	<i>2 468 900 (0.5)</i>	<i>2 442 200 (-1.0)</i>	<i>2 442 600 (-1.5)</i>
		<i>&lt;0.8&gt;</i>	<i>&lt;0.3&gt;</i>	<i>&lt;0.4&gt;</i>	<i>&lt;-1.0&gt;</i>	<i>&lt;-0.7&gt;</i>	<i>&lt;-0.3&gt;</i>
<i>Civil service<sup>(c)</sup></i>	<i>154 000 (0.1)</i>	<i>153 500 (-0.2)</i>	<i>153 700 (*)</i>	<i>154 300 (0.4)</i>	<i>154 300 (0.3)</i>	<i>155 100 (1.1)</i>	<i>155 400 (1.1)</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) Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and social and personal services.

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

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

( ) % change over a year earlier.

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

(\*) Less than 0.05%.

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

## **Vacancies**

5.14 Given the still cautious business sentiment in the second quarter of 2009, firms were generally conservative towards expansion and staffing plans in June, leading to a continued marked decline in job vacancies over the period. In June 2009, private sector vacancies were still significantly down by 38.9% over a year earlier, yet this was smaller than the 50.6% decrease in March 2009. Declines occurred among all sectors, especially in financing and insurance (down 60.4%), import/export trade and wholesale (down 51.9%), transportation, storage, postal and courier services (down 49.1%) and professional and business services (excluding cleaning and similar services) (down 48.7%).

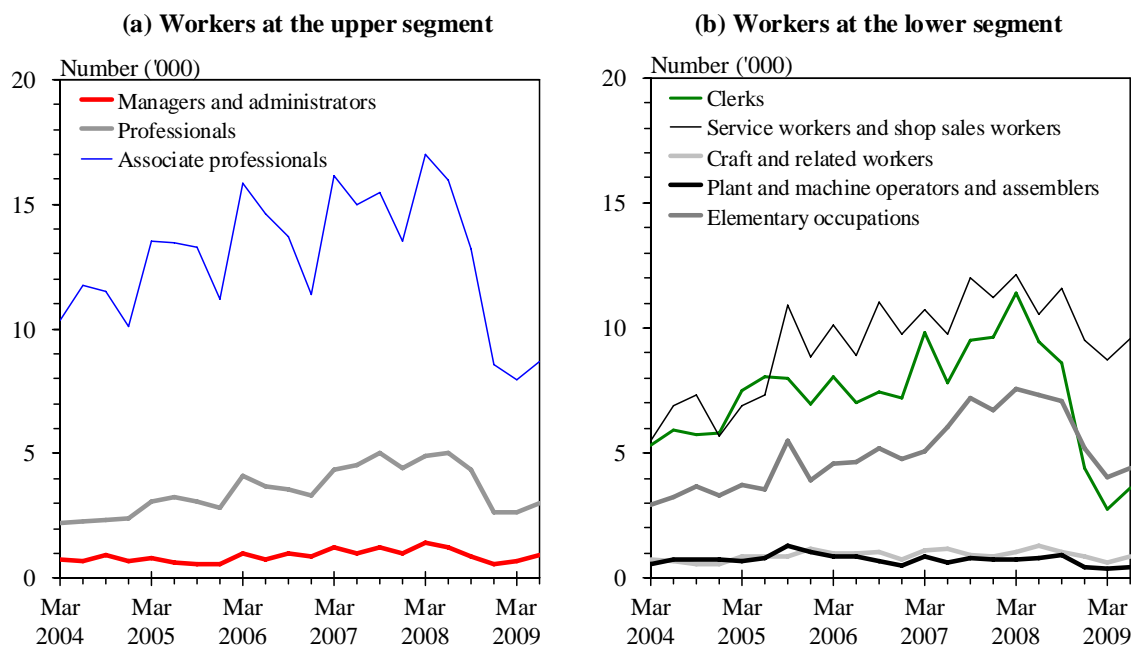
5.15 Analysed by occupation category, job vacancies for higher-skilled and lower-skilled workers were all sharply lower, by 43.1% and 35.7% respectively in June 2009 over a year earlier. Declines were most drastic among clerks (down 61.4%), followed by plant and machine operators and assemblers (down 47.1%), associate professionals (down 45.6%) and professionals (down 40.1%). Compared to the unemployment numbers in June 2009, this gave a ratio of 16 job vacancies per 100 unemployed, slightly higher than the level of 15 for March 2009. The corresponding ratio for lower-skilled jobs increased marginally from 12 in March 2009 to 13 in June 2009, while that for higher-skilled jobs remained unchanged at 31. These figures suggest that the excess supply conditions in the labour market had not worsened further, for both the higher- and lower-skilled segments during the second quarter. By establishment size, vacancies at SMEs and large enterprises were both significantly lower by 39.5% and 38.3% respectively in June 2009 when compared to a year earlier, yet the declines were again slightly less profound when compared with the figures of March 2009.

5.16 The vacancy rate rose slightly from 1.1% in March 2009 to 1.3% in June 2009 over the period, though still visibly lower than that of 2.0% a year ago. As compared to a year earlier, notable decreases were seen in the financing and insurance (from 2.5% to 1.0%), accommodation services (from 2.1% to 0.9%), and arts, entertainment, recreation and other services (from 3.8% to 2.7%) sectors.

5.17 Regarding the civil service, the total number of vacancies in June 2009 was 5 200, down from 6 200 a year earlier. Given the efforts on the part of the Government to speed up civil service recruitment, the filling of vacancies in this direction can be expected to continue apace correspondingly over the remainder of this year.

5.18 The latest information showed that the Labour Department (LD) posted some 61 000 private sector vacancies in September 2009, representing a decrease of 9.9% over September 2008 but an increase of 15.6% over August 2009. On a quarter-to-quarter comparison, the average number of private sector vacancies in the third quarter of 2009 also increased by 20.9% over the second quarter. These figures suggest that employers adopt a more positive attitude in hiring new hands towards the end of the third quarter. The LD will continue to closely monitor labour market conditions and to provide employment and placement services to assist the unemployed in seeking jobs. The Department will continue to strengthen the dissemination of vacancy and employment information and offer user-friendly services to job seekers.

**Diagram 5.6 : Vacancies in most occupations edged up in the second quarter, though still distinctly down for a year earlier**



**Table 5.4 : Vacancies by major economic sector**

	<u>Number of vacancies</u>							Vacancy rate in Jun 2009 (%)
	<u>Annual Average</u>	<u>2008</u>					<u>2009</u>	
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	
Import/export trade and wholesale	7 600 (-17.1)	9 900 (-4.2)	9 000 (-0.6)	7 200 (-18.0)	4 100 (-50.1)	3 300 (-67.1)	4 300 (-51.9)	0.8
Retail	5 000 (7.6)	5 700 (14.7)	5 200 (25.5)	5 500 (9.8)	3 500 (-19.7)	2 900 (-49.6)	3 700 (-29.4)	1.5
Accommodation and food services	5 500 (5.0)	5 400 (24.6)	5 600 (21.7)	5 400 (-19.4)	5 700 (5.6)	5 200 (-4.2)	4 500 (-19.2)	1.8
Transportation, storage, postal and courier services <sup>(a)</sup>	1 700 (-12.0)	2 300 (28.4)	1 900 (0.3)	1 600 (-24.9)	900 (-50.8)	1 000 (-58.2)	1 000 (-49.1)	0.6
Information and communications	1 900 (-9.7)	2 100 (-5.0)	2 400 (26.1)	2 200 (-6.2)	800 (-55.5)	900 (-57.8)	1 500 (-36.7)	1.7
Financing and insurance, real estate, and professional and business services <sup>(a)</sup>	13 100 (-9.6)	16 300 (10.1)	14 300 (2.9)	13 100 (-14.0)	8 600 (-38.2)	6 800 (-58.4)	7 400 (-48.2)	1.3
Social and personal services <sup>(a)</sup>	10 500 (9.9)	12 400 (41.5)	11 100 (30.2)	11 200 (8.7)	7 300 (-31.2)	7 100 (-42.6)	8 400 (-24.2)	2.0
Manufacturing	1 600 (-9.2)	2 000 (0.1)	2 000 (12.4)	1 500 (-16.2)	1 100 (-36.2)	700 (-67.1)	700 (-67.2)	0.5
Construction sites (manual workers only)	# (26.3)	# (*)	# (87.5)	# (57.7)	# (-26.7)	# (-92.1)	# (-86.7)	*
<i>All establishments surveyed in the private sector<sup>(a)(b)</sup></i>	46 900 (-4.0)	56 200 (14.0)	51 600 (12.5)	47 800 (-8.7)	32 200 (-33.1)	27 800 (-50.6)	31 500 (-38.9)	1.3
		<-3.3>	<-2.6>	<-11.5>	<-19.8>	<-28.5>	<20.3>	
<i>Civil service<sup>(c)</sup></i>	5 800 (127.7)	5 500 (366.2)	6 200 (94.4)	5 500 (81.6)	5 800 (114.8)	5 300 (-3.8)	5 200 (-15.8)	3.2

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

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

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

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

( ) % change over a year earlier.

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

(#) Less than 50.

(\*) Less than 0.05%.

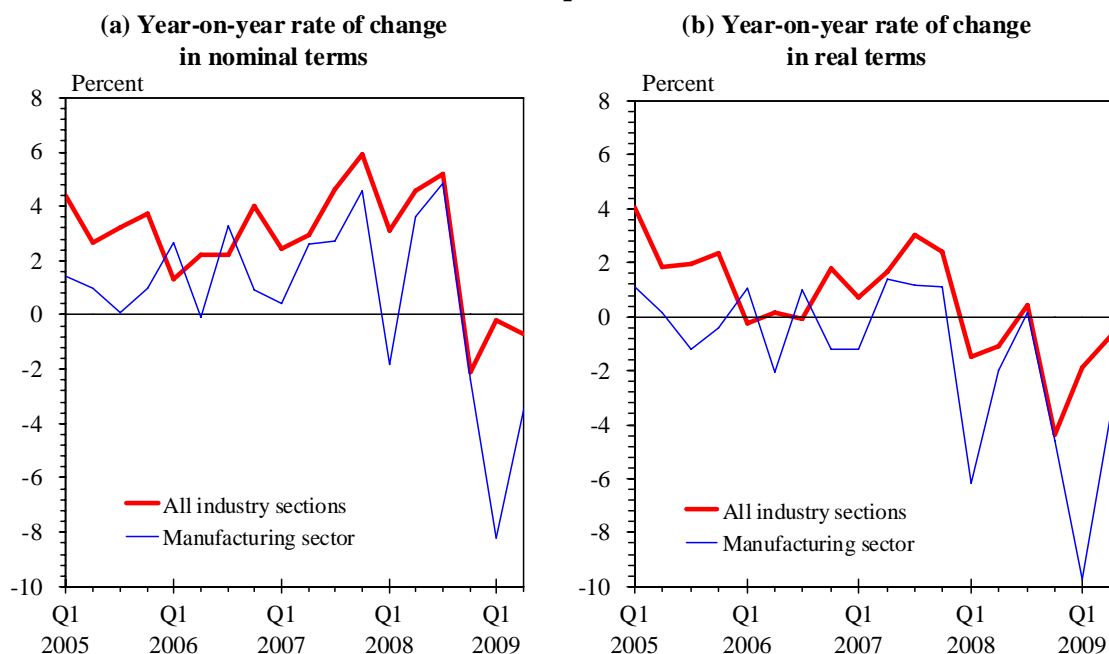
Sources : Quarterly Survey of Employment and Vacancies, Census and Statistics Department.  
Quarterly Employment Survey of Construction Sites, Census and Statistics Department.

## Earnings and wages

5.19 *Labour earnings*<sup>(8)</sup>, as measured by payroll per person engaged in the private sector, fell by 0.7% in nominal terms in the second quarter of 2009 over a year earlier. This was larger than the 0.2% decline in the first quarter of 2009. After adjusting for inflation, labour earnings in real terms<sup>(9)</sup> also fell, by 0.7%. Yet, after netting out seasonal factors, private sector payroll actually increased by 1.7% in nominal terms and 2.2% in real terms in the second quarter over the preceding quarter, suggesting that labour earnings have begun to stabilise.

5.20 Decreases in nominal payroll were nearly across-the-board. However, a number of economic sectors had showed signs of stabilisation, thanks to the recent pick-up in economic activities. Earnings in financial and insurance, and real estate activities were only marginally down, by 0.2% and 0.3% respectively year-on-year in the second quarter of 2009, representing distinct improvement against the corresponding year-on-year declines of 9.8% and 14.2% in the first quarter. This was mainly due to an increase in variable bonuses paid as both the financial and property markets have staged a strong rebound. Workers in the information and communications sector even enjoyed positive earnings year-on-year growth of 2.3% in the second quarter, after a 3.2% cut in the first quarter.

**Diagram 5.7 : Payroll fell slightly both in nominal and real terms in the second quarter of 2009**



5.21 The Salary Indices for Managerial and Professional Employees pointed to a larger pay reduction in the upper segment over the past year. Comparing June 2009 with a year earlier, the index decreased by 1.6% in money terms and 1.4% in real terms<sup>(10)</sup> in respect of staff remaining in the same occupation and the same company during the period. When the newly recruited and promoted employees were also taken into account, the index decreased by 2.6% in money terms, and 2.4% in real terms.

5.22 *Labour wages*, as a measure of regular payment to employees at the supervisory level or below, fell by 1.9% year-on-year in nominal terms in June 2009. This was larger than the 0.9% decrease recorded in March 2009. After adjusting for the change in prices, labour wages in real terms declined by 0.3% year-on-year in June 2009, as against a 1.4% decline in March 2009. The smaller decline in real labour wages than nominal wages reflected in part the cushion rendered by the Government's various relief measures.

5.23 In June 2009, decreases in nominal wages were more notable in the accommodation and food service activities (down 3.5%), import/export and wholesale and retail trades (down 2.2%) and manufacturing (down 2.1%) sectors. Transportation was the only sector that had a positive growth in wages of 0.4% over a year earlier. In terms of occupation category, some lower-skilled groups such as miscellaneous non-production workers and craftsmen both recorded a mild increase in wages, by 0.2%. In contrast, year-on-year declines were seen in the remaining occupations of service workers (down 3.4%), operatives (down 2.7%), supervisory and technical workers (down 2.5%), and clerical and secretarial workers (down 1.1%).

5.24 Latest statistics from the General Household Survey, though not strictly comparable to data obtained from business establishments, revealed that in the third quarter of 2009, overall average monthly employment earnings<sup>(11)</sup> of employed persons (excluding foreign domestic helpers) rose further by 3.5% over a year earlier, following an increase of 1.6% in the second quarter. Lower-skilled workers suffered a decline of 1.1% in average earnings, though relatively improved from a 1.4% decline in the second quarter. Earnings of higher-skilled workers saw a larger increase of 7.5%, following a 3.5% increase in the second quarter.

## Notes :

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

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

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

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

- (2) Labour force and employment statistics compiled from the General Household Survey for the period from Q1 2008 to Q4 2008 have been revised to take into account the results of the revised population of 2008.
- (3) The main criteria for an employed person aged 15 or above to be classified as underemployed are: involuntarily working less than 35 hours during the reference period (i.e. seven days before enumeration), and either available for additional work during the reference period or seeking additional work during the 30 days before enumeration.

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

- (4) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (5) 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.

- (6) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (7) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually decreased by 4.0% in the third quarter of 2009.

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.

- (8) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (9) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for wages in respect of workers in occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (10) The Consumer Price Index (C) is used for compiling the Salary Indices for Management and Professional Employees in real terms.
- (11) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.



## CHAPTER 6 : PRICES

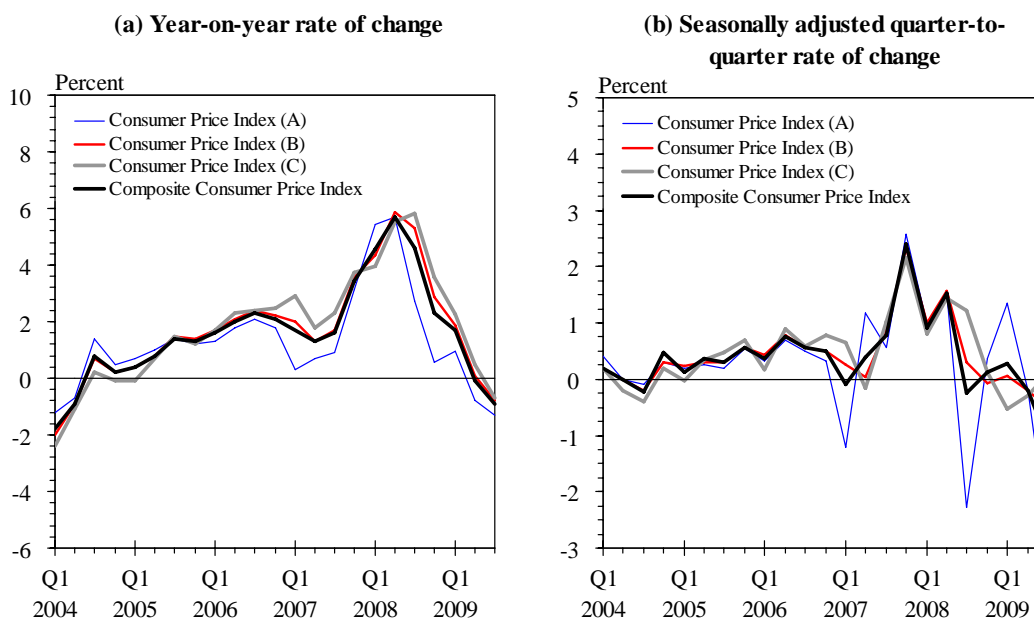
### *Summary*

- *Inflationary pressure continued to recede in the third quarter of 2009 amidst the slack economic conditions, as both local and global economic activities were still notably below the levels before the financial tsunami. The headline Composite Consumer Price Index<sup>(1)</sup> (CCPI) declined by 0.9% in the third quarter from a year earlier. After netting out the effects of Government's one-off relief measures, underlying inflation also turned slightly negative, at -0.3%.*
- *The year-on-year decline in headline CCPI mainly reflected the electricity charge subsidy, softening food prices, continued falls in prices of durable goods and miscellaneous services, and slower rise in housing cost. Also, fuel prices, despite the recent rebound, were still distinctly below the levels a year earlier.*
- *Local business costs were contained. Wages were under downward pressure and business rental costs also decelerated. Meanwhile, imported inflation was virtually absent, as import prices in overall terms were lower than a year earlier.*

### **Consumer prices**

6.1 The year-on-year decline in the headline *Composite Consumer Price Index* (CCPI) enlarged slightly from 0.1% in the second quarter of 2009 to 0.9% in the third quarter. Yet the headline index for September reverted to an increase of 0.5%, as the effects of the Government's subsidy on electricity charges began to fade out. Inflationary pressures were subdued, as import prices remained soft due to a weak global economy and as local business costs were also tamed. In fact, many other economies also recorded negative consumer price inflation in the third quarter<sup>(2)</sup>. Netting out the effects of Government's one-off relief measures, underlying consumer price inflation also turned slightly negative, to -0.3% in the third quarter from 1.2% in the second quarter. On a seasonally adjusted basis, the underlying deflationary pressures had tended to stabilise towards the end of the quarter.

**Diagram 6.1 : Inflationary pressure continued to recede in the third quarter of 2009**



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

		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2008	Annual	5.6	4.3	3.6	4.6	4.7
	H1	5.3	5.1	5.6	5.1	4.7
	H2	5.8	3.5	1.6	4.1	4.7
	Q1	4.9 (2.0)	4.6 (0.9)	5.4 (1.0)	4.3 (1.0)	3.9 (0.8)
	Q2	5.7 (1.5)	5.7 (1.5)	5.7 (1.5)	5.9 (1.6)	5.5 (1.4)
	Q3	6.3 (1.3)	4.6 (-0.2)	2.7 (-2.3)	5.3 (0.3)	5.8 (1.2)
	Q4	5.4 (0.4)	2.3 (0.1)	0.6 (0.4)	2.9 (-0.1)	3.6 (0.1)
2009	H1	2.1	0.8	0.1	1.0	1.4
	Q1	3.1 (-0.2)	1.7 (0.3)	1.0 (1.3)	1.9 (0.1)	2.2 (-0.5)
	Q2	1.2 (-0.3)	-0.1 (-0.2)	-0.8 (-0.2)	0.1 (-0.2)	0.5 (-0.3)
	Q3	-0.3 (-0.1)	-0.9 (-1.1)	-1.3 (-2.8)	-0.8 (-0.5)	-0.7 (0.1)

Notes : (a) The underlying consumer price inflation rates are calculated by netting out the effects of all relevant one-off measures, including the lower base effect of public housing rental waiver in February 2007, the rates concession of up to \$5000 per quarter in the second and third quarters of 2007, in 2008 and in the first quarter of 2009, up to \$1500 per quarter in the second and third quarters of 2009, Government's payment of public housing rentals for August to October 2008, August to September 2009, five-years' suspension of Employees Retraining Levy as from August 2008, and subsidies for household electricity charges as from September 2008.

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

6.2 Among the major components of the Composite CPI, the fall in electricity charges made a large contribution to the year-on-year decline in the Composite CPI in the third quarter. This mainly reflected the effect of Government's subsidy for household electricity charges, though it began to fade out in September. The drop in the prices of basic foodstuffs also contributed notably to the fall in CCPI, as did the prices of durable goods, miscellaneous services and transport. Private housing rentals decelerated further, reflecting the feed-through of the earlier correction of market rentals after the outbreak of the financial tsunami. In contrast, prices of miscellaneous goods, clothing and footwear, and alcoholic drinks and tobacco rose in the third quarter.

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2008</u>				<u>2009</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	26.94	10.0	11.2	10.6	8.8	4.6	1.5	-0.5
<i>Meals bought away from home</i>	16.86	5.4	6.3	6.4	5.6	3.4	1.7	0.7
<i>Other foodstuffs</i>	10.08	17.4	19.2	17.2	13.8	6.5	1.2	-2.3
Housing <sup>(a)</sup>	29.17	3.9	5.9	3.9	2.7	6.6	4.5	1.7
		(5.0)	(6.0)	(7.8)	(8.3)	(6.6)	(4.1)	(1.4)
<i>Private dwellings</i>	23.93	3.5	8.0	9.5	6.4	7.7	5.1	2.0
		(6.9)	(7.9)	(9.5)	(9.9)	(7.7)	(4.7)	(1.6)
<i>Public dwellings</i>	2.49	14.4	-13.0	-63.6	-39.5	-0.2	0.6	-7.0
		(-10.8)	(-10.8)	(-3.7)	(0.2)	(0.2)	(0.2)	(0.2)
Electricity, gas and water	3.59	7.2	7.7	-5.3	-34.9	-42.7	-42.7	-26.1
		(7.2)	(7.7)	(7.3)	(1.7)	(-8.1)	(-8.2)	(-7.3)
Alcoholic drinks and tobacco	0.87	0.5	0.6	-0.2	-0.6	7.6	22.6	22.9
Clothing and footwear	3.91	1.6	1.6	0.7	-0.5	1.8	2.5	2.6
Durable goods	5.50	-3.5	-2.3	-1.0	-1.1	-2.9	-3.3	-3.1
Miscellaneous goods	4.78	4.6	5.3	5.6	4.7	3.2	2.3	1.7
Transport	9.09	1.3	2.5	4.0	2.1	0.7	-0.7	-2.4
Miscellaneous services	16.15	1.3	1.2	0.8	-0.3	-1.7	-3.0	-2.8
		(1.3)	(1.2)	(0.9)	(0.1)	(-1.1)	(-2.3)	(-2.1)
All items	100.00	4.6	5.7	4.6	2.3	1.7	-0.1	-0.9
		(4.9)	(5.7)	(6.3)	(5.4)	(3.1)	(1.2)	(-0.3)

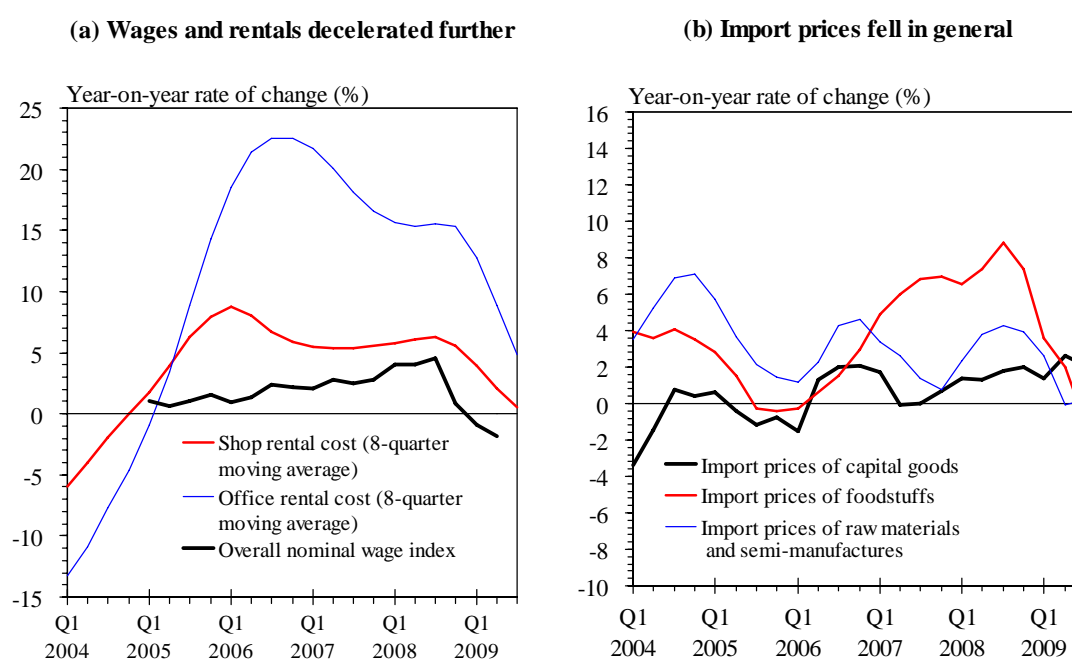
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

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

## Costs of factor inputs and import prices

6.3 Business costs remained contained. The latest available statistics indicated that wages fell modestly in overall terms in June over a year earlier, while rental costs for retail premises and offices decelerated further. Indeed, market rentals in September, particularly for office space, were still below the peaks in mid-2008. As the economy was going through the necessary adjustments in the aftermath of the global financial crisis, wages and rentals, exhibiting remarkable flexibility, should help to increase the resilience of the local businesses and ensure a speedy recovery.

**Diagram 6.2 : Costs of factor inputs and import prices**



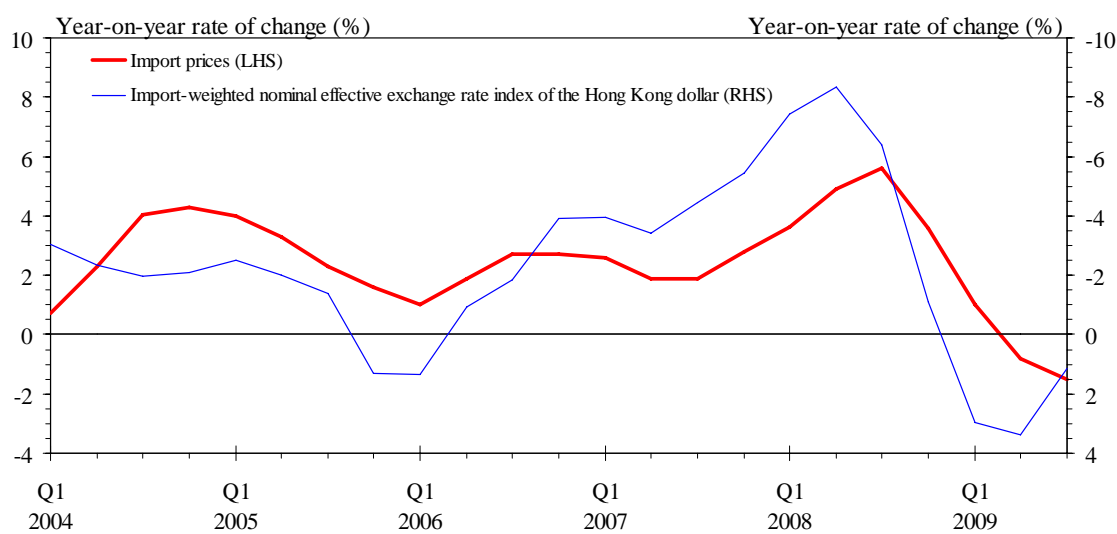
6.4 On the external front, import prices of most end-use categories fell in the third quarter over a year earlier, reflecting a weak global economy. As for individual end-use categories, import prices of foodstuffs and consumer goods turned into small declines, whereas those of raw materials registered a slight increase. Import prices of fuels were still markedly lower than a year earlier. On the other hand, import prices of capital goods continued to post a modest increase.

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

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

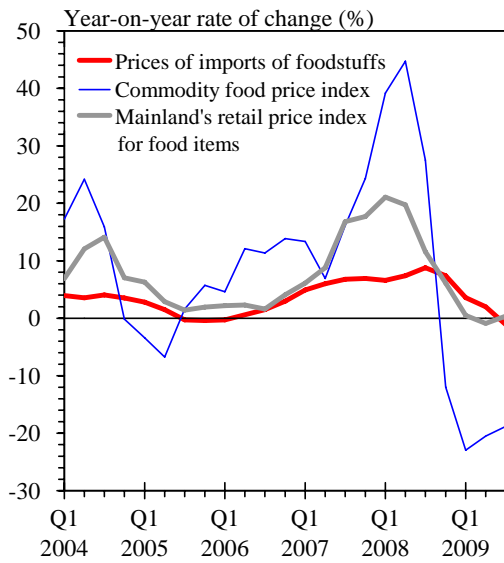
**Diagram 6.3 : Import prices down further, mainly reflecting a weak global economy although exchange rates also contributed**



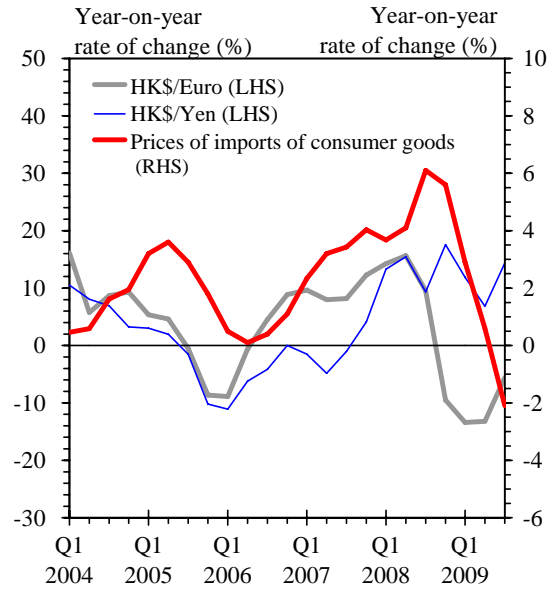
Note: An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**Diagram 6.4 : Import prices by end-use categories**

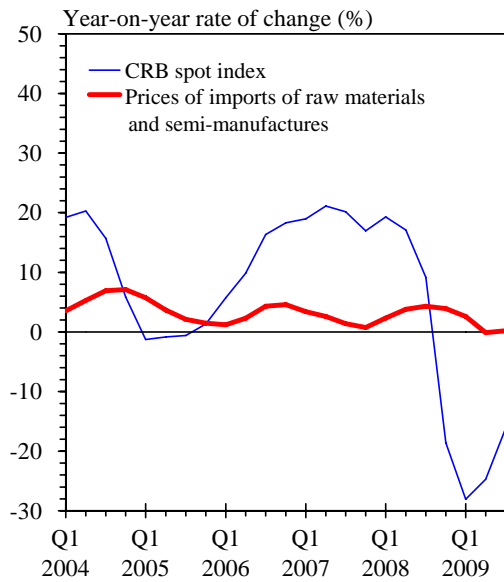
**(a) Import prices of foodstuffs fell slightly**



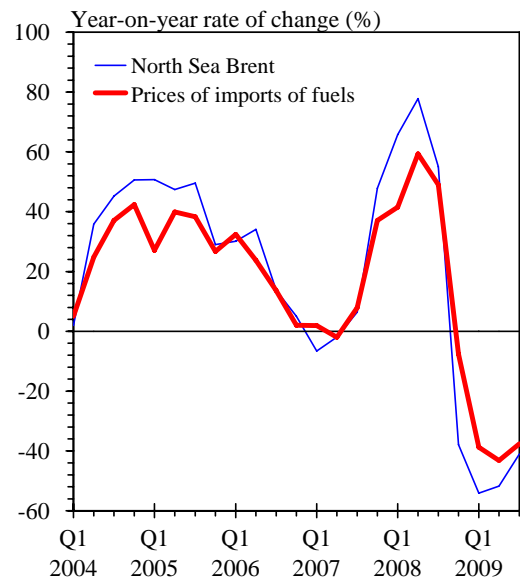
**(b) Import prices of consumer goods decreased modestly**



**(c) Import prices of raw materials edged up slightly**



**(d) Fuel prices rebounded but were still markedly lower than a year ago**

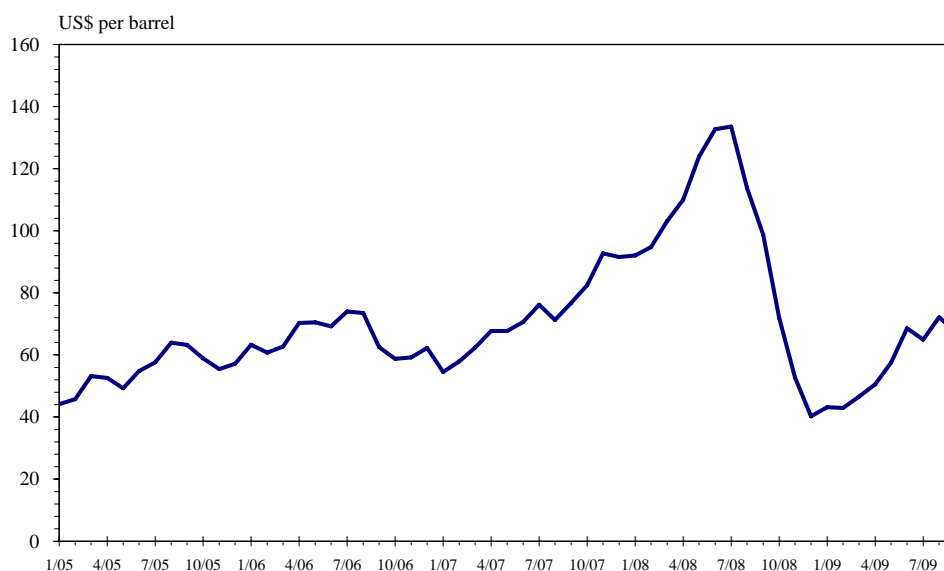


## Box 6.1

### Impact of recent oil price movements on consumer price inflation

International oil prices, like many other commodity prices, are usually volatile, and sensitive to changes in economic climate. Since the late 1990s, crude oil prices had been on an uptrend amidst large fluctuations, as a result of the fast growing demand from the emerging economies and the tight demand-supply balance. Despite the slowdown in the major advanced economies since early 2008, crude oil prices ran up further and reached a historic high in July 2008, before the correction set in. The outbreak of the global financial tsunami and the subsequent global synchronised recession also accelerated the fall in oil prices. The spot price of Brent crude oil, for instance, plummeted within six months from its peak of around US\$145 per barrel to a trough of less than US\$40 per barrel in December 2008. Crude oil prices then rebounded notably since March this year as global economic outlook improved. Over the past several months, oil prices fluctuated at around US\$70 per barrel, with a further advance to around US\$75 towards the end of October.

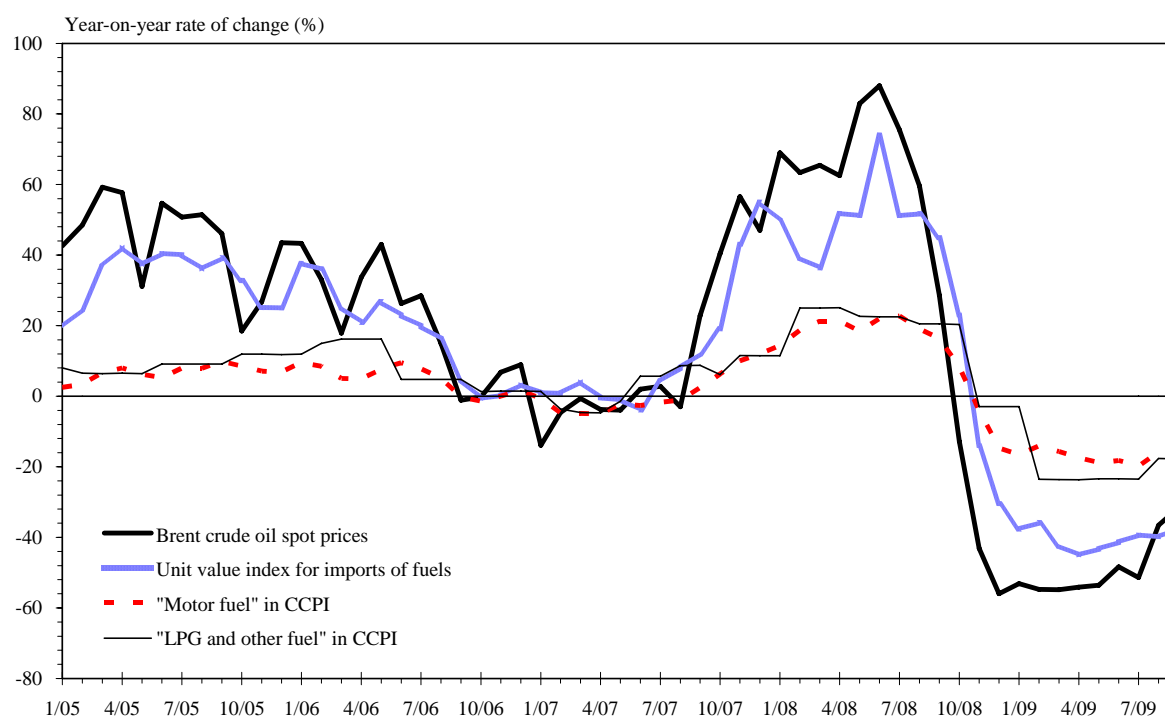
**Chart 1 : The spot price of Brent crude oil (monthly average)**



The prices of several items in the consumer price indices, such as “motor fuel” and “LPG and other fuel”, are directly affected by or closely related to the movements of oil prices. These items together, however, have a small combined weighting of 0.89% in the Composite CPI. The changes in crude oil prices affect the import prices of fuels, which in turn lead to the adjustments in the prices of the fuel-related items at the consumer level. Past experience, as indicated in *Chart 2*, suggests that crude oil prices, import prices of fuels and the prices of fuel-related items at the consumer level tend to move broadly together. Nevertheless, as illustrated in *Chart 2*, the prices of fuel-related items at consumer level usually exhibit a much smaller degree of fluctuations than crude oil prices and import prices of fuels, mainly because the purchase costs of fuels only make up a fraction of the retail prices of the fuel-related products for final consumption. Other factors also account for the incomplete feed-through of the changes in crude oil prices to the local consumer prices of the fuel-related items: (1) exchange rates of Hong Kong dollar against the currencies of the import sources; and (2) movements in refinery and production costs as reflected by differences between prices of crude oil and refined oil products.

## Box 6.1 (Cont'd)

### Chart 2 : Movements of fuel-related consumer prices, import prices of fuels and international oil prices



Given the highly service-oriented nature of the Hong Kong economy, the direct impacts of oil prices on consumer prices are usually not significant. In the second quarter of 2008, when the underlying Composite CPI inflation rate was 5.7% and oil prices had significant increases over a year earlier, the contribution from the fuel-related products to the inflation rate was just 0.19 percentage point.

As oil prices were still notably lower than their year-ago levels in the third quarter of 2009, the contribution of fuel-related items to consumer price inflation had turned negative. Yet with the underlying inflation rate coming down to very low levels, at -0.3% in the third quarter, the negative contribution from the fuel-related items to consumer price inflation, at -0.18 percentage point, became relatively more evident.

The risks of a sustained price surge from current levels should be largely contained by large excess capacity and high inventories, unless there is a significant change in the oil market outlook. If crude oil prices are to stay at the recent levels of US\$70-80 per barrel in the coming months (the IMF assumed a simple average price of US\$76.5 per barrel in 2010 for UK Brent, Dubai and West Texas Intermediate crude oil in its latest World Economic Outlook), they will be notably higher than the year-ago levels and the contribution of fuel-related items to consumer price inflation will likely turn from negative to positive, reducing to some extent the deflationary pressure in the economy.



## Output prices

6.5 Output prices, as measured by *Producer Price Indices* <sup>(3)</sup>, fell further in the second quarter of 2009 across a wide range of economic sectors. Prices of manufacturing output fell in recent periods, reflecting the weakened import demand throughout the world. Among the service sectors, most of them recorded decreases in output prices in the second quarter. Output prices of accommodation services fell notably, due to the weak inbound tourism amidst concerns about human swine flu in that quarter. Output prices of land, maritime and air transport also declined markedly, promptly in response to the plunge in global trade flows after the outbreak of the financial tsunami. Meanwhile, the secular downtrend in the prices of telecommunications services continued. In contrast, prices of courier services posted a slight increase.

**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>2008</u>				<u>2009</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u> <sup>(@)</sup>
Manufacturing	5.6	5.9	6.9	5.8	3.9	-1.4	-3.0
Selected services sector <sup>(a)</sup>							
Accommodation services	7.8	11.1	10.7	10.7	-0.5	-7.0	-10.8
Land transport	0.4	0.6	1.5	1.1	-1.5	-0.6	-1.5
Maritime transport	2.1	5.3	3.1	3.4	-3.1	-12.7	-20.4
Air transport	5.1	3.3	8.8	9.0	-0.5	-10.3	-17.5
Telecommunications	-2.6	-1.8	-2.0	-3.4	-3.2	-2.5	-2.8
Courier services	3.5	3.9	4.4	4.1	1.8	2.1	1.9

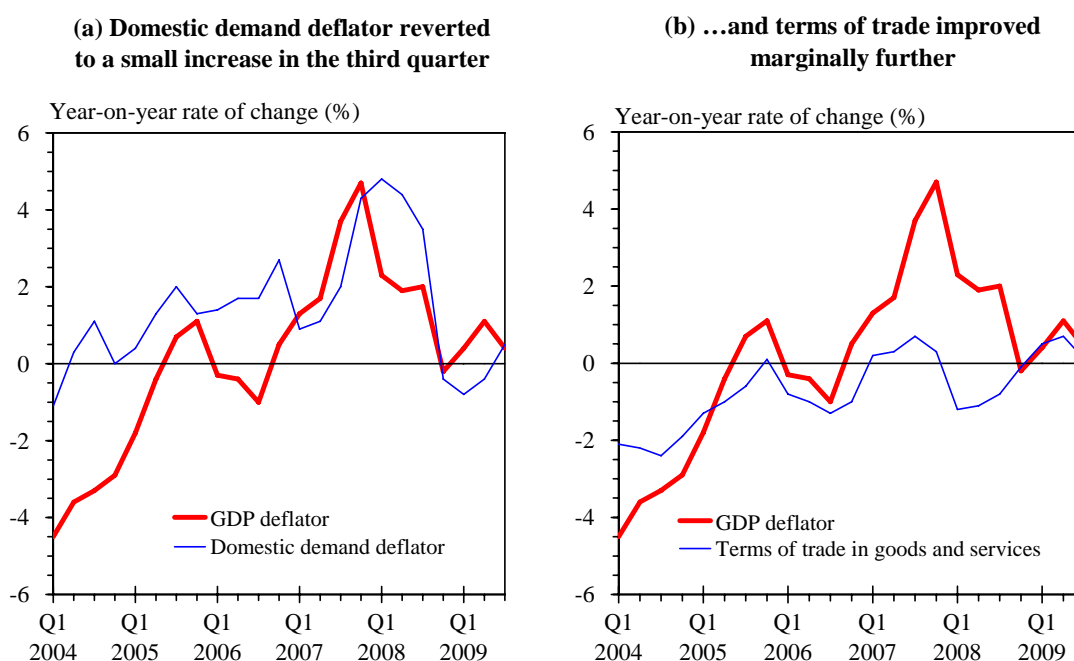
Notes: (a) Producer Price Indices for other service sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

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

## GDP deflator

6.6 As a broad measure of the overall change in prices of the economy, the *GDP deflator*<sup>(4)</sup> increased slightly by 0.4% year-on-year in the third quarter of 2009, after an increase of 1.1% in the second quarter. The domestic demand deflator increased by 0.5% in the third quarter of 2009, largely reflecting the increase in the price deflator for machinery and equipment investment. Meanwhile, as prices of exports of goods and services decreased slightly more slowly than those of imports, the *terms of trade*<sup>(5)</sup> improved marginally by 0.1% over a year earlier.

Diagram 6.5 : GDP deflator



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

	<u>2008</u>					<u>2009</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>+</sup></u>
Private consumption expenditure	2.8	4.9	5.2	3.3	-1.4	-1.0	-1.8	-2.0
Government consumption expenditure	5.2	4.2	5.5	6.0	5.0	4.2	0.7	-0.2
Gross domestic fixed capital formation	1.8	4.9	-0.3	3.0	0.3	-2.3	4.7	8.5
Total exports of goods	3.4	2.3	3.4	4.4	3.3	1.8	-0.3	-1.0
Imports of goods	4.1	3.4	4.6	5.4	3.1	-0.1	-2.2	-2.1
Exports of services	3.0	3.6	4.4	5.0	-0.6	-7.3	-8.0	-6.3
Imports of services	4.1	6.3	6.2	5.4	-1.1	-6.1	-5.9	-3.0
<b>Gross Domestic Product</b>	<b>1.4</b>	<b>2.3</b> <-1.5>	<b>1.9</b> <0.6>	<b>2.0</b> <0.9>	<b>-0.2</b> <-0.2>	<b>0.4</b> <-0.8>	<b>1.1</b> <1.3>	<b>0.4</b> <0.1>
Total final demand	3.2	3.2	3.9	4.3	1.7	-0.5	-1.4	-1.4
Domestic demand	3.0	4.8	4.4	3.5	-0.4	-0.8	-0.4	0.5

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

(#) Revised figures.

(+) Preliminary figures.

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

## Notes :

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

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

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

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

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

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

	<u>2008</u>		<u>2009</u>				
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>
Selected developed economies							
US	3.8	*	-1.2	-1.6	-2.1	-1.5	-1.3
Canada	2.3	1.2	0.1	-0.9	-0.9	-0.8	-0.9
EU	3.7	1.6	0.9	0.4	0.2	0.6	0.3
Japan	1.4	-0.1	-1.0	-2.2	-2.2	-2.2	-2.2
Major emerging economies							
Mainland China	5.9	-0.6	-1.5	-1.3	-1.8	-1.2	-0.8
Russia	14.1	13.7	12.4	11.4	12.0	11.6	10.7
India	8.3	9.4	8.9	11.8	11.9	11.7	11.6
Brazil	5.7	5.8	5.2	4.4	4.5	4.4	4.3
Selected Asian economies							
Hong Kong	4.3	1.7	-0.1	-0.9	-1.5	-1.6	0.5
Singapore	6.5	2.1	-0.5	-0.4	-0.5	-0.3	-0.4
Taiwan	3.5	*	-0.8	-1.3	-2.3	-0.8	-0.9
South Korea	4.7	3.9	2.8	2.0	1.6	2.2	2.2
Malaysia	5.4	3.7	1.3	-2.3	-2.4	-2.4	-2.0
Thailand	5.5	-0.2	-2.8	-2.2	-4.4	-1.0	-1.0
Indonesia	9.8	8.6	5.6	2.8	2.7	2.8	2.8
Philippines	9.3	6.9	3.2	0.3	0.2	0.1	0.7
Vietnam	23.1	14.4	6.2	2.6	3.3	2.0	2.4
Macao	8.6	3.3	1.8	-0.2	0.2	0.4	-1.0

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

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

## Statistical Appendix

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

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
	(\$Mn)					
Private consumption expenditure	765,248	777,141	782,984	748,402	719,873	767,923
Government consumption expenditure	119,993	120,172	128,866	131,291	130,151	127,327
Gross domestic fixed capital formation	325,328	347,375	333,044	286,025	261,576	275,034
<i>of which:</i>						
Building and construction	171,930	155,441	142,659	131,757	116,628	107,692
Machinery, equipment and computer software	141,349	180,204	180,011	144,832	136,537	150,545
Changes in inventories	-10,612	14,399	-4,060	5,660	9,111	7,076
Total exports of goods	1,349,000	1,572,689	1,480,987	1,562,121	1,749,089	2,027,031
Imports of goods	1,373,500	1,636,711	1,549,222	1,601,527	1,794,059	2,099,545
Exports of services	276,385	315,012	320,799	347,836	362,420	429,584
Imports of services	185,174	192,427	194,180	202,494	203,400	242,507
<b>GDP</b>	<b>1,266,668</b>	<b>1,317,650</b>	<b>1,299,218</b>	<b>1,277,314</b>	<b>1,234,761</b>	<b>1,291,923</b>
<i>Per capita GDP (\$)</i>	<i>191,731</i>	<i>197,697</i>	<i>193,500</i>	<i>189,397</i>	<i>183,449</i>	<i>190,451</i>
<b>GNP</b>	<b>1,291,436</b>	<b>1,326,404</b>	<b>1,327,761</b>	<b>1,282,966</b>	<b>1,263,252</b>	<b>1,315,333</b>
<i>Per capita GNP (\$)</i>	<i>195,480</i>	<i>199,010</i>	<i>197,751</i>	<i>190,235</i>	<i>187,682</i>	<i>193,902</i>
Total final demand	2,825,342	3,146,788	3,042,620	3,081,335	3,232,220	3,633,975
Total final demand excluding re-exports <sup>(a)</sup>	1,886,157	2,048,719	1,983,301	1,923,623	1,896,483	2,062,142
Domestic demand	1,199,957	1,259,087	1,240,834	1,171,378	1,120,711	1,177,360
Private	1,014,313	1,078,515	1,053,973	986,542	939,104	1,001,588
Public	185,644	180,572	186,861	184,836	181,607	175,772
External demand	1,625,385	1,887,701	1,801,786	1,909,957	2,111,509	2,456,615

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>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u> Q4 <sup>#</sup>	Q1 <sup>#</sup>	<u>2009</u> Q2 <sup>#</sup>	Q3 <sup>#</sup>
Private consumption expenditure	804,936	863,591	972,027	1,014,183	252,351	233,608	252,266	246,527
Government consumption expenditure	121,435	123,033	130,398	139,537	35,656	37,932	34,114	35,755
Gross domestic fixed capital formation	289,170	322,691	325,349	329,755	73,835	72,366	77,483	92,972
<i>of which:</i>								
Building and construction	105,993	106,268	111,777	126,270	30,068	30,198	30,902	31,265
Machinery, equipment and computer software	163,287	199,631	189,075	178,634	40,724	39,260	41,025	53,600
Changes in inventories	-4,761	-2,129	12,841	11,751	4,666	-4,725	-1,512	21,488
Total exports of goods	2,251,744	2,467,357	2,698,850	2,843,998	720,342	512,316	618,781	657,215
Imports of goods	2,311,091	2,576,340	2,852,522	3,024,089	750,980	547,074	658,136	723,129
Exports of services	495,394	565,054	660,728	718,835	184,295	151,161	145,599	179,804
Imports of services	264,237	287,900	332,240	357,041	84,847	76,024	77,397	89,043
<b>GDP</b>	<b>1,382,590</b>	<b>1,475,357</b>	<b>1,615,431</b>	<b>1,676,929</b>	<b>435,318</b>	<b>379,560</b>	<b>391,198</b>	<b>421,589</b>
<i>Per capita GDP (\$)</i>	<i>202,928</i>	<i>215,158</i>	<i>233,245</i>	<i>240,327</i>	--	--	--	--
<b>GNP</b>	<b>1,384,238</b>	<b>1,502,705</b>	<b>1,659,868</b>	<b>1,758,372</b>	<b>452,494</b>	<b>388,168</b>	<b>412,709</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>203,170</i>	<i>219,146</i>	<i>239,661</i>	<i>251,999</i>	--	--	--	--
Total final demand	3,957,918	4,339,597	4,800,193	5,058,059	1,271,145	1,002,658	1,126,731	1,233,761
Total final demand excluding re-exports <sup>(a)</sup>	2,212,697	2,406,861	2,660,003	2,795,671	696,880	595,449	631,602	706,638
Domestic demand	1,210,780	1,307,186	1,440,615	1,495,226	366,508	339,181	362,351	396,742
Private	1,048,026	1,149,285	1,278,461	1,320,171	321,298	289,541	319,740	351,117
Public	162,754	157,901	162,154	175,055	45,210	49,640	42,611	45,625
External demand	2,747,138	3,032,411	3,359,578	3,562,833	904,637	663,477	764,380	837,019

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

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

(--) Not applicable.

N.A. Not yet available.



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

(%)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Private consumption expenditure	1.2	5.1	1.8	-0.9	-1.3	7.0
Government consumption expenditure	3.1	2.0	6.0	2.4	1.8	0.7
Gross domestic fixed capital formation	-16.7	7.9	2.6	-4.7	0.9	2.5
<i>of which:</i>						
Building and construction	-16.4	-7.9	-1.1	-1.3	-5.4	-10.7
Machinery, equipment and computer software	-17.6	27.3	6.2	-7.6	7.0	10.3
Total exports of goods	3.6	16.9	-3.3	8.6	14.0	14.9
Imports of goods	-0.1	18.4	-1.9	7.9	13.1	13.7
Exports of services	8.9	13.4	6.4	11.1	7.6	18.0
Imports of services	-3.4	2.2	2.0	3.9	-2.2	14.6
<b>GDP</b>	<b>2.6</b>	<b>8.0</b>	<b>0.5</b>	<b>1.8</b>	<b>3.0</b>	<b>8.5</b>
<i>Per capita GDP</i>	<i>1.6</i>	<i>7.0</i>	<i>-0.2</i>	<i>1.4</i>	<i>3.2</i>	<i>7.6</i>
<b>GNP</b>	<b>2.6</b>	<b>6.6</b>	<b>2.0</b>	<b>0.1</b>	<b>4.9</b>	<b>7.9</b>
<i>Per capita GNP</i>	<i>1.6</i>	<i>5.6</i>	<i>1.3</i>	<i>-0.3</i>	<i>5.1</i>	<i>7.0</i>
Total final demand	0.9	12.6	-0.7	5.0	7.9	11.8
Total final demand excluding re-exports <sup>(a)</sup>	-1.3	9.8	0.3	2.0	3.1	8.9
Domestic demand	-3.6	7.7	0.9	-0.7	-0.2	5.0
Private	-4.6	9.5	0.5	-1.0	-0.5	6.2
Public	2.4	-2.1	3.3	1.1	1.4	-1.2
External demand	4.5	16.3	-1.7	9.0	12.8	15.4

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

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

(--) Not applicable.

N.A. Not yet available.

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

(%)

	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>				<u>Average annual rate of change:</u>	
					Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 1998 to 2008 <sup>#</sup>	5 years 2003 to 2008 <sup>#</sup>
Private consumption expenditure	3.0	5.9	8.5	1.5	-4.1	-6.0	-1.1	0.2	3.1	5.2
Government consumption expenditure	-3.2	0.3	3.0	1.7	1.8	1.4	1.7	3.3	1.8	0.5
Gross domestic fixed capital formation	4.1	7.1	3.4	-0.5	-17.8	-13.7	-13.6	1.4	0.4	3.3
<i>of which:</i>										
Building and construction	-7.6	-7.1	-0.3	1.6	0.1	-10.9	-4.7	3.4	-5.8	-4.9
Machinery, equipment and computer software	12.8	19.2	3.0	-0.3	-21.1	-6.6	-18.0	-4.0	5.3	8.8
Total exports of goods	10.4	9.3	7.0	1.9	-4.9	-22.7	-12.4	-13.2	8.2	8.6
Imports of goods	8.0	9.2	8.8	1.8	-6.4	-21.4	-12.7	-8.3	7.7	8.3
Exports of services	11.6	10.1	14.1	5.7	0.4	-6.3	-5.2	-0.9	10.6	11.8
Imports of services	7.8	8.1	12.1	3.3	-3.4	-9.6	-5.6	-3.8	4.7	9.1
<b>GDP</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>2.4</b>	<b>-2.6</b>	<b>-7.8</b>	<b>-3.6</b>	<b>-2.4</b>	<b>4.7</b>	<b>6.2</b>
<i>Per capita GDP</i>	<b>6.6</b>	<b>6.3</b>	<b>5.3</b>	<b>1.6</b>	--	--	--	--	<b>4.0</b>	<b>5.5</b>
<b>GNP</b>	<b>5.3</b>	<b>8.8</b>	<b>7.4</b>	<b>4.4</b>	<b>0.7</b>	<b>-9.6</b>	<b>-3.5</b>	<b>N.A.</b>	<b>5.0</b>	<b>6.7</b>
<i>Per capita GNP</i>	<b>4.8</b>	<b>8.1</b>	<b>6.3</b>	<b>3.6</b>	--	--	--	--	<b>4.3</b>	<b>6.0</b>
Total final demand	7.7	8.4	8.2	2.1	-5.0	-15.8	-9.3	-6.0	6.3	7.6
Total final demand excluding re-exports <sup>(a)</sup>	5.4	7.3	7.9	1.5	-5.9	-10.7	-7.2	-0.6	4.4	6.2
Domestic demand	1.6	6.0	7.9	0.8	-7.5	-8.1	-5.2	5.7	2.5	4.2
Private	3.0	7.5	9.0	0.6	-8.8	-9.4	-6.2	5.5	2.9	5.2
Public	-6.2	-3.8	0.2	2.5	2.7	1.5	3.6	7.5	-0.3	-1.8
External demand	10.6	9.4	8.3	2.7	-3.8	-19.3	-11.1	-10.7	8.6	9.2

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

	<u>2004</u>		<u>2005</u>		<u>2006</u>		<u>2007<sup>#</sup></u>		<u>2008<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	886	0.1	847	0.1	849	0.1	895	0.1	824	0.1
Mining and quarrying	72	*	100	*	93	*	114	*	96	*
Manufacturing	44,455	3.6	45,547	3.4	45,761	3.2	39,319	2.5	39,296	2.5
Electricity, gas and water	39,726	3.2	39,924	3.0	40,364	2.8	39,673	2.6	38,591	2.5
Construction	40,376	3.2	38,538	2.9	38,688	2.7	40,153	2.6	47,982	3.1
Services	1,119,304	89.9	1,207,873	90.6	1,297,545	91.2	1,431,815	92.3	1,437,873	91.9
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	<i>345,092</i>	<i>27.7</i>	<i>386,726</i>	<i>29.0</i>	<i>397,252</i>	<i>27.9</i>	<i>417,339</i>	<i>26.9</i>	<i>436,069</i>	<i>27.9</i>
<i>Transport, storage and communications</i>	<i>126,820</i>	<i>10.2</i>	<i>135,119</i>	<i>10.1</i>	<i>137,166</i>	<i>9.6</i>	<i>141,749</i>	<i>9.1</i>	<i>121,737</i>	<i>7.8</i>
<i>Financing, insurance, real estate and business services</i>	<i>266,855</i>	<i>21.4</i>	<i>294,260</i>	<i>22.1</i>	<i>356,371</i>	<i>25.0</i>	<i>450,989</i>	<i>29.1</i>	<i>422,398</i>	<i>27.0</i>
<i>Community, social and personal services</i>	<i>257,630</i>	<i>20.7</i>	<i>253,312</i>	<i>19.0</i>	<i>256,347</i>	<i>18.0</i>	<i>265,108</i>	<i>17.1</i>	<i>277,818</i>	<i>17.8</i>
<i>Ownership of premises</i>	<i>122,906</i>	<i>9.9</i>	<i>138,455</i>	<i>10.4</i>	<i>150,408</i>	<i>10.6</i>	<i>156,631</i>	<i>10.1</i>	<i>179,851</i>	<i>11.5</i>
<b>GDP at current factor cost</b>	<b>1,244,819</b>	<b>100.0</b>	<b>1,332,830</b>	<b>100.0</b>	<b>1,423,299</b>	<b>100.0</b>	<b>1,551,970</b>	<b>100.0</b>	<b>1,564,662</b>	<b>100.0</b>
Taxes on production and imports	58,729	--	62,891	--	71,071	--	93,981	--	84,555	--
Statistical discrepancy (%)	-0.9	--	-0.9	--	-1.3	--	-1.9	--	1.7	--
<b>GDP at current market prices</b>	<b>1,291,923</b>	<b>--</b>	<b>1,382,590</b>	<b>--</b>	<b>1,475,357</b>	<b>--</b>	<b>1,615,431</b>	<b>--</b>	<b>1,676,929</b>	<b>--</b>

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

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

(\*) Less than 0.05%.

(--) Not applicable.

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

	(%)									
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>		<u>2009</u>	
							Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Agriculture and fishing	-6.3	2.7	-1.0	-5.0	-6.4	-16.6	-15.1	-13.7	-3.6	-0.9
Mining and quarrying	2.3	-16.7	10.1	10.2	13.7	-3.2	-0.9	-9.2	-12.0	-14.7
Manufacturing	-10.3	1.7	2.1	2.2	-1.5	-6.6	-6.7	-10.4	-12.2	-10.8
Electricity, gas and water	1.8	2.3	2.5	0.8	1.2	0.2	-1.3	2.2	-1.2	2.5
Construction	-4.6	-9.3	-8.1	-9.4	-1.1	2.7	-1.5	2.8	-7.0	-2.2
Services	4.3	9.9	7.5	7.1	7.0	2.4	1.7	-2.3	-7.2	-3.7
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	8.9	15.1	14.1	8.8	6.6	4.1	4.2	-2.1	-15.7	-11.3
<i>Transport, storage and communications</i>	0.6	13.9	7.4	6.8	5.1	2.2	2.0	-4.3	-8.8	-8.8
<i>Financing, insurance, real estate and business services</i>	5.5	13.4	8.6	12.2	13.5	1.6	-0.5	-4.9	-6.7	-0.2
<i>Community, social and personal services</i>	0.4	2.6	-0.1	1.3	1.7	1.4	1.7	0.7	0.6	1.3
<i>Ownership of premises</i>	2.8	1.5	2.9	2.4	3.3	1.9	1.8	2.2	1.3	0.8
Taxes on production and imports	2.6	12.3	0.8	6.8	16.4	-0.2	-5.2	-12.9	-20.8	-4.6
<b>GDP in chained (2007) dollars</b>	<b>3.0</b>	<b>8.5</b>	<b>7.1</b>	<b>7.0</b>	<b>6.4</b>	<b>2.4</b>	<b>1.5</b>	<b>-2.6</b>	<b>-7.8</b>	<b>-3.6</b>

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

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

(\$Mn)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008<sup>#</sup></u>	<u>2008</u>		<u>2009</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Current account <sup>(a)</sup>	122,512	156,933	178,166	199,160	237,628	74,761	80,253	42,987	44,526
Goods	-72,514	-59,347	-108,983	-153,672	-180,091	-41,355	-30,638	-34,758	-39,355
Services	187,077	231,157	277,154	328,488	361,794	98,144	99,448	75,137	68,202
Income	23,410	1,648	27,348	44,437	81,443	24,270	17,176	8,608	21,511
Current transfers	-15,461	-16,524	-17,353	-20,093	-25,518	-6,298	-5,733	-6,000	-5,832
Capital and financial account <sup>(a)</sup>	-184,640	-182,431	-209,935	-259,247	-215,822	-92,360	-69,081	-30,212	-63,942
Capital and financial non-reserve assets (net change)	-159,155	-171,752	-163,199	-144,749	48,047	-41,101	78,236	38,688	79,154
Capital transfers	-2,561	-4,939	-2,900	10,338	16,909	8,104	4,319	7,447	6,929
Financial non-reserve assets (net change)	-156,594	-166,812	-160,300	-155,086	31,138	-49,205	73,917	31,241	72,225
<i>Direct investment</i>	-91,038	49,996	635	-52,577	23,915	32,443	15,467	56,331	-73,027
<i>Portfolio investment</i>	-306,368	-245,017	-207,879	-21,452	-292,474	80,852	-210,125	74,899	-227,441
<i>Financial derivatives</i>	44,319	30,502	25,925	43,534	63,611	32,769	8,475	774	14,926
<i>Other investment</i>	196,492	-2,294	21,019	-124,592	236,085	-195,269	260,099	-100,764	357,766
Reserve assets (net change)	-25,486	-10,679	-46,735	-114,498	-263,869	-51,259	-147,317	-68,900	-143,096
Net errors and omissions	62,128	25,498	31,769	60,087	-21,806	17,599	-11,172	-12,775	19,417
<b>Overall balance of payments</b>	<b>25,486</b>	<b>10,679</b>	<b>46,735</b>	<b>114,498</b>	<b>263,869</b>	<b>51,259</b>	<b>147,317</b>	<b>68,900</b>	<b>143,096</b>

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

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

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

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

	(\$Mn)								
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>	<u>2009</u>		
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Total exports of goods	2,027,031	2,251,744	2,467,357	2,698,850	2,843,998	720,342	512,316	618,781	657,215
Imports of goods	2,099,545	2,311,091	2,576,340	2,852,522	3,024,089	750,980	547,074	658,136	723,129
<b>Visible trade balance</b>	<b>-72,514</b>	<b>-59,347</b>	<b>-108,983</b>	<b>-153,672</b>	<b>-180,091</b>	<b>-30,638</b>	<b>-34,758</b>	<b>-39,355</b>	<b>-65,914</b>
	<b>(-3.5)</b>	<b>(-2.6)</b>	<b>(-4.2)</b>	<b>(-5.4)</b>	<b>(-6.0)</b>	<b>(-4.1)</b>	<b>(-6.4)</b>	<b>(-6.0)</b>	<b>(-9.1)</b>
Exports of services	429,584	495,394	565,054	660,728	718,835	184,295	151,161	145,599	179,804
Imports of services	242,507	264,237	287,900	332,240	357,041	84,847	76,024	77,397	89,043
<b>Invisible trade balance</b>	<b>187,077</b>	<b>231,157</b>	<b>277,154</b>	<b>328,488</b>	<b>361,794</b>	<b>99,448</b>	<b>75,137</b>	<b>68,202</b>	<b>90,761</b>
	<b>(77.1)</b>	<b>(87.5)</b>	<b>(96.3)</b>	<b>(98.9)</b>	<b>(101.3)</b>	<b>(117.2)</b>	<b>(98.8)</b>	<b>(88.1)</b>	<b>(101.9)</b>
Exports of goods and services	2,456,615	2,747,138	3,032,411	3,359,578	3,562,833	904,637	663,477	764,380	837,019
Imports of goods and services	2,342,052	2,575,328	2,864,240	3,184,762	3,381,130	835,827	623,098	735,533	812,172
<b>Visible and invisible trade balance</b>	<b>114,563</b>	<b>171,810</b>	<b>168,171</b>	<b>174,816</b>	<b>181,703</b>	<b>68,810</b>	<b>40,379</b>	<b>28,847</b>	<b>24,847</b>
	<b>&lt;4.9&gt;</b>	<b>&lt;6.7&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;5.5&gt;</b>	<b>&lt;5.4&gt;</b>	<b>&lt;8.2&gt;</b>	<b>&lt;6.5&gt;</b>	<b>&lt;3.9&gt;</b>	<b>&lt;3.1&gt;</b>

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

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

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

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

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>	<u>2009</u>		
	(% change)		(% change)		(\$Mn)		Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All markets</b>	<b>15.9</b>	<b>11.4</b>	<b>9.4</b>	<b>9.2</b>	<b>5.1</b>	<b>2,824,151</b>	<b>-2.1</b>	<b>-21.9</b>	<b>-12.9</b>	<b>-14.3</b>
Mainland of China	19.7	14.0	14.2	13.2	4.7	1,370,445	-2.0	-23.5	-5.3	-8.0
United States	5.4	5.6	2.9	-0.8	-2.4	359,255	-7.5	-20.9	-21.5	-24.2
Japan	14.4	10.3	1.6	-0.7	1.2	120,952	3.7	-13.3	-17.7	-7.6
Germany	11.9	15.6	4.0	7.2	15.8	93,942	9.0	-7.2	-18.9	-22.5
United Kingdom	14.8	5.2	6.3	1.7	0.7	75,388	-6.1	-21.2	-20.2	-25.2
Singapore	22.0	6.8	4.4	3.8	9.6	55,315	-3.5	-32.9	-28.8	-20.3
Taiwan	16.2	2.7	3.3	1.6	3.8	54,943	0.7	-26.2	-5.6	3.0
Republic of Korea	24.0	9.5	7.5	2.0	-6.4	49,564	-22.1	-30.1	-21.1	-9.5
Rest of the world	17.3	13.3	8.5	13.2	11.3	644,348	0.5	-20.9	-20.5	-21.5

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

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>	<u>2009</u>		
	(% change)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All sources</b>	<b>16.9</b>	<b>10.3</b>	<b>11.6</b>	<b>10.3</b>	<b>5.5</b>	<b>3,025,288</b>	<b>-4.2</b>	<b>-22.8</b>	<b>-14.9</b>	<b>-10.4</b>
Mainland of China	16.9	14.3	13.7	11.5	6.1	1,410,735	-0.2	-19.0	-13.0	-11.9
Japan	19.7	0.1	4.5	7.2	3.6	297,552	-7.4	-40.8	-25.3	-16.0
Singapore	22.5	21.8	21.9	18.2	0.1	194,951	-9.3	-27.3	-15.0	-6.7
Taiwan	22.8	9.4	15.9	5.2	-6.4	192,041	-21.8	-31.8	-14.9	-5.6
United States	13.4	6.5	3.6	12.3	8.6	150,738	-6.1	-9.8	-9.4	-11.9
Republic of Korea	15.0	2.6	16.1	-0.2	-1.1	118,084	-24.7	-31.6	-26.8	-13.3
Rest of the world	13.6	8.4	7.6	10.7	11.5	661,187	0.8	-19.4	-13.0	-6.0

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

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>		<u>2008</u>	<u>2009</u>		
	(% change)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>Overall</b>	<b>14.8</b>	<b>7.3</b>	<b>14.3</b>	<b>9.4</b>	<b>5.3</b>	<b>770,430</b>	<b>-12.5</b>	<b>-27.4</b>	<b>-22.7</b>	<b>-1.3</b>
Foodstuffs	8.6	3.1	4.3	12.9	19.7	71,525	18.6	2.9	7.6	9.7
Consumer goods	7.4	5.5	3.1	11.4	9.0	160,041	-7.4	-40.1	-26.9	-2.3
Raw materials and semi-manufactures	17.6	4.2	8.8	17.7	-4.5	263,942	-17.0	-38.2	-30.9	0.7
Fuels	37.5	23.5	22.8	20.1	26.6	106,395	-11.1	-24.3	-36.7	-24.2
Capital goods	13.3	10.8	33.2	-8.3	2.5	168,549	-20.5	-9.0	-11.3	4.2

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



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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>		<u>2008</u>	<u>2009</u>		
	(% change)			(% change)		(\$Mn)	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>18.5</b>	<b>15.3</b>	<b>14.1</b>	<b>16.9</b>	<b>8.8</b>	<b>718,835</b>	<b>-0.2</b>	<b>-13.1</b>	<b>-12.8</b>	<b>-7.1</b>
Transportation	25.5	16.9	10.2	14.6	11.6	222,748	2.2	-18.6	-16.6	-15.0
Travel	26.1	14.2	12.9	18.7	11.0	119,135	4.0	8.2	-4.4	0.6
Trade-related	12.6	10.7	9.9	11.6	9.9	218,752	4.4	-12.5	-11.0	-8.3
Other services	12.8	22.3	28.4	26.7	2.1	158,200	-13.5	-21.0	-15.2	1.1
<b>Imports of services</b>	<b>19.2</b>	<b>9.0</b>	<b>9.0</b>	<b>15.4</b>	<b>7.5</b>	<b>357,041</b>	<b>-4.4</b>	<b>-15.2</b>	<b>-11.2</b>	<b>-6.7</b>
Transportation	29.4	20.3	10.9	20.4	5.9	115,044	-7.3	-21.6	-19.4	-14.8
Travel	15.9	0.1	5.4	7.6	6.5	125,008	-7.7	-11.4	-2.1	-2.9
Trade-related	3.2	12.8	12.6	15.9	8.6	26,399	2.6	-14.3	-12.8	-10.3
Other services	19.7	10.5	11.2	21.2	10.5	90,590	1.1	-13.1	-12.1	-0.2
<b>Net exports of services</b>	<b>17.6</b>	<b>23.6</b>	<b>19.9</b>	<b>18.5</b>	<b>10.1</b>	<b>361,794</b>	<b>3.8</b>	<b>-11.0</b>	<b>-14.5</b>	<b>-7.5</b>

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

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

**Table 11 : Incoming visitors by source**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u> Q4	Q1	<u>2009</u> Q2	Q3
<u>('000)</u>									
<b>All sources</b>	<b>21 810.6</b>	<b>23 359.4</b>	<b>25 251.1</b>	<b>28 169.3</b>	<b>29 506.6</b>	<b>7 737.8</b>	<b>7 403.7</b>	<b>6 293.1</b>	<b>7 463.2</b>
Mainland of China	12 245.9	12 541.4	13 591.3	15 485.8	16 862.0	4 357.9	4 675.8	3 586.1	4 614.8
South and Southeast Asia	2 077.7	2 413.0	2 659.7	2 888.1	2 936.2	890.6	627.7	700.6	651.5
Taiwan	2 074.8	2 130.6	2 177.2	2 238.7	2 240.5	543.2	484.9	457.6	544.1
Europe	1 142.7	1 398.0	1 548.2	1 772.2	1 711.4	473.7	390.1	382.2	369.7
Japan	1 126.3	1 210.8	1 311.1	1 324.3	1 324.8	356.1	316.1	230.5	332.1
United States	1 051.7	1 143.1	1 159.0	1 230.9	1 146.4	297.3	243.1	268.4	257.8
Others	2 091.7	2 522.6	2 804.5	3 229.2	3 285.3	819.0	665.9	667.7	693.3
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>40.4</b>	<b>7.1</b>	<b>8.1</b>	<b>11.6</b>	<b>4.7</b>	<b>-0.9</b>	<b>1.8</b>	<b>-8.9</b>	<b>-1.6</b>
Mainland of China	44.6	2.4	8.4	13.9	8.9	4.4	12.6	-4.1	0.1
South and Southeast Asia	52.8	16.1	10.2	8.6	1.7	-3.5	-1.8	-10.5	4.5
Taiwan	12.0	2.7	2.2	2.8	0.1	-3.8	-9.2	-16.9	-11.2
Europe	46.3	22.3	10.7	14.5	-3.4	-9.8	-17.5	-7.4	5.0
Japan	29.9	7.5	8.3	1.0	*	2.3	-2.9	-25.0	-1.1
United States	53.8	8.7	1.4	6.2	-6.9	-16.6	-18.5	-11.6	4.4
Others	37.1	20.6	11.2	15.1	1.7	-10.4	-21.8	-17.7	-13.7

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

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

**Table 12 : Property market**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	35 322	25 790	26 262	31 052	26 397	26 036	17 321
Commercial property	634	160	208	304	417	371	145
<i>of which :</i>							
Office space	428	96	76	166	299	280	34
Other commercial premises <sup>(b)</sup>	206	64	132	138	118	91	111
Industrial property <sup>(c)</sup>	191	62	45	29	15	1	17
<i>of which :</i>							
Industrial-cum-office premises	40	37	14	0	15	0	4
Conventional flatted factory space	4	19	30	3	0	1	0
Storage premises <sup>(d)</sup>	147	6	0	27	0	0	13
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	26 733	40 944	47 590	20 154	13 705	20 614	24 691
Subsidized sales flats <sup>(e)</sup>	26 532	22 768	25 702	1 072	320	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	1 692.8	1 142.7	1 002.5	790.0	1 038.4	530.0	550.7
Commercial property	287.5	337.5	265.0	365.3	200.0	161.3	481.9
Industrial property <sup>(f)</sup>	84.9	129.2	45.7	107.1	0.8	16.4	35.1
Other properties	125.8	240.2	75.0	109.3	444.2	407.1	408.0
Total	2 190.9	1 849.5	1 388.1	1 371.8	1 683.3	1 114.8	1 475.8
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	77 087	65 340	69 667	72 974	71 576	100 630	103 362
Primary market	18 325	13 911	18 366	23 088	26 498	25 694	15 994
Secondary market	58 762	51 429	51 301	49 886	45 078	74 936	87 368
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 378	1 724	1 774	1 639	1 817	3 213	3 431
Other commercial premises	2 101	2 411	2 989	3 167	4 142	7 833	7 143
Flatted factory space	2 726	3 393	3 493	3 756	3 813	5 889	6 560

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

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

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

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

**Table 12 : Property market (Cont'd)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>		
				Q4	Q1	Q2	Q3
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	16 579	10 471	8 776	5 736	1 645	1 499	2 376
Commercial property	291	368	390	20	108	3	92
<i>of which :</i>							
Office space	108	320	341	0	68	1	55
Other commercial premises <sup>(b)</sup>	183	48	49	20	40	2	37
Industrial property <sup>(c)</sup>	27	16	78	31	0	3	0
<i>of which :</i>							
Industrial-cum-office premises	0	0	4	0	0	0	0
Conventional flatted factory space	0	16	70	31	0	3	0
Storage premises <sup>(d)</sup>	27	0	4	0	0	0	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	4 430	4 795	22 759	3 167	10 017	4 270	1 576
Subsidized sales flats <sup>(e)</sup>	0	2 010	2 200	640	0	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property	706.7	956.1	530.0	44.0	127.9	92.7	141.9
Commercial property	468.4	327.5	147.7	0.3	41.7	76.6	17.1
Industrial property <sup>(f)</sup>	23.9	103.5	106.6	3.0	6.1	29.2	43.7
Other properties	199.2	207.7	212.8	69.1	63.9	20.7	102.4
Total	1 398.2	1 594.8	997.1	116.4	239.7	219.2	305.1
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	82 472	123 575	95 931	12 689	16 464	35 449	35 558
Primary market	13 986	20 123	11 046	1 429	1 602	6 829	5 140
Secondary market	68 486	103 452	84 885	11 260	14 862	28 620	30 418
Selected types of non-residential properties <sup>(h)</sup>							
Office space	2 874	4 129	2 845	276	304	610	823
Other commercial premises	4 402	5 490	4 149	495	578	1 337	1 800
Flatted factory space	7 409	9 072	5 741	613	611	1 251	1 909

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

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

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

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

**Table 13 : Property prices and rentals**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	100.0	89.6	78.7	69.9	61.6	78.0	92.0
Office space <sup>(b)</sup>	100.0	89.9	78.7	68.4	62.5	99.3	133.0
Shopping space	100.0	93.6	86.8	85.0	85.5	119.3	149.3
Flatted factory space	100.0	91.2	82.0	74.8	71.7	88.6	125.0
Property rental indices <sup>(c)</sup> :							
Residential flats	100.0	98.1	95.4	83.4	73.6	77.7	86.5
Office space <sup>(b)</sup>	100.0	98.5	101.0	85.4	74.6	78.1	96.4
Shopping space	100.0	101.3	99.4	92.9	86.4	92.8	100.5
Flatted factory space	100.0	95.4	90.3	82.7	74.9	77.3	82.6
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-14.6	-10.4	-12.2	-11.2	-11.9	26.6	17.9
Office space <sup>(b)</sup>	-25.7	-10.1	-12.5	-13.1	-8.6	58.9	33.9
Shopping space	-22.1	-6.4	-7.3	-2.1	0.6	39.5	25.1
Flatted factory space	-24.1	-8.8	-10.1	-8.8	-4.1	23.6	41.1
Property rental indices <sup>(c)</sup> :							
Residential flats	-11.2	-1.9	-2.8	-12.6	-11.8	5.6	11.3
Office space <sup>(b)</sup>	-26.4	-1.5	2.5	-15.4	-12.6	4.7	23.4
Shopping space	-10.1	1.3	-1.9	-6.5	-7.0	7.4	8.3
Flatted factory space	-15.3	-4.6	-5.3	-8.4	-9.4	3.2	6.9

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 recompiled 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>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u> Q4	Q1	<u>2009</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	92.7	103.5	120.5	108.0	108.0	117.1	126.5
Office space <sup>(b)</sup>	139.3	165.5	199.0	175.0	154.6	169.1	190.3
Shopping space	153.5	172.5	192.2	173.7	164.4	180.3	205.0
Flatted factory space	158.5	199.5	235.9	217.9	196.3	204.6	222.4
Property rental indices <sup>(c)</sup> :							
Residential flats	91.6	101.8	115.7	106.6	94.3	96.1	102.9
Office space <sup>(b)</sup>	117.4	131.9	155.5	157.7	141.6	132.2	132.6
Shopping space	104.3	111.8	116.2	114.1	108.2	108.2	112.5
Flatted factory space	91.0	100.5	109.3	105.7	98.7	97.8	99.3
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	0.8	11.7	16.4	-4.6	-13.6	-7.0	2.7
Office space <sup>(b)</sup>	4.7	18.8	20.2	-7.7	-25.1	-19.6	-6.9
Shopping space	2.8	12.4	11.4	-6.6	-16.6	-11.7	5.7
Flatted factory space	26.8	25.9	18.2	-0.9	-17.0	-16.3	-9.1
Property rental indices <sup>(c)</sup> :							
Residential flats	5.9	11.1	13.7	-1.4	-18.3	-20.0	-14.6
Office space <sup>(b)</sup>	21.8	12.4	17.9	13.7	-3.1	-15.7	-17.8
Shopping space	3.8	7.2	3.9	-1.6	-7.4	-7.7	-3.8
Flatted factory space	10.2	10.4	8.8	1.4	-9.2	-12.6	-10.4

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	205,339	203,966	229,841	259,411	354,752	412,629	348,248
M2 <sup>(a)</sup>	1,923,481	1,987,963	1,998,774	1,984,049	2,107,269	2,208,591	2,329,669
M3 <sup>(a)</sup>	1,935,471	2,002,358	2,016,635	2,004,225	2,122,861	2,219,557	2,345,838
Total money supply (\$Mn)							
M1	225,156	243,847	258,056	295,650	413,423	484,494	434,684
M2	3,386,196	3,649,492	3,550,060	3,518,326	3,813,442	4,166,706	4,379,057
M3	3,434,467	3,692,753	3,594,130	3,561,852	3,858,044	4,189,544	4,407,188
Deposit (\$Mn)							
HK\$	1,773,169	1,851,177	1,854,651	1,824,911	1,930,790	2,017,911	2,131,579
Foreign currency	1,477,448	1,676,670	1,551,852	1,492,631	1,636,227	1,848,145	1,936,322
Total	3,250,617	3,527,847	3,406,502	3,317,542	3,567,018	3,866,056	4,067,901
Loans and advances (\$Mn)							
HK\$	1,607,126	1,652,191	1,647,684	1,615,667	1,573,079	1,666,740	1,797,350
Foreign currency	1,205,784	809,259	537,301	460,659	462,000	488,964	514,637
Total	2,812,910	2,461,450	2,184,986	2,076,325	2,035,079	2,155,704	2,311,987
Nominal Effective Exchange Rate Indices							
(Jan 2000 = 100) <sup>(b)(c)</sup>							
Trade-weighted	100.9	101.7	104.7	104.0	100.7	98.3	97.4
Import-weighted	101.4	101.5	105.1	104.7	101.6	99.2	98.1
Export-weighted	100.4	101.9	104.3	103.3	99.8	97.3	96.7
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	15.2	-0.7	12.7	12.9	36.8	16.3	-15.6
M2 <sup>(a)</sup>	5.2	3.4	0.5	-0.7	6.2	4.8	5.5
M3 <sup>(a)</sup>	5.1	3.5	0.7	-0.6	5.9	4.6	5.7
Total money supply :							
M1	13.9	8.3	5.8	14.6	39.8	17.2	-10.3
M2	8.8	7.8	-2.7	-0.9	8.4	9.3	5.1
M3	8.4	7.5	-2.7	-0.9	8.3	8.6	5.2
Deposit							
HK\$	4.3	4.4	0.2	-1.6	5.8	4.5	5.6
Foreign currency	13.6	13.5	-7.4	-3.8	9.6	13.0	4.8
Total	8.4	8.5	-3.4	-2.6	7.5	8.4	5.2
Loans and advances							
HK\$	-5.2	2.8	-0.3	-1.9	-2.6	6.0	7.8
Foreign currency	-25.1	-32.9	-33.6	-14.3	0.3	5.8	5.3
Total	-14.9	-12.5	-11.2	-5.0	-2.0	5.9	7.2
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	-2.4	0.8	2.9	-0.7	-3.2	-2.4	-0.9
Import-weighted	-3.9	0.1	3.5	-0.4	-3.0	-2.4	-1.1
Export-weighted	-0.9	1.5	2.4	-1.0	-3.4	-2.5	-0.6

Definition of Terms :

The Hong Kong Dollar Money Supply is the Hong Kong dollar component of the respective monetary aggregate. Starting from April 1997, money supply definition has been revised to include short-term Exchange Fund placements of less than one month in the monetary aggregates.

Total Money Supply:

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

**Table 14 : Monetary aggregates (Cont'd)**

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u> Q4	Q1	<u>2009</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	387,909	454,342	491,115	491,115	528,633	581,965	694,006
M2 <sup>(a)</sup>	2,777,679	3,281,017	3,239,857	3,239,857	3,282,859	3,482,447	3,599,822
M3 <sup>(a)</sup>	2,795,545	3,300,500	3,261,306	3,261,306	3,302,413	3,500,873	3,616,333
Total money supply (\$Mn)							
M1	491,648	616,709	645,833	645,833	690,327	759,881	907,991
M2	5,054,332	6,106,348	6,269,578	6,269,578	6,236,463	6,485,032	6,638,070
M3	5,089,741	6,139,758	6,302,270	6,302,270	6,268,122	6,514,058	6,665,290
Deposit (\$Mn)							
HK\$	2,568,283	3,075,042	3,033,980	3,033,980	3,077,660	3,281,975	3,392,085
Foreign currency	2,188,993	2,793,856	3,025,524	3,025,524	2,944,232	2,991,979	3,032,220
Total	4,757,275	5,868,898	6,059,504	6,059,504	6,021,892	6,273,955	6,424,305
Loans and advances (\$Mn)							
HK\$	1,917,437	2,184,705	2,354,755	2,354,755	2,322,923	2,365,902	2,380,770
Foreign currency	550,392	776,971	930,883	930,883	843,430	837,339	896,780
Total	2,467,828	2,961,676	3,285,638	3,285,638	3,166,353	3,203,240	3,277,550
Nominal Effective Exchange Rate Indices (Jan 2000 =100) <sup>(b)(c)</sup>							
Trade-weighted	96.1	91.9	87.1	89.7	90.3	88.9	87.6
Import-weighted	96.8	92.5	87.1	89.4	89.9	88.6	87.3
Export-weighted	95.5	91.3	87.2	90.0	90.6	89.2	87.9
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	11.4	17.1	8.1	8.1	15.5	28.5	55.0
M2 <sup>(a)</sup>	19.2	18.1	-1.3	-1.3	3.3	13.5	14.4
M3 <sup>(a)</sup>	19.2	18.1	-1.2	-1.2	3.3	13.3	14.1
Total money supply :							
M1	13.1	25.4	4.7	4.7	11.2	24.3	51.9
M2	15.4	20.8	2.7	2.7	4.2	9.8	9.7
M3	15.5	20.6	2.6	2.6	4.2	9.6	9.4
Deposit							
HK\$	20.5	19.7	-1.3	-1.3	3.5	14.2	15.2
Foreign currency	13.0	27.6	8.3	8.3	5.6	5.6	4.5
Total	16.9	23.4	3.2	3.2	4.5	10.0	9.9
Loans and advances							
HK\$	6.7	13.9	7.8	7.8	2.0	0.5	-0.7
Foreign currency	6.9	41.2	19.8	19.8	-5.6	-15.8	-12.9
Total	6.7	20.0	10.9	10.9	-0.1	-4.3	-4.3
Nominal Effective Exchange Rate Indices <sup>(b)(c)</sup>							
Trade-weighted	-1.3	-4.4	-5.2	-0.2	3.6	3.7	1.4
Import-weighted	-1.3	-4.4	-5.8	-1.1	3.0	3.4	1.2
Export-weighted	-1.2	-4.4	-4.5	0.7	4.0	4.1	1.6

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

(b) Period average.

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



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

(%)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>		<u>2009</u>	
				Q3	Q4	Q1	Q2 <sup>+</sup>
<b>Service Industry</b>							
Import and export trade	10.3	8.1	7.4	9.6	-5.8	-24.2	-17.4
Wholesale	7.9	10.4	6.3	10.0	-6.9	-25.7	-16.2
Retail	7.2	12.8	10.6	10.5	0.9	-3.9	-5.1
Transportation	10.0	10.5	4.4	6.1	-10.3	-23.0	-25.9
<i>within which :</i>							
Land transport	4.3	3.7	2.2	1.2	-2.2	-3.9	-6.0
Water transport	16.4	16.8	6.1	4.5	-10.3	-26.1	-26.4
Air transport	6.8	7.3	3.5	8.8	-12.3	-25.5	-30.8
Warehousing and storage	10.2	15.9	6.6	7.1	5.7	-6.8	-0.2
Courier	6.9	5.5	2.1	7.1	-10.8	-20.0	-17.1
Accommodation	13.8	15.2	3.8	5.9	-6.5	-18.1	-27.8
Food services	9.6	13.4	13.1	13.2	8.2	1.4	-0.7
Information and communications	6.1	8.4	6.0	4.7	1.9	-5.1	-2.0
<i>within which :</i>							
Telecommunications	-0.7	11.0	9.8	9.5	3.6	7.3	1.2
Film entertainment	1.7	6.1	-0.7	1.2	-10.7	-16.7	-19.7
Banking	19.5	38.3	-16.9	-13.1	-45.5	-15.8	-0.3
Financing (except banking)	47.9	68.8	-19.4	-27.2	-57.6	-46.7	-19.2
<i>within which :</i>							
Financial markets and asset management	49.3	71.7	-20.0	-29.2	-60.9	-51.5	-19.6
<i>within which : Asset management</i>	51.8	56.8	-5.2	-15.2	-45.9	-46.7	-30.5
Insurance	21.3	28.8	*	-0.4	-22.4	-10.1	-8.1
Real estate	-0.3	39.5	-3.7	-1.8	-26.9	-13.0	7.5
Professional, scientific and technical services	13.2	12.3	6.8	5.3	1.1	-7.4	-3.4
Administrative and support services	20.9	11.5	9.4	13.5	2.8	-16.4	-15.5
<b>Service Domain</b>							
Tourism, convention and exhibition services	14.1	18.9	10.1	12.8	1.7	-1.6 <sup>+</sup>	-11.6
Computer and information technology services	9.8	6.8	5.3	2.4	-12.2	-26.7	-12.9

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

(+) Provisional figures.

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

**Table 16 : Labour force characteristics**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u> Q4	<u>2009</u> Q1	<u>2009</u> Q2	<u>2009</u> Q3 <sup>+</sup>
<u>(%)</u>									
Labour force participation rate	61.3	60.9	61.2	61.2	60.9	60.9	61.3	61.3	61.0
Seasonally adjusted unemployment rate	6.8	5.6	4.8	4.0	3.6	4.1	5.2	5.4	5.3
Underemployment rate	3.3	2.7	2.4	2.2	1.9	1.9	2.1	2.3	2.4
<u>('000)</u>									
Population of working age	5 733.6	5 800.7	5 832.2	5 928.4	5 993.9	6 017.0	6 026.7	6 050.1	6 069.9
Labour force	3 512.8	3 534.2	3 571.8	3 629.6	3 648.9	3 661.9	3 694.9	3 709.2	3 704.7
Persons employed	3 273.5	3 336.6	3 400.8	3 483.8	3 518.8	3 520.7	3 507.6	3 506.2	3 495.5
Persons unemployed	239.2	197.6	171.1	145.7	130.1	141.2	187.2	203.0	209.1
Persons underemployed	114.3	96.3	86.3	79.2	69.0	69.0	79.2	84.9	89.9
<u>(% change over a year earlier)</u>									
Population of working age	1.6	1.2	0.5	1.6	1.1	1.0	0.9	1.0	1.1
Labour force	1.4	0.6	1.1	1.6	0.5	0.6	1.6	2.0	1.3
Persons employed	2.6	1.9	1.9	2.4	1.0	*	-0.3	-0.3	-0.8
Persons unemployed	-13.1	-17.4	-13.4	-14.8	-10.7	19.5	58.4	67.7	56.5
Persons underemployed	-6.3	-15.7	-10.4	-8.2	-12.9	-7.6	13.4	24.9	35.6

Notes : (+) Provisional figures.

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

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

Selected major industries	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>			<u>2009</u>	
	(% change)				Sep	Dec	Mar	Jun	No.
					(% change over a year earlier)				
Manufacturing	-2.6	-3.2	-2.9	-3.5	-3.7	-3.8	-7.0	-6.2	124 682
Construction sites (manual workers only)	-10.6	-10.8	-5.1	-1.5	-2.1	-1.3	2.8	-1.2	48 942
Import and export trade	2.5	1.0	0.8	-0.3	-0.3	-1.5	-4.7	-5.7	491 002
Wholesale	2.0	-4.2	-0.3	-2.7	-2.0	-3.6	-3.1	-2.1	63 153
Retail	2.0	3.1	2.1	2.8	3.6	1.5	-0.6	-1.5	232 556
Food and beverage services	2.4	5.0	3.3	1.8	2.2	-0.3	-0.4	-1.4	207 278
Accommodation services	8.5	8.0	5.4	3.1	4.8	2.5	2.7	-0.5	31 548
Transportation, storage, postal and courier services	3.2	1.6	2.5	3.5	3.8	1.8	1.6	-0.1	156 867
Information and communications	-0.7	1.4	2.2	3.6	5.2	1.7	-0.9	-3.3	86 872
Financing and insurance	4.9	4.6	7.3	5.6	5.6	0.9	-0.6	-1.6	182 270
Real estate	6.6	5.3	4.4	2.7	3.2	-0.1	-1.2	-0.9	105 154
Professional and business services (excluding cleaning and similar services)	3.3	4.9	4.8	3.4	3.3	1.8	0.6	0.5	230 726
Cleaning and similar services	3.4	2.5	0.6	-1.7	0.3	1.0	0.1	2.7	59 334
Education	1.8	5.0	3.3	4.8	5.7	5.7	4.6	4.5	157 578
Human health services	1.7	3.7	5.5	5.1	5.1	5.5	3.0	4.9	90 060
Residential care and social work services	-0.4	1.5	1.4	1.3	2.2	0.3	0.6	0.5	55 454
Arts, entertainment, recreation and other services	18.1	3.3	1.5	1.9	3.5	1.5	0.6	1.2	108 514
Civil Service <sup>(a)</sup>	-2.7	-1.3	-0.4	0.1	0.4	0.3	1.1	1.1	155 378
Others <sup>(b)</sup>	-6.9	-0.3	0.9	7.0	9.1	4.3	-2.8	1.4	10 617

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

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

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

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u> Sep	Dec	<u>2009</u> Mar	Jun
<u>(number)</u>									
Building sites									
Private sector	33 619	31 556	30 993	29 240	28 899	28 305	28 179	29 666	28 360
Public sector <sup>(a)</sup>	13 325	10 135	7 643	7 767	8 136	7 714	9 235	11 106	9 295
Sub-total	46 944	41 690	38 636	37 007	37 034	36 019	37 414	40 772	37 655
Civil engineering sites									
Private sector	2 564	2 198	1 569	1 674	1 686	1 393	1 715	1 453	1 610
Public sector <sup>(a)</sup>	16 772	15 378	12 661	11 504	10 703	10 732	10 319	9 719	9 677
Sub-total	19 336	17 576	14 230	13 178	12 388	12 125	12 034	11 172	11 287
<b>Total</b>	<b>66 280</b>	<b>59 266</b>	<b>52 865</b>	<b>50 185</b>	<b>49 422</b>	<b>48 144</b>	<b>49 448</b>	<b>51 944</b>	<b>48 942</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.8	-6.1	-1.8	-5.7	-1.2	-2.5	-5.2	-0.8	-2.9
Public sector <sup>(a)</sup>	-17.7	-23.9	-24.6	1.6	4.7	8.4	15.6	30.8	30.9
Sub-total	-6.3	-11.2	-7.3	-4.2	0.1	-0.3	-0.8	6.1	3.7
Civil engineering sites									
Private sector	-6.9	-14.3	-28.6	6.7	0.7	-0.1	-7.8	-12.3	-18.6
Public sector <sup>(a)</sup>	-4.0	-8.3	-17.7	-9.1	-7.0	-7.8	-2.0	-7.2	-14.2
Sub-total	-4.4	-9.1	-19.0	-7.4	-6.0	-7.0	-2.9	-7.9	-14.9
<b>Total</b>	<b>-5.7</b>	<b>-10.6</b>	<b>-10.8</b>	<b>-5.1</b>	<b>-1.5</b>	<b>-2.1</b>	<b>-1.3</b>	<b>2.8</b>	<b>-1.2</b>

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

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

(%)

Selected industry section	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>		<u>2009</u>	
					Q3	Q4	Q1	Q2
<b>(in nominal terms)</b>								
Manufacturing	0.9	1.7	2.5	0.9	4.8	-2.4	-8.2	-3.5
Sewerage, waste management and remediation activities	28.0	10.4	17.0	-8.6	4.6	-7.6	1.6	12.7
Import/export and wholesale trade	6.9	3.9	1.8	6.3	7.4	2.6	-5.7	0.5
Retail trade	9.0	2.1	2.6	8.1	15.6	8.4	0.4	-0.6
Transportation, storage, postal and courier services	5.2	3.0	3.9	-0.6	1.7	-3.3	0.6	-6.6
Accommodation and food service activities	2.0	2.6	3.9	2.6	5.2	1.6	-2.3	-0.6
Information and communications	*	0.6	-2.9	6.6	7.2	8.7	-3.2	2.3
Financial and insurance activities	5.5	10.0	9.8	9.0	12.4	0.2	-9.8	-0.2
Real estate activities	5.7	-2.5	-0.4	8.0	3.6	0.6	-14.2	-0.3
Professional and business services	2.5	3.3	4.8	3.5	6.3	-4.9	-1.7	-2.9
Social and personal services	-3.2	1.0	1.5	3.1	4.2	1.4	6.8	2.2
<b>All industries surveyed</b>	<b>3.5</b>	<b>2.4</b>	<b>4.0</b>	<b>2.6</b>	<b>5.2</b>	<b>-2.1</b>	<b>-0.2</b>	<b>-0.7</b>
<b>(in real terms)</b>								
Manufacturing	*	-0.3	0.5	-3.3	0.1	-4.6	-9.7	-3.5
Sewerage, waste management and remediation activities	26.8	8.2	14.8	-12.3	*	-9.8	*	12.7
Import/export and wholesale trade	5.9	1.8	-0.2	1.9	2.6	0.2	-7.3	0.5
Retail trade	8.0	0.1	0.6	3.6	10.4	5.9	-1.3	-0.6
Transportation, storage, postal and courier services	4.2	0.9	1.9	-4.7	-2.9	-5.5	-1.1	-6.6
Accommodation and food service activities	1.0	0.6	1.8	-1.7	0.5	-0.7	-4.0	-0.6
Information and communications	-0.9	-1.4	-4.7	2.2	2.4	6.2	-4.8	2.3
Financial and insurance activities	4.5	7.9	7.7	4.6	7.3	-2.1	-11.3	-0.2
Real estate activities	4.8	-4.4	-2.3	3.5	-1.0	-1.7	-15.7	-0.3
Professional and business services	1.6	1.3	2.8	-0.7	1.6	-7.1	-3.3	-2.9
Social and personal services	-4.1	-1.0	-0.5	-1.2	-0.5	-0.9	5.0	2.2
<b>All industries surveyed</b>	<b>2.6</b>	<b>0.4</b>	<b>1.9</b>	<b>-1.7</b>	<b>0.5</b>	<b>-4.3</b>	<b>-1.9</b>	<b>-0.7</b>

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

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

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

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

	(%)							
Selected industry section	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>		
					Sep	Dec	Mar	Jun
<b>(in nominal terms)</b>								
Manufacturing	1.6	0.2	4.3	2.6	3.3	1.4	2.2	-2.1
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	1.6	1.1	2.3	3.6	5.0	0.3	-1.1	-2.2
Import/export and wholesale trades	2.7	1.0	2.8	3.1	4.0	-0.3	-1.6	N.A.
Retail trade	0.8	0.8	-1.7	4.9	12.1	6.2	7.0	N.A.
Transportation	1.2	0.1	1.5	1.8	3.1	-1.0	-0.9	0.4
Accommodation and food service activities	*	1.0	1.4	3.1	4.1	1.9	-2.1	-3.5
Financial and insurance activities <sup>(b)</sup>	0.1	2.1	2.4	2.8	6.1	-0.1	0.1	-1.5
Real estate leasing and maintenance management	0.5	2.3	1.4	2.7	4.2	1.0	-0.9	-0.9
Professional and business services	-1.9	2.4	4.8	4.9	5.1	3.5	1.0	-0.1
Personal services	2.4	3.4	8.5	0.5	1.4	-1.2	1.9	-0.9
<b>All industries surveyed</b>	<b>1.1</b>	<b>1.7</b>	<b>2.6</b>	<b>3.4</b>	<b>4.6</b>	<b>0.9</b>	<b>-0.9</b>	<b>-1.9</b>
<b>(in real terms)</b>								
Manufacturing	0.4	-1.5	2.4	-0.1	3.6	0.2	1.6	-0.5
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	0.4	-0.6	0.4	0.9	5.3	-1.0	-1.6	-0.6
Import/export and wholesale trades	1.5	-0.7	0.9	0.4	4.4	-1.6	-2.1	N.A.
Retail trade	-0.5	-0.9	-3.5	2.2	12.5	4.9	6.5	N.A.
Transportation	*	-1.7	-0.4	-0.8	3.4	-2.2	-1.4	2.1
Accommodation and food service activities	-1.3	-0.8	-0.4	0.4	4.4	0.6	-2.6	-2.0
Financial and insurance activities <sup>(b)</sup>	-1.1	0.3	0.6	0.2	6.4	-1.3	-0.4	0.1
Real estate leasing and maintenance management	-0.8	0.6	-0.5	0.1	4.5	-0.3	-1.4	0.7
Professional and business services	-3.0	0.7	2.9	2.2	5.4	2.2	0.5	1.5
Personal services	1.2	1.6	6.5	-2.1	1.7	-2.4	1.4	0.7
<b>All industries surveyed</b>	<b>-0.2</b>	<b>*</b>	<b>0.7</b>	<b>0.7</b>	<b>4.9</b>	<b>-0.4</b>	<b>-1.4</b>	<b>-0.3</b>

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

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

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

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

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

N.A. Not available.

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

(%)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
GDP deflator	-4.5	-3.6	-1.9	-3.5	-6.2	-3.5	-0.1	-0.3
Domestic demand deflator	-3.1	-2.6	-2.3	-4.9	-4.2	0.1	1.2	1.9
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-4.0	-3.8	-1.6	-3.0	-2.6	-0.4	1.0	2.0
CPI(A)	-3.3	-3.0	-1.7	-3.2	-2.1	*	1.1	1.7
CPI(B)	-4.7	-3.9	-1.6	-3.1	-2.7	-0.5	1.0	2.1
CPI(C)	-3.7	-4.5	-1.5	-2.8	-2.9	-0.9	0.8	2.2
Unit Value Indices :								
Domestic exports	-2.4	-1.0	-4.7	-3.3	0.2	1.5	2.2	-2.1
Re-exports	-2.8	-0.1	-2.0	-2.7	-1.5	1.1	1.2	1.1
Total exports of goods	-2.7	-0.2	-2.3	-2.7	-1.4	1.2	1.3	1.0
Imports of goods	-2.0	0.8	-3.1	-3.9	-0.4	2.9	2.7	2.1
Terms of Trade Index	-0.7	-1.0	0.9	1.2	-1.0	-1.7	-1.4	-1.1
Producer Price Index for all manufacturing industries <sup>(b)</sup>	-1.6	0.2	-1.6	-2.7	-0.3	2.2	0.8	2.2
Tender Price Indices :								
Public sector building projects	-4.4	-13.1	-8.5	-11.7	-0.3	-1.5	1.4	5.0
Public housing projects	-3.3	-11.9	-15.1	-9.6	-10.0	3.5	7.7	11.2

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

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

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

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

(--) Not applicable.

N.A. Not yet available.

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

	(%)							
	<u>2007</u>	<u>2008</u>	<u>2008</u>	<u>2009</u>			<u>Average annual rate of change:</u>	
			Q4	Q1	Q2	Q3	10 years 1998 to 2008	5 years 2003 to 2008
GDP deflator	2.9 #	1.4 #	-0.2 #	0.4 #	1.1 #	0.4 #	-2.0 #	0.1 #
Domestic demand deflator	2.1 #	3.0 #	-0.4 #	-0.8 #	-0.4 #	0.5 #	-0.9 #	1.7 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	2.0	4.3	2.3	1.7	-0.1	-0.9	-0.6	1.8
CPI(A)	1.3	3.6	0.6	1.0	-0.8	-1.3	-0.6	1.5
CPI(B)	2.2	4.6	2.9	1.9	0.1	-0.8	-0.7	1.9
CPI(C)	2.7	4.7	3.6	2.2	0.5	-0.7	-0.6	1.9
Unit Value Indices :								
Domestic exports	0.8	5.1	6.2	2.5	*	-2.2	-0.4	1.5
Re-exports	2.4	3.8	4.0	2.5	0.8	0.3	0.1	1.9
Total exports of goods	2.3	3.8	4.1	2.5	0.8	0.2	*	1.9
Imports of goods	2.3	4.4	3.6	1.0	-0.8	-1.5	0.5	2.9
Terms of Trade Index	0.1	-0.5	0.5	1.6	1.6	1.7	-0.5	-0.9
Producer Price Index <sup>(b)</sup> for all manufacturing industries	3.0	5.6	3.9	-1.4	-3.0	N.A.	--	--
Tender Price Indices :								
Public sector building projects	20.1	41.9	26.5	-3.9	-24.7	N.A.	1.8	12.3
Public housing projects	19.7	30.8	18.0	-0.7	-11.3	-10.0	1.3	14.2



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

(%)

	Weight	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
<b>All items</b>	<b>100.0</b>	<b>-4.0</b>	<b>-3.8</b>	<b>-1.6</b>	<b>-3.0</b>	<b>-2.6</b>	<b>-0.4</b>	<b>1.0</b>
Food	26.94	-1.8	-2.2	-0.8	-2.1	-1.5	1.0	1.8
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>	<i>-1.5</i>	<i>-1.5</i>	<i>0.2</i>	<i>0.9</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>	<i>-3.1</i>	<i>-1.7</i>	<i>2.5</i>	<i>3.2</i>
Housing <sup>(a)</sup>	29.17	-5.1	-8.2	-3.1	-5.7	-4.8	-5.2	0.1
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>	<i>-6.5</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-0.1</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>	<i>-2.7</i>	<i>9.1</i>	<i>2.5</i>	<i>0.2</i>
Electricity, gas and water	3.59	-0.4	3.6	-1.9	-7.0	1.4	11.4	4.1
Alcoholic drinks and tobacco	0.87	1.2	-0.9	3.3	2.4	0.1	*	0.4
Clothing and footwear	3.91	-20.6	-10.1	-4.6	0.7	-2.7	6.4	2.0
Durable goods	5.50	-6.3	-4.6	-7.1	-6.3	-6.4	-2.2	-3.2
Miscellaneous goods	4.78	-0.7	0.9	1.3	1.7	2.3	3.6	1.5
Transport	9.09	0.5	1.0	0.4	-0.6	-0.4	0.4	1.4
Miscellaneous services	16.15	-1.3	-0.2	0.5	-2.3	-3.2	-0.2	1.0

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  $\pm 0.05\%$ .

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

(%)										
	Weight	2006	2007	2008	2008	2009			Average annual rate of change:	
						Q4	Q1	Q2	Q3	10 years 1998 to 2008
<b>All items</b>	<b>100.0</b>	<b>2.0</b>	<b>2.0</b>	<b>4.3</b>	<b>2.3</b>	<b>1.7</b>	<b>-0.1</b>	<b>-0.9</b>	<b>-0.6</b>	<b>1.8</b>
Food	26.94	1.7	4.3	10.1	8.8	4.6	1.5	-0.5	1.0	3.7
<i>Meals bought away from</i>	<i>(16.86)</i>	<i>1.3</i>	<i>2.5</i>	<i>5.9</i>	<i>5.6</i>	<i>3.4</i>	<i>1.7</i>	<i>0.7</i>	<i>0.5</i>	<i>2.2</i>
<i>Food, excluding meals bought</i> <i>away from home</i>	<i>(10.08)</i>	<i>2.5</i>	<i>7.1</i>	<i>16.8</i>	<i>13.8</i>	<i>6.5</i>	<i>1.2</i>	<i>-2.3</i>	<i>1.7</i>	<i>6.3</i>
Housing <sup>(a)</sup>	29.17	4.7	2.0	4.1	2.7	6.6	4.5	1.7	-2.2	1.1
<i>Private housing rent</i>	<i>(23.93)</i>	<i>5.6</i>	<i>4.0</i>	<i>6.8</i>	<i>6.4</i>	<i>7.7</i>	<i>5.1</i>	<i>2.0</i>	<i>-2.3</i>	<i>1.8</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>0.1</i>	<i>-17.7</i>	<i>-27.2</i>	<i>-39.5</i>	<i>-0.2</i>	<i>0.6</i>	<i>-7.0</i>	<i>-4.7</i>	<i>-9.2</i>
Electricity, gas and water	3.59	2.1	-0.7	-6.5	-34.9	-42.7	-42.7	-26.1	0.5	1.9
Alcoholic drinks and tobacco	0.87	-3.7	-1.2	0.1	-0.6	7.6	22.6	22.9	0.1	-0.9
Clothing and footwear	3.91	1.0	4.1	0.8	-0.5	1.8	2.5	2.6	-2.6	2.8
Durable goods	5.50	-6.4	-4.7	-2.0	-1.1	-2.9	-3.3	-3.1	-4.9	-3.7
Miscellaneous goods	4.78	1.7	2.5	5.0	4.7	3.2	2.3	1.7	2.0	2.9
Transport	9.09	0.7	-0.1	2.5	2.1	0.7	-0.7	-2.4	0.6	1.0
Miscellaneous services	16.15	1.9	1.7	0.8	-0.3	-1.7	-3.0	-2.8	-0.2	1.0

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

(%)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Private consumption expenditure	-5.0	-3.3	-1.1	-3.6	-2.5	-0.3	1.8
Government consumption expenditure	-0.2	-1.8	1.1	-0.5	-2.6	-2.9	-1.4
Gross domestic fixed capital formation	0.5	-1.0	-6.6	-9.9	-9.4	2.6	1.0
Total exports of goods	-3.4	-0.3	-2.6	-2.9	-1.8	0.9	0.6
Imports of goods	-2.4	0.7	-3.5	-4.2	-0.9	2.9	1.9
Exports of services	-3.2	0.5	-4.3	-2.4	-3.1	0.5	3.3
Imports of services	-1.3	1.7	-1.1	0.3	2.7	4.1	1.0
<b>Gross Domestic Product</b>	<b>-4.5</b>	<b>-3.6</b>	<b>-1.9</b>	<b>-3.5</b>	<b>-6.2</b>	<b>-3.5</b>	<b>-0.1</b>
Total final demand	-3.3	-1.1	-2.7	-3.6	-2.8	0.6	1.2
Domestic demand	-3.1	-2.6	-2.3	-4.9	-4.2	0.1	1.2

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>2006</u>	<u>2007<sup>#</sup></u>	<u>2008<sup>#</sup></u>	<u>2008</u>	<u>2009</u>			Average annual <u>rate of change:</u>	
				Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 1998 to 2008 <sup>#</sup>	5 years 2003 to 2008 <sup>#</sup>
Private consumption expenditure	1.3	3.7	2.8	-1.4	-1.0	-1.8	-2.0	-0.7	1.8
Government consumption expenditure	1.0	2.9	5.2	5.0	4.2	0.7	-0.2	*	0.9
Gross domestic fixed capital formation	4.2	-2.5	1.8	0.3	-2.3	4.7	8.5	-2.0	1.4
Total exports of goods	0.3	2.2	3.4	3.3	1.8	-0.3	-1.0	-0.4	1.5
Imports of goods	2.1	1.7	4.1	3.1	-0.1	-2.2	-2.1	0.2	2.5
Exports of services	3.6	2.5	3.0	-0.6	-7.3	-8.0	-6.3	*	2.6
Imports of services	0.8	2.9	4.1	-1.1	-6.1	-5.9	-3.0	1.5	2.6
<b>Gross Domestic Product</b>	<b>-0.3</b>	<b>2.9</b>	<b>1.4</b>	<b>-0.2</b>	<b>0.4</b>	<b>1.1</b>	<b>0.4</b>	<b>-2.0</b>	<b>0.1</b>
Total final demand	1.2	2.2	3.2	1.7	-0.5	-1.4	-1.4	-0.5	1.7
Domestic demand	1.9	2.1	3.0	-0.4	-0.8	-0.4	0.5	-0.9	1.7

