

## Press Release

(embargoed until 4:30 p.m. on 16 November 2012)

### **Economic Situation in the Third Quarter of 2012 and Latest GDP and Price Forecasts for 2012**

The Government released today (Friday) the Third Quarter Economic Report 2012, together with the preliminary figures on Gross Domestic Product for the third quarter of 2012.

The Government Economist, Mrs Helen Chan, described the economic situation in the third quarter of 2012 and provided the latest GDP and price forecasts for the year.

#### **MAIN POINTS**

- \* The Hong Kong economy grew modestly in the third quarter of 2012, by 1.3% over a year earlier, similar to the 1.2% pace in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the economy resumed growth at 0.6% in the third quarter, after a marginal decline of 0.1% in the preceding quarter.
- \* External demand remained subdued in the face of the recession-ridden eurozone, slow-growing US economy, and the ensuing set-back in Asian production and trade flows. Yet helped partly by a low base of comparison a year earlier, total exports of goods still had a moderate year-on-year growth at 4.0% in real terms in the third quarter, though with widespread weaknesses still evident across the EU, US and many major Asian markets. Exports of services slowed visibly to only a meagre 0.1% year-on-year growth over the same period.
- \* Domestically, thanks to largely sanguine job and income conditions, private consumption expenditure grew steadily further by 2.8% in real terms in the third quarter over a year earlier. Meanwhile, investment spending picked up to a strong 8.7% growth, on the back of robust private machinery and equipment acquisition, intensive large-scale infrastructure works, as well as a further surge in private sector building activity.
- \* The labour market held largely stable in the third quarter, though with signs of slowdown in total employment emerging towards the end of the quarter, causing the seasonally adjusted unemployment rate to edge up to 3.3%. In the third quarter, the median employment earnings rose by 8.3% in nominal terms over a year earlier, representing an increase of 5.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose appreciably further by 7.2% in nominal terms, or 5.2% in real terms.
- \* On the external front, while there has been some stabilisation of the eurozone sovereign debt crisis following the recent policy actions by the European

authorities, economic growth and sentiments in Europe have remained subdued. In the US, recent economic data have been more positive, though with the outlook still overcast by the looming fiscal cliff. Against this background, Hong Kong's trading environment is still subject to a high degree of uncertainty. Nevertheless, activity in the Mainland economy has shown signs of re-acceleration in the more recent months, which should lend support to intra-regional trade going forward.

- \* The latest Quarterly Business Tendency Survey indicated that the trade-related sectors remained generally cautious towards the near-term business outlook, yet sentiments in the domestic-related sectors were somewhat more upbeat. Indeed, domestically, consumption demand is expected to stay steady under the support of higher incomes over the past year. Also, large-scale infrastructure works and private building activity should continue apace, thereby rendering continued momentum to domestic demand.
- \* Having regard to the outturn of a subdued 1.0% year-on-year real GDP growth in the first three quarters of 2012, and in cognizance of possibly some relative improvement in the fourth quarter, the GDP growth forecast for 2012 is slightly revised to 1.2%, from the earlier range forecast of 1-2% in the August round.
- \* Underlying consumer price inflation tapered successively from 5.9% in the first quarter to 4.0% in the third quarter, thanks to receding domestic and external price pressures. The more moderate increases in import prices in recent months should help to keep inflation largely contained in the rest of the year. However, with the rebound of global food prices in July and August following the drought in the US, the new round of quantitative easing in the advanced economies, and the renewed pick-up in local housing rentals in the past few months, the pace of tapering in CPI inflation in the months ahead is expected to be slower than earlier envisaged. Judging from the actual outturn so far and the latest developments, the forecast rates of headline and underlying consumer price inflation for 2012 as a whole are slightly revised upwards to 3.9% and 4.5% respectively, from 3.7% and 4.3% in the August round.

## DETAILS

### GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, real GDP grew modestly by 1.3% in the third quarter of 2012 over a year earlier, similar to the 1.2% growth in the second quarter (same as the earlier estimate). On a seasonally adjusted quarter-to-quarter comparison, real GDP resumed growth at 0.6% in the third quarter, after a marginal decline of 0.1% in the preceding quarter (also unchanged from the earlier estimate) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2012 are presented in **Table 1**. Developments in different segments of the economy in the third quarter of 2012 are described below.

### **External trade**

3. *Total exports of goods* grew moderately by 4.0% in real terms in the third quarter over a year earlier, reversing a 0.2% decline in the second quarter, thanks mainly to the notable rebound in September from a relatively low base of comparison a year earlier. Exports to the EU market still recorded a double-digit year-on-year decline in the third quarter, while those to the US and many major Asian markets were also weak. On the other hand, exports to both the Mainland and Japan saw faster year-on-year growth. On a seasonally adjusted basis, total exports of goods rebounded strongly by 4.7% in real terms in the third quarter over the preceding quarter.

4. *Exports of services* however decelerated visibly to only a marginal 0.1% growth in the third quarter over a year earlier, from 2.9% in the second quarter. The lacklustre performance was the combined effects of sluggish trade flows, quieter fund-raising and cross-border financing activities in face of an uncertain global economic outlook, and moderation in per capita visitor spending. Reflecting this, exports of trade-related services only grew tepidly; those of transportation services and financial and business services dipped; and those of travel services also moderated despite the continued double-digit growth in visitor arrivals. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell back by 1.9% in the third quarter.

### **Domestic sector**

5. The domestic sector saw further growth in the third quarter. Thanks to still largely favourable employment and income conditions as well as the rally in asset prices during the quarter, *private consumption expenditure* (PCE) grew further by 2.8% in real terms over a year earlier. The more moderate year-on-year growth in recent quarters was affected partly by a distinctly high base of comparison last year. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure actually picked up to a 0.9% growth in real terms in the third quarter, faster than the 0.1% growth in the second quarter. *Government consumption expenditure* grew further by 3.7% in real terms in the third quarter over a year earlier.

6. *Overall investment spending* picked up to a strong 8.7% year-on-year growth in real terms in the third quarter, from 5.7% in the second quarter. The re-acceleration was mainly on account of the surge in machinery and equipment acquisition, at 9.8%. Meanwhile, private sector construction activity stayed active, while public sector infrastructure works carried on at a high level. As such, overall building and construction expenditure expanded appreciably further by 9.4% in real terms in the third quarter.

## **The labour sector**

7. The labour market remained broadly stable in the third quarter. Nevertheless, total employment also lost some momentum amid the slow economic growth, causing the *seasonally adjusted unemployment rate* to edge up to 3.3% in the third quarter. The *underemployment rate* also rose slightly to 1.6%. Incomes and earnings saw some deceleration in year-on-year growth from the previous quarters as the boost from statutory minimum wage (SMW) implementation waned. Yet, in the third quarter, the median employment earnings still rose by 8.3% in nominal terms over a year earlier, representing an increase of 5.1% in real terms after discounting inflation. Over the same period, average employment earnings for the lowest decile of full-time employees rose appreciably further by 7.2% in nominal terms, or 5.2% in real terms.

## **The asset markets**

8. The *local stock market* fluctuated range-bound in July and was generally on a recovery path since late July when market sentiments revived somewhat following the ECB president's pledge to preserve the euro and amid increasing expectations of more policy accommodation in the advanced economies. With the subsequent announcement of monetary easing in Europe, the US and Japan in September, the Hang Seng Index (HSI) rallied further to close October at 21 642, up 11% from end-June 2012 and 17% from end-2011.

9. *Residential property market* went up further during the third quarter in the midst of liquidity glut and super-low interest rate environment. Market sentiment received a further boost after the announcement of another round of monetary easing in the US in September. By September, residential property prices had leaped further by 6% over June, cumulating to some 20% surge in the first nine months of 2012 and surpassing the 1997 peak by around 26%. Prices of small-and-medium-sized flats have risen by 21% during the first nine months of 2012, much faster than the 11% for the large flats. Even with prevailing low interest rates, the affordability ratio had risen to around 50% in the third quarter, close to the average of 50.4% over the past 20 years.

10. With the property market showing increasing signs of exuberance, and to forestall the further build-up of bubble risk, in August to October the Government rolled out several rounds of measures. These included short, medium and long-term measures to increase the land and flat supply (August); tightened mortgage lending criteria to increase the resilience of the banking sector (September); as well as the enhanced Special Stamp Duty to curb speculative transactions and the introduction of a Buyer's Stamp Duty to accord priority to meeting the housing needs of Hong Kong permanent residents under a tight supply situation (October).

## Prices

11. Consumer price inflation tapered further in the third quarter, thanks to receding domestic and external price pressures. On the domestic front, the private housing rental component of the Consumer Price Index continued to see narrower increases, while local wage costs also saw moderated rises. Externally, imported inflationary pressures receded further amid slower inflation in import sources and softer global food and commodity prices earlier on. Thus, with the progressive easing of food prices and private housing rentals, which together account for over half of the household consumption basket, *headline consumer price inflation* came down from 5.2% in the first quarter to 4.2% in the second quarter, and further to 3.1% in the third quarter. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* likewise retreated visibly from 5.9% in the first quarter to 5.1% in the second quarter and further to 4.0% in the third quarter.

## Latest GDP and price forecasts for 2012

12. On the external front, while there has been some stabilisation of the eurozone sovereign debt crisis following the recent policy actions by the European authorities, economic growth and sentiments in Europe have remained subdued. In the US, recent economic data have been more positive, though with the outlook still overcast by the looming fiscal cliff. Against this background, Hong Kong's trading environment is still subject to a high degree of uncertainty. Nevertheless, activity in the Mainland economy has shown signs of re-acceleration in the more recent months, which should lend support to intra-regional trade going forward.

13. The latest Quarterly Business Tendency Survey indicated that the trade-related sectors remained generally cautious towards the near-term business outlook, yet sentiments in the domestic-related sectors were somewhat more upbeat. Indeed, domestically, consumption demand is expected to stay steady under the support of higher incomes over the past year. Also, large-scale infrastructure works and private building activity should continue apace, thereby rendering continued momentum to domestic demand.

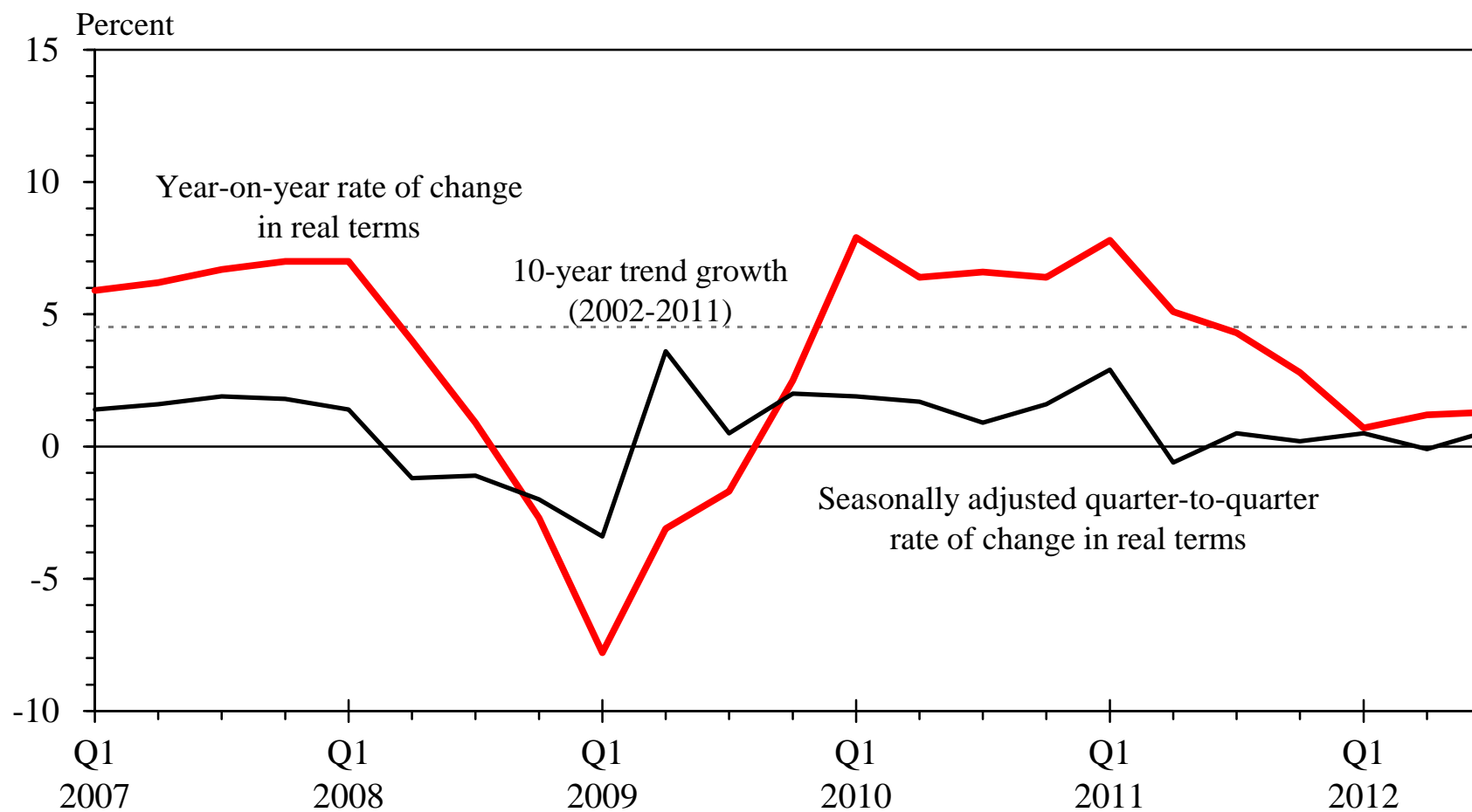
14. Having regard to the outturn of a subdued 1.0% year-on-year real GDP growth in the first three quarters of 2012, and in cognizance of possibly some relative improvement in the fourth quarter, the GDP growth forecast for 2012 is slightly revised to 1.2%, from the earlier range forecast of 1-2% in the August round (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 1-2%, averaging at around 1.5%.

15. On inflation outlook, the more moderate increases in import prices in recent months should help to keep inflation largely contained in the rest of the year. However, with the rebound of global food prices in July and August following the drought in the US, the new round of quantitative easing in the advanced economies, and the renewed pick-up in local housing rentals in the past few months, the pace of

tapering in CPI inflation in the months ahead is expected to be slower than earlier envisaged. Judging from the actual outturn so far and the latest developments, the forecast rates of headline and underlying consumer price inflation for 2012 as a whole are slightly revised upwards to 3.9% and 4.5% respectively, from 3.7% and 4.3% in the August round (*Table 2*).

(The Third Quarter Economic Report 2012 is now available for online download, free of charge at <http://www.hkeconomy.gov.hk/en/reports/index.htm>. The print version is available for sale at \$126 per issue, plus postage charge. Users can purchase the print version 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 Report of the Gross Domestic Product, Third Quarter 2012, which contains the GDP figures up to the third quarter of 2012, is also available for online download, free of charge at the homepage of the Census and Statistics Department, <http://www.censtatd.gov.hk>.)

## Hong Kong's Gross Domestic Product



Note : Figures for the third quarter of 2012 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>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>2011<sup>#</sup></u> <u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>2012<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	6.3	8.2	7.7 (0.9)	9.9 (2.9)	9.5 (1.4)	5.9 (0.6)	6.4 (1.2)	3.1 (0.1)	2.8 (0.9)
Government consumption expenditure	3.3	2.2	3.3 (1.6)	1.4 (-0.5)	1.6 (0.9)	2.5 (0.6)	2.5 (1.4)	3.5 (0.6)	3.7 (1.0)
Gross domestic fixed capital formation	7.4	7.5	1.7	7.1	11.6	9.3	12.6	5.7	8.7
<i>of which :</i>									
Building and construction	5.6	7.1	19.1	-4.3	5.9	9.3	15.0	14.0	9.4
Machinery, equipment and intellectual property products	6.1	13.0	-9.6	16.8	24.6	19.2	21.6	5.5	9.8
Total exports of goods	17.3	3.4	16.3 (9.1)	-0.3 (-8.9)	-2.2 (1.1)	2.3 (1.8)	-5.2 (1.1)	-0.2 (-3.5)	4.0 (4.7)
Imports of goods	18.1	4.7	12.1 (8.2)	2.1 (-5.3)	1.6 (0.4)	4.2 (1.2)	-2.1 (1.5)	0.9 (-1.9)	4.3 (3.2)
Exports of services	14.8	6.7	8.8 (2.8)	7.9 (1.1)	5.5 (0.5)	5.0 (0.5)	2.7 (0.7)	2.9 (0.9)	0.1 (-1.9)
Imports of services	11.1	3.5	5.9 (0.2)	3.5 (0.9)	2.0 (-0.3)	2.7 (2.0)	3.7 (0.9)	1.6 (-0.8)	0.9 (-1.1)
<b>Gross Domestic Product</b>	<b>6.8</b>	<b>4.9</b>	<b>7.8</b> <b>(2.9)</b>	<b>5.1</b> <b>(-0.6)</b>	<b>4.3</b> <b>(0.5)</b>	<b>2.8</b> <b>(0.2)</b>	<b>0.7</b> <b>(0.5)</b>	<b>1.2</b> <b>(-0.1)</b>	<b>1.3</b> <b>(0.6)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>0.3</b>	<b>3.8</b>	<b>1.6</b> <b>(1.3)</b>	<b>5.2</b> <b>(1.1)</b>	<b>4.3</b> <b>(1.7)</b>	<b>4.0</b> <b>(-0.1)</b>	<b>3.5</b> <b>(0.7)</b>	<b>2.4</b> <b>(0.1)</b>	<b>3.8</b> <b>(3.0)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>2.4</b>	<b>5.3</b>	<b>3.8</b> <b>(1.8)</b>	<b>5.2</b> <b>(1.8)</b>	<b>6.4</b> <b>(-0.9)</b>	<b>5.7</b> <b>(3.0)</b>	<b>5.2</b> <b>(1.3)</b>	<b>4.2</b> <b>(0.9)</b>	<b>3.1</b> <b>(-2.0)</b>
<b>Underlying<sup>^</sup></b>	<b>1.7</b>	<b>5.3</b>	<b>3.7</b> <b>(1.8)</b>	<b>5.0</b> <b>(1.7)</b>	<b>6.1</b> <b>(1.5)</b>	<b>6.4</b> <b>(1.2)</b>	<b>5.9</b> <b>(1.3)</b>	<b>5.1</b> <b>(1.0)</b>	<b>4.0</b> <b>(0.5)</b>
<b>Change in nominal GDP (%)</b>	<b>7.1</b>	<b>8.9</b>	<b>9.5</b>	<b>10.6</b>	<b>8.8</b>	<b>6.9</b>	<b>4.2</b>	<b>3.6</b>	<b>5.2</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.

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



**Table 2****Economic forecasts for 2012  
(rate of change (%))**

	Forecasts for 2012 as released <u>on 10.8.2012</u> (%)	Latest forecasts for 2012 <u>on 16.11.2012</u> (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	1 to 2	1.2
<i>Nominal GDP</i>	3 to 4	4.2
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	3.7	3.9
<i>Underlying CCPI</i>	4.3	4.5



# Third Quarter Economic Report 2012

Government of the Hong Kong  
Special Administrative Region

# ***THIRD QUARTER ECONOMIC REPORT 2012***

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

*November 2012*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy grew modestly in the third quarter of 2012, by 1.3% over a year earlier, similar to the 1.2% pace in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, the economy also expanded slightly. Among domestic economic activities, private consumption expenditure grew steadily further, while investment remained strong. Merchandise exports also rebounded towards the end of the quarter, though partly helped by a distinctly low base of comparison.*
- *External demand remained subdued in the third quarter as a whole. Although the eurozone sovereign debt crisis stabilised somewhat after the policy actions by the European authorities, the eurozone economy was mired in recession. This coupled with the slow recovery of the US economy continued to weigh on Asian production and trade flows. As a result, Hong Kong's total exports of goods showed only a moderate growth in the third quarter, albeit with a rebound in September. Exports of services slowed visibly, under the drag of strong external headwinds.*
- *The domestic sector expanded further at a moderate pace in the third quarter, having displayed much resilience in the past year or so. Thanks to largely stable job and income conditions, private consumption expenditure grew steadily, albeit at a milder pace than the previous quarters due mainly to a high base of comparison last year. Meanwhile, investment spending remained strong, on the back of robust private machinery and equipment acquisition, intensive large-scale infrastructure works, as well as a further surge in private sector building activity.*
- *The labour market held largely stable in the third quarter, though with signs of slowdown in total employment emerging towards the end of the quarter, causing the seasonally adjusted unemployment rate to edge up to 3.3%. Incomes and earnings still recorded solid year-on-year growth up to the second quarter, though also moderated from the previous quarters as the boost from statutory minimum wage (SMW) implementation waned.*
- *Local stock prices rebounded during the third quarter, amid some stabilisation of the euro debt crisis and expectations of a new round of quantitative easing in the US. Local property market continued to show signs of exuberance, with the rise in flat prices exceeding overall income growth. To forestall a further build up in housing market bubble risk, in August to October the Government rolled out several rounds of measures to stabilise the housing market. Apart from measures to increase land and*

*housing supply, the latest measures also included strengthening risk management in mortgage lending to safeguard banking stability, enhanced measures in Special Stamp Duty (SSD) to curb speculation, and the introduction of a Buyer's Stamp Duty (BSD) to alleviate the tightness in housing demand-supply balance.*

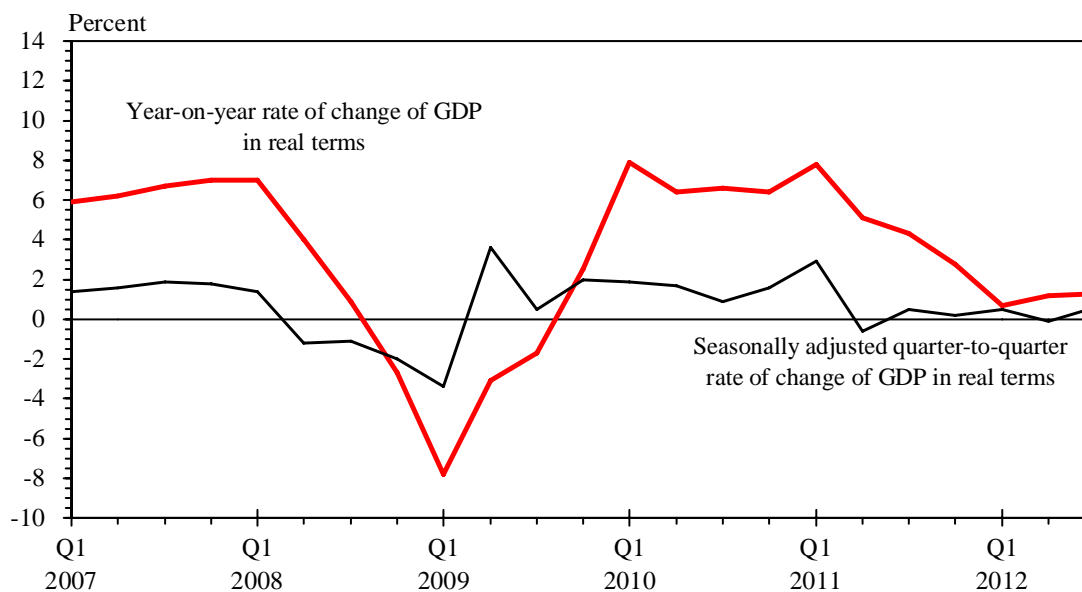
- *Inflation continued its easing trend in the third quarter. Despite some renewed upward pressure on international food prices amid the drought in the US and abundant global liquidity, imported inflation came down further thanks to slower inflation in the region. Domestically, local business cost pressures have by and large moderated along with the slower rises in wages and office rentals, although the increase in rentals for retail premises remained notable.*

## **Overall situation**

1.1 The Hong Kong economy continued to face strong external headwinds in the third quarter of 2012, showing only a modest year-on-year growth. The euro debt crisis remained a key threat to the global economy, although the crisis turned more stable during the quarter following the policy actions taken by the European Central Bank and other European authorities. Moreover, the recession in the eurozone, the slowdown of the US economy and the negative spillovers to Asia continued to weigh heavily on trade and economic activities in the region. The launch of the new round of quantitative easing (QE3) in the US in September also added to the uncertainty facing the global economy. All these resulted in a rather subdued performance of Hong Kong's exports of goods in the third quarter as a whole. Exports of services also decelerated visibly, even with continued growth in inbound tourism. Domestically, private consumption grew steadily further on generally sanguine job and income conditions. Meanwhile, private and public investment activities held up remarkably well. With price pressures from external and local sources both moderating, consumer price inflation tapered further in the third quarter.

1.2 In the third quarter of 2012, the *Gross Domestic Product (GDP)*<sup>(1)</sup> grew modestly by 1.3% in real terms over a year earlier, after the 1.2% growth in the second quarter (same as the earlier estimate). Taking the first three quarters of 2012 together, real GDP expanded by 1.0% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP resumed growth at 0.6% in the third quarter, after a marginal decline of 0.1% in the preceding quarter (same as the earlier estimate).

**Diagram 1.1 : The economy remained rather weak in the third quarter of 2012**



## The external sector

1.3 *Total exports of goods* grew moderately by 4.0% in real terms in the third quarter over a year earlier, reversing a 0.2% decline in the second quarter, thanks mainly to the notable rebound in September from a relatively low base of comparison a year earlier. Exports to the EU market still recorded a double-digit year-on-year decline in the third quarter, while those to the US and many major Asian markets were also weak, with the exception of those to the Mainland and Japan which saw faster year-on-year growth. Moreover, raw materials intake by many Asian markets remained subdued, reflecting the drag from weak final demand in the advanced markets on regional production and export activities.

1.4 *Exports of services* however decelerated visibly to only a marginal 0.1% growth in the third quarter over a year earlier, from 2.9% in the second quarter. The lacklustre performance was the combined effects of sluggish trade flows, quieter fund-raising and cross-border financing activities in face of an uncertain global economic outlook, and moderation in per capita visitor spending. Reflecting this, exports of trade-related services only grew tepidly; those of transportation services and financial and business services dipped; and those of travel services also moderated despite the continued double-digit growth in visitor arrivals.



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

	<u>2010#</u>	<u>2011#</u>	<u>Q1#</u>	<u>Q2#</u>	<u>2011</u> <u>Q3#</u>	<u>Q4#</u>	<u>Q1#</u>	<u>2012</u> <u>Q2#</u>	<u>Q3+</u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	6.3	8.2	7.7 (0.9)	9.9 (2.9)	9.5 (1.4)	5.9 (0.6)	6.4 (1.2)	3.1 (0.1)	2.8 (0.9)
Government consumption expenditure	3.3	2.2	3.3 (1.6)	1.4 (-0.5)	1.6 (0.9)	2.5 (0.6)	2.5 (1.4)	3.5 (0.6)	3.7 (1.0)
Gross domestic fixed capital formation	7.4	7.5	1.7	7.1	11.6	9.3	12.6	5.7	8.7
<i>of which :</i>									
Building and construction	5.6	7.1	19.1	-4.3	5.9	9.3	15.0	14.0	9.4
Machinery, equipment and intellectual property products	6.1	13.0	-9.6	16.8	24.6	19.2	21.6	5.5	9.8
Total exports of goods	17.3	3.4	16.3 (9.1)	-0.3 (-8.9)	-2.2 (1.1)	2.3 (1.8)	-5.2 (1.1)	-0.2 (-3.5)	4.0 (4.7)
Imports of goods	18.1	4.7	12.1 (8.2)	2.1 (-5.3)	1.6 (0.4)	4.2 (1.2)	-2.1 (1.5)	0.9 (-1.9)	4.3 (3.2)
Exports of services	14.8	6.7	8.8 (2.8)	7.9 (1.1)	5.5 (0.5)	5.0 (0.5)	2.7 (0.7)	2.9 (0.9)	0.1 (-1.9)
Imports of services	11.1	3.5	5.9 (0.2)	3.5 (0.9)	2.0 (-0.3)	2.7 (2.0)	3.7 (0.9)	1.6 (-0.8)	0.9 (-1.1)
<b>Gross Domestic Product</b>	<b>6.8</b>	<b>4.9</b>	<b>7.8</b> <b>(2.9)</b>	<b>5.1</b> <b>(-0.6)</b>	<b>4.3</b> <b>(0.5)</b>	<b>2.8</b> <b>(0.2)</b>	<b>0.7</b> <b>(0.5)</b>	<b>1.2</b> <b>(-0.1)</b>	<b>1.3</b> <b>(0.6)</b>
<i>Change in the main price indicators (%)</i>									
<b>GDP deflator</b>	<b>0.3</b>	<b>3.8</b>	<b>1.6</b> <b>(1.3)</b>	<b>5.2</b> <b>(1.1)</b>	<b>4.3</b> <b>(1.7)</b>	<b>4.0</b> <b>(-0.1)</b>	<b>3.5</b> <b>(0.7)</b>	<b>2.4</b> <b>(0.1)</b>	<b>3.8</b> <b>(3.0)</b>
<b>Composite CPI</b>									
<b>Headline</b>	<b>2.4</b>	<b>5.3</b>	<b>3.8</b> <b>(1.8)</b>	<b>5.2</b> <b>(1.8)</b>	<b>6.4</b> <b>(-0.9)</b>	<b>5.7</b> <b>(3.0)</b>	<b>5.2</b> <b>(1.3)</b>	<b>4.2</b> <b>(0.9)</b>	<b>3.1</b> <b>(-2.0)</b>
<b>Underlying^</b>	<b>1.7</b>	<b>5.3</b>	<b>3.7</b> <b>(1.8)</b>	<b>5.0</b> <b>(1.7)</b>	<b>6.1</b> <b>(1.5)</b>	<b>6.4</b> <b>(1.2)</b>	<b>5.9</b> <b>(1.3)</b>	<b>5.1</b> <b>(1.0)</b>	<b>4.0</b> <b>(0.5)</b>
<b>Change in nominal GDP (%)</b>	<b>7.1</b>	<b>8.9</b>	<b>9.5</b>	<b>10.6</b>	<b>8.8</b>	<b>6.9</b>	<b>4.2</b>	<b>3.6</b>	<b>5.2</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.

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

## Box 1.1

### Features of the latest revision to Hong Kong's gross domestic product (GDP) statistics

As part of Census and Statistics Department (C&SD)'s efforts to enhance the quality of GDP statistics once every several years, a technical exercise was recently completed to incorporate the latest international statistical standards in the GDP compilation system of Hong Kong<sup>(1)</sup>. This article highlights one of the key features of the GDP revision exercise, namely the adoption of the change of ownership principle in recording trade in goods and services related to outward processing and merchanting.

Outward processing refers to the arrangement made by a Hong Kong company to send raw materials or semi-manufactures abroad for significant transformation, with the processed goods subsequently returned to Hong Kong for local consumption or re-exporting. Merchanting refers to the purchase of goods by a Hong Kong trader from a non-resident and subsequent resale of the goods to another non-resident without the goods entering or leaving Hong Kong.

Under the old standards, the trade in goods statistics records imports and exports of goods at the time they cross Hong Kong's borders. Hence the materials sent abroad for processing are recorded as exports and the returned goods as imports, even though they are owned by Hong Kong companies all along. On the other hand, goods traded under merchanting are acquired from and then sold to others by Hong Kong traders, but are not recorded in goods trade because they do not physically pass through Hong Kong. Only the difference between the values of goods when sold and when acquired is recorded as the gross margin of merchanting under trade in services.

Under the new standards, the change of ownership principle is adopted in recording trade in goods and services in national accounts. So goods for processing are not recorded as trade in goods because they do not involve actual buying and selling (i.e. no change of ownership), but rather the processing fee is recorded as imports of services to reflect the value of the manufacturing service rendered by the processing economy. In a similar vein, for merchanting the goods acquired are recorded as imports of goods and their subsequent resale as exports of goods since a change of ownership is involved. The gross margin under the old standards would automatically be captured as the net exports of goods. For illustrative examples, please refer to the *Annex* in C&SD's *Special Report* on the GDP revision exercise.

Since the implementation of the new standards involves only a re-classification of trade components between goods and services, **the overall balance of trade in goods and services remains unchanged**. But the balance of trade in goods would generally change from deficit to surplus, due to the exclusion of trade in goods for processing and the inclusion of the net value of goods under merchanting. In 2011 and the first three quarters of 2012, however, the balance of trade in goods was in deficit under the new standards, albeit at a much smaller magnitude than under the old standards. The small trade in goods deficit in these periods under the new standards was mainly the combined impact of the sluggish

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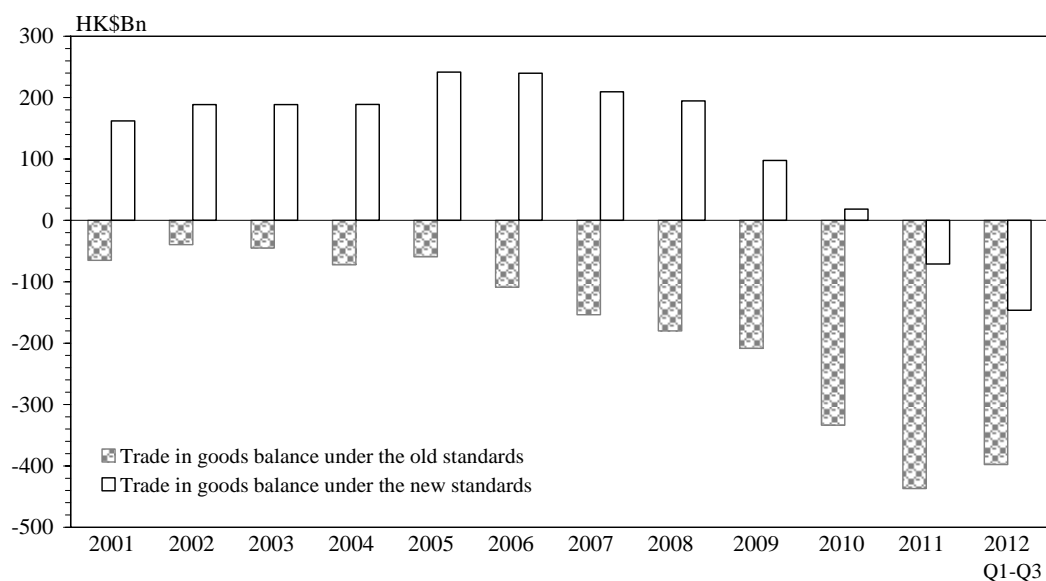
(1) For details of the GDP revision exercise, please refer to C&SD's *Special Report on Gross Domestic Product – September 2012*.

### Box 1.1 (Cont'd)

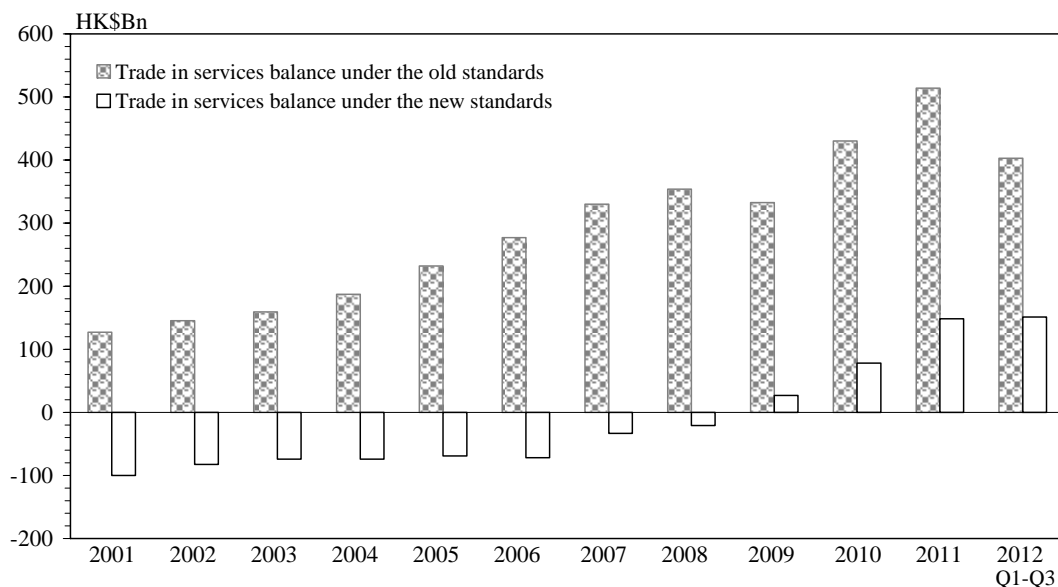
demand from advanced economies for exports and buoyant demand for imports amid strong local consumption and investment as well as inbound tourism (*Chart 1*).

Similarly, the balance of trade in services would tend to change from surplus to deficit in the past years, due to the exclusion of exports of merchanting services and the inclusion of imports of manufacturing services. Yet, in 2009 – 2011, the balance of trade in services saw a surplus each year, as exports of travel and financial services registered significant growth in those years (*Chart 2*). Trade in services continued to record a surplus in the first three quarters of 2012, thanks mainly to the sustained strength of inbound tourism.

**Chart 1 : Balance of trade in goods under the old and new standards**



**Chart 2 : Balance of trade in services under the old and new standards**



## Box 1.1 (Cont'd)

The new standards can better reflect the latest trend in globalisation and the genuine trade flows irrespective of the goods' physical movements and locations. This is particularly relevant since outward processing and merchanting activities feature prominently in Hong Kong's trade structure with our traders' extensive trading network of buyers and sellers in the global market. To give a rough idea, in 2011 32% of Hong Kong's total exports to the Mainland were related to outward processing, and the total value of goods sold through merchanting amounted to \$3.5 trillion, more than the value of total exports at \$3.4 trillion.

The new standards will facilitate macroeconomic analysis in the context of GDP and balance of payments (BoP) frameworks, and complement the conventional monthly external merchandise trade statistics compiled from import/export declarations with detailed breakdown by commodity and trading partner. The new standards were adopted in the BoP statistics starting from September 2012, while for the GDP statistics they are presented in supplementary tables in parallel with the old standards, so as to provide a transition period to allow users more time to adapt to the new trade in goods and services statistics in the GDP framework.

Apart from the adoption of the change of ownership principle in recording goods sent abroad for processing and merchanting, other key revisions to GDP statistics include: (i) capitalisation of research and development (R&D) expenditure to better reflect R&D as an economic asset that provides impetus to economic growth and development, (ii) enhanced estimates of expenditure on life insurance services using the reference rate method, and (iii) recording employee stock options as compensation of employees. As a result of these changes, the level of GDP at current prices is revised upwards by around 2% in recent years, but the revisions to the rates of change in real terms mostly fall within  $\pm 0.3$  of a percentage point as the revision to the absolute level of GDP is broadly similar from year to year (*Table 1*).

**Table 1 : Comparison of GDP real growth rates before and after revision**

	Nominal GDP				GDP year-on-year real growth rate		
	Before revision (a)	After revision (b)	Difference (b)-(a)	Revision as % of (a)	Before revision	After revision	Revision
	(\$Bn)	(\$Bn)	(\$Bn)	(%)	(%)	(%)	(% point)
2007	1,615.6	1,650.8	+35.2	+2.2	6.4	6.5	+0.1
2008	1,677.0	1,707.5	+30.5	+1.8	2.3	2.1	-0.2
2009	1,622.5	1,659.2	+36.7	+2.3	-2.6	-2.5	+0.1
2010	1,741.6	1,777.7	+36.2	+2.1	7.1	6.8	-0.3
2011	1,896.7	1,935.2	+38.5	+2.0	5.0	4.9	-0.1
2012							
Q1	470.5	482.8	+12.3	+2.6	0.7	0.7	-
Q2	463.7	473.2	+9.5	+2.0	1.1	1.2	+0.1

## Box 1.2

### The US Federal Reserve's third round of quantitative easing (QE3)

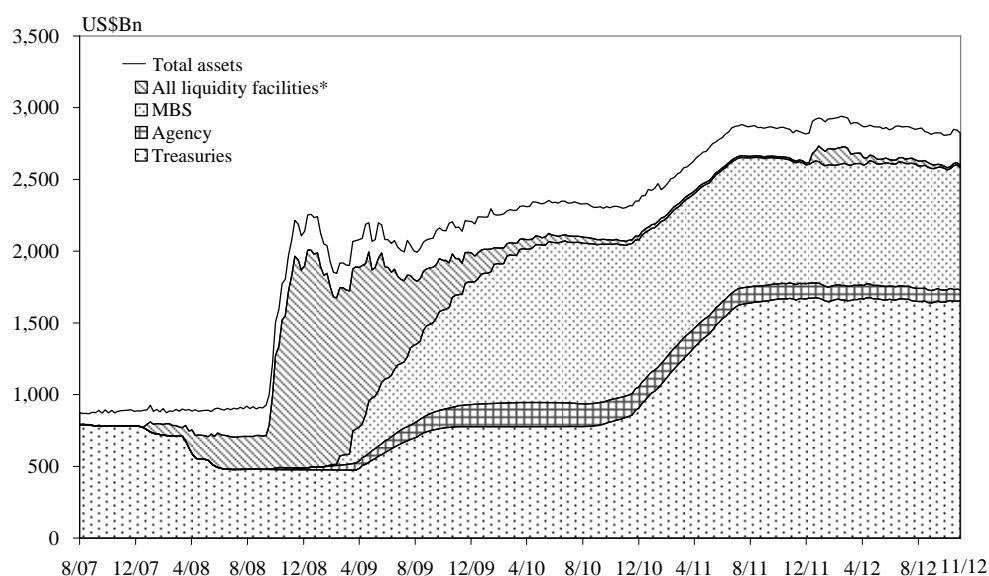
The US Federal Reserve (the Fed) announced on 13 September 2012<sup>(1)</sup> that it would purchase additional agency mortgage-backed securities (MBS) at a pace of US\$40 billion per month, in a context of price stability, until the labour market conditions improve substantially. This new round of asset purchase action is commonly called QE3. Meanwhile, the Fed also anticipated its policy rate to stay at exceptionally low levels at least through mid-2015.

The Fed has employed a number of unconventional monetary policy measures over the past several years to contain the global financial crisis (see *Box 2.1* of the *2010 Economic Background and 2011 Prospects*). As seen from *Chart 1*, the various asset purchase programmes undertaken by the Fed, including the previous two rounds of QE, have resulted in a significant expansion of the Fed's balance sheet. Indeed, the size of its balance sheet before the announcement of QE3 was already more than tripled its pre-crisis level at mid-2007. Going forward, the Fed's balance sheet, the MBS portion in particular, can be expected to continue to balloon.

The effectiveness of QE is an issue of hot debate in the US, given the possible longer-term undesirable consequences in terms of higher inflation risk, resource misallocation, and moral hazard. Furthermore, regardless of whether QE3 is effective in achieving the Fed's objectives, its potential negative external side effects have already aroused much criticism from the emerging markets.

The previous rounds of QE in the US (similarly for QE in the EU and Japan), while reducing the systemic risk in the financial markets and pains of the Great Recession of 2008-09, has resulted in a global liquidity glut, which triggers greater volatility in cross-border fund flows, thereby heightening the risks of asset market exuberance and inflation in economies where fundamentals are relatively sound. The impacts on Hong Kong and other Asian economies have also been highly visible.

**Chart 1 : Changes in the Fed's balance sheet since the global financial crisis**



Note : (\*) All Liquidity Facilities include: Term Auction credit; other loans; Commercial Paper Funding Facility; outstanding principal amount of loans to American International Group, Maiden Lane LLC, Maiden Lane II LLC, Maiden Lane III LLC, and TALF LLC; and central bank liquidity swaps.

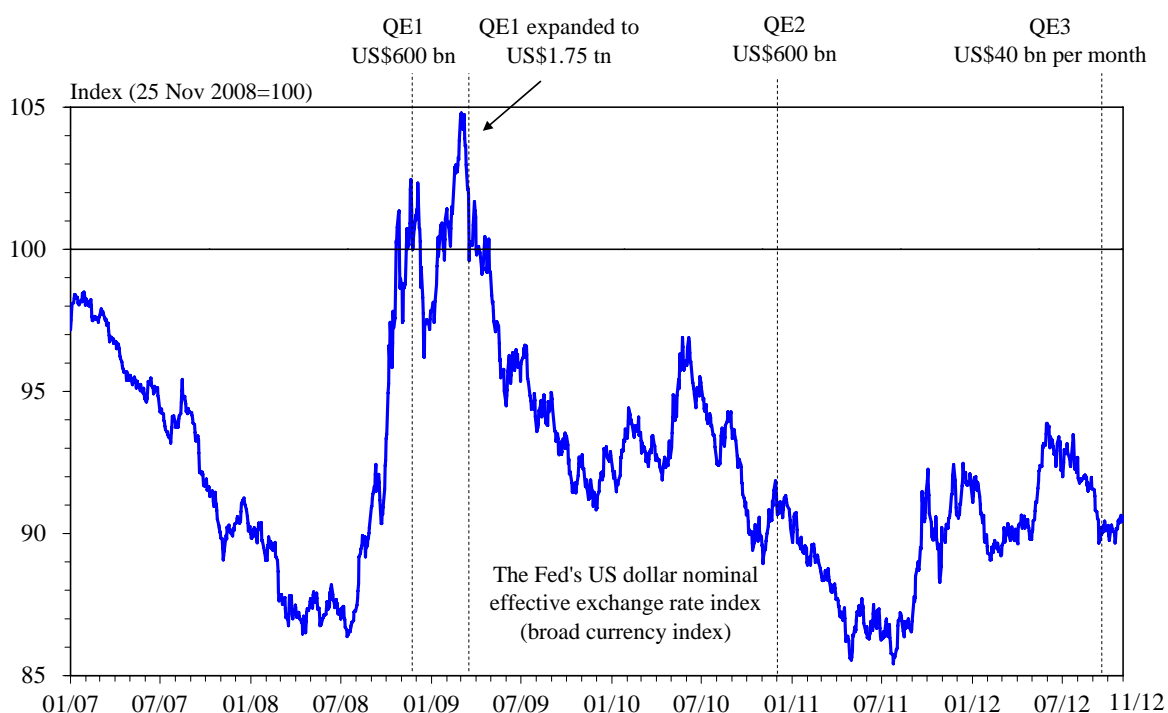
(1) FOMC statement: <http://www.federalreserve.gov/newsevents/press/monetary/20120913a.htm>.

### Box 1.2 (Cont'd)

QE3, unlike the previous two rounds of QE, is open-ended and does not have a target size. As such, its cumulative side effects on Hong Kong and other Asian economies can potentially be substantial, although its effects at the current initial stage may still be not so evident.

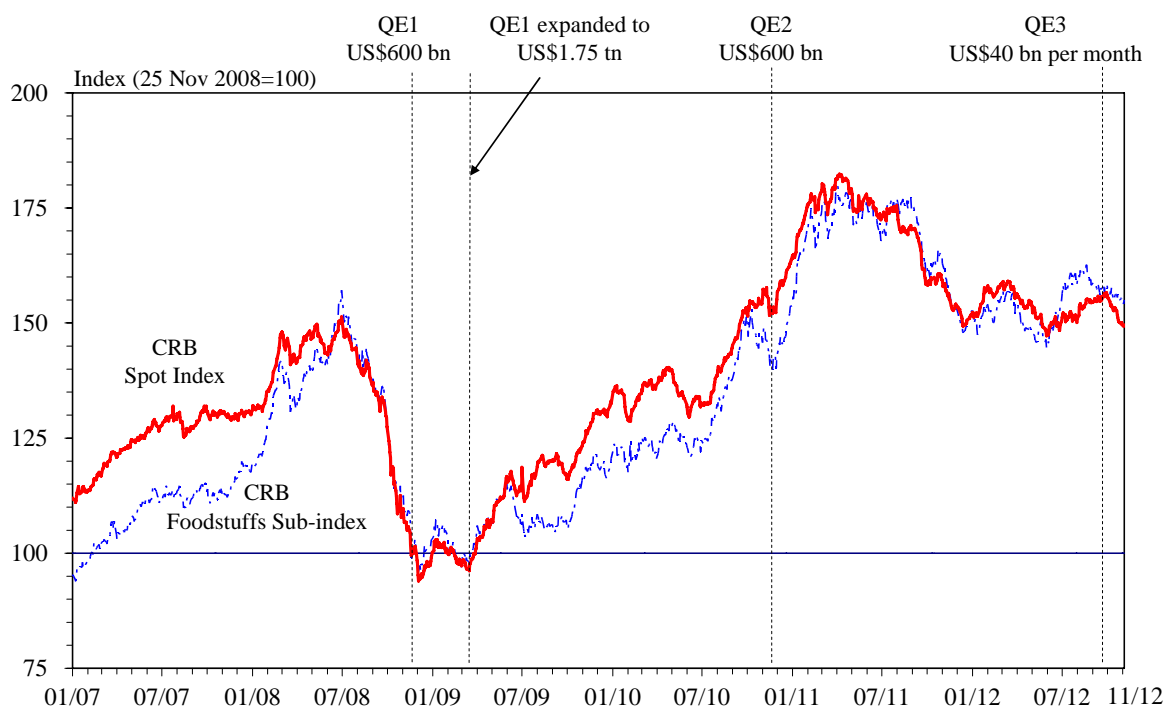
The highly accommodative monetary policy stance adopted by the Fed has resulted in heightened volatility in the US dollar exchange rate and global commodity prices. As illustrated in *Chart 2*, the US dollar had been rather volatile since the announcement of QE1 in November 2008. Comparing October 2012 with November 2008, the US dollar nominal effective exchange rate index fell by about 10%. Over the same period, global commodity prices, using the CRB spot index as an indicator, rose by almost 50% cumulatively (*Chart 3*). As regards QE3, its immediate impact on global commodity prices has been mixed up till now, yet its longer-term impact remains to be seen. In particular, a resurgence in global commodity prices could pose upside risks to imported inflation in Hong Kong beyond the short term, and is a development to watch over closely.

**Chart 2 : Movement of the US dollar exchange rate following announcements of QE programmes**



## Box 1.2 (Cont'd)

### Chart 3 : Movements of world commodity prices



One of the intentions of the Fed's QE3 is to reflate asset prices, including housing prices, stock prices and other financial asset prices in the US. However, the resultant ultra-abundant liquidity and ultra-low interest rate environment are not exactly what Hong Kong needs now. The Government has reiterated its grave concern about the developments in the local property market, given the almost uninterrupted rally cumulating to a 107% increase in housing prices from the 2008 trough. While the local property market developments have also to do with the underlying demand-supply conditions, particularly the tight supply situation, the Fed's QE3 and its anticipation to keep interest rate low through mid-2015 would inevitably increase the risk of housing market exuberance further, thereby posing an on-going risk to Hong Kong's financial and macro-economic stability. A further side effect is the consequential surge in housing rentals and hence local inflation.

The advent of QE3 may also result in a fresh round of significant capital inflows into Hong Kong and other regional economies. Indeed, the Aggregate Balance of the local banking system increased in October for the first time since September 2009. In mid-September, in response to QE3, the Hong Kong Monetary Authority introduced the fifth round of tightening measures for property mortgage loans. In October, the Government also rolled out further measures to stabilise the housing market. Given the potential destabilising consequences of QE3 on the Hong Kong economy, the Government will continue to monitor the situation closely and take appropriate measures to safeguard Hong Kong's macroeconomic and financial stability as and when necessary.

## The domestic sector

1.5 The domestic sector saw further growth in the third quarter. Thanks to still largely favourable employment and income conditions as well as the rally in asset prices during the quarter, *private consumption expenditure* (PCE) grew further by 2.8% in real terms over a year earlier. The more moderate year-on-year growth in recent quarters was affected partly by a distinctly high base of comparison last year. *Government consumption expenditure* grew further by 3.7% in real terms in the third quarter.

**Table 1.2 : Consumer spending by major component<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>
2011	Annual	9.7	0.7	35.4	20.2	3.6	1.8	14.1	8.2
	H1	9.9	1.1	34.2	22.0	4.1	3.1	12.5	8.9
	H2	9.5	0.3	36.3	18.6	3.1	0.6	15.5	7.6
	Q1	8.7	3.5	24.5	18.5	3.8	1.9	10.2	7.7
	Q2	11.0	-0.8	45.4	25.4	4.3	4.4	15.1	9.9
	Q3	10.7	0.3	37.8	22.1	4.4	-0.2	10.7	9.5
	Q4	8.4	0.3	35.0	15.8	1.8	1.4	20.3	5.9
2012	H1	5.7	*	25.1	5.1	3.2	5.1	11.4	4.7
	Q1	7.0	-1.0	30.1	7.5	3.8	5.7	9.8	6.4
	Q2	4.4	0.9	20.2	2.9	2.5	4.5	13.2	3.1
	Q3	3.0	2.7	9.2	1.5	2.2	6.6	6.3	2.8

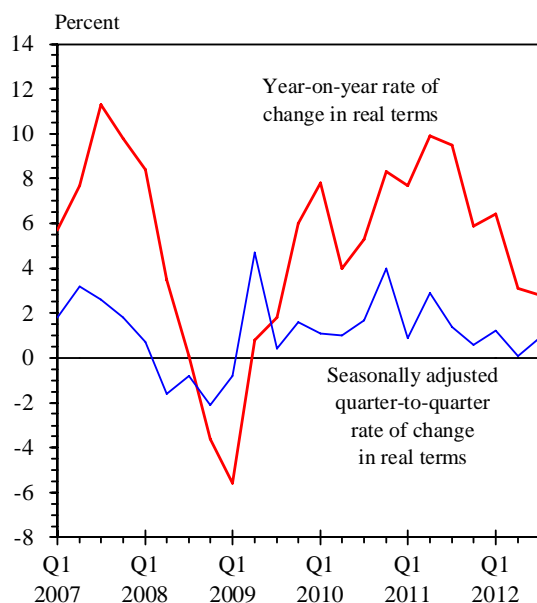
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

(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.

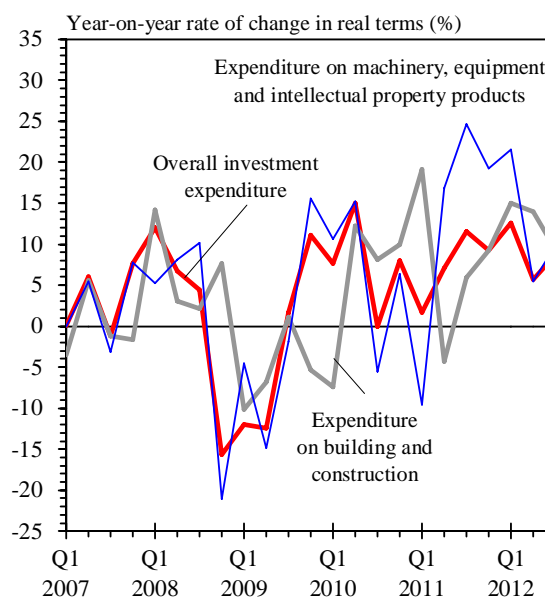
(\*) Change of less than 0.05%.



**Diagram 1.2 : Private consumption expenditure grew steadily further in the third quarter**



**Diagram 1.3 : Investment spending remained strong**



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* picked up to a strong 8.7% year-on-year growth in real terms in the third quarter, from 5.7% in the second quarter. The re-acceleration was mainly on account of the surge in machinery and equipment acquisition, at 9.8%. However, the results of the Quarterly Business Tendency Survey on large enterprises and diffusion indices on small and medium-sized enterprises (SMEs) (see **Box 1.3** for details of the consultation on SMEs) indicated that business sentiments generally were still rather cautious in recent months. Meanwhile, private sector construction activity stayed active, while public sector infrastructure works carried on at a high level. As such, overall building and construction expenditure expanded appreciably further by 9.4% in real terms in the third quarter.

### Box 1.3

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

To gain a better understanding of the current situation of business receipts, employment and credit access for small and medium-sized enterprises (SMEs)<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 feedback. This note provides a further update of the results reported in *Box 1.1* in the *Half-yearly Economic Report 2012*.

From June 2011 onwards, the industry coverage and questionnaire design for the exercise have been modified. Specifically, three sectors (viz. travel agents, financing institutions, and insurance agents and brokers) are dropped from the exercise, while questions on access to credit have been modified to gauge SMEs' views as to whether the current and expected credit access situation are "easy", "fair" or "tight", rather than in respect of a comparison with the normal times. The sample size of the panel has consequently been reduced to around 400.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts and employment versus the preceding month. While the findings should be interpreted with considerable caution given the coverage and nature of the consultation exercise, they can serve as a rough indicator to enable high frequency monitoring of SMEs' situation.

Business receipts of the SMEs surveyed, as depicted by the set of diffusion indices, showed that the overall situation remained weak in recent months (*Table 1*). In October 2012, a larger proportion of SMEs in all the sectors surveyed except business services reported a generally unfavourable business situation. In tandem with a difficult external environment, the import/export trades, logistics and wholesale sectors remained sluggish, while domestic sectors such as restaurants and real estates also saw mixed performance in recent months. Nevertheless, despite the relatively difficult business situation, the feedback from SMEs indicated that their employment situation remained largely stable in recent months (*Table 2*).

Specifically for import and export trading firms, their views on new export orders were sought separately to gauge the export performance. The diffusion index on new export orders rose slightly to 46.8 in October from 46.4 in August, albeit still below the 50-threshold, reflecting the sluggish external demand against the background of the fragile US economy, the depressed EU market, and further moderation in activities across many major Asian markets.

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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 1.3 (Cont'd)**

The proportion of SMEs reporting tight credit access remained low at 0.7% in October 2012, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

**Table 1 : Diffusion indices<sup>^</sup> on business receipts**

	<u>2012</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>
<i>Local segments</i>										
Restaurants	49.1	50.9	49.1	48.1	49.1	49.1	49.1	51.0	47.1	49.0
Real estate	44.1	60.3	54.4	47.1	42.6	41.2	50.0	55.9	54.4	47.1
Retail trade	48.6	47.9	47.9	47.4	45.3	46.1	46.4	46.8	49.1	47.2
Wholesale trade	47.5	52.5	50.0	47.4	44.7	44.7	47.4	44.7	44.7	42.1
Business services	46.9	51.5	51.5	51.5	48.5	48.5	45.5	48.5	45.5	50.0
<i>External segments</i>										
Import/export trades	47.8	47.8	48.7	48.6	47.7	46.8	47.7	45.9	47.2	47.7
Logistics	41.7	38.9	44.4	44.4	47.1	50.0	50.0	38.2	44.1	41.2
<b>All the above sectors*</b>	<b>47.5</b>	<b>49.1</b>	<b>49.0</b>	<b>48.2</b>	<b>46.7</b>	<b>46.6</b>	<b>47.5</b>	<b>46.9</b>	<b>47.6</b>	<b>47.2</b>

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

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

**Table 2 : Diffusion indices on employment situation**

	<u>2012</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>
<i>Local segments</i>										
Restaurants	50.0	50.9	50.0	48.1	49.1	49.1	50.0	50.0	48.1	50.0
Real estate	47.1	50.0	51.5	51.5	50.0	50.0	50.0	52.9	50.0	50.0
Retail trade	50.5	50.0	49.6	50.0	50.0	50.0	50.0	49.5	50.0	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0
Business services	50.0	50.0	51.5	50.0	48.5	50.0	50.0	50.0	50.0	53.0
<i>External segments</i>										
Import/export trades	49.1	50.0	50.0	50.0	49.5	49.1	50.0	49.5	50.0	50.0
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.1	47.1
<b>All the above sectors*</b>	<b>49.6</b>	<b>50.1</b>	<b>50.1</b>	<b>50.0</b>	<b>49.6</b>	<b>49.6</b>	<b>50.0</b>	<b>49.9</b>	<b>49.7</b>	<b>50.2</b>

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

**Table 3 : Diffusion index on current new export orders**

	<u>2012</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>
Import/export trades	48.2	47.8	49.1	50.0	46.4	46.4	46.8	46.4	46.8	46.8

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

	<u>2012</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>
All selected sectors*	1.3	0.9	0.7	0.7	0.7	1.1	1.1	0.7	0.7	0.7

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

## **The labour sector**

1.7 The labour market remained broadly stable in the third quarter. Nevertheless, total employment lost some momentum amid the slow economic growth, causing the *seasonally adjusted unemployment rate* to edge up to 3.3% in the third quarter. The *underemployment rate* also rose slightly to 1.6%. With the labour market still in a full-employment situation, labour incomes and earnings saw further solid year-on-year increases in the second quarter, although the rate of pay rise moderated from previous quarters as the boost from SMW implementation in May 2011 faded out. Yet, in the third quarter, average employment earnings of full-time employees in the lowest decile still rose notably by 7.2% in nominal terms, or 5.2% in real terms over a year earlier.

## **The asset markets**

1.8 The *local stock market* fluctuated range-bound in July and was generally on a recovery path since late July when market sentiments revived somewhat following the ECB president's pledge to preserve the euro and amid increasing expectations of more policy accommodation in the advanced economies. With the subsequent announcement of monetary easing in Europe, the US and Japan in September, the Hang Seng Index (HSI) rallied further to close the quarter at 20 840, up 7% from end-June 2012 and 13% from end-2011. Average daily turnover of the stock market however remained subdued in the third quarter, and fund-raising activities were also quieter compared with a year earlier.

1.9 *Residential property market* went up further during the third quarter in the midst of liquidity glut and super-low interest rate environment. Market sentiment received a further boost after the announcement of another round of monetary easing in the US in September. By September, residential property prices had leaped further by 6% over June, cumulating to some 20% surge in the first nine months of 2012 and surpassing the 1997 peak by around 26%. Prices of small-and-medium-sized flats have risen by 20% during the first nine months of 2012, much faster than the 13% for larger flats. Even with prevailing low interest rates, the affordability ratio had risen to around 50% in the third quarter, close to the average of 50.4% over the past 20 years. The number of transactions, though down by 6% from the preceding quarter, was 36% higher than a year earlier. In tandem, flat rentals also rose by another 4% between June and September; whereas for commercial property markets, rentals of office space edged up by 1%, while those for retail shop space surged by 6%. With the property market showing increasing signs of exuberance, and to

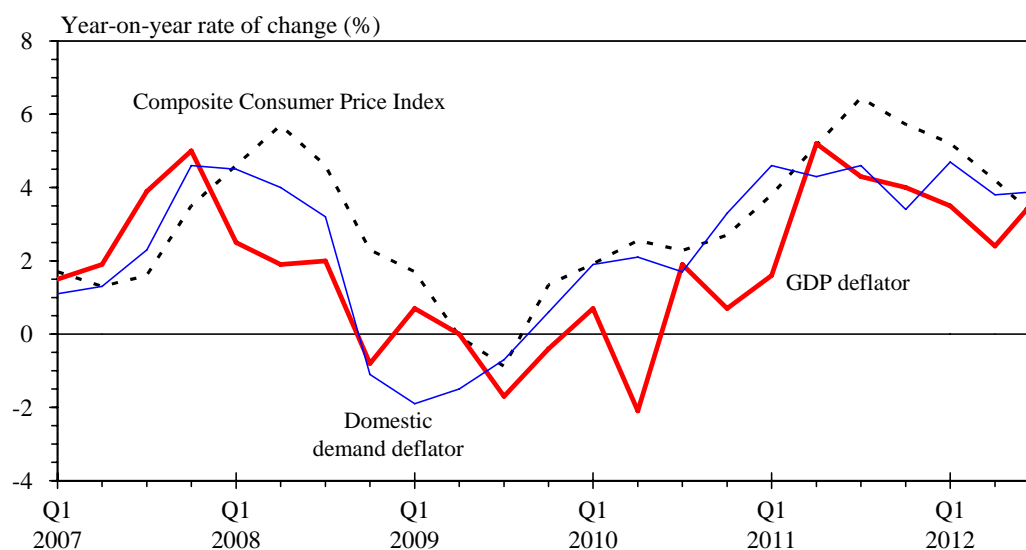
forestall the further build-up of bubble risk, in August to October the Government rolled out several rounds of measures. These included short, medium and long-term measures to increase the land and flat supply (August); tightened mortgage lending criteria to increase the resilience of the banking sector (September); as well as the enhanced Special Stamp Duty to curb speculative transactions and the introduction of a Buyer's Stamp Duty to accord priority to meeting the housing needs of Hong Kong permanent residents under a tight supply situation (October).

## **Inflation**

1.10 *Consumer price inflation* tapered further in the third quarter of 2012, thanks to receding domestic and external price pressures. On the domestic front, the relative stabilisation of fresh-letting residential rentals in late 2011 and early 2012 continued to feed through to a slower rise in the private housing rental component of the Consumer Price Index. Externally, slower inflation in the import sources and softer global food and commodity prices earlier on both led to an easing in imported inflation. Thus, with the progressive easing of food prices and private housing rentals, which together account for over half of the household consumption basket, *headline consumer price inflation* came down to 3.1% in the third quarter, from 4.2% in the second quarter. Netting out the effects of the Government's relief measures, *underlying consumer price inflation* also retreated visibly from 5.1% in the second quarter to 4.0% in the third quarter. While inflation is expected to remain largely contained in the rest of the year, the recent rebound of global food prices following the drought in the US, the further monetary easing in the advanced economies, and the renewed pick-up in local housing rentals most recently may pose some upside risks to inflation beyond the short term.

1.11 The *GDP deflator* rose by 3.8% in the third quarter over a year earlier, largely in line with the rate of increase in domestic prices.

**Diagram 1.4 : Consumer price inflation tapered further in the third quarter**



### **GDP by major economic sector**

1.12 Reflecting the slowdown of the overall economy amid an austere global environment, net output of the services sector moderated further to a 1.6% year-on-year growth in real terms in the second quarter of 2012, from 1.9% in the first quarter. Among the major service sectors, net output of the real estate sector, which mainly reflects the activity of private sector developers and property agencies, picked up to a strong year-on-year growth, mainly on the back of reviving private sector building activity. This was followed by wholesale and retail trades, as local consumption and inbound tourism continued to perform well in that quarter. The net output of public administration, social and personal services rose steadily further. On the other hand, professional and business services, information and communications, and accommodation and food services grew only modestly in net output. Financing and insurance also slowed to a meagre growth, amid more cautious market sentiments and quieter financial market activities during the second quarter, while that of import and export trade was flat. Transportation and storage even saw a relapse of net output to a modest year-on-year decline, along with the weakness in external trade. As for the secondary sector, while manufacturing output contracted further by 2.9%, construction output grew robustly by 10.2% over a year earlier, thanks to the pick-up in private sector building activity and the intensive public sector infrastructure works.

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

	<u>2011</u>	<u>2011</u>				<u>2012</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	0.7	3.5	2.0	0.2	-2.2	-1.6	-2.9
Construction	8.4	24.6	-0.5	3.5	7.5	12.8	10.2
Services <sup>(b)</sup>	4.9	7.7	5.2	4.3	2.8	1.9	1.6
Import/export, wholesale and retail trades	7.7	14.6	6.5	4.9	6.1	0.2	1.2
Import and export trade	5.9	14.0	4.1	3.0	4.2	-1.7	*
Wholesale and retail trades	16.1	17.1	17.7	15.5	14.5	9.1	6.2
Accommodation <sup>(c)</sup> and food services	1.3	0.9	0.9	2.5	1.1	-0.5	1.9
Transportation, storage, postal and courier services	7.4	10.8	5.5	7.4	5.7	4.3	-2.0
Transportation and storage	7.3	10.6	5.1	7.4	6.2	4.3	-2.2
Postal and courier services	8.1	13.7	13.3	4.4	2.8	4.7	3.3
Information and communications	2.8	4.0	2.4	1.9	3.0	0.7	1.8
Financing and insurance	7.2	11.1	11.3	8.4	-0.5	2.8	0.5
Real estate, professional and business services	1.9	2.7	1.4	1.9	1.5	3.5	4.6
Real estate	-1.6	*	-2.9	-2.0	-1.7	4.8	7.4
Professional and business services	5.0	5.4	5.3	5.3	4.1	2.3	2.2
Public administration, social and personal services	3.0	2.9	3.1	3.1	2.9	2.9	3.3

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.

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

(\*) Change of less than 0.05%.

## **Other economic developments**

1.13 To reduce Hong Kong's reliance on traditional markets and strengthen protection against fluctuations in the external trading environment, the Government continued its efforts to foster the economic ties with the Mainland, Taiwan and other economies. On the home front, to expedite the implementation of the Framework Agreement on Hong Kong/Guangdong Co-operation in the National 12th Five-Year Plan period, a co-operation agreement on the joint promotion of early achievement of liberalisation of trade in services between Hong Kong and Guangdong was signed in mid-September, covering various areas including commerce and trade, financial development, food safety, and innovation and technology co-operation. This was the first time a road map and multi-year timetable were drawn with a view to achieving the objective of liberalisation of trade in services in 2014.

1.14 In addition, the Hong Kong-Taiwan Economic & Cultural Co-operation & Promotion Council and the Taiwan-Hong Kong Economic & Cultural Co-operation Council held their third joint meeting in Taipei in late September. Both sides agreed to take forward four areas of co-operation, namely environmental protection, heritage conservation, co-operation in the testing and certification industries and notification of unsafe consumer goods, as well as exchanges between the investment promotion agencies of the two places. Through the council platform, co-operation between Hong Kong and Taiwan was enhanced in a number of areas including commerce, finance and tourism. Closer ties between Hong Kong and Taiwan will not only benefit both places but also the Mainland, through the Mainland and Hong Kong Closer Economic Partnership Arrangement and the Economic Co-operation Framework Agreement already in place.

1.15 As for overseas linkages, to reinforce our ties with the emerging markets, a seminar was jointly organised by Invest Hong Kong and the Zhuhai Municipal People's Government in Moscow in late August to demonstrate the joint competitiveness of the Pearl River Delta and the synergy of collaboration, and to reinforce Hong Kong's position as the premier location for foreign enterprises seeking to tap business opportunities in the Mainland market.

1.16 Further, the free-trade agreement between Hong Kong and the European Free Trade Association (Iceland, Liechtenstein, Switzerland and Norway) has come into force. It covers trade in goods and services, investment, and other trade-related issues such as intellectual property protection, and would enable Hong Kong service providers to enjoy better business opportunities and market access to such sectors as financial services,



testing and certification services.

1.17 Locally, in order to sustain economic growth and maintain a healthy financial system, a series of measures were put in place. These included a guarantee commitment of \$100 billion in enhancing the Financing Guarantee Scheme to help small and medium-sized enterprises (SMEs) to obtain bank credit, as well as investing in essential infrastructure projects at some \$70 billion per year in the coming years to preserve employment and lay the foundation for future growth. In addition, a series of countercyclical supervisory measures were introduced requiring banks to strengthen their liquidity and credit risk management and maintain a high degree of vigilance in their underwriting standards.

1.18 Specifically on the housing market, the Government in late August unveiled ten new measures to expedite the sale of subsidised and private residential units to meet public demand, and a two-tier structure was formed to review Hong Kong's long term housing strategy. In September, the Hong Kong Monetary Authority issued guidelines to banks tightening underwriting criteria for loans to borrowers with multiple property mortgages. Specific measures include: (1) lowering the maximum debt servicing ratio from 50% to 40%; (2) lowering the maximum loan-to-value ratio from 40% to 30%; (3) lowering the maximum loan-to-value ratio for mortgage applicants whose principal income is derived from outside Hong Kong by 20 percentage points; and (4) limiting the maximum loan tenor of all new property mortgage loans to 30 years (please see **Box 3.1** for further details). These measures were implemented with a view to strengthening risk management in mortgage lending and safeguarding banking stability in the current environment of ample global liquidity following the advanced economies' monetary easing measures. In October, the Government rolled out further demand side management measures, including the Buyer's Stamp Duty and enhanced Special Stamp Duty. Together with those measures announced earlier for increasing supply, they would help alleviate the supply-demand imbalance and contribute to the stable and healthy development of the housing market.

**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*

- *Hong Kong's trade performance remained subdued in the third quarter of 2012, as the external environment stayed generally sluggish. There were some signs of recovery in the US, but market uncertainties and worries about fiscal cliff persisted. While the European debt issue has yet to be resolved, situation has stabilised somewhat, although the overall sentiment and growth momentum remained weak. The spillovers from these economies continued to exert downward pressure on production and trading activities in Asia.*
- *Merchandise exports of Hong Kong showed a modest growth in real terms year-on-year in the third quarter of 2012, partly helped by the relatively low base of comparison in September 2011. While exports to the Mainland and Japan showed some improvement, those to the US remained slack. Exports to the EU stayed on a distinct downtrend, while many other major Asian markets saw continued decreases.*
- *Exports of services decelerated markedly to only a marginal growth in the third quarter of 2012. Market uncertainties posed a drag on exports of financial and business services. Alongside the lacklustre merchandise trade performance, exports of trade-related services remained weak while exports of transportation services went down further. Exports of travel services also experienced a significant slowdown upon the recent drop in per capita spending of visitors.*
- *Significant progress was made in strengthening trade relations with overseas markets in September. Specifically, Hong Kong and Chile signed a Free Trade Agreement to promote trade and investment. Furthermore, Hong Kong enhanced economic collaboration with Guangdong regarding promotion of early achievement of liberalisation of trade in services. Economic ties with Russia also deepened further as agreements on strengthening co-operation were reached.*

## Visible trade

### *Total exports of goods*

2.1 Hong Kong's external trade remained subdued in the third quarter of 2012 amid the global economic slowdown, while market uncertainties continued to cloud the path ahead. *Merchandise exports* (comprising re-exports and domestic exports) increased by 2.5% in real terms<sup>(1)</sup> in the third quarter of 2012 over the same period last year, after a drop of 2.2% in the preceding quarter. In the third quarter, year-on-year increase in total exports was recorded only in September, attributable partly to the low base a year earlier. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports rebounded by 4.3% in the third quarter, reversing the 4.2% drop in the second quarter.

2.2 The lacklustre global economy was tied closely with the development of the debt crisis in the eurozone. The government borrowing costs for Spain and Italy eased after the European Central Bank (ECB) unveiled in early September its plan of purchasing short-maturity government bonds of struggling eurozone members, with no ex ante quantitative limits set for the size of these Outright Monetary Transactions (OMTs)<sup>(2)</sup>. Nevertheless, financial uncertainties still overshadowed the euro area as domestic opposition to more austerity measures in these countries grew. In view of the generally weak economic fundamentals, ECB revised its economic growth projection for the euro area downwards<sup>(3)</sup>. In the US, the pace of economic recovery remained meagre. Near-term prospects were further overcast by mounting worries about "fiscal cliff" (see **Box 2.1**). Meanwhile, the effect of the third round of quantitative easing by the Federal Reserve on the real economy has yet to be seen.

2.3 Asian economies had lost some steam as sluggishness in the advanced economies continued to weigh on the manufacturing activities and exports of the Asia region. Many Asian economies including the Mainland have eased their policy in recent months to support economic growth. Against the economic backdrop of increased downside risks, the World Trade Organization (WTO) cut their forecast for world merchandise trade growth to 2.5% for 2012 from 3.7% as published in April this year. In October, the International Monetary Fund (IMF) also adjusted down its global economic growth projection to 3.3% for 2012 from 3.5% in the July round.

2.4 *Re-exports*<sup>(4)</sup>, the mainstay of Hong Kong's overall merchandise exports that accounted for 98.2% of our total exports by value, rose back by 2.6% year-on-year in real terms in the third quarter of 2012, after the 1.9% drop in the second quarter. *Domestic exports*, which constitute the remaining 1.8% of total exports, shrank by 1.2% over a year earlier in real terms in the third quarter of 2012, though visibly improved from the plunge of 17.6% in the preceding quarter.

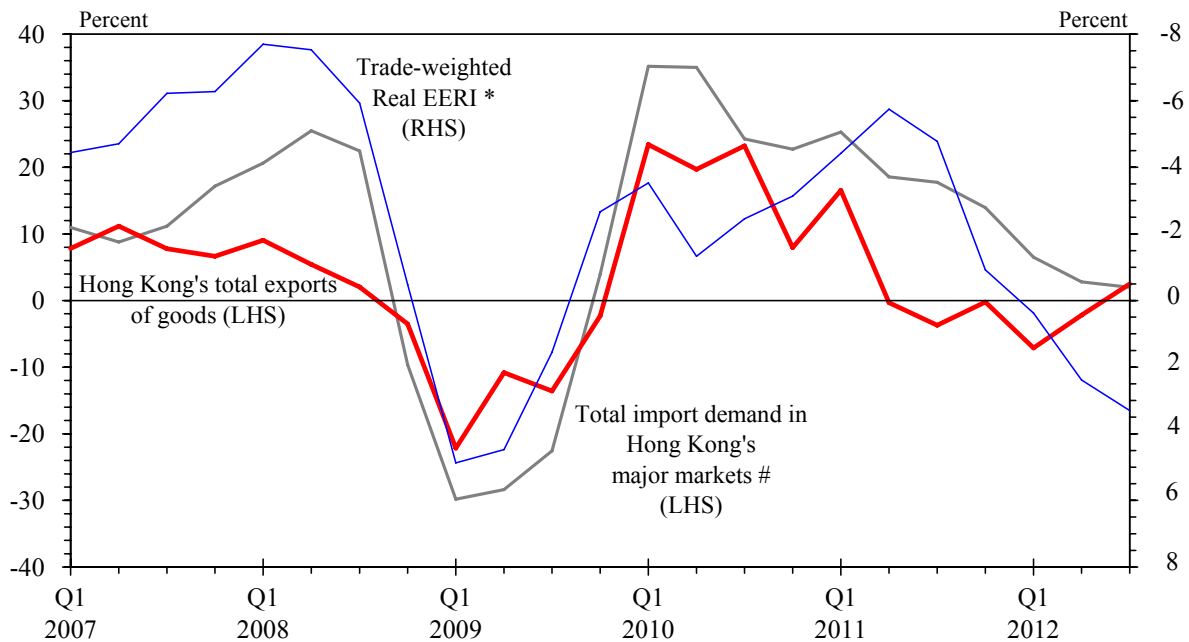
**Table 2.1 : Total exports of goods, re-exports and domestic exports  
(year-on-year rate of change (%))**

	<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>			
2011 Annual	10.1	2.4	8.0	10.5	2.7	8.0	-5.5	-11.9	6.4			
H1	15.4	7.4	8.1	15.6	7.6	8.1	6.2	-0.9	6.5			
H2	5.5	-2.0	8.1	6.0	-1.6	8.2	-16.0	-21.9	6.7			
Q1	24.6	16.5	(9.6)	7.6	24.9	16.9	(9.8)	7.6	11.9	3.9	(2.3)	6.7
Q2	7.7	-0.3	(-9.6)	8.6	7.9	-0.2	(-9.6)	8.7	1.2	-5.2	(-9.8)	6.4
Q3	4.2	-3.7	(*)	8.6	4.6	-3.4	(0.3)	8.6	-12.3	-19.0	(-14.2)	7.6
Q4	6.9	-0.2	(0.5)	7.6	7.5	0.4	(0.6)	7.7	-19.5	-24.7	(-5.2)	5.8
2012 H1	0.3	-4.6	5.3	0.7	-4.3	5.3	-19.4	-22.2	2.8			
Q1	-1.5	-7.1	(2.1)	6.2	-1.0	-6.7	(2.1)	6.2	-24.1	-26.9	(0.4)	3.0
Q2	1.9	-2.2	(-4.2)	4.4	2.3	-1.9	(-4.3)	4.4	-14.8	-17.6	(1.4)	2.6
Q3	3.8	2.5	(4.3)	1.8	3.9	2.6	(4.3)	1.8	0.5	-1.2	(3.5)	1.4

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

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

**Diagram 2.1 : Merchandise exports rose back in the third quarter of 2012  
(year-on-year rate of change)**



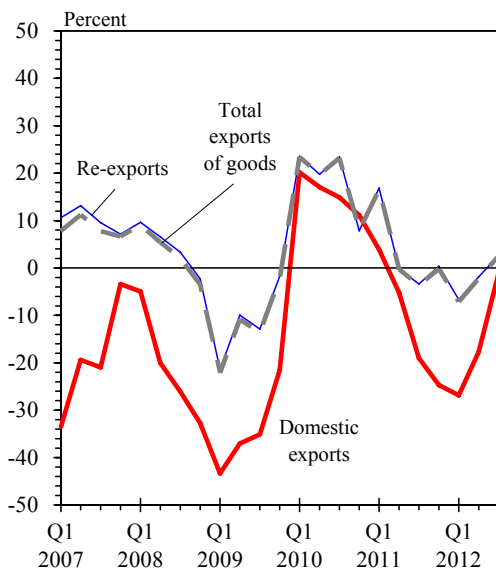
Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European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

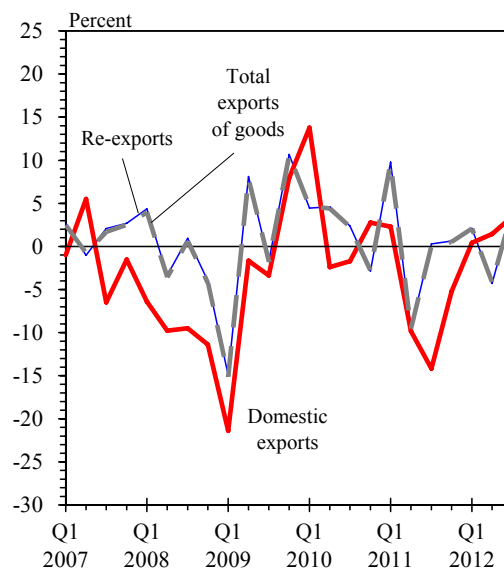
(#) Import demand figure for the third quarter of 2012 is based on statistics for July and August 2012.

**Diagram 2.2 : Re-exports grew modestly 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**



## Box 2.1

### The “fiscal cliff” facing the US economy

First coined by the Fed Chairman Ben Bernanke in late February 2012, the term “fiscal cliff” becomes popular as a general description of a wide range of tax increases and fiscal spending cuts due to take effect in the US under the current US law around this year-end. Adopting this huge fiscal consolidation within a short time as the baseline scenario, the nonpartisan Congressional Budget Office (CBO) estimated in August 2012 that fiscal deficit would narrow markedly by US\$487 billion (about 3% of US’s GDP) in fiscal year 2013 (FY2013) as compared to FY2012<sup>(1)</sup>. The major changes in fiscal policies and their corresponding contributions to the deficit reduction as postulated by the CBO are listed below. It should be noted that other policy, economic and budgetary developments not listed below would also affect the estimated budget deficits in 2012 and 2013 by the CBO.

#### *Major scheduled changes in tax policies under current law:*

- Expiration of the provisions that limited the reach of the alternative minimum tax in December 2011 will increase tax revenues in 2013 as compared to 2012. Also, other provisions that extended the lower tax rates, expanded credits and deductions originally enacted in 2001, 2003 and 2009 are set to expire on 31 December, 2012. These changes will increase federal revenues by about US\$225 billion in FY2013.
- Expiration of the two-percentage point cut in payroll tax rate initiated in January 2011 by the end of this year will raise revenues by about US\$85 billion in FY2013.
- Various other provisions that expired at the end of 2011 or that are slated to expire by the end of 2012 will boost revenues by about US\$65 billion in FY2013.
- Some tax provisions that are scheduled to take effect in January 2013, including an increase in the tax rates on earnings and investment income for high-income taxpayers, will raise revenues by about US\$18 billion in FY2013.

#### *Major scheduled changes in spending policies under current law:*

- Commencement of automatic enforcement procedures designed to restrain discretionary and mandatory spending in January 2013 will lower outlays by US\$54 billion in FY2013.
- Expiration of emergency unemployment compensation by the end of 2012 will reduce outlays by US\$34 billion in FY2013.
- Reduction of Medicare’s payment rates for physicians by 27% in January 2013 will lower spending by US\$10 billion in FY2013.

If nothing is done by the US Congress after the election in November, the contractionary impact on the US economy arising from the “fiscal cliff” will be severe. According to the CBO (*baseline scenario in Table 1*), the US economy would shrink by 0.5% in the fourth quarter of 2013 from that of 2012, falling into a recession. The labour market would deteriorate again, with the unemployment rate surging from the latest 7.9% to more than 9% by the fourth quarter of 2013. In sum, the “fiscal cliff” represents a heavy punch to the already-slow-moving US economy, which grew only at an annualised rate of 2.0% in the third quarter of 2012.

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(1) “An Update to the Budget and Economic Outlook: Fiscal Years 2012 to 2022”, CBO, August 2012.

### Box 2.1 (Cont'd)

The US Congress can avert the “fiscal cliff” if agreement can be reached on revising the current law by the end of this year. To illustrate how different decisions by the US Congress would affect the future growth path of the US economy, the CBO provided an alternative scenario, based on the following hypothetical policy changes:

- all expiring tax provisions (other than the payroll tax rate reduction), including those that expired at the end of 2011, are extended;
- the alternative minimum tax is indexed for inflation after 2011 (starting from the 2011 exemption amount);
- medicare’s payment rates for physicians remain unchanged from the current amounts; and
- the automatic enforcement procedures designed to restrain spending do not take effect (although the original caps on discretionary appropriations in that law remain in place).

Relative to the baseline scenario, the near term economic outlook under the alternative scenario improves visibly (*Table 1*). However, the estimated fiscal deficit would stay high at 6.5% of GDP in 2013 in the alternative scenario, as compared to the deficit of 4.0% in the baseline scenario. Even then, the US economy is only projected to post a very modest growth in 2013 at 1.7%, and the unemployment rate to stay high at 8.0% by end-2013.

**Table 1 : CBO’s projections on key US economic indicators**

	<u>2012</u>	<u>2013</u>	
		<u>Baseline scenario</u>	<u>Alternative scenario</u>
Real GDP*	2.1	-0.5	1.7
Unemployment rate (%)#	8.2	9.1	8.0

Notes : (\*) Percentage change from the fourth quarter of the previous year to the fourth quarter of the year indicated.

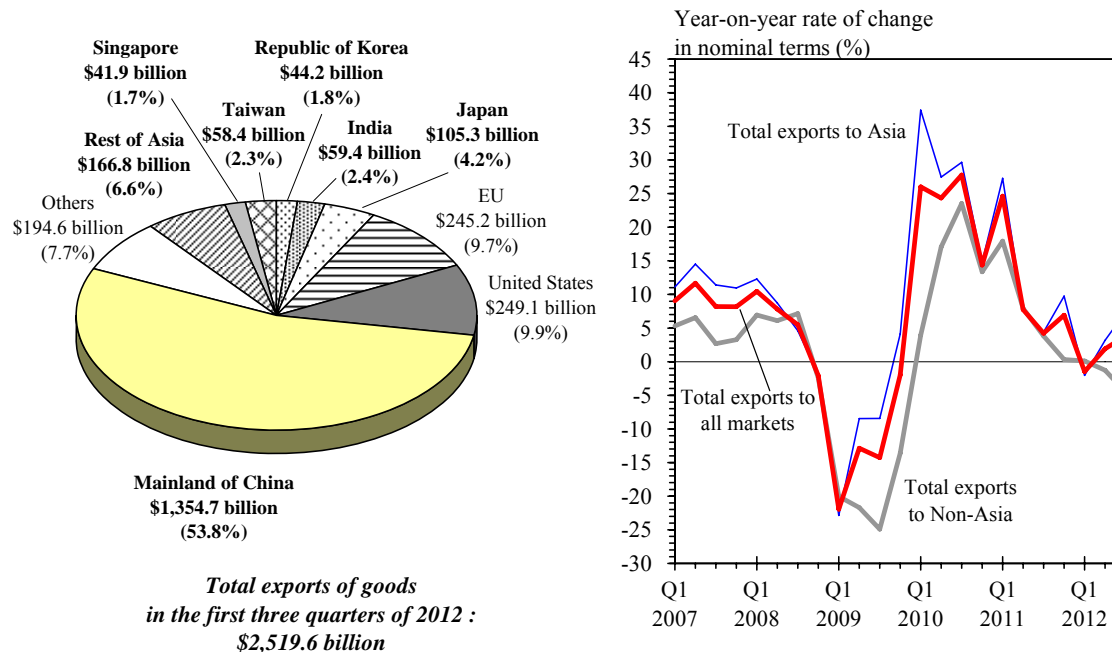
(#) Fourth-quarter level.

From a broader perspective, the “fiscal cliff” also reveals the urgent need to strike an important and delicate balance between short-term economic growth and long-term fiscal sustainability of the US economy. On the one hand, the pace of recovery in the US economy from the 2008-09 recession has been modest. The abrupt premature tightening as prescribed in the current law could derail the fragile recovery process. On the other hand, the debt burden on the economy as a whole could escalate to unsustainable levels if the budget deficit is to narrow only slowly over time. Because both goals are of great importance, the IMF had, on multiple occasions, urged policymakers to avoid excessive fiscal consolidation while delivering credible medium-term fiscal plans for the US economy.

Indeed, the pressing need to avoid falling off the “fiscal cliff” has been recognised by most US politicians. Reportedly, there have been discussions among some members of the old Congress over the possibility of introducing some temporary solutions, with a view to buying time for the newly elected President and the new Congress to work on the issue next year. In any case, the challenge is immense for the US politicians and also increases notably the uncertainty facing the global economy. Should the US economy relapse into recession, the repercussions for world trade and global economic growth would be severe. How the US Congress is going to resolve such a dangerous issue needs to be monitored closely.



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



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

	<u>Annual</u>	<u>2011</u>				<u>2012</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Mainland of China	2.5	19.3	-2.5	-6.2	2.8	-7.8	-0.6	9.7
United States	-9.2	5.4	-12.0	-15.1	-11.0	-7.1	0.1	-0.1
European Union	-2.2	6.6	-0.9	-4.3	-8.3	-9.7	-12.5	-14.1
Japan	-2.2	4.1	-5.9	-4.1	-2.3	-1.5	1.5	3.3
India*	15.7	38.5	14.8	9.4	2.6	-23.8	-23.7	-22.3
Taiwan	14.7	14.5	18.8	19.0	6.9	-21.4	-2.1	-10.7
Republic of Korea	7.1	15.1	9.8	4.8	-0.5	-5.2	-5.7	-2.2
Singapore	4.7	19.2	7.4	-0.4	-4.9	-14.1	2.1	-0.3
United Kingdom	-11.4	-8.1	-10.4	-6.1	-20.5	-4.1	-11.4	-18.4

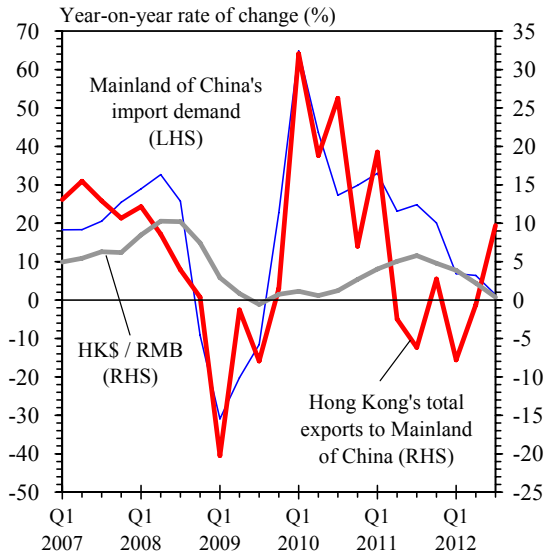
Note : (\*) The volume figures for exports to India are crude estimates, as a unit value index specifically compiled for exports to India is not available.

2.5 Hong Kong's total exports to the major trading partners showed varied performance (Diagrams 2.4 to 2.11). Total exports to Mainland China, our largest trading partner, reverted to a strong year-on-year growth at 9.7% in the third quarter as investment and consumer demand in the Mainland generally held up well. Reflecting this, exports of capital goods, raw materials and consumer goods to the Mainland rose by 12.8%, 10.3% and 8.4% respectively in value terms in the third quarter of 2012. They correspondingly contributed to 43.1%, 47.1% and 8.7% of Hong Kong's total exports to the Mainland in value terms. Meanwhile, exports to Japan picked up further, supported by a 15.6% increase in raw materials, 6.6% increase in consumer goods and 4.7% increase in capital goods in value terms in the third quarter. These respectively accounted for 17.4%, 48.1% and 34.3% of Hong Kong's total exports to Japan.

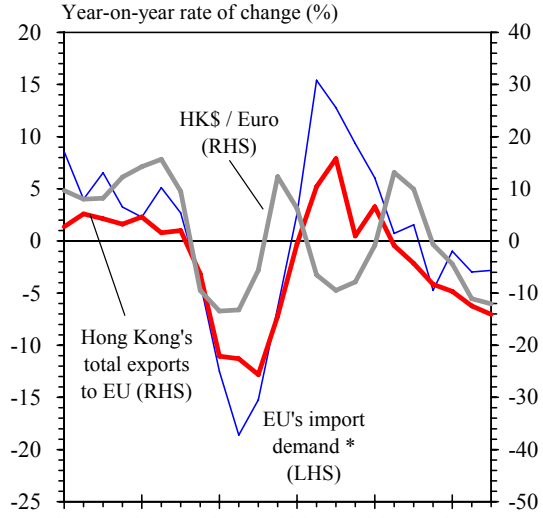
2.6 However, the persistent languor of the advanced economies continued to weigh on Hong Kong's exports. Alongside high unemployment rate, weak retail sales and contracted industrial production, the EU remained the worst performer amongst Hong Kong's major export markets, with total exports plunging by 14.1% in real terms in the third quarter. In particular, exports to the United Kingdom (-18.4%), Germany (-17.8%) and Italy (-14.9%) all fell considerably in the period. Meanwhile, total exports to the US were also weak (-0.1%) amid its slow economic recovery. Over the same period, exports to Singapore weakened, and those to the Republic of Korea, Taiwan, Thailand, and India were still on a decline, affected by the strong headwinds from the West.

2.7 Analysed by end-use, total exports of consumer goods continued to be adversely affected by weak consumer sentiment in some major trading partners such as the EU. Total exports of capital goods however maintained its growth momentum, supported partly by the solid investment growth in the Mainland. Total exports of raw materials rebounded, again driven mainly by improved demand from the Mainland. On the other hand, exports of raw materials to Indonesia, Thailand and the Philippines remained slack, reflecting the drag from weak final demand in the advanced markets on the production and export activities in these economies.

**Diagram 2.4 : Exports to the Mainland rebounded strongly**

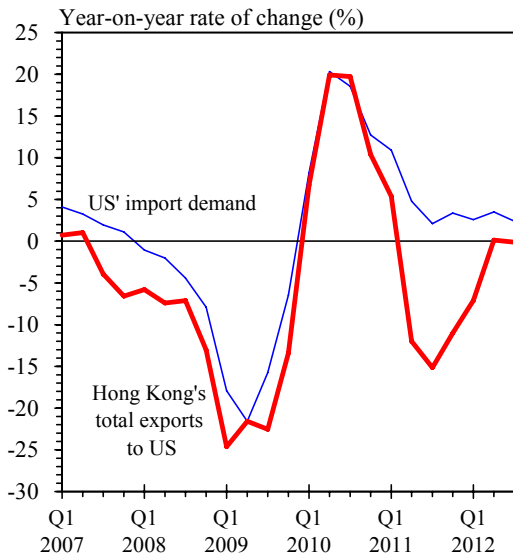


**Diagram 2.5 : Exports to the EU continued to show distinct weakness**

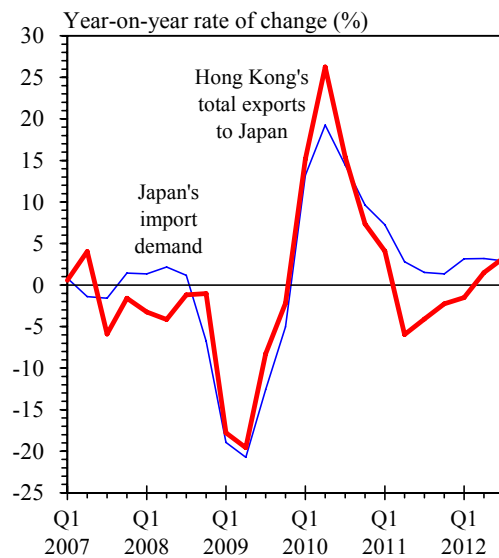


Note : (\*) Import demand figure for the third quarter of 2012 is based on statistics for Jul-Aug 2012.

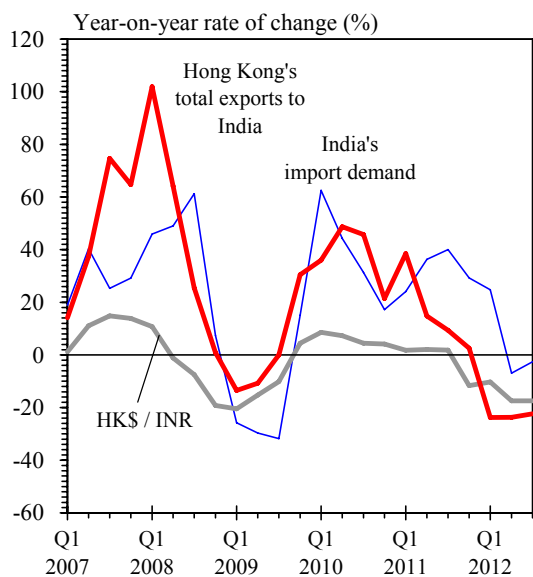
**Diagram 2.6 : Exports to the US stayed weak**



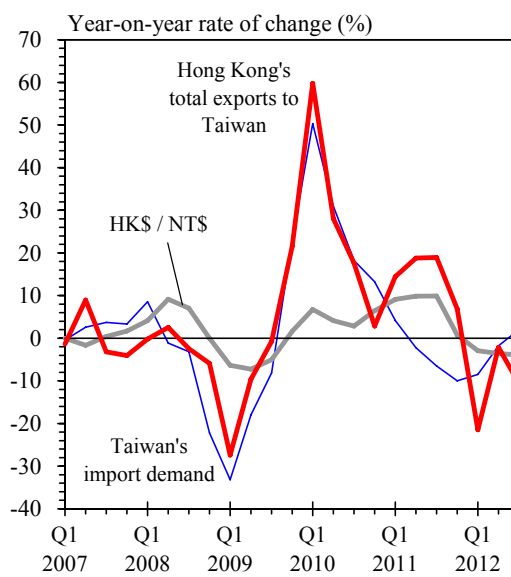
**Diagram 2.7 : Exports to Japan showed further improvement**



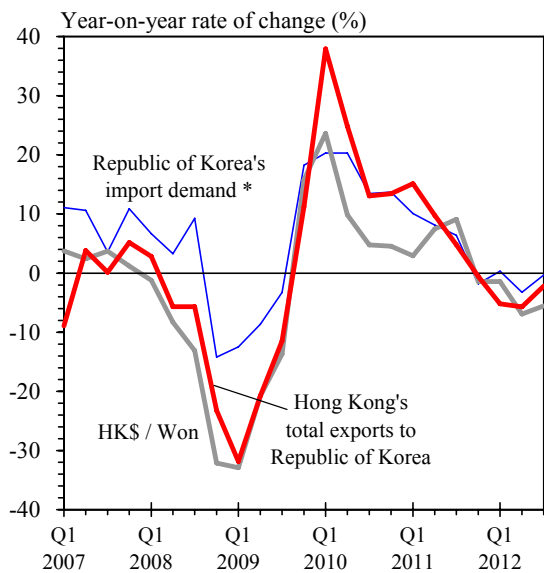
**Diagram 2.8 : Exports to India plunged further**



**Diagram 2.9 : Exports to Taiwan remained on a downtrend**

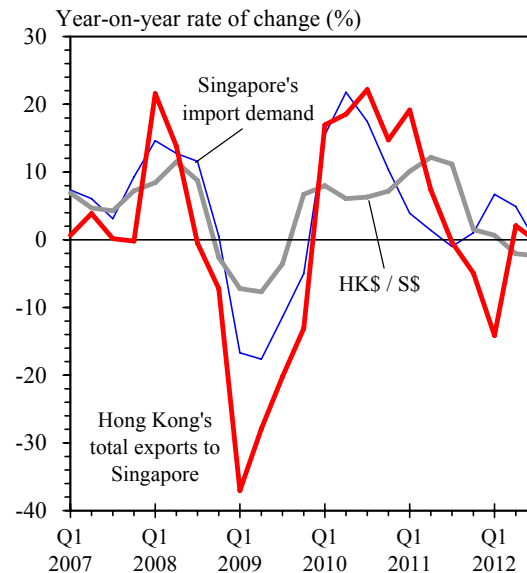


**Diagram 2.10 : Exports to the Republic of Korea declined further**



Note : (\*) Import demand figure for the third quarter of 2012 is based on statistics for Jul-Aug 2012.

**Diagram 2.11 : Exports to Singapore relapsed to year-on-year decline**



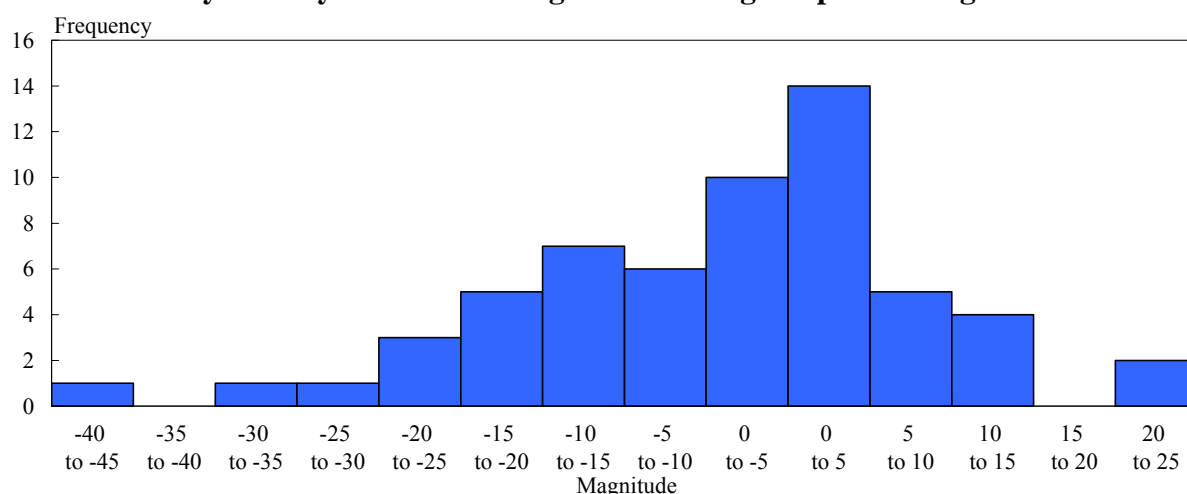
## Box 2.2

### Statistical analysis for the tail risks of merchandise exports

Hong Kong is a small open economy, and its trade sector has long been rather susceptible to shocks from the external front. This is particularly so for Hong Kong's merchandise trade. As the performance of merchandise exports is crucial to Hong Kong's overall economic growth, it is useful to review the past volatility of such exports, by means of a statistical investigation, to get the feel of their likelihood of experiencing an exceptionally large decline in any particular year. The probability distribution so obtained, though necessarily crude, could be of reference value for building the worst case scenario in stress tests that required input assumptions on export performance.

The present exercise makes use of a pure statistical theory, commonly used in gauging tail risks, to shed some light on the issue without analysing the underlying economic causes for the fluctuations in exports. Monthly figures of Hong Kong's merchandise exports, in terms of the year-on-year rate of volume change, from January 1953 to December 2011 are used<sup>(1)</sup>. By extracting the smallest value from each year, a sample of annual minima is obtained. The data are plotted as a histogram in *Chart 1*. The histogram shows that most of these minima clustered between +5% and -15%, with some outliers lying beyond the thresholds of +20% and -40%. The histogram roughly resembles the bell-shaped normal distribution. Further inspection through the quantile-quantile plot and the mean excess plot<sup>(2)</sup> (*Chart 2*) suggests that the distribution of the sample does not differ noticeably from the normal distribution and the evidence for existence of fat tails is not strong<sup>(3)</sup>. Other statistical tests<sup>(4)</sup> also fail to reject the assumption of normal distribution.

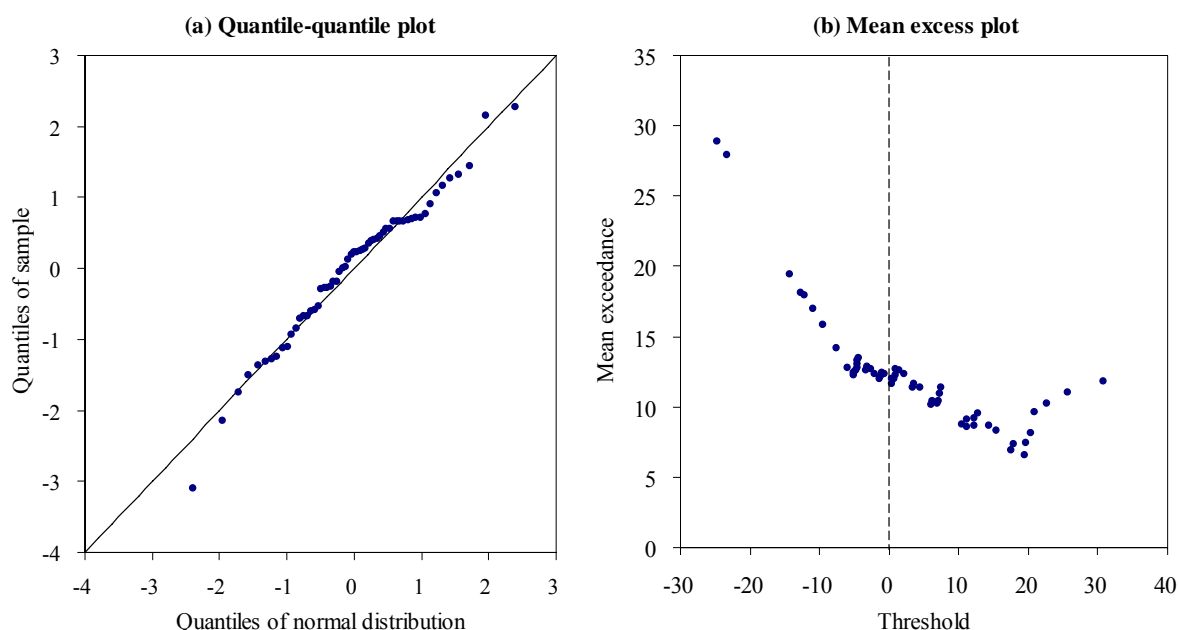
**Chart 1 : Histogram of annual minima of Hong Kong's merchandise exports year-on-year rate of change after netting out price changes**



- (1) For the period before 1983, prior to the compilation of the quantum index of merchandise trade, price changes in merchandise exports were crudely estimated by domestic inflation. The merchandise exports values were also adjusted for exchange rate fluctuations, and the months of January and February were jointly considered to smooth out any potential distortions due to the timing of the Lunar New Year.
- (2) Quantile-quantile plot matches the quantiles of two probability distributions against each other. If the two distributions being compared are similar, the points on the quantile-quantile plot will approximately lie on the 45° line. Mean excess plot maps the threshold values to the average exceedance above the threshold. For distributions with fat tails, the larger the threshold the larger the mean excess will be and the diagram should show aligned points with a positive gradient. With a focus on the downside risk, for this chart the signs of the sample data were reversed so the relevant part is to the right of the dashed line.
- (3) Should the distribution be identified with fat tail, the extreme value theory provides a better theoretical foundation for statistical analysis. In fact, attempts have been made to employ the extreme value theory in conducting the study but the results are qualitatively the same.
- (4) Including Anderson-Darling test and Jarque-Bera test.

**Box 2.2 (Cont'd)**

**Chart 2 : Visual inspection for normality**



Building on the assumption of normal distribution, a summary of statistical analysis is depicted in **Table 1**. The first column shows the inferences based on full sample estimation, while the other two columns use a smaller sample to allow for cross-checking of results. The first two rows are self-explanatory. The next three rows of the table give the probabilities of certain sizes of year-on-year decline happening in the worst performing month of a year. The last four rows present the order of magnitudes of the exceptional plunge expected from occurrences in the designated frequencies<sup>(5)</sup>.

**Table 1 : Summary of analysis on merchandise exports**

	Full sample (1953 - 2011)	Sub-sample (1953 - 2001)	Sub-sample (1953 - 1991)
<b>Sample mean (%)</b>	-3.8	-4.1	-5.1
<b>Sample standard deviation (%)</b>	12.5	12.9	13.7
<b>Probability of occurrence in the worst performing month of any particular year :</b>			
Decline of 10% or more	31.0%	32.5%	35.9%
Decline of 20% or more	9.8%	11.0%	13.8%
Decline of 30% or more	1.8%	2.3%	3.5%
<b>Potential size of exceptional decline (%) :</b>			
Once-in-five-years decline	-14.3	-15.0	-16.6
Once-in-ten-years decline	-19.9	-20.7	-22.7
Once-in-20-years decline	-24.4	-25.4	-27.6
Once-in-50-years decline	-29.5	-30.7	-33.2

(5) This is the rate of decline ( $R^k$ ) expected to be exceeded once out of  $k$  years and is given by the formula :

$$R^k = \Phi^{-1}\left(1 - \frac{1}{k}\right)$$

where  $\Phi^{-1}$  is the inverse cumulative normal distribution function.

## Box 2.2 (Cont'd)

The first column suggests that there is almost one-in-three chance that Hong Kong's merchandise exports would drop by more than 10% year-on-year in the worst performing month in any particular year. Yet the probability of seeing a 20% decline shrinks sharply to about one-tenth and even much less for a decline of more than 30%. The corresponding probabilities obtained from the smaller sub-samples covering the earlier years are slightly larger, reflecting the more volatile external trade back then.

On the other hand, the full sample analysis shows that the magnitude of a once-in-five-years decline is roughly about 15% year-on-year, varying slightly across different sample periods. The interpretation is that merchandise exports are expected to fall by at least about 15% year-on-year in the worst performing month in any five-year period. Observation on the sample data over the past several decades seems to be largely consistent with this result. Calculations also show that the significant plunge in merchandise exports in 2009 (falling by almost 23% year-on-year in the first two months of 2009) is pretty much a once-in-20-years decline. Extending this analysis further, the results from the full sample analysis imply that a once-in-50-years decline would be about 30%, which had happened twice in our sample (in 1953 and 1954) during the truly exceptional period of the embargo imposed by the United Nations due to the Korean War. Analyses using the smaller sub-samples also point to the same order of magnitude.

The statistical analysis above provides a simple summary on the tail risks in Hong Kong's merchandise exports. Like any other statistical analyses of this sort, the dynamic relationships between Hong Kong's merchandise exports and the underlying macroeconomic factors are not considered here. Therefore, the results should be interpreted with caution. Moreover, this analysis only focuses on the worst performing month in any particular year, while giving no accounts on the performance in the second-worse as well as the other months. As such, the largest decline could be the trough of a prolonged period of depression or might just be a sudden plunge amid a period of solid growth. Nevertheless, the findings may serve as useful reference, from the statistical perspective, for benchmarking the relevant assumptions used in stress tests for risk management purposes.

## *Imports of goods*

2.8 *Imports of goods* grew by 2.7% in real terms in the third quarter, reversing the 1.3% decline in the preceding quarter. This was due to the modest pick up in re-exports (see paragraph 2.4) and slightly faster growth in retained imports. Like exports, the third quarter year-on-year increase in imports was also partly boosted by the relatively low base in September last year. *Retained imports*, which accounted for over one quarter of total imports, grew by 2.9%. Analysed by end-use category, retained imports of capital goods accelerated in the third quarter backed by resilient domestic investment, with the fastest growth recorded for the sub-category of telecommunications equipment. Retained imports of raw materials and semi-manufactures resumed modest growth. Retained imports of consumer goods and foodstuffs turned into decline, conceivably due to a somewhat more cautious sentiment, but the distinctly high base of comparison in the same quarter last year was also relevant.

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

		<u>Imports of goods</u>			<u>Retained imports<sup>(a)</sup></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>		
2011	Annual	11.9	4.1	8.1	17.3	7.8		9.5	
	H1	15.0	6.6	8.4	14.8	4.1		10.6	
	H2	9.1	1.7	7.9	19.8	11.5		8.3	
	Q1	20.6	11.4	(7.8)	8.9	11.0	-2.1	(2.2)	13.8
	Q2	10.3	2.5	(-5.1)	8.1	18.1	10.1	(8.8)	7.7
	Q3	8.9	0.9	(0.4)	8.6	24.2	14.4	(0.6)	9.8
	Q4	9.3	2.5	(-0.3)	7.1	15.6	8.7	(-2.8)	6.9
2012	H1	1.4	-2.7	4.4	3.3	1.6		2.1	
	Q1	0.7	-4.1	(0.7)	5.0	5.4	3.5	(-2.9)	1.7
	Q2	2.1	-1.3	(-1.9)	3.9	1.5	*	(4.9)	2.5
	Q3	4.5	2.7	(3.8)	2.3	6.0	2.9	(2.7)	3.5

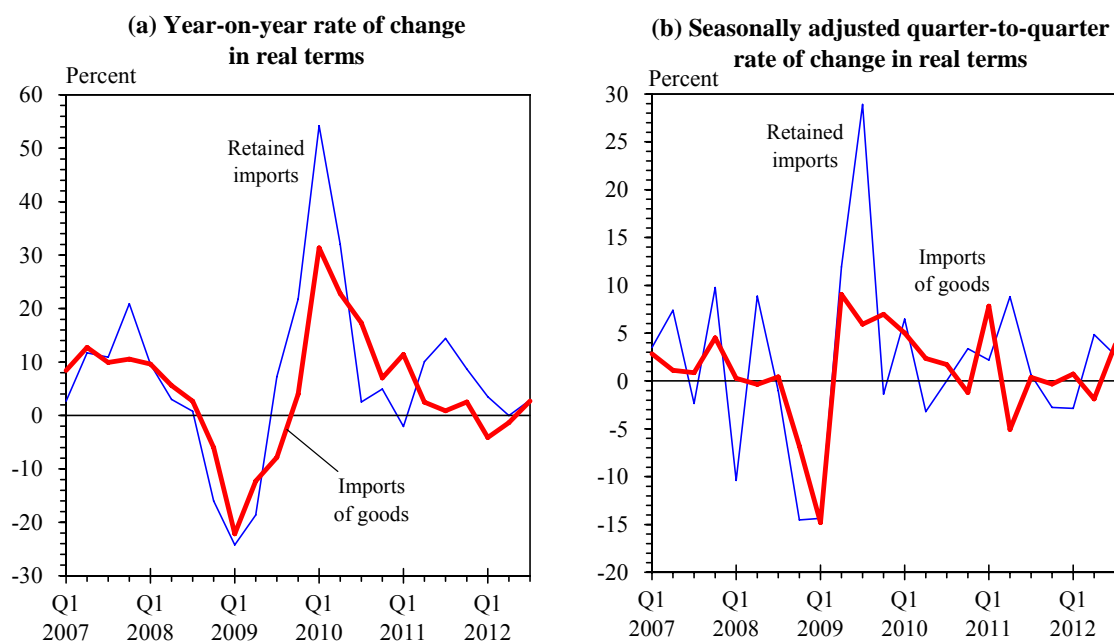
Notes : (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

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

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



**Diagram 2.12 : Imports reverted to a slight increase, thanks to the modest growth in re-export trade and slightly faster growth in retained imports**



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

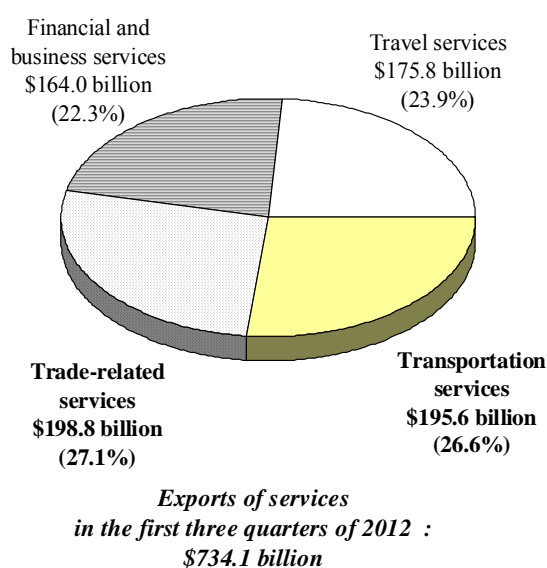
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2011	Annual	32.9	5.7	14.8	-3.7	-9.6
	H1	36.2	0.2	-3.5	-3.7	-10.6
	H2	29.8	11.1	34.0	-3.7	-8.7
	Q1	25.3	-5.7	-25.6	-7.2	4.0
	Q2	46.3	6.7	19.4	-0.2	-21.3
	Q3	48.6	18.9	28.1	-2.7	-12.2
	Q4	14.2	5.0	39.8	-4.8	-5.1
	2012	H1	7.4	3.6	23.9	-12.2
Q1		16.1	4.8	50.7	-19.8	-6.9
Q2		0.5	2.5	6.6	-5.1	-4.0
Q3		-5.4	-5.6	20.0	1.6	-4.3

## Invisible trade

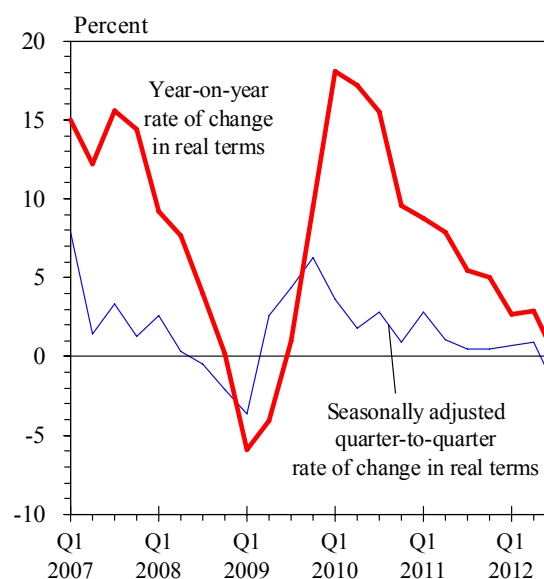
### *Exports of services*

2.9 *Exports of services* decelerated markedly to a meagre growth at 0.1% year-on-year in real terms in the third quarter of 2012, from the 2.9% increase in the second quarter. Exports of transportation services shrank further, and exports of trade-related services, comprising mainly offshore trade activities, stayed soft, in tandem with the sluggish regional trade flows. Exports of financial and business services lapsed to a decline as cross-border financing, fund raising and other commercial activities slowed amid a difficult global economic environment and more cautious market sentiment. Exports of travel services also moderated significantly owing to the decline in per capita spending of visitors in recent months, though visitor arrivals continued to register double-digit increase.

**Diagram 2.13 : Trade-related and transportation services accounted for over half of service exports, reflecting Hong Kong's position as a trading hub**



**Diagram 2.14 : Exports of services decelerated markedly in the third quarter**



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

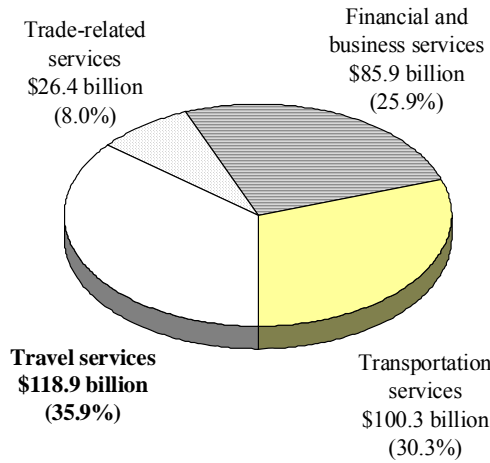
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services<sup>(c)</sup></u>
2011	Annual	6.7	4.2	2.9	14.2	7.7
	H1	8.3	7.4	3.4	12.4	11.6
	H2	5.2	2.0	2.3	15.8	3.9
	Q1	8.8 (2.8)	11.4	1.3	10.1	13.9
	Q2	7.9 (1.1)	3.4	5.2	15.0	8.7
	Q3	5.5 (0.5)	2.4	2.3	10.8	8.7
	Q4	5.0 (0.5)	1.6	2.4	20.8	-0.8
2012	H1	2.8	-0.5	-0.8	11.9	2.2
	Q1	2.7 (0.7)	-1.6	2.3	10.1	1.1
	Q2	2.9 (0.9)	0.7	-3.4	13.7	3.7
	Q3	0.1 (-1.9)	1.2	-5.2	6.6	-1.3

- Notes :
- (a) Comprising mainly offshore trade.
  - (b) Comprising mainly inbound tourism receipts.
  - (c) Comprising financial, insurance, business and professional, and other services.
  - ( ) Seasonally adjusted quarter-to-quarter rate of change.

### ***Imports of services***

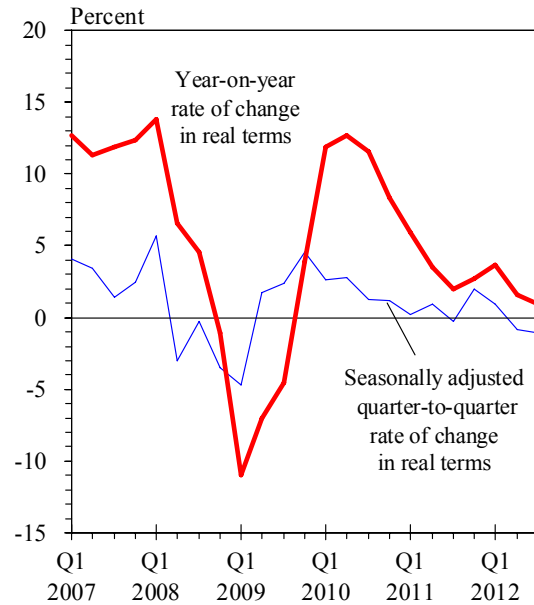
2.10 *Imports of services* likewise slowed, registering a year-on-year growth of only 0.9% in real terms in the third quarter of 2012, down from that of 1.6% in the second quarter. Hampered by slackened trade flows, imports of transportation services contracted further, while imports of trade-related services remained subdued. Likewise, imports of financial and business services fell slightly amid uncertainties in the global economic outlook. On the other hand, imports of travel services saw a notable increase as outbound travel demand of local residents held up relatively well.

**Diagram 2.15 : Travel services had the largest share in imports of services**



*Imports of services  
in the first three quarters of 2012 :  
\$331.4 billion*

**Diagram 2.16 : Imports of services grew mildly**



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

*Of which :*

		Imports of services	Travel services <sup>(d)</sup>	Transportation services	Trade-related services	Financial and business services <sup>(e)</sup>
2011	Annual	3.5	2.9	3.3	3.9	4.2
	H1	4.7	3.6	4.4	9.6	5.1
	H2	2.4	2.3	2.3	*	3.3
	Q1	5.9 (0.2)	3.4	6.0	13.0	7.1
	Q2	3.5 (0.9)	3.8	3.0	6.3	2.7
	Q3	2.0 (-0.3)	1.8	1.9	0.4	3.0
	Q4	2.7 (2.0)	2.8	2.7	-0.4	3.6
	2012	H1	2.6	5.3	0.7	-0.7
2012	Q1	3.7 (0.9)	5.7	3.8	*	2.3
	Q2	1.6 (-0.8)	4.9	-2.1	-1.3	2.9
	Q3	0.9 (-1.1)	6.8	-4.2	-0.8	-0.4

Notes : (d) Comprising mainly outbound travel spending.

(e) Comprising financial, insurance, business and professional services and other services.

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

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

## Visible and invisible trade balance

2.11 With the invisible trade account surplus outweighing the merchandise trade account deficit, the combined visible and invisible trade balance reverted to an overall surplus of \$27 billion (equivalent to 2.3% of the total value of imports of goods and services) in the third quarter of 2012, after a deficit in the preceding quarter. Nevertheless, the surplus was smaller than the corresponding figures of \$35 billion or 3.1% of the total value of imports of goods and services in the same quarter of 2011, as a combined result of the austere external environment and softer domestic demand.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2011	Annual	3,411	952	3,848	438	-437	514	77	1.8
	H1	1,631	440	1,849	207	-217	232	15	0.7
	H2	1,780	513	2,000	231	-220	282	62	2.8
	Q1	797	223	890	104	-92	120	27	2.7
	Q2	834	216	959	104	-125	113	-12	-1.1
	Q3	891	252	993	115	-103	138	35	3.1
	Q4	889	261	1,006	116	-117	144	27	2.4
2012	H1	1,679	475	1,961	216	-282	259	-22	-1.0
	Q1	803	242	933	110	-130	132	2	0.2
	Q2	876	233	1,028	106	-152	127	-24	-2.1
	Q3	943	259	1,059	116	-116	143	27	2.3

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

## Other developments

2.12 The Government has been active in promoting economic links with the emerging markets to provide new catalyst to our external trade growth. Hong Kong and Chile signed a Free Trade Agreement (FTA) on 7 September 2012, which will take effect on a date to be mutually determined by the two economies after completing the necessary domestic procedures. Traders and investors on both sides will be able to enjoy preferential access to the respective markets under the FTA, which encompasses trade in goods and services (including financial services), investment relations, and other trade-related areas<sup>(5)</sup>. Besides, this carries significant strategic value for Hong Kong by expanding our FTA network to the Latin America region, in addition to our existing links with the Asia-Pacific and European regions. It will further

strengthen Hong Kong's position as an international trade, commerce and investment centre.

2.13 During the Financial Secretary's visit to Russia in September, both sides agreed to strengthen co-operation on various fronts, such as transport and infrastructure, financial investment, tourism and trade in agricultural products. Notwithstanding the existing small shares of Chile and Russia in Hong Kong's total merchandise trade, bilateral trade with these two economies has been expanding at above-average rates in the past five years (annual average at 10% and 21% respectively in value terms). These enhanced trade efforts are expected to create greater potential for closer economic ties between Hong Kong and the two places.

2.14 Economic collaboration between Hong Kong and Guangdong saw further progress in the third quarter of 2012. At the 15<sup>th</sup> Plenary of the Hong Kong / Guangdong Co-operation Joint Conference held in September, the two Governments signed letters of intent and co-operation agreements on the speeding up of transformation and upgrading of Hong Kong-invested processing trade enterprises, as well as the joint promotion of early achievement of liberalisation of trade in services between the two places. In addition, there was signing of letters of intent and co-operation agreements of corporates/institutes/authorities covering various aspects such as construction and operation of intercity railway, and innovation and technology. These should further open up business opportunities for enterprises of both places, and foster the development of the services sector.

## 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) The Outright Monetary Transactions (OMTs) aims at safeguarding an appropriate monetary policy transmission. OMTs is conditionality attached to an appropriate European Financial Stability Facility/European Stability Mechanism (EFSF/ESM) programme in the form of full EFSF/ESM macroeconomic adjustment programme or ECCL, the Enhanced Conditions Credit Line, a precautionary programme. There is no ex ante quantitative limits set for the size of OMTs and the liquidity created through OMTs will be fully sterilised.
- (3) In September, ECB revised downward the real GDP growth projection for the euro area to between -0.6% and -0.2% for 2012 and between -0.4% and 1.4% for 2013. In early November, European Commission also revised the euro area real GDP projection downward to -0.4% in 2012 and 0.1% in 2013.
- (4) 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.
- (5) The FTA pact also contains provisions to promote competition, facilitate access to each other's government procurement market, enhance co-operation in customs procedures and protect the environment.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *The residential property market was buoyant in the third quarter of 2012 amid the low interest rates and a tight housing demand-supply balance. Market sentiment reached a high in September upon announcement of further monetary easing measures in the United States and other major advanced economies. Overall flat prices surged by 6% during the quarter while trading activities gradually picked up.*
- *The continued surge in property prices notwithstanding the global and local economic slowdown is a cause for concern. In August and September the Government announced further packages of measures to strengthen its efforts in increasing land and flat supply and preventing the excessive growth of mortgage loans. In October the Government announced another round of measures to further curb speculative activities and dampen demand from non-local buyers.*
- *Driven by the strong growth in Mainland visitors, inbound tourism remained generally robust in the third quarter, with total visitor arrivals surging by 17.7% over a year earlier to 13.1 million.*
- *The sluggish external trade continued to hit the logistics sector. Container throughput recorded visible decline while air freight throughput showed only modest growth.*

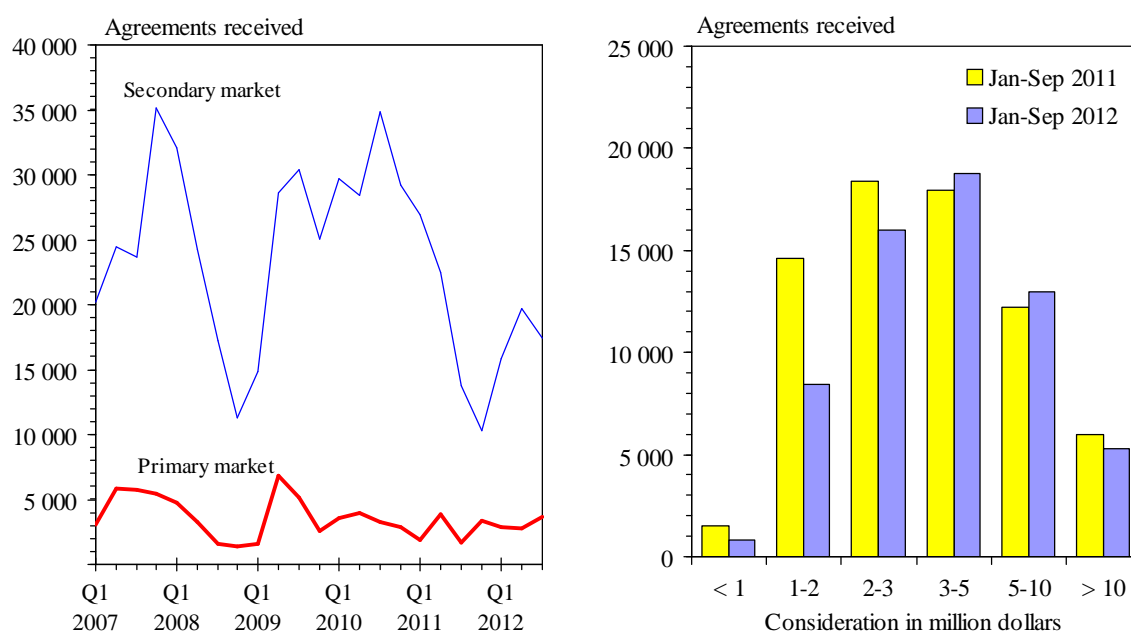
### **Property**

3.1 The *residential property market* was buoyant in the third quarter of 2012 amid the low interest rates and a tight demand-supply balance of flats. Market sentiment was also boosted by the temporary stabilisation of the eurozone crisis in late July and August, and reached a high in September upon announcement of another round of monetary easing measures by the US Federal Reserve and other central banks in the major advanced economies.



3.2 Supported by the positive market sentiment, trading activities gradually picked up. For the quarter as a whole, there were a total of 21 097 sale and purchase agreements for residential property received by the Land Registry. Though still 6% lower than in the preceding quarter, this represented a sharp 36% rebound over a year earlier. With the launch of a number of large residential projects by the major developers, primary market transactions surged by 36% over the preceding quarter, while secondary market transactions fell by 12%. Meanwhile, total consideration declined by 11% from the preceding quarter to \$111.9 billion, but was sharply higher than a year earlier by 29%.

**Diagram 3.1 : Trading activities gradually picked up during the third quarter**

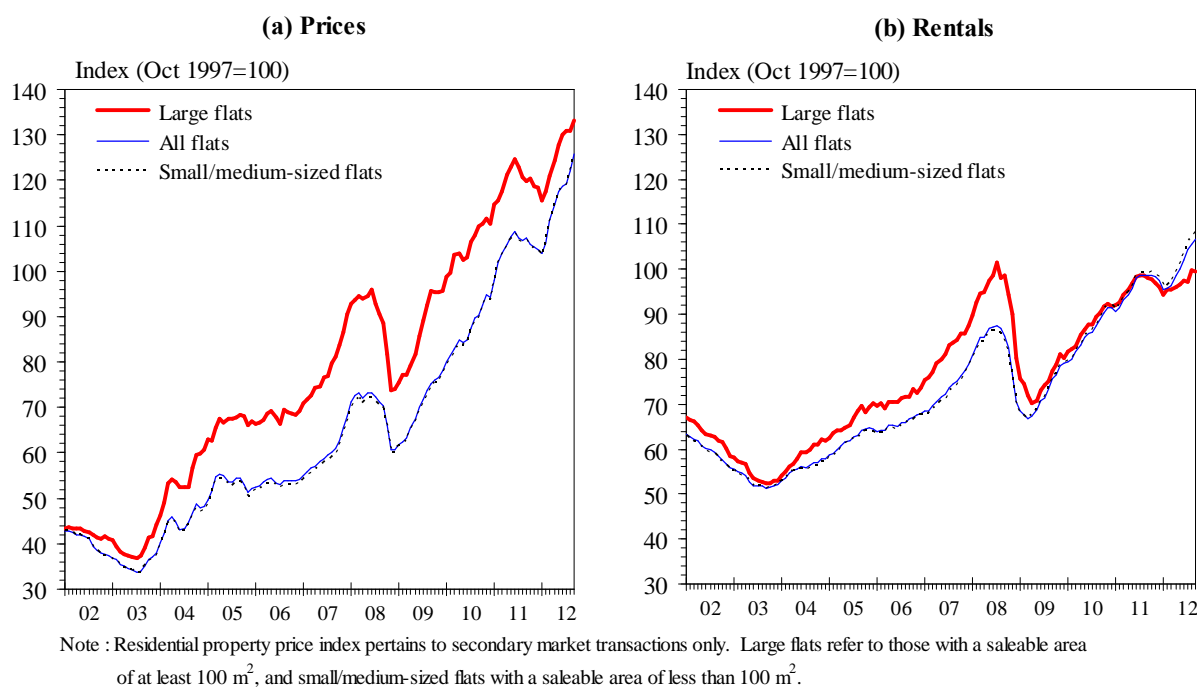


3.3 Overall flat prices rallied by 6% between June and September, with the month-to-month increase accelerating from 0.6% in July to 3.1% in September. The surge was concentrated in prices of small/medium-sized flats, which rose by a hefty 6%, compared with a less rapid 3% increase in prices of large flats. Compared with December 2011, overall flat prices in September 2012 have risen by a cumulative 20%, equivalent to an average of around 2% per month. Following the general uptrend since early 2009, overall flat prices in September were 26% higher than the 1997 peak, with prices of large flats exceeding the peak by a rampant 33%.

3.4 Overall flat rentals also soared, by 4% between June and September. Similar to prices, the increase in rentals of small/medium-sized flats, at 5%, was much faster than that of large flats, at 2%. Following the rally since mid-2009, overall flat rentals in September 2012 have exceeded the peak in 1997 by 7%.

The average rental yield for residential property stayed at 3.1% in September, little changed from the level in June.

**Diagram 3.2 : Both flat prices and rentals surged further**



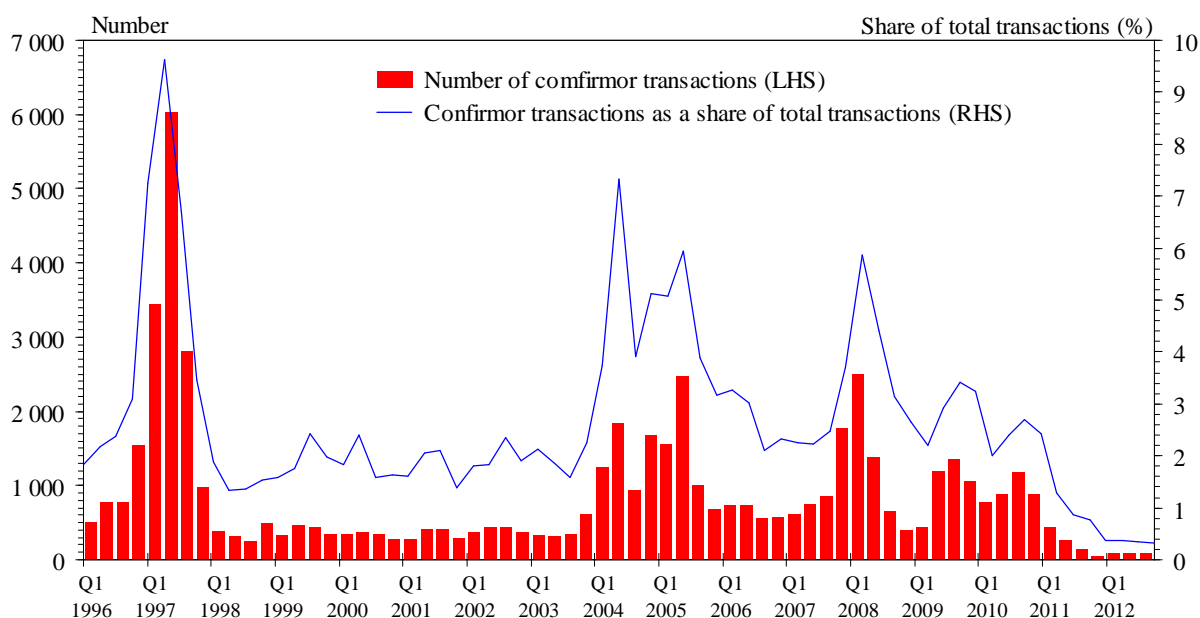
3.5 In order to ensure a healthy and stable development of the property market, the Government has introduced a series of measures since early 2010 along four directions, viz. raising flat supply through increasing the land supply, curbing speculative activities, preventing excessive growth of mortgage lending and increasing transparency of the property market<sup>(1)</sup>.

3.6 The Government's efforts have yielded some positive results. On *flat supply*, the number of domestic units with notification of commencement of general building and superstructure work jumped by 87% over a year earlier to 13 400 in the first three quarters combined. The *total supply of flats* in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) increased from 62 000 units as estimated at end-2011 to 65 000 units as estimated at end-September 2012, the highest since early 2008. In addition, another 10 900 units could be added to the supply through conversion of a number of residential sites into *disposed sites* and the completions of auction/tendering of some sites in the months ahead.

3.7 *Speculative activities* fell significantly after the introduction of the Special Stamp Duty (SSD) in November 2010. Confirmed transactions dwindled to a monthly average of 27 cases or 0.3% of total transactions in the

third quarter of 2012. These were sharply lower than the respective averages of 318 cases and 2.4% in January to November 2010 (i.e. the period before the introduction of the SSD). Yet resale between 12-24 months after assignment still accounted for 6.3% of total transactions in the third quarter, only slightly below the level before the introduction of the SSD<sup>(2)</sup>. As to *mortgage lending*, the average loan-to-value ratio of new residential mortgages hovered at 55% in the third quarter, distinctly lower than the average of 64% in January to October 2009 before the first round of prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority (HKMA). As to *market transparency*, the Residential Properties (First-hand Sales) Bill was passed by the Legislative Council in June 2012. The Government plans to set up an enforcement authority by end of April 2013 to implement the new legislation.

**Diagram 3.3 : Speculative activities fell significantly**

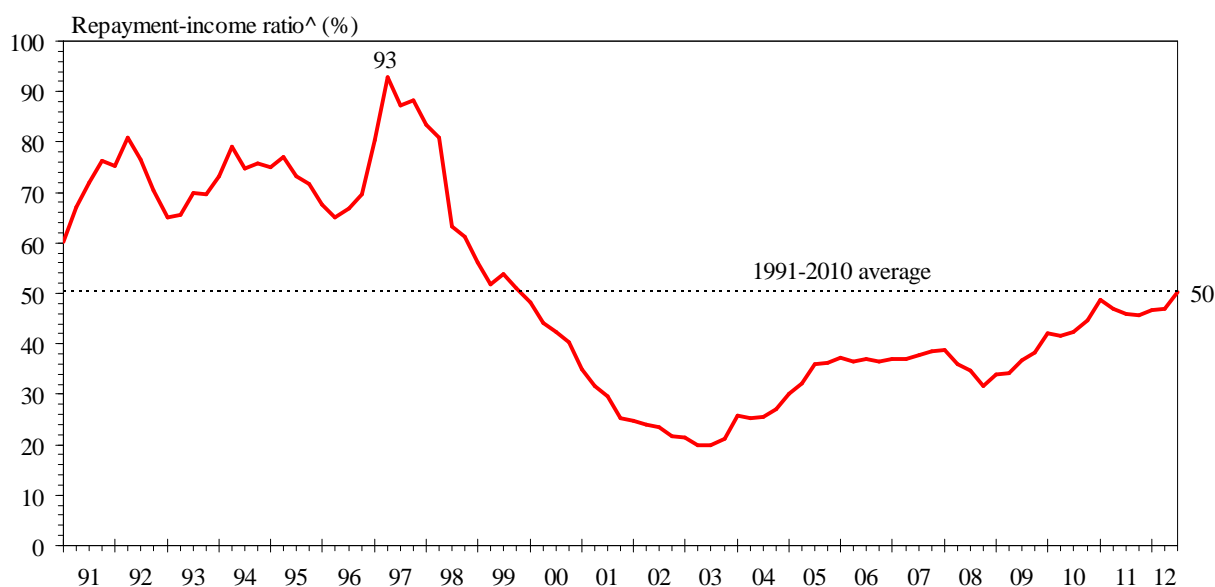


Note : Confirmor transactions refer to resale before assignment.

3.8 Nonetheless, the continued surge in property prices notwithstanding the global and local economic slowdown is a cause for concern. The further policy accommodation by the major central banks also added fuel to the already exuberant property market. Overall flat prices in September 2012 have soared by a cumulative 107% over the trough in late 2008, much faster than income growth over the period. 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) worsened further from 47% in the second quarter to around 50% in the third quarter of 2012, close to the long-term average of 50.4% over 1991-2010. In order to forestall further build

up of bubble risk, in August and September the Government announced further packages of measures to step up its efforts in increasing land and flat supply and preventing the excessive growth of mortgage loans. In October the Government announced an enhancement of the SSD to further curb speculative activities, and the introduction of a Buyer's Stamp Duty (BSD) targeting at non-local buyers to ensure that the housing needs of local people are accorded priority in a tight supply situation (*Box 3.1*).

**Diagram 3.4 : The mortgage payment to income ratio reached the long-term average**



Note : (^) The ratio of mortgage payment for a 45m<sup>2</sup> flat (assuming 70% loan-to-value ratio and tenor of 20 years) to median income of households (excluding those living in public housing).

### **Box 3.1**

#### **Latest Government measures on the property market (August to October 2012)**

In August and early September the Government announced a series of short and medium-term measures to step up its efforts to increase land and flat supply. Also, after the US Federal Reserve announced another round of quantitative easing measure in mid-September, the HKMA introduced a further package of macro-prudential measures, the fifth since October 2009, to strengthen the risk management of the banking sector's mortgage lending business. In October the Government announced an enhancement of the SSD to further curb speculative activities, and the introduction of a Buyer's Stamp Duty (BSD) targeting at non-local buyers to ensure that the housing needs of local people are accorded priority in a tight supply situation. These measures are summarised below:

#### **(1) Ensure sufficient and steady land and flat supply**

##### *Short-term measures*

- To arrange to sell the about 1 000 flats under the first My Home Purchase Plan (MHPP) in Tsing Yi at a discounted price to target families by end-2012.
- Put up six residential sites on the 2012-13 Land Sale Programme for government initiated land sale in the fourth quarter of 2012; one West Rail development project at Tsuen Wan West Station to be tendered in the same quarter; together providing for about 2 650 flats.
- Sell 830 units of unsold Home Ownership Scheme (HOS) flats early next year.
- Convert Chai Wan Industrial Building into 180 public rental units in the middle of 2013 and invite the Urban Renewal Authority to redevelop two industrial buildings in the form of a pilot scheme.
- Expedite the approval for pre-sale applications for uncompleted flats.

##### *Medium-term measures*

- Incline to sell the remaining 4 000 units originally planned for MHPP as subsidised sale flats at discounted prices.
- Grant part of the Kai Tak Development site originally reserved for the Urban Renewal Authority to provide additional 'Flat-for-Flat' units but yet to have development programme to the Housing Authority to develop HOS flats.
- Change 36 Government, Institution or Community sites and other government sites for residential use to provide about 11 900 public and private flats.
- Convert an open space in Cheung Sha Wan to build 2 300 public rental units.
- Explore the potential of converting existing industrial buildings for transitional residential use under the planning and buildings regulatory regime.

##### *Hong Kong Property for Hong Kong People (HKPHKP)*

- Implement the HKPHKP measure to give priority to the housing needs of Hong Kong people in making use of land for residential development. For selected land sale sites, the sale and re-sale of flats built on these sites will be restricted to Hong Kong Permanent Residents (HKPR) through land sale conditions. The Government will implement this measure on a pilot basis for two sites located at the Kai Tak Development Area to be sold in the first quarter of 2013.

### **Box 3.1 (Cont'd)**

#### *Long-term Housing Strategy*

- Formulate a Long Term Housing Strategy (LTHS) to assess the needs of different sectors and income groups in the society. The Government has subsequently established a two-tier institutional framework for the LTHS, comprising the Steering Committee which would have an overview and offer advice on various housing aspects and initiatives, and the inter-departmental Working Group which would compile and examine relevant housing related information, review housing and other relevant policies and formulate appropriate options for the consideration of the Steering Committee. The Government plans to publish a report and consultation paper in the second half of 2013 with recommendations for measures.

### **(2) Prevent excessive growth in mortgage lending**

#### *For all mortgage loan applicants*

- Standardise the maximum loan tenor for all new property mortgage loans to 30 years.

#### *For mortgage loan applicants with outstanding mortgage loans*

- Lower the maximum debt servicing ratio (DSR) from 50% to 40% and the maximum stressed DSR from 60% to 50%.
- Reduce the maximum loan-to-value (LTV) ratio from 40% to 30% for mortgage loans assessed based on applicants' net worth.
- Further reduce the applicable maximum LTV ratio by 20 percentage points, instead of the previous 10 percentage points, for applicants whose principal income is derived from outside Hong Kong.

### **(3) Enhance the SSD**

- Extend the restriction period from two years to three years.
- Raise the SSD rate to 20% for resale within six months; 15% for resale for more than six months but 12 months or less; and 10% for resale more than 12 months but 36 months or less.

### **(4) Introduce a BSD payable by non-HKPR buyers**

- Charge a BSD rate of 15% for all residential properties acquired by any person or entity except a HKPR, on top of the existing stamp duty and the SSD, if applicable.

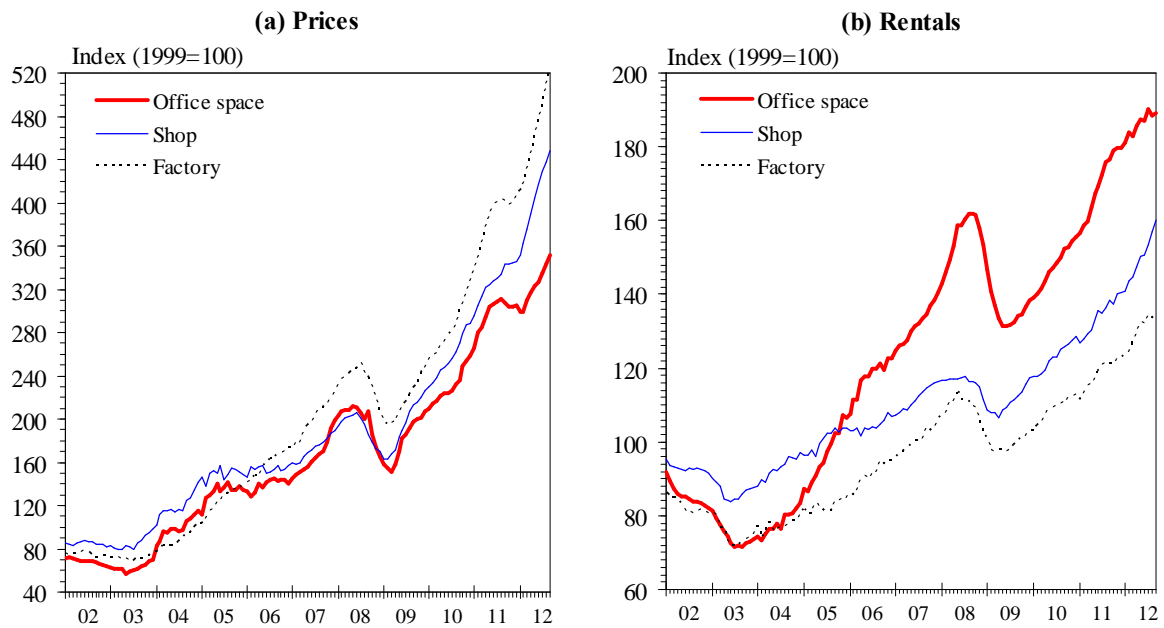
These measures would help ensure a healthy and stable development of the property market. The Government will closely monitor the market situation and introduce further measures when necessary.

3.9 The *commercial* and *industrial property* markets also stayed buoyant in the third quarter of 2012. Sale prices and rentals of *retail shop space* surged by 8% and 6% respectively between June and September despite the slowing growth in retail sales. During the first nine months of the year, the cumulative gains were 31% and 14% respectively. The average rental yield for retail shop space edged down from 2.6% in June to 2.5% in September. As to trading, monthly average transactions for retail shop space declined by 5% from a year earlier to 550 cases in the first nine months of 2012<sup>(3)</sup>. They were also 15% lower than the monthly average transactions in January to November 2010 (i.e. the period before the introduction of the SSD).

3.10 Overall prices of *office space* soared by 8% between June and September while rentals edged up by 1%. Compared with December 2011, sale prices and rentals in September 2012 were sharply higher by 16% and 6% respectively. Analysed by type, prices of Grade A, B and C office space rose by 7%, 7% and 11% respectively between June and September. The increases in office rentals were however much more moderate over the same period, by 1% and 4% respectively for Grade A and B office space. Rentals of Grade C office space were virtually unchanged. The average rental yields for Grade A, B and C office space declined from 3.2%, 3.2% and 3.3% in June to 3.0%, 3.1% and 3.0% in September. At a monthly average of 250 cases, transactions for office space in January to September 2012 plunged by 16% from a year earlier and by a similar 17% against the situation in January to November 2010.

3.11 For *flatted factory space*, prices in September jumped further by 9% over June, while rentals rose by a more modest 4%. During the first nine months of 2012, prices and rentals surged by 28% and 12% respectively. The average rental yield declined further from 3.4% in June to 3.3% in September. Transactions for flatted factory space, averaging at 690 cases per month in January to September, fell by a modest 5% from a year earlier but was slightly higher by 2% when compared with the average transactions levels in January to November 2010.

**Diagram 3.5: Prices and rentals of non-residential properties went up further**



## Land

3.12 Reflecting the Government efforts to increase land supply, seven sites with a total area of about 7.0 hectares were disposed in the third quarter of 2012, fetching land premium of \$13.8 billion. Among these sites, four were residential sites, two were residential and commercial sites, and one was for petrol filling station.

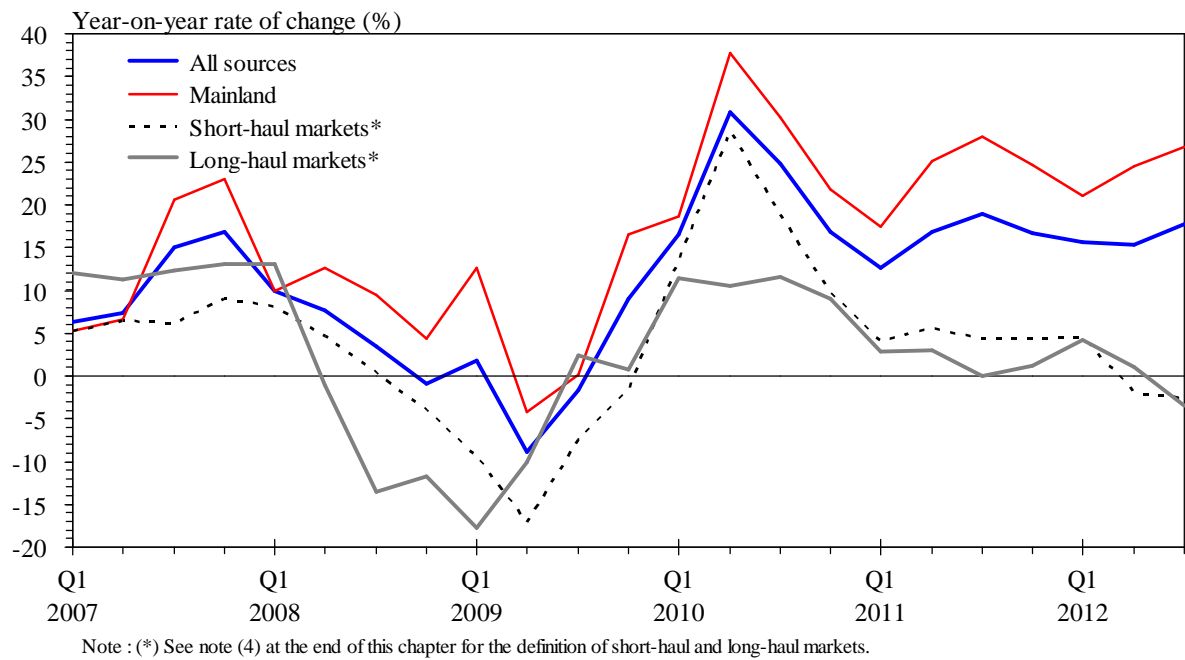
3.13 Regarding exchange of land, three sites with a total area of about 0.72 hectare were approved in the third quarter. As to lease modifications, six sites were approved.

## Tourism

3.14 The inbound tourism sector remained generally robust in the third quarter, with *visitor arrivals* surging by 17.7% over a year earlier to 13.1 million. The surge was mainly driven by Mainland visitors, which jumped by 26.8% to 9.7 million and constituted 74.6% of all visitors. Meanwhile, visitors from the short-haul and long-haul markets retreated by 2.5% and 3.4% respectively<sup>(4)</sup>. Analysed by the length of stay, the growth of same-day visitors, at 30.5%, continued to outpace that of overnight visitors, at 6.9%. As a result, the share of same-day visitors rose further from 45.8% a year earlier to 50.8%, while the share of overnight visitors decreased from 54.2% to 49.2%.



**Diagram 3.6 : Mainland visitors continued to render strong support to inbound tourism**

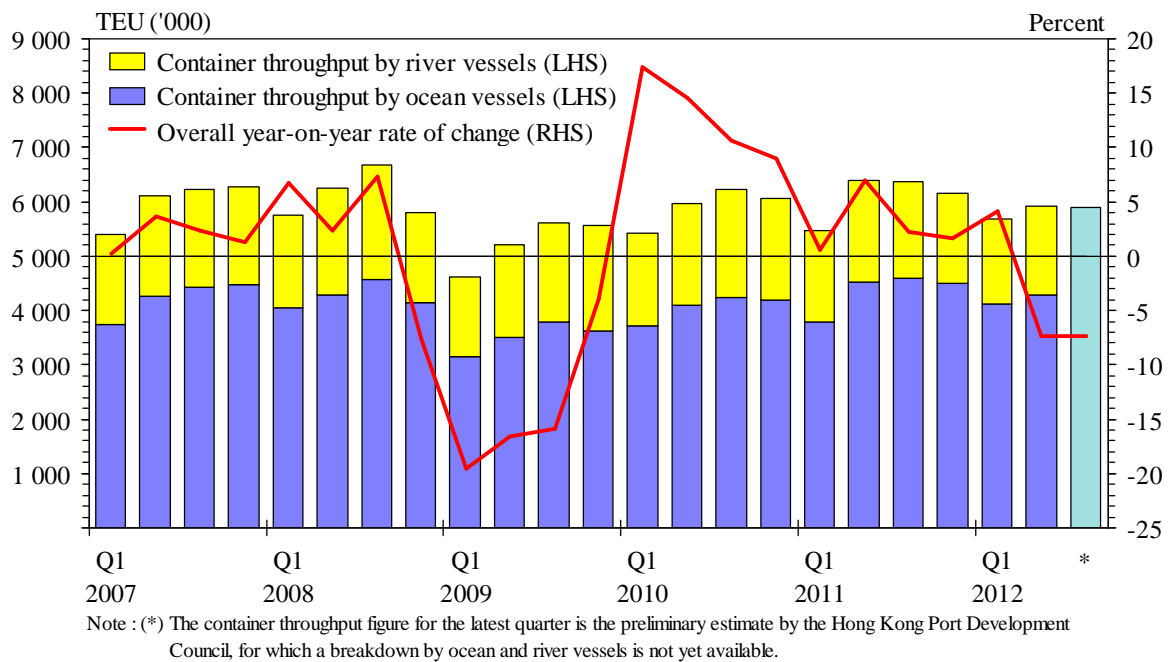


3.15 On the back of the marked growth in visitor arrivals, the hotel room occupancy rate rose from 89% a year earlier to 90% in the third quarter. The average achieved hotel room rate also increased markedly by 10.6% over a year earlier to \$1,414<sup>(5)</sup>.

## Logistics

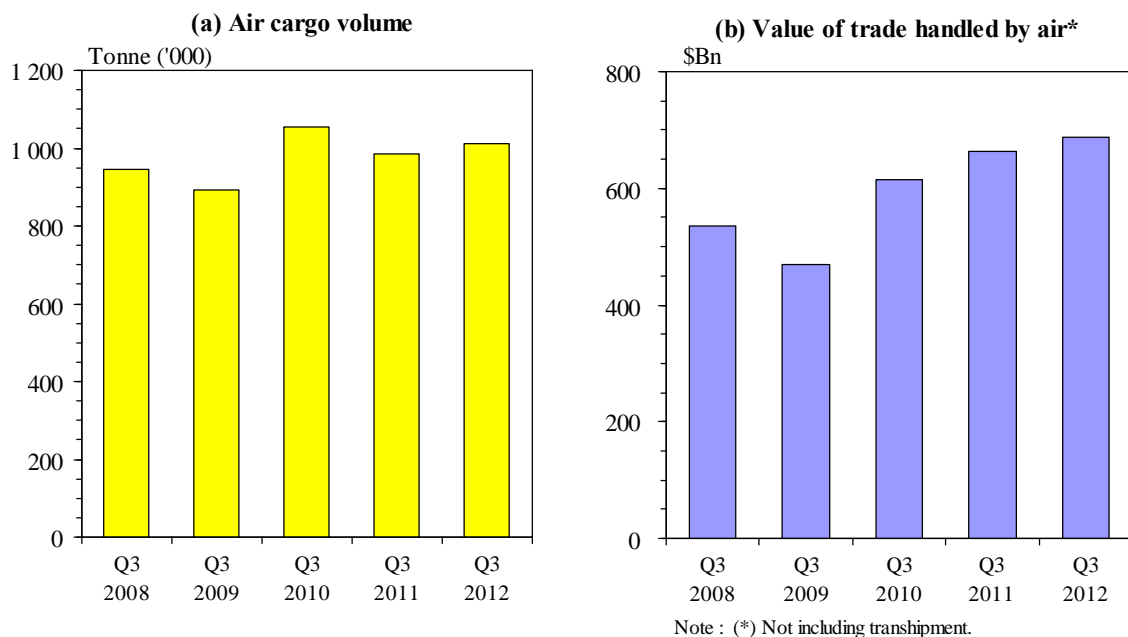
3.16 The sluggish external trade continued to hit the logistics sector. *Total container throughput* shrank by 7.3% from a year earlier to 5.9 million TEUs in the third quarter. In tandem, the value of trade handled at the Hong Kong Port fell by 6.1%, and its share in overall trade value declined from 27.1% a year earlier to 24.4%.

**Diagram 3.7 : The sluggish trade performance continued to hit port container traffic**



3.17 *Air freight throughput* was likewise weak, only increasing modestly by 2.7% over a year earlier to 1.01 million tonnes in the third quarter. Meanwhile, the total value of trade by air rose by 3.6%, but its share in overall trade value edged down from 36.0% a year earlier to 35.8%.

**Diagram 3.8 : Air freight throughput and the value of trade handled by air recorded modest growth**



## **Transport**

3.18 Traffic flows for different modes of transport showed mixed performance in the third quarter of 2012. Air passenger traffic edged up by 1.9% over a year earlier to 14.6 million while the number of water-borne passenger trips edged down by 0.3% to 7.2 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 8.2% to 569 000 while average daily vehicular movements edged down by 1.9% to 43 300.

## **Environment**

3.19 In late September the Government launched a three-year incentive scheme for ocean-going vessels (OGVs) using cleaner fuel. OGVs would be eligible for a 50 per cent reduction in port facility and light dues by switching from bunker oil to fuel with sulphur content of not more than 0.5 per cent for their auxiliary engines, boilers and generators while at berth in Hong Kong waters. The incentive scheme would help reduce marine emissions and improve air quality around the port area.

### **Notes :**

- (1) For details of the measures promulgated in 2010, see Box 3.1 in the First Quarter Economic Report 2010, Box 3.1 in the Third Quarter Economic Report 2010 and note (2) at the end of Chapter 4 in the 2010 Economic Background and 2011 Prospects. For details of the measures promulgated in 2011, see note (2) at the end of Chapter 3 in the Half-yearly Economic Report 2011 and Box 3.1 in the Third Quarter Economic Report 2011.
- (2) A majority of these cases involved residential properties acquired on or before 19 November 2010 and were hence not subject to SSD.
- (3) The figures on transaction refer to commercial space, which comprises retail premises and other premises designed or adapted for commercial use but excludes purpose-built office space.
- (4) Short-haul markets refer to North Asia, South & Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the third quarter of 2012, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 75%, 17% and 8% of total visitor arrivals.
- (5) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

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

### *Summary*

- *The low interest rate environment in Hong Kong continued in the third quarter of 2012 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar spot exchange rate moved within a narrow range against the US dollar, but there was some upward pressure supported by the announcement of another round of quantitative easing measures in the United States. Meanwhile, the trade-weighted Hong Kong dollar Effective Exchange Rate Indices declined along with the weakening of the US dollar against most major currencies.*
- *Total loans and advances recorded moderate growth in the third quarter. Among the total, growth in loans for use outside Hong Kong decelerated, while growth in loans for use in Hong Kong remained modest.*
- *After some fluctuations in July and August, the stock market showed some pick-up in September upon another round of monetary easing measures in the United States and other advanced economies. Yet trading and fund raising activities remained generally quiet.*

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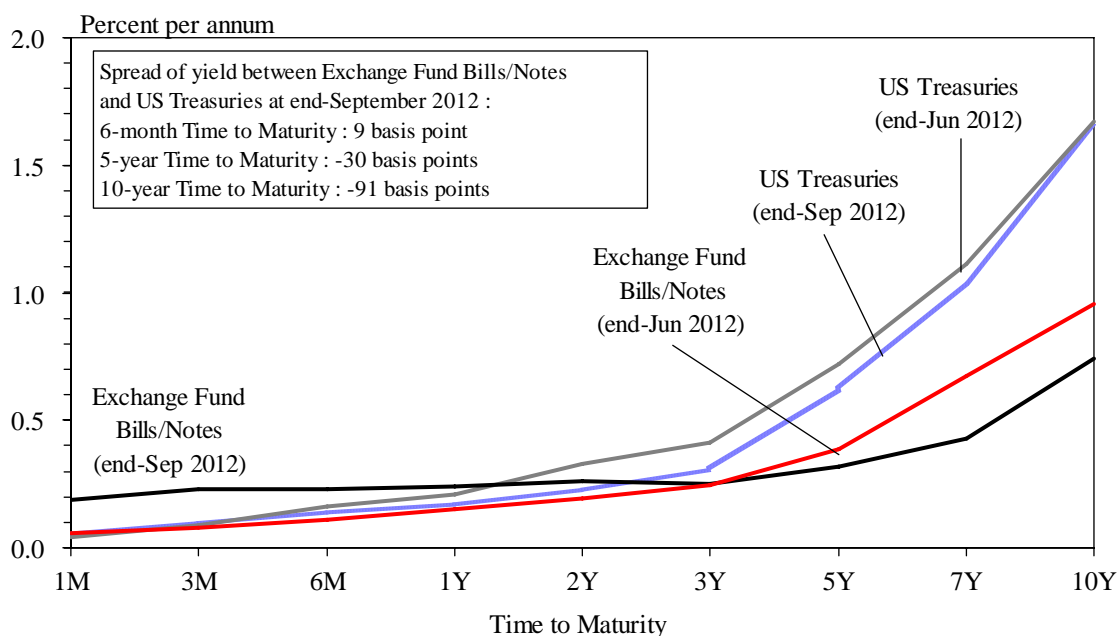
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the third quarter of 2012 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate staying at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA remained unchanged at 0.5% at end-September<sup>(1)</sup>. The *Hong Kong dollar interbank interest rates* also hovered at low levels, with the overnight HIBOR and the three-month HIBOR staying at 0.17% and 0.40% respectively.

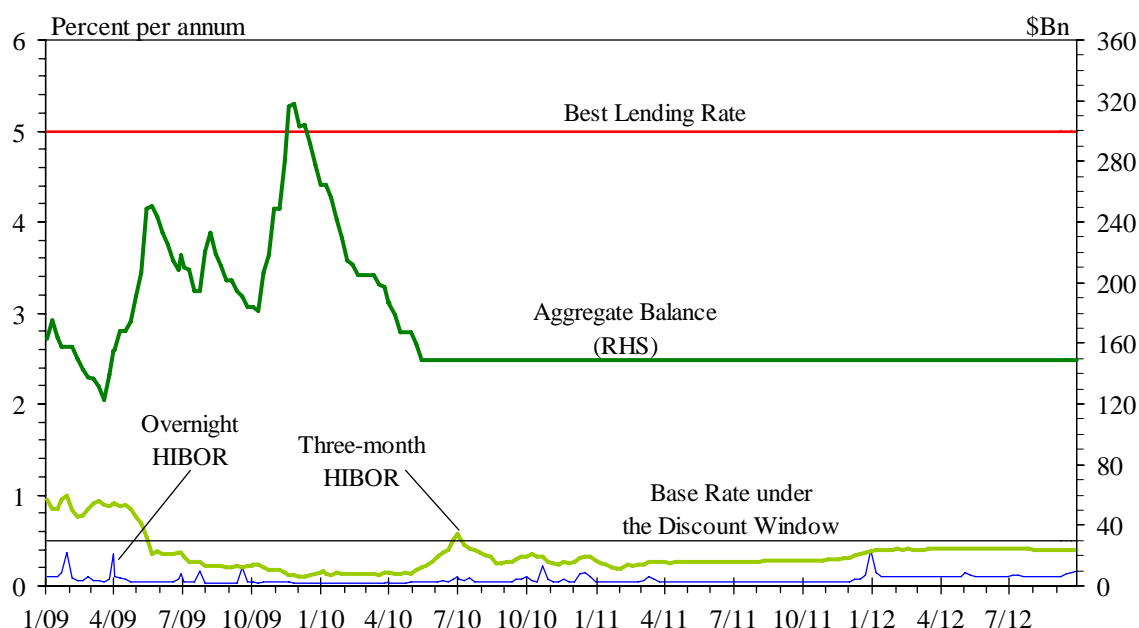
4.2 The *US dollar yield curve* flattened further in the third quarter of 2012, reflecting the continued impact of the maturity extension programme and also the announcement of the third round of quantitative easing measures (QE3) by the Federal Open Market Committee (FOMC) in September<sup>(2)</sup>. Meanwhile, the *Hong Kong dollar yields* declined at the long end but edged up at the short end. As a result, the yield spread between 6-month Exchange Funds Bills and 6-month US Treasury Bills turned from a negative five basis points at end-June to a positive nine basis points at end-September, while the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes widened from 72 basis points to 91 basis points.

**Diagram 4.1 : The US dollar yield curve flattened while the Hong Kong dollar yields declined at the long end**



4.3 Interest rates on the retail front remained largely stable. The *Best Lending Rates* (BLR) stayed unchanged at 5.00% or 5.25% throughout the third quarter. The *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 were little changed at 0.01% and 0.15% respectively as at end-September. The *composite interest rate*, which indicates the average cost of funds for banks, edged down from 0.42% at end-June to 0.38% at end-September<sup>(3)</sup>.

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

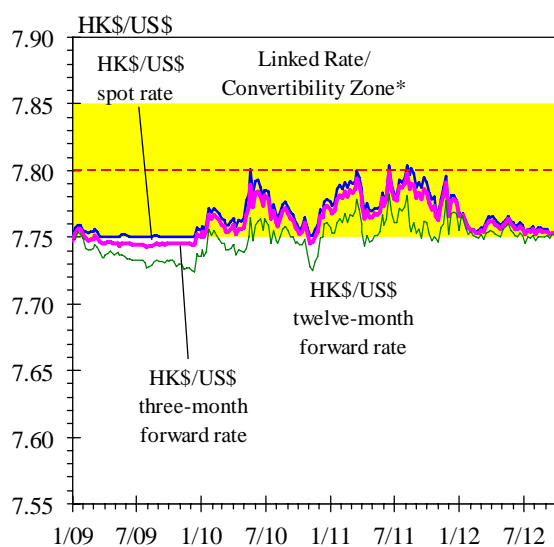


4.4 The *Hong Kong dollar spot exchange rate* moved within a narrow range against the US dollar during the third quarter, but there was some upward pressure supported by the announcement of QE3 in the United States. It was traded at 7.754 at end-September, not much different from the 7.756 at end-June. The discount of the *12-month Hong Kong dollar forward rate* narrowed from 70 pips (each pip equivalent to HK\$0.0001) at end-June to 20 pips at end-September, while the *3-month Hong Kong dollar forward rate* reverted from a discount of 24 pips to a premium of one pip. Since mid-October, the strong-side Convertibility Undertaking has been triggered several times owing to fund inflows. With the HKMA buying US dollar, the *Aggregate Balance* rose by about \$32 billion to around \$181 billion as at 6 November 2012.

4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those in the

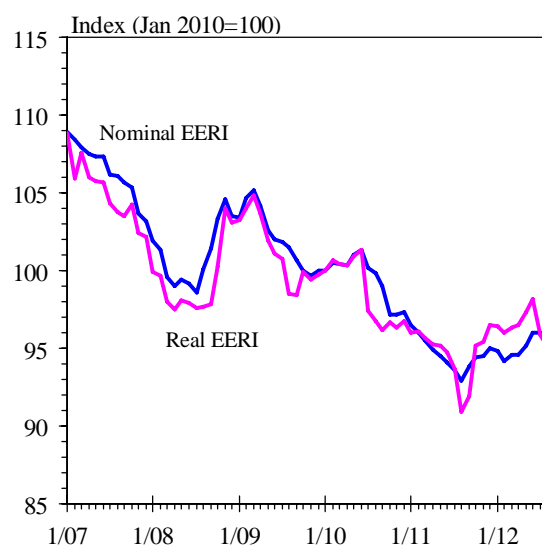
US dollar. The US dollar weakened against most major currencies during the quarter. As a result, the *trade-weighted Hong Kong dollar Nominal and Real Exchange Rate Indices* went down by 1.1% and 3.6% respectively during the third quarter<sup>(4)</sup>.

**Diagram 4.3 : Hong Kong dollar remained stable against the US dollar (end for the week)**



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

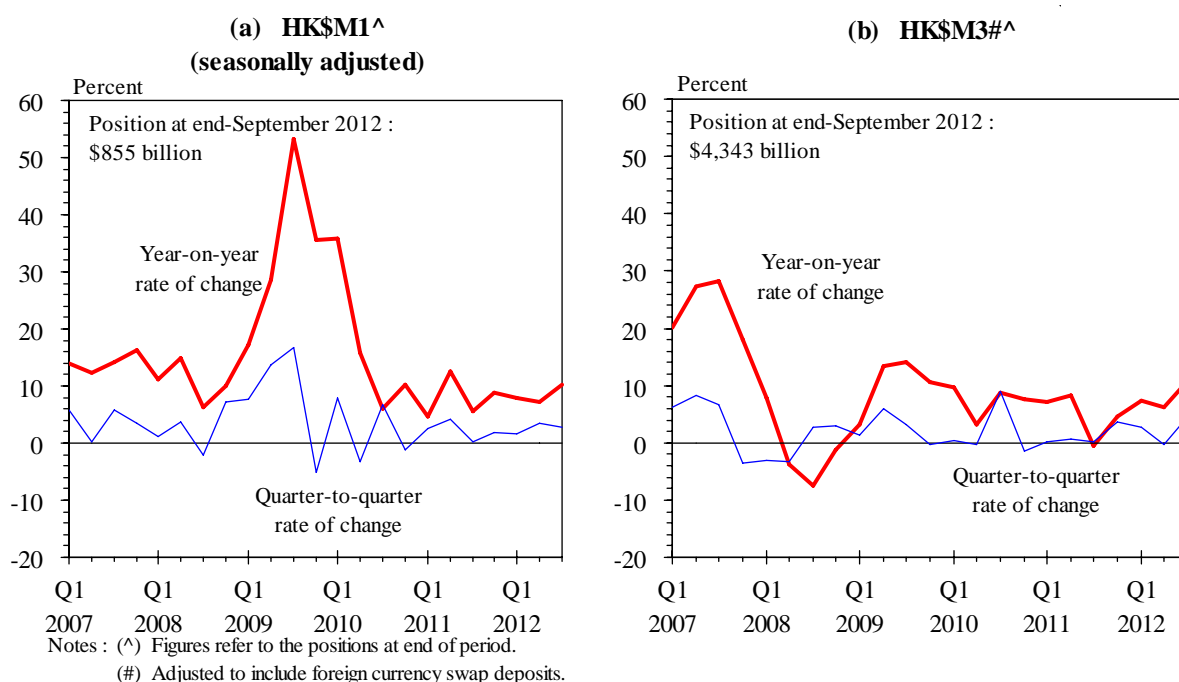
**Diagram 4.4 : Trade-weighted EERIs declined again (average for the month)**



## Money supply and banking sector

4.6 The Hong Kong dollar monetary aggregates showed a solid growth in the third quarter of 2012. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) expanded by 2.9% over end-June to \$855 billion at end-September, and the broad money supply (HK\$M3) by 4.6% to \$4,343 billion<sup>(5)</sup>. *Total deposits* with authorised institutions (AIs) grew by 3.0% to \$7,940 billion, within which Hong Kong dollar deposits and foreign currency deposits picked up by 4.5% and 1.6% respectively<sup>(6)</sup>.

**Diagram 4.5 : The monetary aggregates showed a solid growth**



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

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<u>HK\$<sup>^</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>	<u>HK\$<sup>(a)</sup></u>	<u>Total</u>
2011	Q1	2.5	2.9	0.1	3.3	0.1	3.4
	Q2	4.2	4.4	0.8	3.4	0.7	3.4
	Q3	0.1	2.3	0.1	1.9	0.1	1.8
	Q4	1.8	0.7	3.6	3.7	3.6	3.8
2012	Q1	1.5	4.6	2.8	2.5	2.7	2.4
	Q2	3.6	3.2	-0.3	0.7	-0.3	0.7
	Q3	2.9	6.4	4.6	3.2	4.6	3.2
Total amount at end-September 2012 (\$Bn)		855	1,294	4,336	8,581	4,343	8,601
% change over a year earlier		10.2	15.7	11.0	10.5	10.9	10.4

Notes : (<sup>^</sup>) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 *Total loans and advances* continued to record moderate growth, by 1.9% over end-June to \$5,418 billion at end-September. Among the total, Hong Kong dollar loans grew modestly by 1.2% to \$3,242 billion, while foreign currency loans grew by a decelerating 2.9% to \$2,176 billion. Reflecting the corresponding movements in deposits and loans, the Hong Kong dollar



loan-to-deposit ratio declined from 84.0% to 81.3%. On the other hand, the foreign currency loan-to-deposit ratio rose further from 54.3% to a recent high of 55.0%.

4.8 Analysed by type, loans for use outside Hong Kong grew by a decelerated 2.6% over end-June to \$1,533 billion at end-September, while loans for use in Hong Kong continued to register a mild increase of 1.6% to \$3,885 billion. Yet the performance was rather mixed for loans to the different major economic sectors. Trade financing, loans to wholesale and retail trade, and loans for purchase of residential property continued to grow steadily, by 5.6%, 3.1% and 2.0% respectively. Loans to building, construction, property development and investment rebounded by a modest 1.6% amid a revival in construction activities. By contrast, loans to financial concerns fell by 2.6%, and loans to stockbrokers plunged by 16.1% in face of the dwindling transactions and the subdued fund raising activities in the stock market.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong											
		Loans to :									Total
		Trade	Manu-	Wholesale	Building,	Purchase	Financial	Stock-	All loans		loans
		finance	facturing	and	construction,	of	concerns	brokers	and advances	for use	and
				retail	property	residential			outside	Hong Kong <sup>(c)</sup>	advances
				trade	development	property <sup>(a)</sup>					
					and						
					investment				Total <sup>(b)</sup>		
% change	during										
	the quarter										
2011	Q1	13.0	7.4	17.0	4.2	2.4	13.2	25.7	7.1	8.6	7.4
	Q2	11.7	5.9	16.6	2.2	3.1	-1.4	9.5	4.4	11.9	6.1
	Q3	3.7	4.3	3.3	3.1	1.1	10.4	-20.1	2.4	10.5	4.4
	Q4	-3.0	0.2	-3.0	1.0	*	-8.5	1.8	-0.6	5.5	1.0
2012	Q1	7.4	-1.6	3.0	-1.5	0.1	3.1	-14.6	1.4	4.7	2.3
	Q2	5.1	-2.4	3.1	-0.9	2.3	-3.5	-1.4	1.6	4.3	2.3
	Q3	5.6	-2.1	3.1	1.6	2.0	-2.6	-16.1	1.6	2.6	1.9
Total amount at end-September 2012 (\$Bn)		415	181	343	910	889	256	14	3,885	1,533	5,418
% change over a year earlier		15.7	-6.0	6.2	0.2	4.6	-11.4	-28.1	4.0	18.3	7.7

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 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" or "Basel 2.5" following the enhancements issued by the Committee in July 2009<sup>(7)</sup>), the capital adequacy ratio (CAR) of these institutions stayed high at an average of 15.9% at end-June 2012. All individual AIs' CARs were above the statutory minimum ratios as required by the HKMA.

4.10 The HKMA is taking steps to amend the Banking (Capital) Rules and the Banking (Disclosure) Rules for the first phase of Basel III implementation from 1 January 2013. To help inform its rule-making, the HKMA has since January 2012 issued three packages of detailed implementation proposals covering key areas of Basel III capital, liquidity and disclosure standards for industry consultation. The HKMA subsequently issued the draft text of the Banking (Capital) (Amendment) Rules 2012 in August for statutory consultation, and aims to finalise the Rules for submission to the Legislative Council in the fourth quarter. As regards the proposed amendments to the Banking (Disclosure) Rules, the statutory consultation and legislative amendments are expected to take place in the fourth quarter of 2012 and early 2013 respectively, with a view to having the revised Rules taking effect by end-June 2013 in accordance with the Basel Committee's implementation timeline.

4.11 Based on the results of the Quantitative Impact Study (QIS) on the Basel III consultative proposals conducted by the HKMA in the first quarter of 2010, AIs in Hong Kong are expected to have little difficulty in meeting the higher capital requirements, given that they are well-capitalised with common equity accounting for a major portion of their capital, and that most of the Basel III regulatory adjustments have been deducted from Tier 1 capital under Hong Kong's existing capital rules. To inform its policy decisions on implementation, in July 2012 the HKMA started a new round of data collection on selected AIs' positions as at end-June 2012 to assess the impact of the new Basel III requirements on AIs.

4.12 Asset quality of the local banking sector stayed at a high level. The ratio of classified loans to total loans decreased from 0.57% at end-March to a record-low of 0.52% at end-June 2012. The delinquency ratio for credit card lending remained stable at 0.21%. Meanwhile, the delinquency ratio for residential mortgage loans stayed virtually unchanged at a low 0.01% at end-September.

**Table 4.3 : Asset quality of retail banks\***

(as % of total loans)

<u>As at end of period</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2011 Q1	98.17	1.17	0.66
Q2	98.20	1.19	0.61
Q3	98.21	1.19	0.60
Q4	98.28	1.13	0.59
2012 Q1	98.17	1.27	0.57
Q2	98.19	1.28	0.52

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”.

4.13 The scope of offshore Renminbi (RMB) business in Hong Kong expanded further in the third quarter. Since August, banks in Hong Kong have been allowed to offer RMB services to personal customers who are non-Hong Kong residents in accordance with the usual banking practices and applicable rules and requirements in Hong Kong. *RMB trade settlement handled by banks in Hong Kong* continued to grow progressively, by 36.5% over a year ago to RMB717 billion in the third quarter. *RMB lending business* also expanded, with outstanding RMB loans increasing from RMB53.4 billion at end-June to RMB67.9 billion at end-September.

4.14 Yet the outstanding amount of *RMB deposits* and certificates of deposit fell by 2.2% and 8.7% from end-June to RMB546 billion and RMB115 billion respectively at end-September. *RMB bond issuance* also declined from RMB43 billion in the preceding quarter to RMB25 billion in the third quarter.

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

<u>As at end of period</u>		Demand and savings <u>deposits</u> (RMB Mn)	Time <u>deposits</u> (RMB Mn)	Total <u>deposits</u> (RMB Mn)	<u>Interest rates on</u> <sup>(a)</sup>		Number of authorised institutions engaged in RMB <u>business</u>	Amount of cross-border RMB <u>trade settlement</u> <sup>(c)</sup> (RMB Mn)
					<u>Savings deposits</u> <sup>(b)</sup> (%)	<u>Three-month time deposits</u> <sup>(b)</sup> (%)		
2011	Q1	137,454	313,965	451,419	0.46	0.66	118	311,279
	Q2	180,346	373,256	553,602	0.28	0.52	128	492,727
	Q3	191,528	430,708	622,236	0.26	0.52	131	525,425
	Q4	176,398	412,132	588,529	0.25	0.52	133	585,488
2012	Q1	156,789	397,528	554,317	0.25	0.52	135	571,176
	Q2	136,616	421,094	557,710	0.25	0.52	133	641,907
	Q3	118,997	426,703	545,701	0.25	0.52	136	716,946
% change over a year earlier		-37.9	-0.9	-12.3	N.A.	N.A.	N.A.	36.5
% change over the preceding quarter		-12.9	1.3	-2.2	N.A.	N.A.	N.A.	11.7

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

(b) Period average figures.

(c) Figures during the period.

N.A. Not available.

## **The debt market**

4.15 The Hong Kong dollar debt market continued to expand steadily in the third quarter of 2012 on the back of robust growth in private sector debt issuance<sup>(8)</sup>. Total gross issuance of Hong Kong dollar debt securities rose marginally by 1.0% over a year earlier to \$531.7 billion in the third quarter, within which private sector debt issuance surged by 43.1% over a year earlier to \$59.9 billion driven by the remarkable growth of debts issued by AIs and local corporations. By contrast, public sector debt issuance fell slightly by 2.6% to \$471.9 billion, as the plunge in new issuances by statutory bodies/government-owned corporations and the Government more than offset the slight increase in Exchange Fund papers issuance. The total outstanding amount of Hong Kong dollar debt securities grew by 1.7% over a year earlier to a record level of \$1,300.1 billion at end-September 2012, equivalent to 29.9% of HK\$M3 or 24.8% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(9)</sup>.

4.16 As to the Government Bond (“GB”) Programme, tentative issuance schedule for the six-month period from September 2012 to February 2013 was announced in July 2012. A total of \$9.5 billion institutional bonds, with tenors ranging from two to ten years, are scheduled for issuances in the period. A re-opening tender for \$3.5 billion two-year institutional bonds was successfully held on 5 September 2012. As at end-September 2012, the outstanding amount of bonds issued under the GB Programme was \$64 billion, including nine institutional issues for a total of \$44 billion, and two retail issues (iBonds) for a total of \$20 billion.

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

	Exchange Fund paper	Statutory bodies/govern ment-owned corporations	Govern -ment	Public sector total	AIs <sup>(a)</sup>	Local corporations	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	Total
<b>New Issuance</b>										
2011 Annual	1,841.3	20.2	27.5	1,889.0	136.3	28.3	17.8	182.4	-	2,071.3
Q1	452.9	4.8	3.5	461.2	32.4	6.1	5.4	43.8	-	505.0
Q2	459.4	4.4	2.5	466.4	39.9	10.5	3.9	54.3	-	520.7
Q3	462.0	6.5	16.0	484.5	35.4	3.6	2.8	41.8	-	526.3
Q4	467.0	4.4	5.5	476.9	28.7	8.1	5.6	42.4	-	519.3
2012 Q1	455.6	3.4	5.0	464.0	66.9	10.0	5.4	82.2	0.4	546.6
Q2	462.3	2.9	14.5	479.7	40.8	4.1	8.3	53.1	0.4	533.2
Q3	464.6	3.7	3.5	471.9	48.4	8.8	2.7	59.9	-	531.7
% change over a year earlier	0.6	-43.2	-78.1	-2.6	36.5	146.0	-4.5	43.1	-	1.0
% change over the preceding quarter	0.5	28.8	-75.9	-1.6	18.6	115.5	-67.2	12.7	-	-0.3
<b>Outstanding (as at end of period)</b>										
2011 Q1	653.8	58.6	29.0	741.4	235.9	87.5	186.0	509.4	15.1	1,265.8
Q2	654.4	52.6	31.5	738.5	245.3	95.3	175.9	516.5	14.7	1,269.7
Q3	654.8	53.0	44.0	751.8	245.5	96.3	169.4	511.2	14.7	1,277.7
Q4	655.4	51.0	49.5	755.9	229.2	97.3	163.7	490.3	14.7	1,260.9
2012 Q1	655.9	50.6	51.0	757.5	251.9	102.3	157.8	512.0	12.4	1,281.9
Q2	656.4	46.8	65.5	768.8	246.6	104.8	151.4	502.8	10.6	1,282.1
Q3	656.8	45.8	65.5	768.1	258.6	112.1	150.7	521.4	10.6	1,300.1
% change over a year earlier	0.3	-13.6	48.9	2.2	5.3	16.4	-11.1	2.0	-28.2	1.7
% change over the preceding quarter	0.1	-2.3	-	-0.1	4.9	6.9	-0.4	3.7	-	1.4

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

(a) AIs : Authorised Institutions.

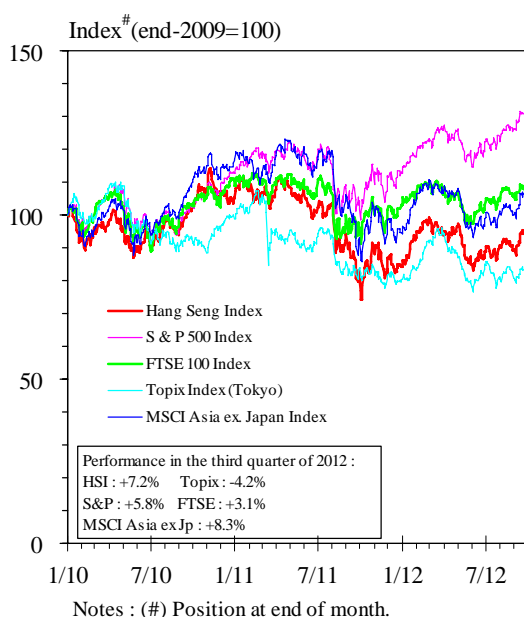
(b) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

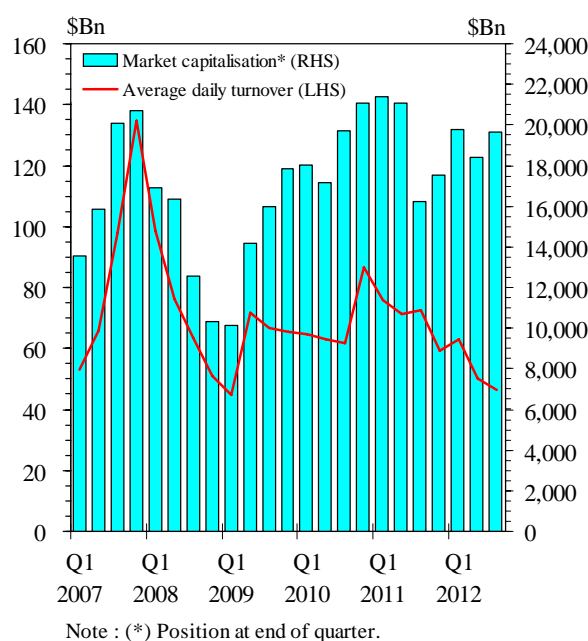
4.17 After some fluctuations in July and August, the stock market showed some pick-up in September upon another round of monetary easing measures in the United States and other advanced economies. Taking the third quarter as a whole, the *Hang Seng Index* (HSI) rose by 7.2% over end-June to close at 20 840 at end-September. In parallel, *market capitalisation* of the Hong Kong stock market expanded by 6.6% to \$19.6 trillion. It was the sixth largest stock exchange in the world and second largest in Asia according to the World Federation of Exchanges<sup>(10)</sup>.

4.18 Yet trading activities shrank further in face of the lingering uncertainties regarding the global economic outlook. *Average daily turnover* in the securities market dwindled by another 7.6% from the preceding quarter or a sharp 36.1% from a year earlier to \$46.4 billion in the third quarter, the lowest since the first quarter of 2009. As to *derivatives products*, the average daily trading volume of futures and options fell by 9.3% from the preceding quarter or 30.3% from a year earlier<sup>(11)</sup>. Within the total, trading of HSI options, HSI futures, H-shares Index futures and stock options all fell, by 17.4%, 12.5%, 7.8% and 6.1% respectively from the preceding quarter. Average daily trading value of securitised derivatives products plunged by 10.2%, within which trading of derivative warrants and callable bull/bear contracts dropped by 11.4% and 9.0% respectively.

**Diagram 4.6 : The Hang Seng Index showed some pick-up in September**



**Diagram 4.7 : Market capitalisation expanded but trading activities shrank further**



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

		Hang Seng Index futures	Hang Seng Index options	H-shares Index futures	Stock options	Total futures and options traded*	Derivative warrants (\$Mn)	Callable bull/bear contracts (\$Mn)	Total securitised derivatives traded (\$Mn)^
2011	Annual	94 036	43 452	61 116	302 750	572 275	10,691	7,529	18,220
	Q1	90 884	43 476	52 133	299 477	546 164	13,378	5,921	19,299
	Q2	87 592	43 806	57 151	276 966	531 141	10,786	5,523	16,308
	Q3	104 945	49 166	69 187	348 598	652 827	10,383	8,225	18,608
	Q4	92 210	37 284	65 597	283 945	555 467	8,225	10,340	18,565
2012	Q1	84 278	35 475	63 286	238 445	493 555	8,621	7,612	16,234
	Q2	88 614	43 634	65 131	225 266	501 374	6,274	6,317	12,590
	Q3	77 549	36 050	60 055	211 479	454 782	5,558	5,748	11,307
	% change over a year earlier	-26.1	-26.7	-13.2	-39.3	-30.3	-46.5	-30.1	-39.2
	% change over the preceding quarter	-12.5	-17.4	-7.8	-6.1	-9.3	-11.4	-9.0	-10.2

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

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

4.19 Fund raising activities remained generally subdued. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM), rose by 1.0% from the preceding quarter or 14.6% from the low base a year earlier to \$67.0 billion in the third quarter<sup>(12)</sup>. Nonetheless, this is still a relatively low level by historical standards. Within the total, the amount of funds raised through IPOs plummeted by 34.4% from the preceding quarter or 29.9% from a year earlier to \$13.8 billion.

4.20 In May the Securities and Futures Commission (SFC) launched a public consultation on the regulation of sponsors. Aiming at encouraging best practice across all sponsor firms on whom investors rely as key gatekeepers of market quality, the key elements of the proposed legislation include requiring the sponsor to complete the vast majority of due diligence, be responsible for the reliance on experts, and be responsible for the resources allocated to an IPO. The proposed legislation would help enhance the regulatory regime for sponsors in Hong Kong.



4.21 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-September, a total of 710 Mainland enterprises (including 171 H-share companies, 108 “Red Chips” companies and 431 private enterprises) were listed on the Main Board and GEM, accounting for 46% of the total number of listed companies and 56% of total market capitalisation. In the third quarter, Mainland-related stocks accounted for 67% of equity turnover and 85% of total equity fund raised in the Hong Kong stock exchange.

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

4.22 In parallel to the revival in share prices, the fund management industry showed some rebound in the third quarter. Aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes* expanded by 7.3% over end-June to \$412 billion at end-September<sup>(13)</sup>. Gross retail sales of *mutual funds* surged by 41.9% over the preceding quarter to US\$16.0 billion in the third quarter<sup>(14)</sup>. Yet the amount of net assets managed by *retail hedge funds* edged down<sup>(15)</sup>.

### **Insurance sector**

4.23 The *insurance sector* turned quiet again in the second quarter of 2012<sup>(16)</sup>. Gross premium income from long-term business fell by 13.7% from a year earlier. Within the total, premium income from non-investment linked plans declined by 4.1% while that from investment-linked plans plunged by 37.5%. Meanwhile, the gross and net premium for general business increased by 10.3% and 11.4% respectively, but the underwriting profit fell by 24.2%.

**Table 4.7 : Insurance business in Hong Kong\* (\$Mn)**

	General business			Premium for long-term business <sup>^</sup>					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
2011 Annual	34,717	23,798	2,996	49,409	20,794	53	250	70,506	105,223
Q1	10,263	7,003	482	11,231	5,619	14	69	16,933	27,196
Q2	8,456	5,919	970	15,320	6,281	17	53	21,671	30,127
Q3	8,700	6,051	642	12,846	4,998	16	103	17,963	26,663
Q4	7,298	4,825	902	10,012	3,896	6	25	13,939	21,237
2012 Q1	10,924	7,608	853	15,056	3,961	16	79	19,112	30,036
Q2	9,328	6,593	735	14,697	3,924	28	50	18,699	28,027
% change over a year earlier	10.3	11.4	-24.2	-4.1	-37.5	64.7	-5.7	-13.7	-7.0

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

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

**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) On 20 June 2012, the FOMC decided to extend the maturity extension program to end-2012. On 13 September 2012, the FOMC announced that economic conditions in the United States were likely to warrant exceptionally low levels for the Federal Funds rate for an extended period at least through mid-2015. It introduced the third round of quantitative easing measures, by purchasing US\$40 billion of agency mortgage-backed securities per month. The FOMC also agreed to continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ other policy tools as appropriate, until the labour market conditions in the United States improve substantially in a context of price stability.
- (3) 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.

- (4) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 15 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 2009 and 2010.

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

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

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

M2 : M1 plus customers' savings and time deposits with licensed banks, plus negotiable certificates of deposit (NCDs) issued by licensed banks, 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.

- (6) Authorised institutions (AIs) include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2012, there were 154 licensed banks, 20 restricted licence banks and 25 deposit-taking companies in Hong Kong. Altogether, 199 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (7) Basel 2.5 was introduced by the Basel Committee in July 2009 to strengthen the risk coverage of Basel II in the light of lessons drawn from the global financial crisis. The main improvements include raising banks' capital requirements for exposures booked in banks' trading books and for securitisation exposures, providing supplemental guidance on risk management principles and strengthening disclosure in corresponding areas. Hong Kong implemented Basel 2.5 on 1 January 2012 in line with the Basel Committee's timetable.
- (8) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (9) Assets of the banking sector include notes and coins, amount due from 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.

- (10) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 59 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-September 2012, there were 63 classes of stock options contracts and 38 classes of stock futures contracts.
- (12) At end-September 2012, there were 1 355 and 178 companies listed on the Main Board and GEM respectively.
- (13) At end-September 2012, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 464 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 260 000 employers, 2.36 million employees and 228 000 self-employed persons have participated in MPF schemes.
- (14) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-September 2012, the survey covered a total of 1 254 active authorised funds.
- (15) At end-September 2012, there were five SFC-authorised retail hedge funds with combined net asset size of US\$654 million. The amount of net assets under management represented a 7% decrease from the end-2011 level, yet still an increase of more than four times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (16) At end-September 2012, there were 160 authorised insurers in Hong Kong. Within this total, 45 were engaged in long-term insurance business, 96 in general insurance business, and 19 in composite insurance business. These authorised insurers come from 22 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

### *Summary*

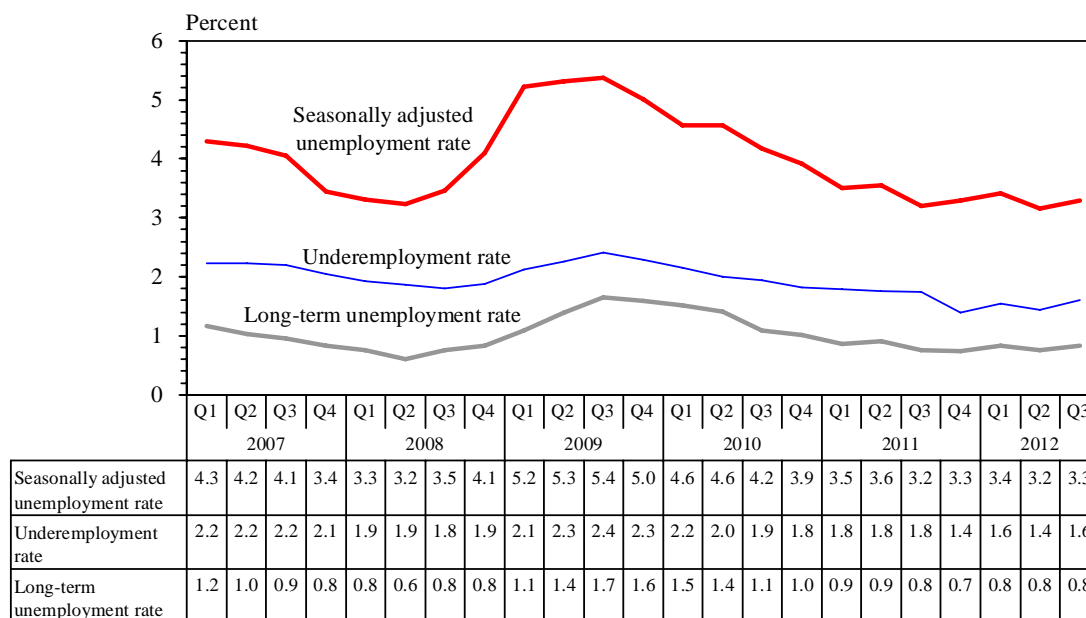
- *The labour market generally held up rather well during most of the third quarter. However, signs of worsening emerged towards the end of the quarter, as manifested by a slowdown in total employment, a rise-back in the unemployment rate, and slower income growth, amid more cautious hiring sentiments.*
- *The year-on-year growth in total employment decelerated visibly to 1.6% in the third quarter, from 3.0% in the second quarter. On a seasonally adjusted comparison, total employment declined by 0.6% in the third quarter over the previous quarter. The labour force likewise saw a more moderate year-on-year increase of 1.8% in the third quarter, and was 0.4% lower than the preceding quarter after seasonal adjustment.*
- *As a result of labour demand decelerating more than labour supply, the seasonally adjusted unemployment rate edged up by 0.1 percentage point during the third quarter to 3.3%, still a relatively low level.*
- *Data on wages and earnings are available only up to the second quarter, and these measures still show that labour incomes rose solidly further in the second quarter over a year earlier, reflecting the buoyant labour market back then. However, the pace of increase moderated from that in the first quarter, as economic growth continued to be subdued and the effect of statutory minimum wage (SMW) implemented in May 2011 began to wane. More recent indicators from household surveys suggest that in the third quarter average earnings of full-time employees in money terms were broadly similar to the year-ago level, while those of the lowest decile group rose visibly further.*

### **Overall labour market situation<sup>(1)</sup>**

5.1 The labour market held up rather well in the third quarter. However, as business prospects faced significant uncertainties and as consumption demand grew at a moderated pace, the pressure on the labour market turned somewhat more evident towards the end of the quarter. Employment and labour force both increased at a slower year-on-year pace, and declined from the previous quarter on a seasonally adjusted basis, reflecting more cautious hiring sentiments. As a result, the seasonally adjusted *unemployment rate*<sup>(2)</sup>

edged up by 0.1 percentage point from the previous quarter to 3.3% in the third quarter, though still a relatively low level. Meanwhile, the *underemployment rate*<sup>(3)</sup> went up by 0.2 percentage point to 1.6%. The lagging wages and earnings data suggest further income growth in the second quarter at a moderated pace, but more recent indicators point to a further slowdown in income growth in the third quarter.

**Diagram 5.1 : Unemployment rate edged up to 3.3% in the third quarter**



## Total employment and labour force

5.2 In tandem with the below-trend economic growth and slowdown in domestic consumption in recent months, *total employment*<sup>(4)</sup> recorded a moderated year-on-year increase of 1.6% in the third quarter, visibly slower than the 3.0% growth in the second quarter. Total employment stayed at a relatively high level of 3 658 900 in the third quarter.

5.3 Comparing the third quarter with the previous quarter, the number of total employment was down by 12 500. Analysed by economic sector, employment losses were observed in public administration, social and personal services (down 22 300), professional and business services (down 15 100), import/export trade (down 9 200), real estate (down 5 600), and accommodation and food services (down 2 000). These were partially offset by employment gains in wholesale (up 10 500), information and communications (up 9 300), transportation, storage, postal and courier services (up 9 300), retail (up 4 400), construction (up 4 200), and financing and insurance (up 300). Analysis by occupation showed that job gains in the lower-skilled segment (up 20 000) had yet to make up for job losses in the higher-skilled segment (down 32 500). Specifically, whereas for lower-skilled workers the job gains were concentrated in clerical support workers (up 17 800) and service and sales workers (up

10 500), for higher-skilled workers job losses were seen across the board in professionals (down 18 800), managers and administrators (down 12 900) and associate professionals (down 700). In terms of other social attributes, while increases in employment were found among people aged 15 – 29 and those with upper secondary and non-degree post-secondary education, conceivably with more school leavers hired during the summer months, reductions in employment were observed in the age groups 30 – 49 and 55 and above, and those with lower secondary and degree educational levels. On a seasonally adjusted basis, total employment decreased by 0.6% over the previous quarter.

5.4 On the supply side, the *labour force*<sup>(5)</sup> grew by 1.8% year-on-year in the third quarter, likewise moderated from the 2.6% growth in the second quarter. Compared with the previous quarter, the number dropped by 5 100 in the third quarter, notwithstanding the seasonal entry of fresh graduates and school leavers as evidenced by the increase in younger persons aged 15 – 24 and first-time job-seekers. This was due partly to the slight decline of 0.2 percentage point in the labour force participation rate to 60.6% in the third quarter. On a seasonally adjusted basis, labour force decreased by 0.4% in the third quarter over the preceding quarter.

**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>
2011	Annual	3 703 100 (2.0)	3 576 400 (2.9)	126 700	63 300
	Q1	3 658 200 (1.0)	3 534 200 (2.1)	124 000	65 600
	Q2	3 701 700 (2.1)	3 564 000 (3.2)	137 600	65 000
	Q3	3 725 800 (2.4)	3 599 900 (3.5)	125 900	65 300
	Q4	3 733 000 (2.3)	3 616 900 (2.9)	116 000	52 400
2012	Q1	3 773 700 (3.2)	3 649 600 (3.3)	124 100	58 600
	Q2	3 796 900 (2.6)	3 671 400 (3.0)	125 500	54 600
<i>Three months ending</i>					
2012	Jul	3 804 200 (2.3)	3 675 700 (2.7)	128 500	56 600
	Aug	3 803 000 (2.2)	3 671 300 (2.2)	131 600	63 400
	Sep	3 791 800 (1.8)	3 658 900 (1.6)	132 900	59 200
		<-0.4>	<-0.6>		

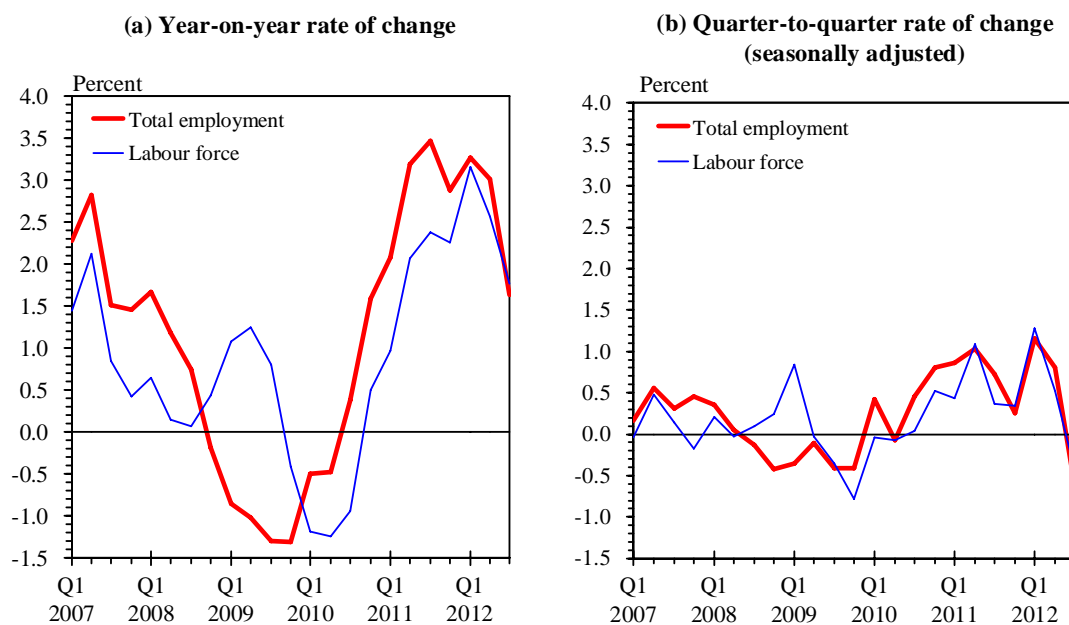
Notes : (a) These include first-time job-seekers and re-entrants into the labour force.

( ) % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change for the third quarter of 2012.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Labour supply and demand saw some slackening during the third quarter**



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

		<u>Male</u>	<u>Female</u>	<u>Both genders combined</u>
2011	Q1	67.9	52.5	59.6
	Q2	68.5	53.0	60.1
	Q3	68.6	53.2	60.3
	Q4	68.2	53.4	60.2
2012	Q1	68.9	53.6	60.7
	Q2	68.8	54.1	60.8
	Q3	68.8	53.6	60.6

Source : General Household Survey, Census and Statistics Department.



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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012 Q1</u>	<u>2012 Q2</u>	<u>2012 Q3</u>
<u>Male</u>								
15-19	14.7	13.0	12.5	10.2	9.9	10.1	9.9	11.8
20-24	67.6	65.5	64.1	60.6	61.1	61.3	61.1	62.8
25-29	94.8	94.2	94.7	94.0	93.9	94.4	93.7	94.2
30-39	97.1	96.6	96.4	96.5	96.5	97.0	96.9	96.5
40-49	95.5	95.2	95.1	95.0	95.1	95.4	95.6	95.4
50-59	83.1	83.9	84.3	84.4	84.9	85.8	84.9	84.9
≥ 60	19.5	19.9	21.3	22.0	23.4	25.1	25.4	25.3
Overall	70.4	69.7	69.4	68.5	68.4	68.9	68.8	68.8
<u>Female</u>								
15-19	13.5	12.4	11.3	9.2	9.1	7.6	9.5	12.6
20-24	71.6	69.3	66.0	61.4	62.1	61.1	60.9	62.9
25-29	87.3	87.4	87.0	86.6	87.5	88.0	86.6	86.7
30-39	76.4	77.0	77.3	75.6	76.8	77.9	78.5	77.5
40-49	66.6	66.6	68.8	68.2	69.9	70.3	71.5	70.8
50-59	46.6	48.6	48.9	49.0	51.6	54.6	54.1	53.4
≥ 60	5.1	5.6	6.6	6.8	8.1	8.7	9.8	8.6
Overall	53.1	53.1	53.2	51.9	53.0	53.6	54.1	53.6
<u>Both genders combined</u>								
15-19	14.1	12.7	11.9	9.7	9.5	8.9	9.7	12.2
20-24	69.7	67.5	65.1	61.0	61.6	61.2	61.0	62.9
25-29	90.6	90.4	90.3	89.8	90.2	90.7	89.6	89.9
30-39	85.2	85.2	85.3	84.3	84.9	85.7	86.0	85.2
40-49	80.1	79.8	80.8	80.2	81.0	81.2	82.0	81.4
50-59	64.8	66.1	66.5	66.5	68.0	69.9	69.2	68.8
≥ 60	12.1	12.5	13.7	14.1	15.5	16.6	17.3	16.6
Overall	61.2	60.9	60.8	59.6	60.1	60.7	60.8	60.6

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

5.5 Total unemployment increased by 7 400 to 132 900 in the third quarter from the preceding quarter, reflecting the increased pressure on the labour market after several quarters of sub-par economic performance. After seasonal adjustment, the unemployment rate edged up by 0.1 percentage point over the second quarter to a still relatively low level of 3.3% in the third quarter.

5.6 Analysed by major economic sector on a quarter-to-quarter comparison, the uptick in the non-seasonally adjusted unemployment rate was more discernable in the retail, real estate, public administration, social and personal services, and transportation, storage, postal and courier services sectors. On the other hand, information and communications, construction, accommodation and food services, import/export trade and wholesale, and financing and insurance witnessed declines in the unemployment rate. The unemployment rate of the *low-paying sectors*<sup>(6)</sup> as a whole remained low at 3.2%, on par with the level before the implementation of SMW in May 2011.

5.7 Analysis by occupational category likewise revealed a mixed picture, with the unemployment rate for higher-skilled workers edging up by 0.1 percentage point to 1.9% while that for lower-skilled workers down by 0.1 percentage point to 3.4% during the third quarter. Within the higher-skilled segment, the unemployment rate rose for professionals and associate professionals but held steady for managers and administrators. Within the lower-skilled segment, while the unemployment rate dropped visibly for craft and related workers and elementary workers, it went up for clerical support workers and service and sales workers.

5.8 In terms of other socio-economic attributes, comparing the third quarter with the second quarter, workers aged 15 – 24 saw the most notable rise in the unemployment rate (up 1.9 percentage points to 11.6%), as job creation failed to fully absorb the upsurge in labour supply in the double cohort year, while other age groups showed a mixed picture. As for education attainment, the unemployment rate rose for those with upper secondary and above education (up 0.4 percentage point to 3.5%) but dropped for those with lower secondary and below education (down 0.6 percentage point to 3.4%).

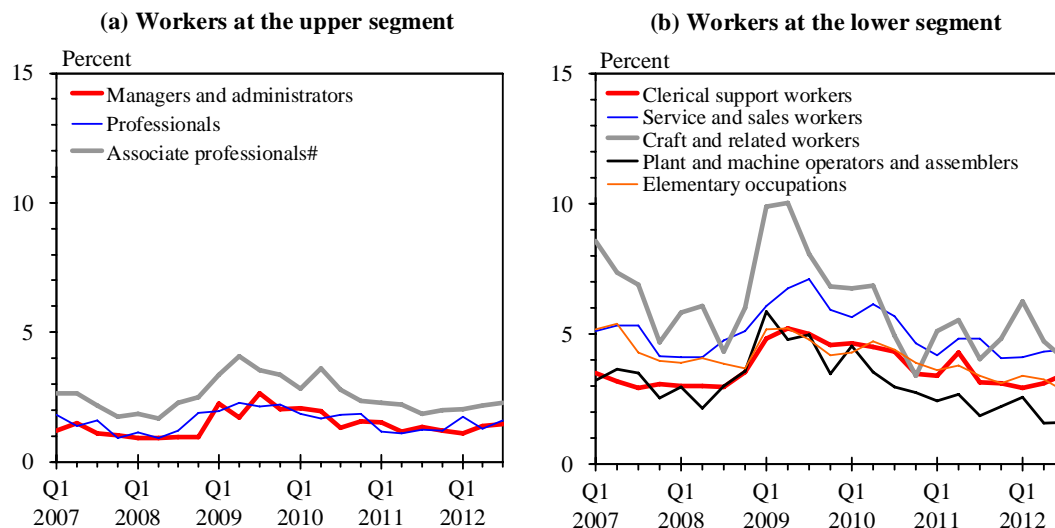
**Table 5.4 : Unemployment rate by major economic sector**

	<u>2011</u>				<u>2012</u>		
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Import/export trade and wholesale	3.2	3.4	2.8	2.7	2.5	3.1	2.9
Retail	4.3	4.5	4.6	3.8	4.3	4.1	4.6
Accommodation and food services	4.6	6.1	5.1	4.4	4.5	5.4	4.7
Transportation, storage, postal and courier services	3.1	3.6	2.9	3.0	3.3	2.4	2.6
Information and communications	2.7	2.8	2.5	2.3	2.9	3.2	2.2
Financing and insurance	2.1	2.1	1.8	2.2	2.4	2.4	2.3
Real estate	2.9	3.1	2.8	2.4	2.5	1.9	2.3
Professional and business services	3.2	3.5	2.9	2.4	2.7	3.1	3.1
Public administration, social and personal services	1.3	1.6	1.3	1.4	1.4	1.2	1.5
Manufacturing	3.7	3.4	4.9	3.8	4.3	3.7	4.3
Construction	6.5	5.7	4.4	5.4	6.1	4.6	3.9
Overall	3.4 (3.5)	3.7 (3.6)	3.4 (3.2)	3.1 (3.3)	3.3 (3.4)	3.3 (3.2)	3.5 (3.3)

Note : ( ) Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.3 : Unemployment rate\* showed diverse performance across skill segments<sup>^</sup>**

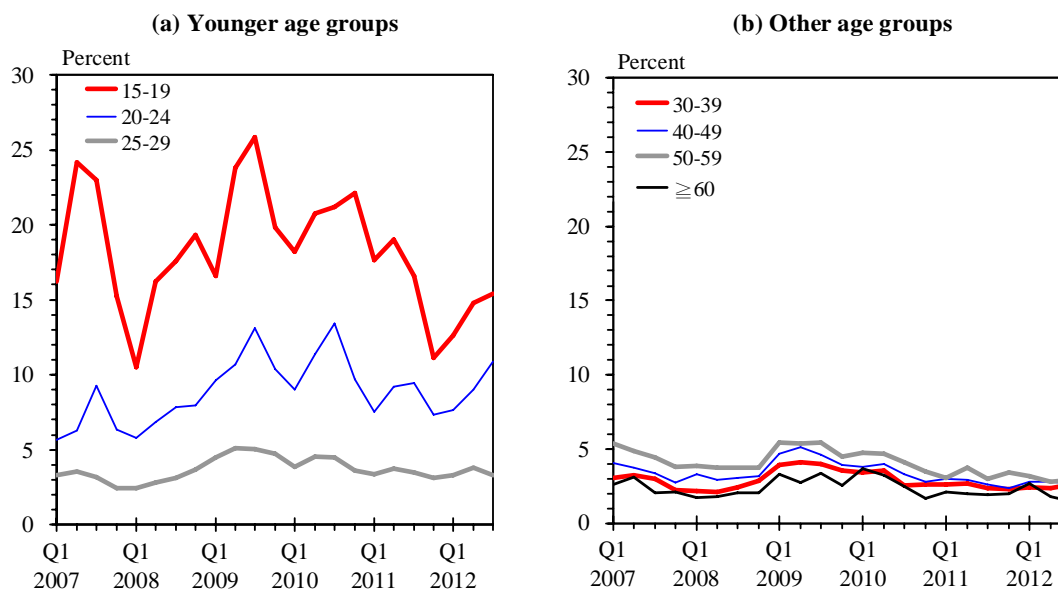


Notes : (^) Statistics since Q1 2011 are compiled based on International Standard Classification of Occupations (ISCO) 2008, while statistics prior to Q1 2011 are compiled based on ISCO 1988.

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

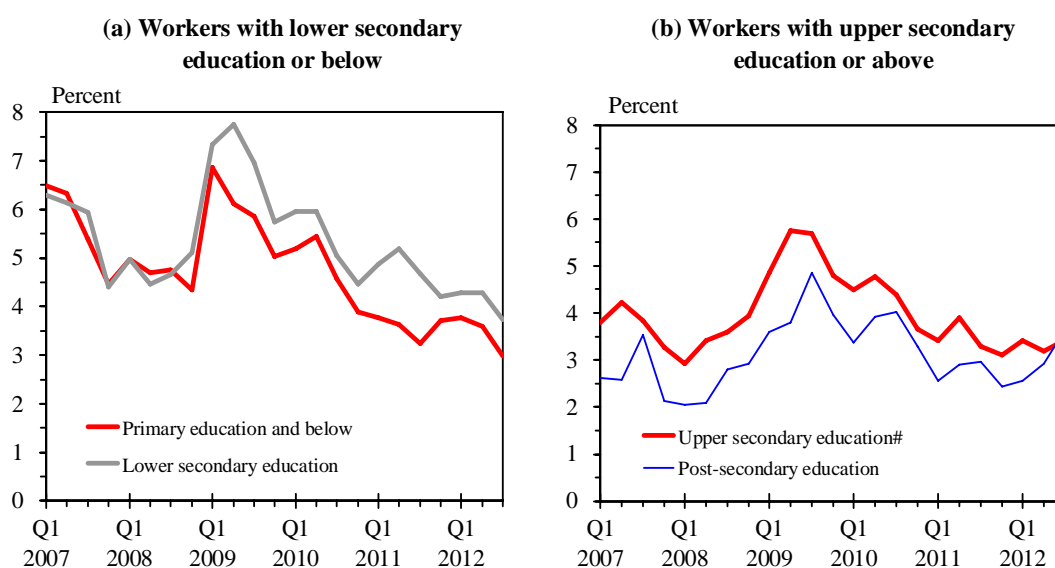
(#) Including technicians and supervisors.

**Diagram 5.4 : Unemployment rate\* rose most visibly for younger workers aged 15-24 with the seasonal entry of school leavers into the labour force**



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

**Diagram 5.5 : Unemployment rate\* fell for those with lower secondary or below education but rose for those with upper secondary education or above**



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

5.9 Indicators measuring the intensity of unemployment, on balance, tended to suggest a slight worsening of the employment conditions in the third quarter. Specifically, the number of long-term unemployed persons (i.e. those unemployed for six months or longer) increased by 2 800 to 31 400 during the third quarter, although the long-term unemployment rate held largely steady at 0.8%. The proportion of dismissal or lay-offs among those unemployed also rose back to 51.0% from 50.0% in the second quarter, with more notable increases in real estate, transportation and storage, social services, import/export trade, and retail. Nevertheless, the median duration of unemployment shortened somewhat to 68 days, from 73 days in the second quarter.

### Profile of underemployment

5.10 In the third quarter, the underemployment rate rose back by 0.2 percentage point to 1.6%. In absolute terms, the number of underemployed persons increased by 4 600 to 59 200 from the previous quarter. Between the two quarters, the underemployment rate rose more notably in the retail, and professional and business services sectors, reflecting some slackening of labour demand in the sectors concerned.

## Box 5.1

### Youth unemployment in Hong Kong

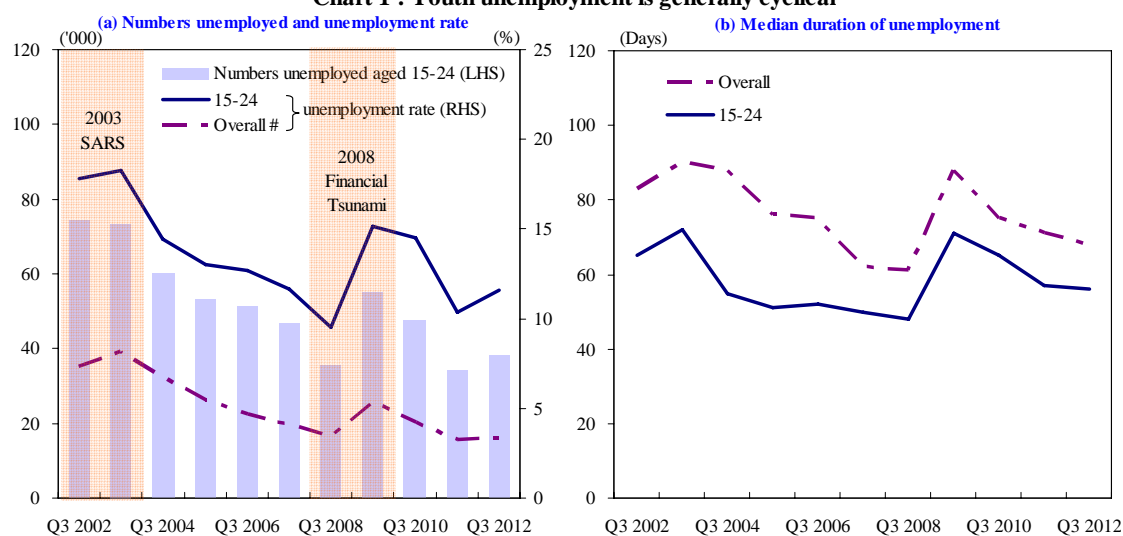
The unemployment situation of youths<sup>(1)</sup> has been one of the major concerns in the global labour market, particularly in an era of increasing economic volatility and uncertainty when skyrocketing youth jobless rates are observed in many advanced economies. Against such backdrop, this box article analyses the recent situation in Hong Kong with an international comparison, followed by an examination on the salient labour market features of youths.

#### Recent developments in Hong Kong

The youth unemployment rate in Hong Kong was 11.6% in Q3 2012<sup>(2)</sup>. Although slightly up from 10.4% over a year earlier, it was visibly lower by 3.6 and 2.2 percentage points than the latest high of 15.2% in Q3 2009 and the 10-year same-quarter average of 13.8% respectively, thanks to the tight labour market. While this jobless rate is consistently higher than the overall average, their movements over time tie in closely with the ups and downs of the economy (*Chart 1a*). As such, the buoyant labour demand in most part of 2012 has cushioned the potential impact from the double cohort under the introduction of the New Academic Structure (NAS) to youth unemployment so far<sup>(3)</sup>.

Among the unemployed youths, the median duration of unemployment shortened successively to 56 days in Q3 2012, the lowest since the pre-crisis trough in Q3 2008. In this light, young job-seekers in general can find employment within 2 months. Another point worth noting is that the length of unemployment for the young cohort is also notably and persistently shorter than the overall average (*Chart 1b*).

**Chart 1 : Youth unemployment is generally cyclical**



Note: (#) Seasonally adjusted.

Source: General Household Survey, C&SD.

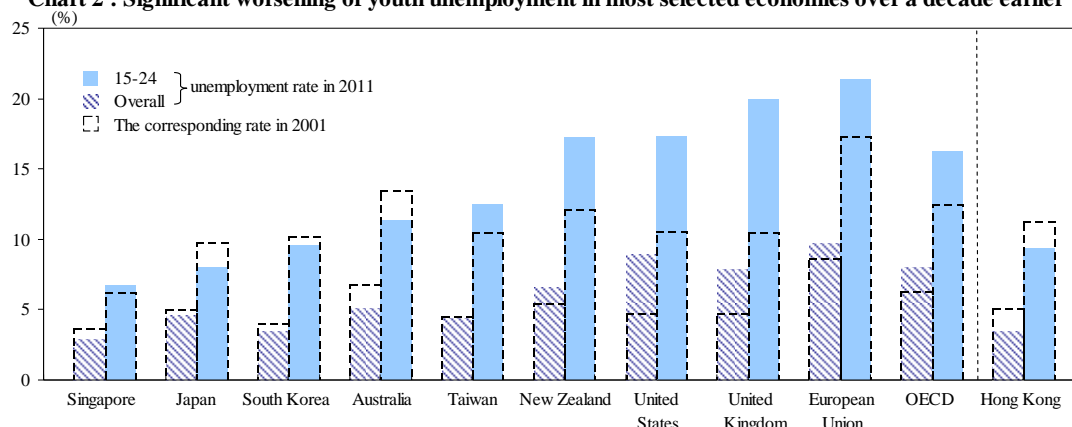
#### A comparison of youth unemployment among selected economies

The situations of other economies are in stark contrast with that of Hong Kong. Most of them, in particular those in advanced economies, showed very high levels in both youth and overall unemployment rates with significant worsening over a decade earlier upon their bleaker macroeconomic conditions (*Chart 2*).

- (1) Unless stated otherwise, youths are defined in this analysis as persons aged 15-24.
- (2) Further breakdown indicated that the unemployment rate for persons aged 15-19 was 15.4% while that for those aged 20-24 was 10.9% in Q3 2012. In absolute terms, the numbers unemployed amounted to 7 800 for the former cohort and 30 600 for the latter.
- (3) It is expected some 100 000 students, comprising secondary 7 graduates under the old structure and secondary 6 graduates under NAS, have graduated under the double cohort year of 2012. Nevertheless, as a result of the general delay in work entry and multiple enhanced pathways, the latest number of new entrants aged 15-19 was still lower than the same quarterly levels in early and mid-2000s. Besides, in tandem with the tight labour market, the proportion of employment for these new entrants surged to over 60% in Q3 2012 and 2011 respectively, still higher than those (roughly 50%-60%) in the same quarter of preceding years.

## Box 5.1 (Cont'd)

Chart 2 : Significant worsening of youth unemployment in most selected economies over a decade earlier



Sources: National statistics offices; ILO database; OECD database; Eurostat; and General Household Survey, C&SD.

Another indicator commonly adopted for international comparison is the ratio of youth unemployment rate to the territorial average. As shown in **Table 1**, most selected economies had a ratio ranging from 2 to 3, i.e. higher youth jobless rate is a global phenomenon. While the ratio of Hong Kong was broadly in line at 2.7 in 2011, its overall and youth jobless rates were both remarkably low when compared with most of the advanced economies.

Table 1 : Higher youth unemployment rate relative to overall as a global phenomenon

	Overall unemployment rate (%) (a)	Youth unemployment rate (%) (b)	Ratio (a) : (b)
<b>Hong Kong</b>	<b>3.4</b>	<b>9.3</b>	<b>1 : 2.7</b>
Singapore	2.9	6.7	1 : 2.3
Japan	4.5	8.0	1 : 1.8
South Korea	3.4	9.6	1 : 2.8
Australia	5.1	11.3	1 : 2.2
Taiwan	4.4	12.5	1 : 2.8
New Zealand	6.5	17.3	1 : 2.7
United States	8.9	17.3	1 : 1.9
United Kingdom	7.8	20.0	1 : 2.6
European Union	9.7	21.3	1 : 2.2
OECD	8.0	16.2	1 : 2.0

Sources: National statistics offices; ILO database; OECD database; Eurostat; and General Household Survey, C&SD.

### Several salient features of youth unemployment

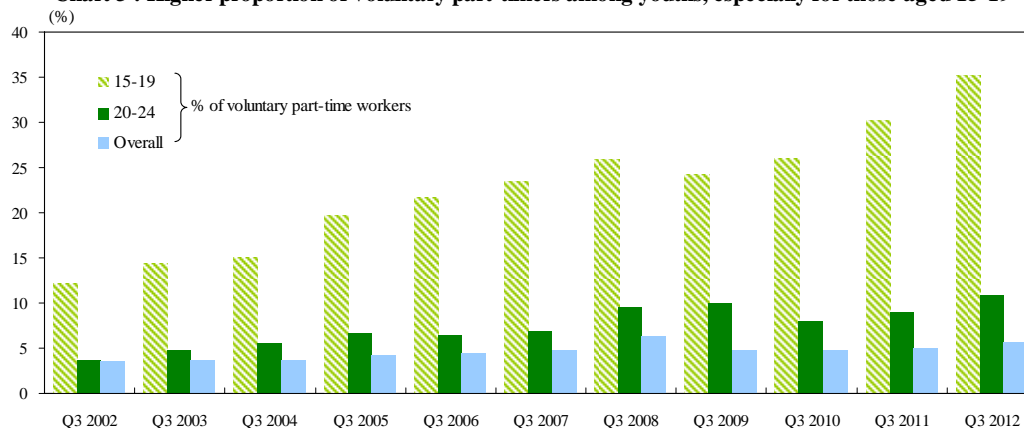
The higher jobless rate for younger cohort relative to the economy-wide average in Hong Kong should also be seen in the following contexts:

(a) **Larger proportion of first-time job-seekers:** A large proportion (44.8% in Q3 2012) of unemployed youths were first-time job-seekers, versus a notably smaller 14.7% of the overall unemployment. This proportion is largely seasonal with conspicuous upswing during the summer and should normally come down in the latter part of the year as job-seekers are absorbed into employment over time. For 2011 as a whole, the number of first-time job-seekers still contributed around 30% of youth unemployment. Since they are in the transition from schooling to employment, such process usually involves considerable searching and switching before settling into a more stable employment, and understandably, young people generally have higher frictional unemployment than the others.

(b) **Higher incidence of part-time work:** As regards the working youths, there was a higher incidence of part-timers, and most of them were full-time students. Specifically, such employment is more prevalent among younger workers aged 15-19, with around one-third (35.1%) working part-time in Q3 2012. While relatively low proportion (10.9%) was seen for those aged 20-24, it was still higher than the overall average at 5.7% (**Chart 3**). Concurrently, as many part-time positions are temporary and normally on-and-off, this would partly increase the unemployment incidence for the youths who may face more frequent job searching.

## Box 5.1 (Cont'd)

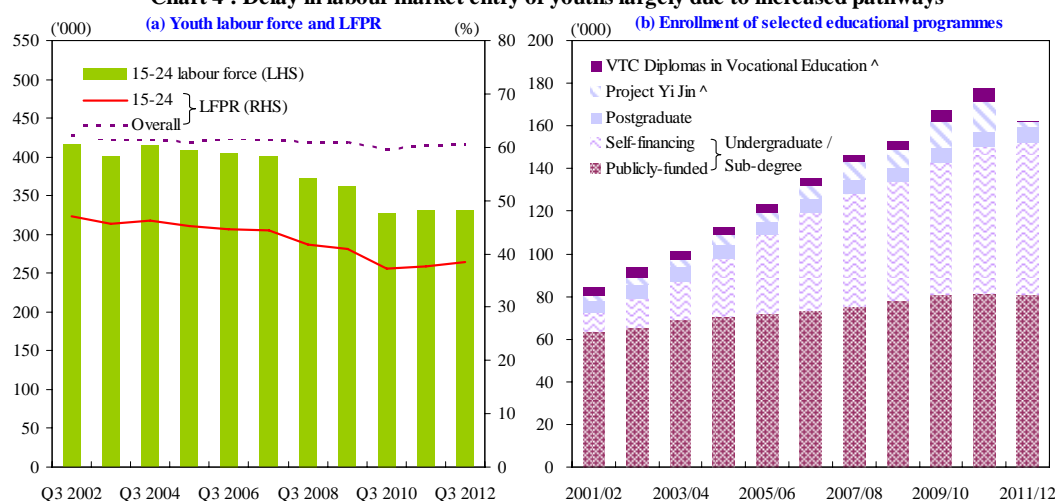
**Chart 3 : Higher proportion of voluntary part-timers among youths, especially for those aged 15-19**



Source: General Household Survey, C&SD.

(c) **Shrinking youth workforce:** The youth labour supply exhibited a general downtrend over the past decade, suggesting a secular delay in the entry of youngsters into the labour market (*Chart 4a*). This indicates on one hand young people's pursuit of qualifications and skills in meeting the rising demand for quality people amid Hong Kong's transformation into a knowledge-based economy, as well as a substantial increase in education / training opportunities on the other (*Chart 4b*). Specifically, while the overall labour force participation rate (LFPR) remained rather stable at around 60% over the past decade, the youth LFPR fell successively from 47.0% in Q3 2002 to 38.5% in Q3 2012. As a result, youths only accounted for 8.7% of the total workforce in Q3 2012, as against 11.0% five years ago and 11.9% ten years ago.

**Chart 4 : Delay in labour market entry of youths largely due to increased pathways**



Note: (\*) The apparent reduction in enrollment for Project Yi Jin and Vocational Training Council (VTC) diplomas in 2011/12 was due to the 2011 "gap year" when there was no secondary 5 graduates. The corresponding places would be boosted up to 15 000 and 7 000 in 2012/13 in preparation for the double cohort year, more than the comparable levels in 2010/11 and before.

Sources: Education Bureau, and General Household Survey, C&SD.

## Concluding remarks

In a liberal and open economy like Hong Kong, barriers of entry to the labour market faced by youngsters, e.g. prohibitory social institutions or workplace discrimination, are minimal. Aside from the perceived lack of working experience, higher job mobility, more wait-and-search, higher propensity to work part-time, together with a general delay in labour market entry, could be underlying labour market features of the youths. Along Hong Kong's transformation towards a knowledge-based economy, education, vocational training and on-the-job training would be essential for youths to equip themselves for future challenges. The Government will continue its efforts to provide young people with adequate choices and opportunities in education, training and employment, assist them to develop careers commensurate with their ability and aspirations, thereby enhancing the overall labour productivity in Hong Kong over the longer term.



## Profile of employment in establishments

5.11 Statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to June 2012. The data up till mid-2012 generally still paint a picture of robust labour demand and income conditions, reflecting the sanguine sentiments prevailing at that time. However, the latest information drawn from supplementary sources suggests different degrees of weakening in job vacancies and labour income more recently, as covered in more details in *paragraphs 5.16* and *5.22*.

5.12 The statistics enumerated in June 2012 showed that total employment in private sector establishments went up further by 2.3% over a year earlier to a fresh record high of 2 657 700. The construction sector sustained a strong employment growth (up 22.4% year-on-year), bolstered by the ongoing infrastructure works and a revival of private sector construction activity. As for services, most sectors saw further solid gains in employment, as in information and communications (up 5.3%), financing, insurance, real estate, professional and business services (up 3.5%), retail (up 2.9%), social and personal services (up 2.7%), accommodation and food services (up 2.3%), and transportation, storage, postal and courier services (up 2.2%). However, import/export trade and wholesale saw further employment loss (down 0.4% year-on-year), mirroring the weak performance of the external sector. Manufacturing employment continued its structural downtrend (down 5.4%). In terms of establishment size, larger enterprises, which contributed over half of the total job creation, increased their headcounts by 3.3% over a year earlier. Employment in small and medium-sized enterprises (SMEs)<sup>(7)</sup> also grew further by 1.2%. As for the civil service, employment was 1.2% higher compared with a year earlier. On a seasonally adjusted basis, the number of total employment in private sector establishments increased further by 0.8% in June over March.

**Table 5.5 : Employment by major economic sector**

	<u>2011</u>					<u>2012</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	562 400 (-0.2)	565 000 (0.1)	560 800 (-0.2)	564 300 (0.1)	559 600 (-0.9)	557 200 (-1.4)	558 300 (-0.4)
Retail	252 800 (4.0)	251 300 (4.5)	252 000 (4.7)	252 900 (4.2)	255 000 (2.7)	256 800 (2.2)	259 400 (2.9)
Accommodation <sup>(a)</sup> and food services	265 400 (6.5)	263 000 (6.3)	266 100 (7.5)	266 300 (7.8)	266 300 (4.3)	269 000 (2.3)	272 300 (2.3)
Transportation, storage, postal and courier services	163 600 (2.0)	162 100 (1.6)	163 100 (1.7)	163 800 (2.4)	165 500 (2.4)	165 600 (2.2)	166 700 (2.2)
Information and communications	91 300 (3.4)	89 300 (2.1)	91 100 (3.0)	91 700 (3.6)	93 300 (4.9)	95 200 (6.6)	95 900 (5.3)
Financing, insurance, real estate, professional and business services	646 500 (6.1)	632 900 (6.1)	642 300 (6.2)	652 500 (6.6)	658 400 (5.6)	662 200 (4.6)	664 700 (3.5)
Social and personal services	439 300 (2.4)	436 200 (2.0)	438 700 (2.8)	440 600 (2.7)	441 700 (2.1)	444 600 (1.9)	450 600 (2.7)
Manufacturing	112 700 (-5.6)	115 100 (-6.1)	113 800 (-5.0)	111 500 (-5.2)	110 400 (-6.1)	108 000 (-6.2)	107 600 (-5.4)
Construction sites (manual workers only)	62 600 (13.2)	58 800 (9.1)	58 600 (5.6)	63 700 (12.8)	69 400 (25.2)	70 600 (20.1)	71 700 (22.4)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>2 607 700 (3.1)</i>	<i>2 584 700 (3.0)</i>	<i>2 597 600 (3.2)</i>	<i>2 618 500 (3.6)</i>	<i>2 630 200 (2.8)</i>	<i>2 639 700 (2.1)</i>	<i>2 657 700 (2.3)</i>
		<i>&lt;1.2&gt;</i>	<i>&lt;0.6&gt;</i>	<i>&lt;0.7&gt;</i>	<i>&lt;0.2&gt;</i>	<i>&lt;0.6&gt;</i>	<i>&lt;0.8&gt;</i>
<i>Civil service<sup>(c)</sup></i>	<i>157 600 (0.7)</i>	<i>156 900 (0.2)</i>	<i>157 300 (0.7)</i>	<i>157 700 (0.8)</i>	<i>158 500 (1.2)</i>	<i>159 200 (1.5)</i>	<i>159 200 (1.2)</i>

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

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

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

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

( ) % change over a year earlier.

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

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

## Vacancies

5.13 Reflecting the buoyant labour demand amid a resilient job market in June 2012, vacancies in private sector establishments saw a further broad-based upsurge across sectors. The number of private sector vacancies surged by 25.1% over a year earlier to 70 800, the highest since September 1994. On a seasonally adjusted basis, the number of vacancies increased notably further by 5.7% in June over March.

5.14 In June 2012, all the broad categories of economic sectors saw appreciable growth in job vacancies as compared to a year earlier. Specifically for the service sectors, more prominent gains were witnessed in accommodation and food services (up 51.1% year-on-year), retail (up 32.7%), social and personal services (up 29.5%), financing, insurance, real estate, professional and business services (up 14.0%), and transportation, storage, postal and courier services (up 13.2%). The lower-skilled workers continued to enjoy a faster surge in job openings (up 37.7%) than the higher-skilled workers (up 6.2%), especially for those working in elementary occupations (up 51.1%), craft and related workers (up 47.4%), service and sales workers (up 35.5%) and clerical support workers (up 35.0%). Among the higher-skilled workers, managers and administrators also saw strong vacancy growth (up 31.7%). In terms of establishment size, job vacancies offered by SMEs and larger enterprises both surged further, by 22.0% and 27.9% respectively over a year earlier. As for the civil service, the number of vacancies increased by 1.8% in June over a year earlier, after a brief dip in March.

5.15 Analysing the number of job openings in private sector establishments relative to that of job-seekers, in June 2012 the ratio of job vacancies per 100 unemployed persons held steady at a high of 56, reflecting a generally tight demand/supply situation in the labour market at that time. The ratio for lower-skilled jobs rose further to 56 from the level of 52 three months ago, while that for higher-skilled jobs came down slightly from 101 to 97. When measured in terms of the percentage of job vacancies to total employment opportunities, the vacancy rate for private sector establishments also held steady at a high of 2.6% in June. More sizeable increases in vacancy rate in June as compared to March were seen in accommodation and food services, and transportation, storage, postal and courier services, while the retail sector saw a more notable decline.

**Table 5.6 : Vacancies by major economic sector**

	Annual average	Number of vacancies						Vacancy rate in Jun 2012 (%)
		2011			2012			
		Mar	Jun	Sep	Dec	Mar	Jun	
Import/export trade and wholesale	7 800 (20.0)	8 300 (26.5)	8 300 (35.7)	7 700 (10.4)	7 100 (8.9)	8 900 (7.8)	9 100 (10.6)	1.6
Retail	5 900 (19.6)	6 000 (23.9)	5 200 (18.2)	6 100 (10.3)	6 300 (27.2)	8 200 (35.7)	6 900 (32.7)	2.6
Accommodation <sup>(a)</sup> and food services	8 200 (17.8)	7 700 (26.0)	8 100 (22.4)	8 000 (9.7)	9 000 (15.1)	11 000 (42.7)	12 300 (51.1)	4.3
Transportation, storage, postal and courier services	2 600 (33.0)	2 500 (52.4)	3 000 (51.8)	2 400 (13.2)	2 500 (20.2)	3 200 (26.1)	3 400 (13.2)	2.0
Information and communications	2 300 (1.0)	2 700 (19.1)	2 200 (-4.8)	2 200 (-13.9)	2 200 (6.6)	2 500 (-7.4)	2 400 (8.6)	2.4
Financing, insurance, real estate, professional and business services	14 100 (13.5)	14 100 (19.5)	14 600 (19.6)	14 300 (10.8)	13 300 (4.7)	16 200 (14.8)	16 600 (14.0)	2.4
Social and personal services	13 100 (20.8)	13 200 (19.9)	12 700 (26.5)	13 900 (17.6)	12 400 (19.9)	16 300 (23.1)	16 500 (29.5)	3.5
Manufacturing	2 200 (42.7)	2 400 (52.7)	2 200 (49.8)	2 300 (44.9)	1 900 (24.2)	2 900 (21.1)	3 000 (37.2)	2.7
Construction sites (manual workers only)	300 (434.6)	100 (217.0)	300 (411.9)	500 (641.7)	300 (385.3)	700 (347.0)	600 (94.7)	0.8
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>56 700 (19.0)</i>	<i>57 200 (24.4)</i>	<i>56 600 (25.3)</i>	<i>57 700 (12.9)</i>	<i>55 100 (14.6)</i>	<i>70 000 (22.3)</i>	<i>70 800 (25.1)</i>	<i>2.6</i>
		<2.9>	<3.3>	<-3.7>	<11.9>	<9.8>	<5.7>	
<i>Civil service<sup>(c)</sup></i>	<i>6 300 (9.7)</i>	<i>6 000 (13.2)</i>	<i>6 200 (8.5)</i>	<i>6 600 (11.8)</i>	<i>6 200 (5.4)</i>	<i>5 900 (-2.5)</i>	<i>6 300 (1.8)</i>	<i>3.8</i>

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

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

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

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

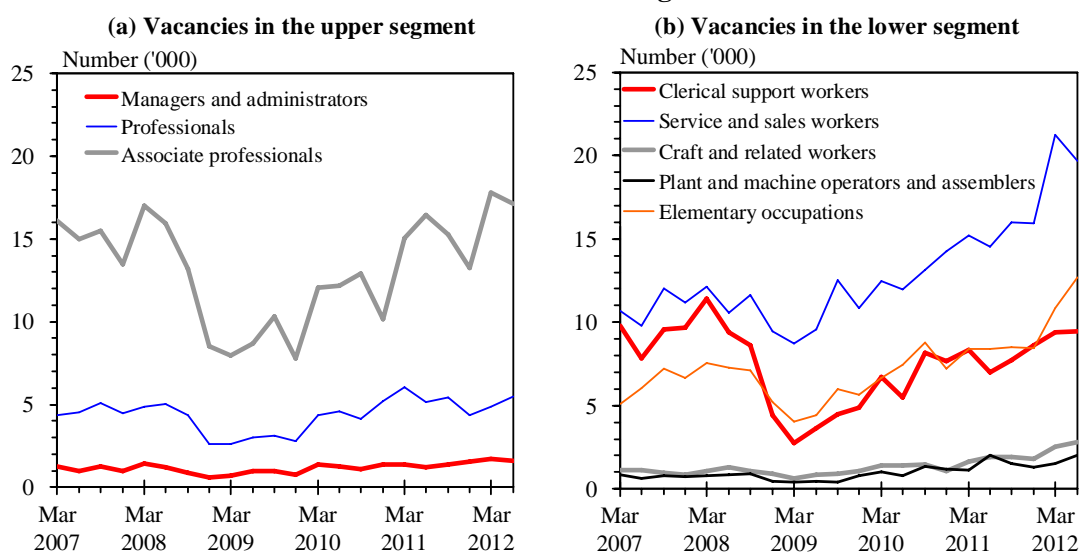
( ) % change over a year earlier.

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

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

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

**Diagram 5.6 : Job vacancies<sup>^</sup> surged further in June, more notably for the lower-skilled segment**



Note : (^) Statistics since March 2012 are compiled based on International Standard Classification of Occupations (ISCO) 2008, while statistics prior to March 2012 are compiled based on ISCO 1988.

5.16 Data on private sector vacancies registered via the Labour Department (LD) provides a more up-to-date picture on the latest developments in the labour market. In September 2012, around 101 500 private sector job vacancies were posted by the LD, up 38.7% over a year earlier. However, comparing the third quarter with the second quarter, the average number of vacancies increased only modestly by 2.6%, a slower rate of increase than that of 14.9% between the first two quarters.

## Wages and earnings

5.17 In the second quarter of 2012, wages and earnings sustained further solid growth on a broad front over a year earlier, thanks to a resilient labour market and the remaining boost from SMW implementation. The *wage index*, as a measure of regular employment income of employees at the supervisory level or below, increased further by 5.1% year-on-year in June, though slower than the 8.0% surge in March. After adjusting for inflation<sup>(8)</sup>, labour wages saw a real improvement of 1.7% over a year earlier.

5.18 The increase in nominal wages in June was broad-based across economic sectors and occupations. More prominent year-on-year increases were observed in economic sectors such as personal services (up 9.5%), accommodation and food services (up 7.6%), professional and business services (up 5.7%), and real estate leasing and maintenance management (up 5.3%). In terms of occupational category, service workers (up 7.3%) and supervisory and

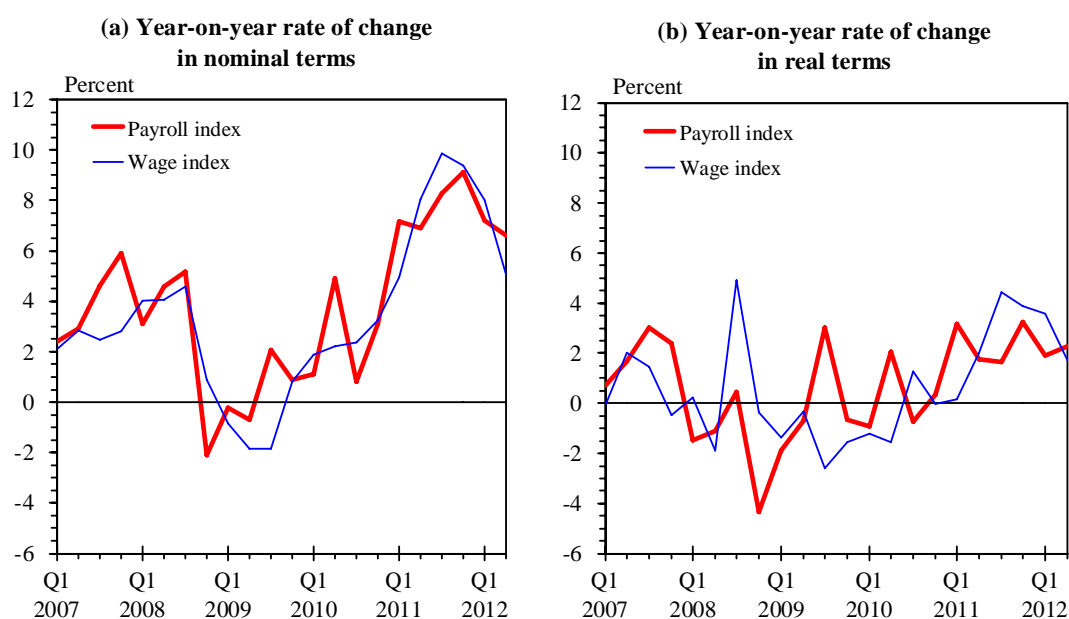
technical workers (up 5.7%) enjoyed more sizeable increases.

5.19 The Salary Index for Managerial and Professional Employees also pointed to further notable improvement in compensation among workers at the upper end. This index moved up by 5.8% in nominal terms or by 2.0% in real terms in June 2012 over a year earlier, for those workers staying in the same occupation and the same company. Taking into account the newly recruited and promoted employees, the broader-based index registered nominal and real increases of 4.3% and 0.5% respectively.

5.20 *Labour earnings*<sup>(9)</sup>, as measured by the index of payroll per person engaged in the private sector, rose further by 6.6% in the second quarter over a year earlier, though likewise slightly decelerated from the 7.2% rise in the first quarter. After discounting the price effects, there was a real improvement of 2.3% in labour earnings.

5.21 Analysed by economic sector, increases in nominal payroll were seen across all major sectors in the second quarter, with more notable increases for those engaged in social and personal services (up 8.7% year-on-year), information and communications (up 7.7%), professional and business services (up 6.8%), and retail trade (up 6.7%).

**Diagram 5.7 : Labour earnings and wages sustained further solid growths**



5.22 More recent data from the General Household Survey, though not strictly comparable to those from the business establishment surveys, showed that average monthly employment earnings<sup>(10)</sup> (excluding foreign domestic helpers) for full-time employees fell back slightly by 0.1% year-on-year in the third quarter, from the 4.8% increase in the second quarter and 5.6% in the first quarter, whereas for the grassroots workers, those in the lowest decile group continued to enjoy an appreciable year-on-year earnings growth of 7.2% in the third quarter. Nonetheless, this was a deceleration from the 10.4% increase in the second quarter and 13.4% in the first quarter, as the additional boost from SMW implementation began to wane. After adjusting for inflation, real earnings for full-time employees decreased by 3.1% in overall terms in the third quarter over a year earlier, while those for the lowest decile group continued to see a notable year-on-year increase of 5.2%. The latest indicators on vacancies and earnings tended to suggest further increased pressure on jobs and income in the coming months.

### **Recent labour-related measures**

5.23 LD held eleven large-scale job fairs from January to September 2012. A total of 336 organisations conducted on-the-spot recruitment in the job fairs, offering over 29 000 vacancies. Ten training bodies also received applications in two of these job fairs. On top of that, three large-scale job fairs were held at Citywalk in Tsuen Wan from 10 – 12 October, with over 4 000 vacancies offered by 57 employers, ranging from catering, retail, property management and other sectors. Another three job fairs were organised from 7 – 9 November in Sham Shui Po. Apart from large-scale job fairs, district-based job fairs are regularly organised at LD's Job Centres and Employment in One-stop to assist job-seekers. Recruitment activities are also staged by catering and retail employers at the two industry-based recruitment centres regularly for interviewing job-seekers on the spot.

## Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. These statistics have been revised and backcasted to the three-month period of May – July 2006 to take into account the results of the 2011 Population Census which provided a benchmark for revising the population figures compiled since the 2006 Population By-census.

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

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

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

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

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

- (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) The low-paying sectors as identified by the Provisional Minimum Wage Commission include:
  - (i) retail;
  - (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong-style tea cafes. However, beverage serving places, event catering and other food service activities are not included.);
  - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
  - (iv) other low-paying sectors, namely
    - elderly homes;
    - laundry and dry cleaning services;
    - hairdressing and other personal services;
    - local courier services; and
    - food processing and production.
- (7) 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.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
- (9) In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

## CHAPTER 6 : PRICES

### *Summary*

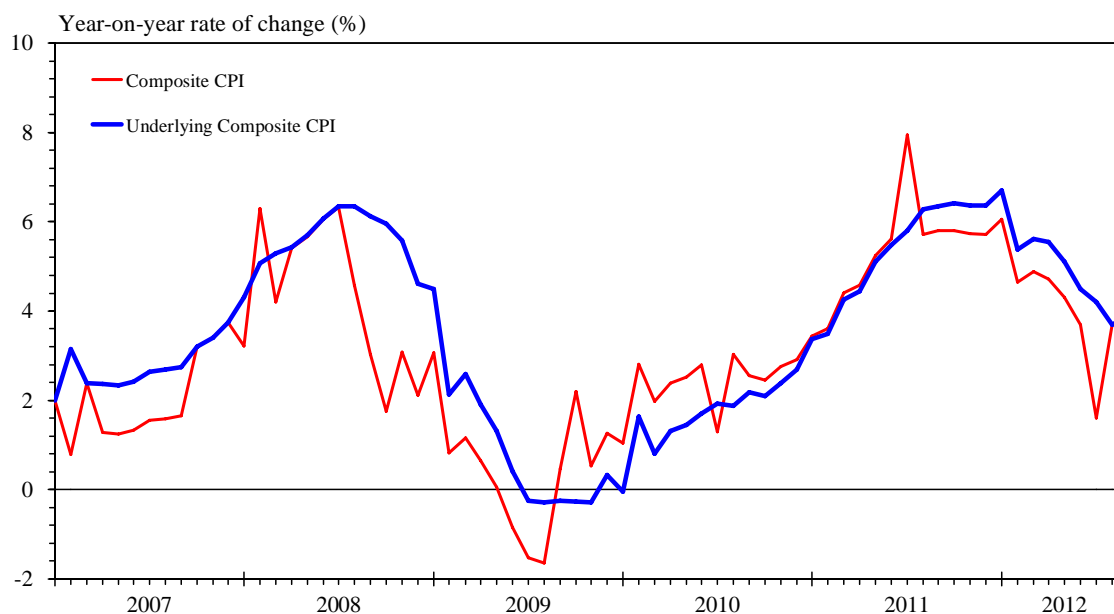
- *Inflation continued to recede in the third quarter of 2012 amid the concurrent easing of external and domestic price pressures. The Composite Consumer Price Index (CPI)<sup>(1)</sup> rose by 3.1% in the third quarter over a year earlier, down from 4.2% in the second quarter. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, the year-on-year increase in the underlying Composite CPI similarly narrowed from 5.1% to 4.0%.*
- *Externally, imported inflation tapered further due to the lagged effect of the earlier retreat in global food and commodity prices, as well as slower inflation in Hong Kong's major trading partners. Locally, while rentals for retail premises continued to rise notably, private housing rentals, which have a larger direct impact on the CPIs, showed moderated increases from year-ago levels. As the boosting effect of the implementation of statutory minimum wage began to wane and as the economy slowed, wages also saw slower increases more recently.*
- *Looking ahead, inflation is likely to be largely contained in the near term, amid a difficult economic environment and more moderate increases in import prices. However, the upside risks to global food and commodity prices remain notable beyond the short term, in view of the abundant global liquidity, especially after the new round of quantitative easing launched in the United States, and the adverse weather conditions in some food-producing economies.*

### **Consumer prices**

6.1 Inflation pressures eased further in the third quarter of 2012. Import prices rose at a more moderate pace, thanks to the earlier retreat in global food and commodity prices and the easing inflation in the Mainland and other import suppliers. Locally, the year-on-year increase in the private housing rental component of the Composite CPI tapered further, reflecting the gradual feed-through of the relative stabilisation in fresh-letting residential rentals during the second half of 2011 and the early months of 2012. Furthermore, labour costs rose at a slower pace more recently, due to the waning of the boosting effect of the implementation of statutory minimum wage and the slowing economy. In view of the concurrent easing of external and

domestic price pressures, local inflation has sustained its downtrend in the third quarter, along with similar inflation developments in a number of Asian and emerging market economies<sup>(2)</sup>.

**Diagram 6.1 : Underlying inflation came down further in the third quarter of 2012**



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

6.2 Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, went down to 3.1% in the third quarter of 2012 from 4.2% in the second quarter. Underlying consumer price inflation, being more indicative of the underlying inflation trend by netting out the effects of Government's one-off relief measures, likewise decelerated visibly from 5.1% to 4.0% over the same period. In terms of monthly profile, the year-on-year rate of change in the underlying Composite CPI eased from 4.2% in July to 3.7% in August, but rose back slightly to 3.9% in September due mainly to the revision in public housing rentals and higher charges for household services. Aside from these, most CPI components actually continued to show narrower year-on-year price increases during the third quarter.

**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>			
2011	Annual	5.3	5.3	5.6	5.2	5.1
	H1	4.4	4.5	4.8	4.4	4.3
	H2	6.2	6.1	6.5	6.0	5.9
	Q1	3.7	3.8	4.1	3.7	3.7
	Q2	5.0	5.2	5.5	5.1	4.8
	Q3	6.1	6.4	7.7	6.0	5.9
	Q4	6.4	5.7	5.3	6.0	6.0
2012	H1	5.5	4.7	4.2	5.0	4.9
	Q1	5.9	5.2	4.6	5.5	5.4
	Q2	5.1	4.2	3.7	4.5	4.4
	Q3	4.0	3.1	1.9	3.7	3.4

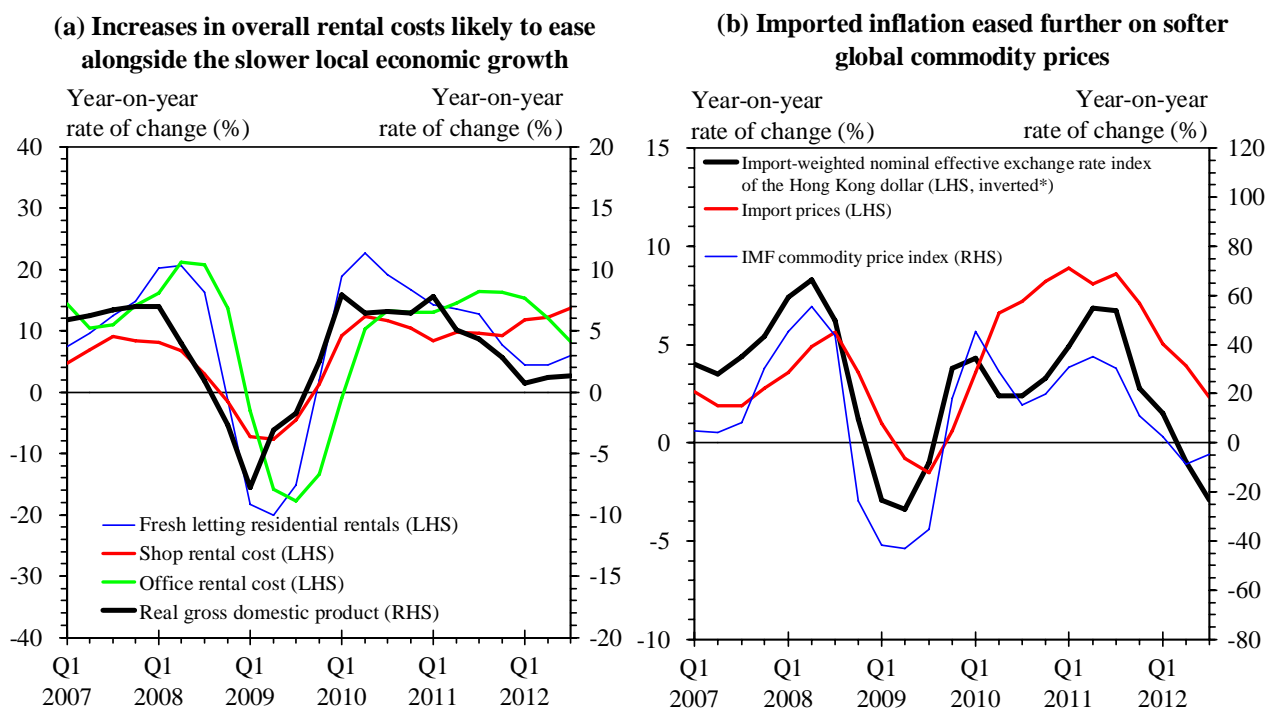
**(seasonally adjusted quarter-to-quarter rate of change (%))**

2011	Q1	1.8	1.8	2.0	1.8	1.7
	Q2	1.7	1.8	1.7	1.8	1.8
	Q3	1.5	-0.9	-4.3	0.4	1.2
	Q4	1.2	3.0	5.9	1.9	1.1
2012	Q1	1.3	1.3	1.4	1.3	1.1
	Q2	1.0	0.9	0.9	0.9	0.8
	Q3	0.5	-2.0	-5.9	-0.4	0.4

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

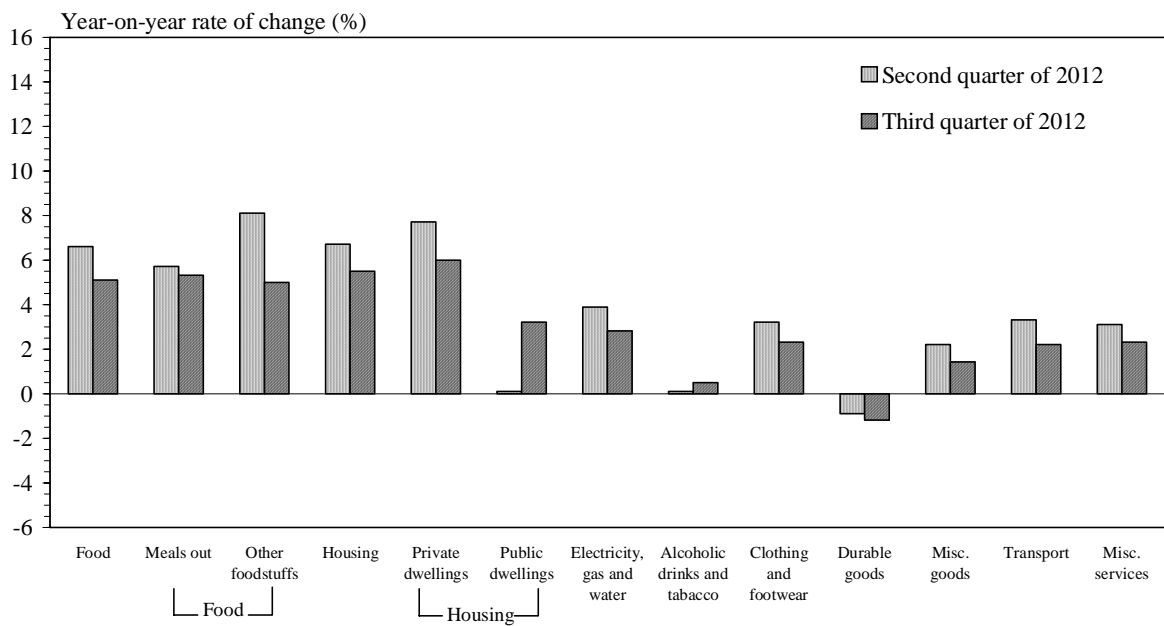
6.3 The price increases for most of the major components in the underlying Composite CPI, notably foodstuffs and housing, tapered further on a year-on-year basis in the third quarter of 2012. Thanks to the earlier peak-out of global food prices and slower inflation in the Mainland, local food inflation (including costs of dining out) displayed an easing trend in the past few quarters, coming down progressively from the peak of 8.2% in the fourth quarter of 2011 to 5.1% in the third quarter of 2012. Meanwhile, the rental increase in private housing component also moderated visibly, from 9.5% to 6.0% over the same period, reflecting the gradual feed-through of the earlier relative stabilisation in fresh-letting residential rentals. Prices of many other CPI components, such as clothing and footwear, miscellaneous goods, transport and miscellaneous services also saw decelerated year-on-year increases, broadly in line with the slower increases in import prices in recent months and the more difficult local economic environment. Separately, prices of durable goods continued their secular downtrend.

**Diagram 6.2 : Inflation pressures eased on both domestic and external fronts**

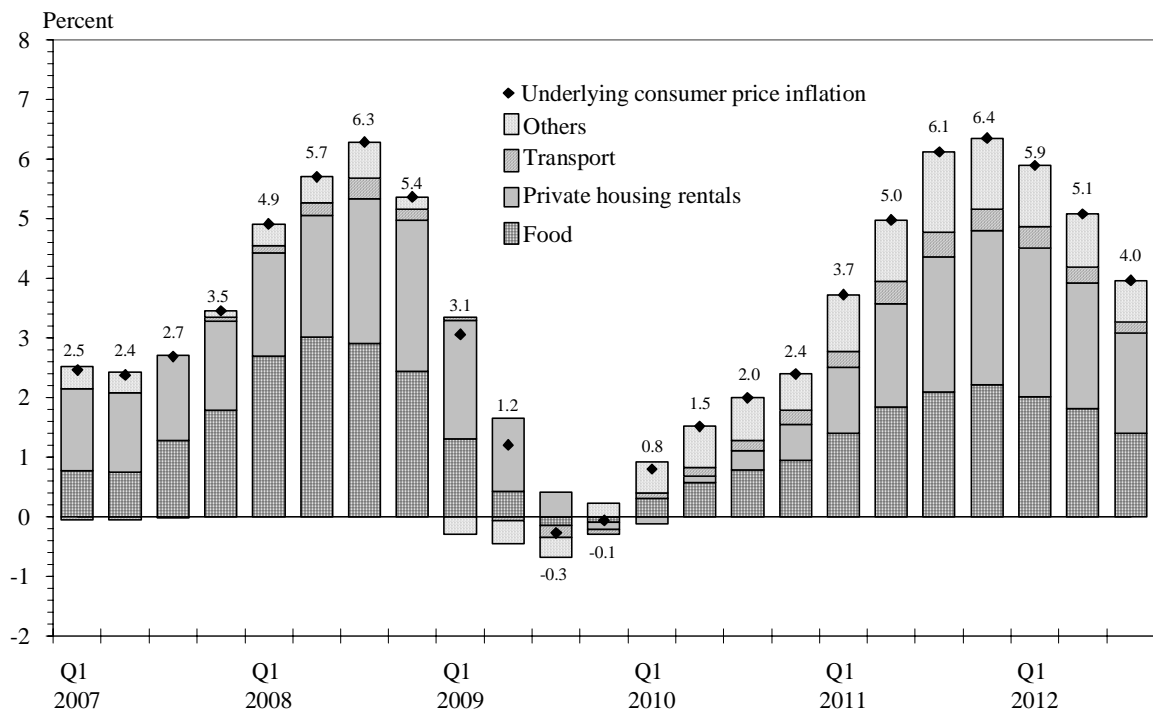


Note : (\*) An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The nominal EERI series in this graph is inverted for easier comprehension.

**Diagram 6.3 (a) : Many components in the underlying Composite CPI showed narrower price increases in the third quarter of 2012**



**Diagram 6.3 (b) : Contribution to underlying consumer price inflation by major component**



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

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

<u>Expenditure component</u>	<u>Weighting (%)</u>	<u>2011</u>				<u>2012</u>		
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	27.45	5.2	6.9	7.8	8.2	7.4	6.6	5.1
<i>Meals bought away from home</i>	17.07	4.1	5.1	5.7	6.1	6.1	5.7	5.3
<i>Other foodstuffs</i>	10.38	7.0	9.8	11.3	11.5	9.4	8.1	5.0
Housing <sup>(a)</sup>	31.66	3.8	5.9	11.0	8.4	8.1	6.4	2.8
<i>Private dwellings</i>	27.14	4.1	6.5	8.4	9.6	9.2	7.3	5.8
<i>Public dwellings</i>	2.05	4.0	2.7	676.7	-1.5	-1.5	-1.1	-87.8
		(3.8)	(3.9)	(2.5)	(-0.1)	(-0.1)	(0.1)	(3.2)
Electricity, gas and water	3.10	7.3	8.0	-16.1	-16.1	-17.2	-18.3	3.6
		(3.8)	(3.6)	(3.8)	(3.9)	(4.0)	(3.9)	(2.8)
Alcoholic drinks and tobacco	0.59	8.1	19.9	20.3	20.0	11.6	0.1	0.5
Clothing and footwear	3.45	5.6	6.3	7.8	7.3	4.9	3.2	2.3
Durable goods	5.27	-4.4	-4.3	-3.1	-3.1	-1.8	-0.9	-1.2
Miscellaneous goods	4.17	3.1	4.2	4.5	3.3	3.4	2.2	1.4
Transport	8.44	3.3	4.7	5.0	4.5	4.4	3.3	2.2
Miscellaneous services	15.87	3.3	2.9	4.0	3.8	2.8	3.1	2.3
		(3.4)	(2.9)	(4.0)	(3.8)	(2.8)	(3.1)	(2.3)
All items	100.00	3.8	5.2	6.4	5.7	5.2	4.2	3.1
		(3.7)	(5.0)	(6.1)	(6.4)	(5.9)	(5.1)	(4.0)

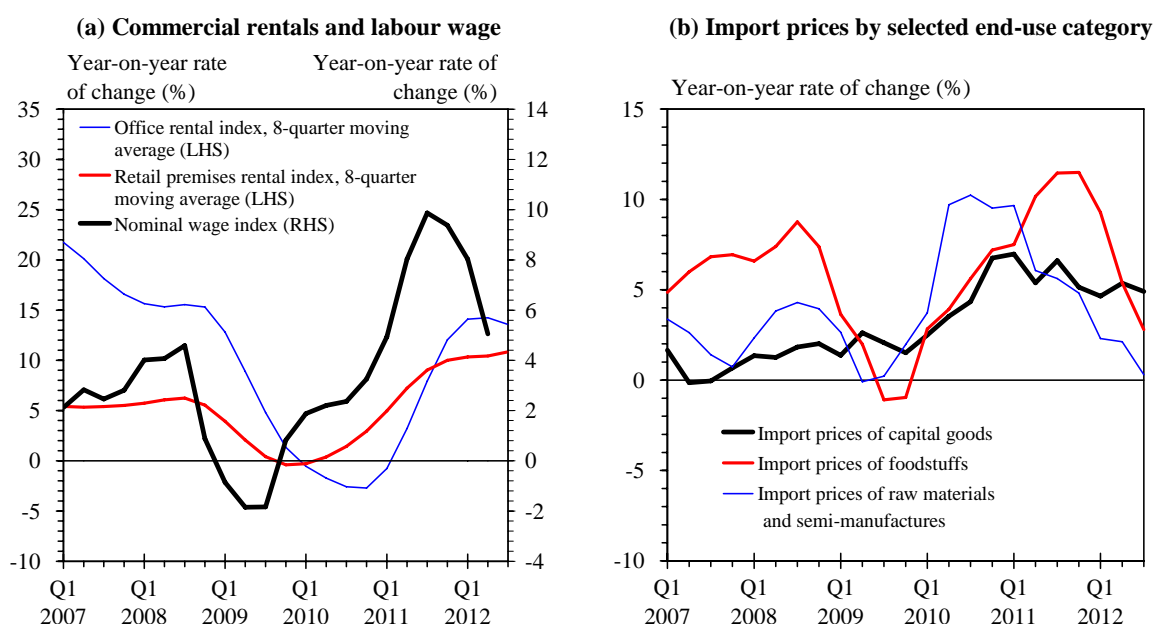
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

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

## Costs of factor inputs and import prices

6.4 Although the labour market still stayed close to full employment, the upward pressures on wages have receded somewhat of late alongside the slowing economy. Also relevant was the waning of the boosting effect of the implementation of statutory minimum wage. As regards commercial rental costs, office rentals turned more stable in recent months, though still notably higher than the year-ago levels. Yet, retail rentals continued to rise notably, conceivably supported by the vibrant inbound tourism. Nonetheless, upward pressures on rental costs are expected to taper gradually down the road, against the backdrop of the challenging near-term business prospects and more cautious consumer sentiment.

**Diagram 6.4 : Domestic cost pressures showed signs of easing, while import prices rose at a more moderate pace**





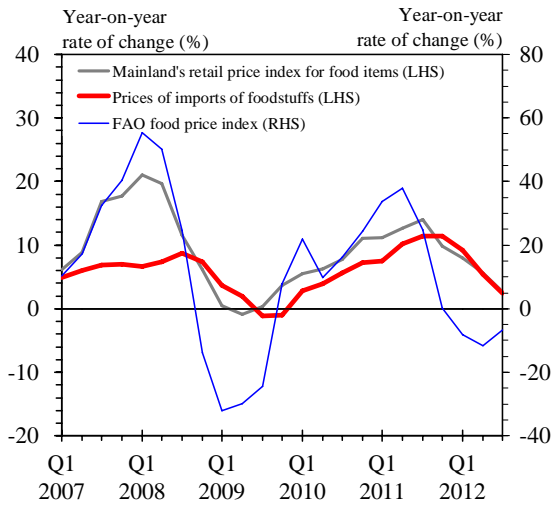
6.5 On the external front, the upward pressures on import prices abated further. Overall import prices rose by 2.3% in the third quarter of 2012 over a year earlier, down from 3.9% in the preceding quarter. Analyzed by major end-use category, import prices of foodstuffs decelerated further in the third quarter, thanks to the earlier retreat in global food prices. Import prices of fuels, at the same time, showed a moderate year-on-year decline, mirroring the softer crude oil prices. Meanwhile, the import prices of raw materials and consumer goods recorded slight year-on-year increases in the third quarter, while those of capital goods decelerated somewhat compared with the preceding quarter.

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

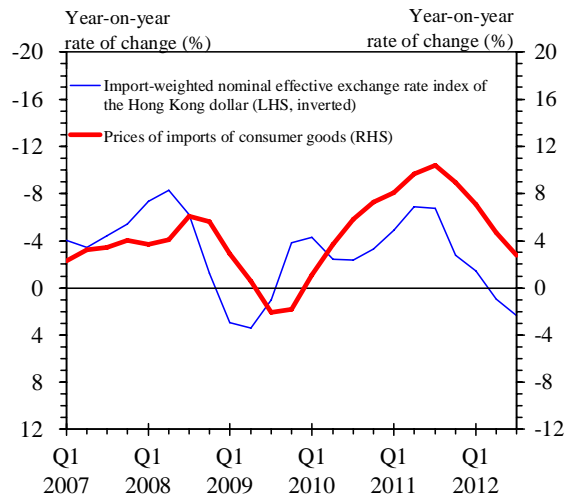
		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2011	Annual	10.3	9.2	6.4	35.2	5.9	8.1
	H1	8.9	8.9	7.6	33.1	6.1	8.4
	H2	11.4	9.7	5.2	37.1	5.9	7.9
	Q1	7.5	8.0	9.7	24.8	7.0	8.9
	Q2	10.2	9.7	6.1	41.0	5.4	8.1
	Q3	11.5	10.4	5.6	42.8	6.6	8.6
	Q4	11.5	9.0	4.8	31.6	5.1	7.1
2012	H1	7.3	5.8	2.2	8.0	5.0	4.4
	Q1	9.3	7.1	2.3	16.5	4.6	5.0
	Q2	5.4	4.7	2.1	0.8	5.4	3.9
	Q3	2.5	2.8	0.3	-2.6	4.6	2.3

**Diagram 6.5 : Import prices by end-use category**

**(a) The earlier easing of global food prices helped alleviate imported food inflation**

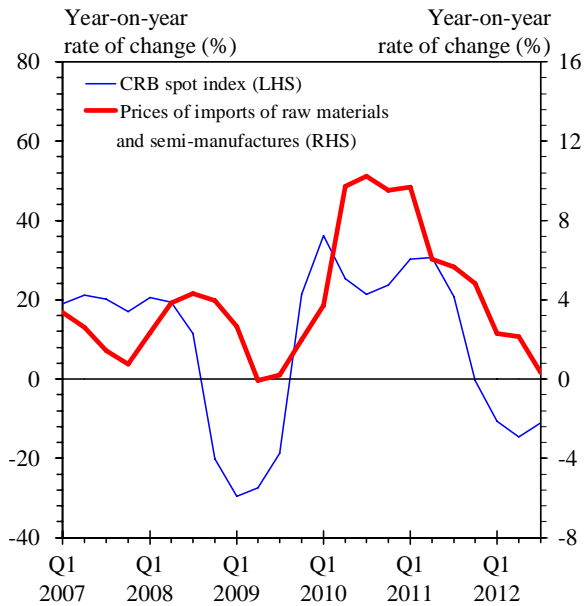


**(b) Import prices of consumer goods decelerated further**

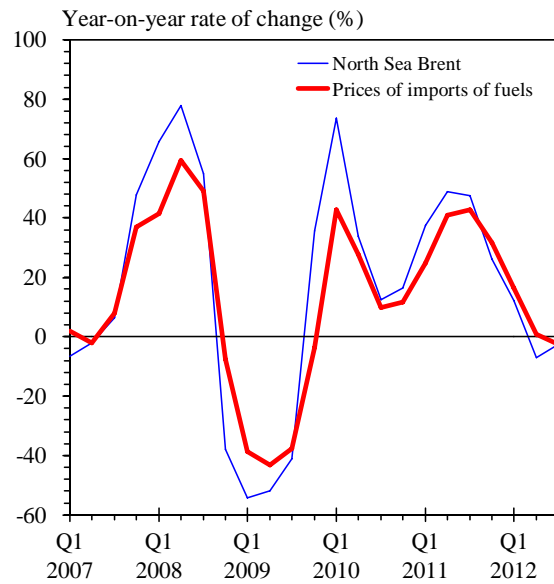


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**(c) Increase in import prices of raw materials eased amid weaker global commodity prices**



**(d) Import prices of fuels fell moderately thanks to lower crude oil prices**



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, exhibited diverse trends across different sectors in the second quarter of 2012. Output prices for the manufacturing sector posted a slight year-on-year decrease alongside the retreat in import prices of raw materials. Among the service sectors, output prices for accommodation services rose visibly further on the back of buoyant inbound tourism, albeit at a less rapid rate than in the preceding quarters. The increases in output prices for courier services, land transport and air transport, on the other hand, were relatively modest. In contrast, output prices for water transport reverted to a notable increase on a year-on-year comparison in the second quarter of 2012, partly due to a low base of comparison. Separately, output prices for telecommunications services stayed on a downtrend amid technological breakthroughs and intense competition.

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

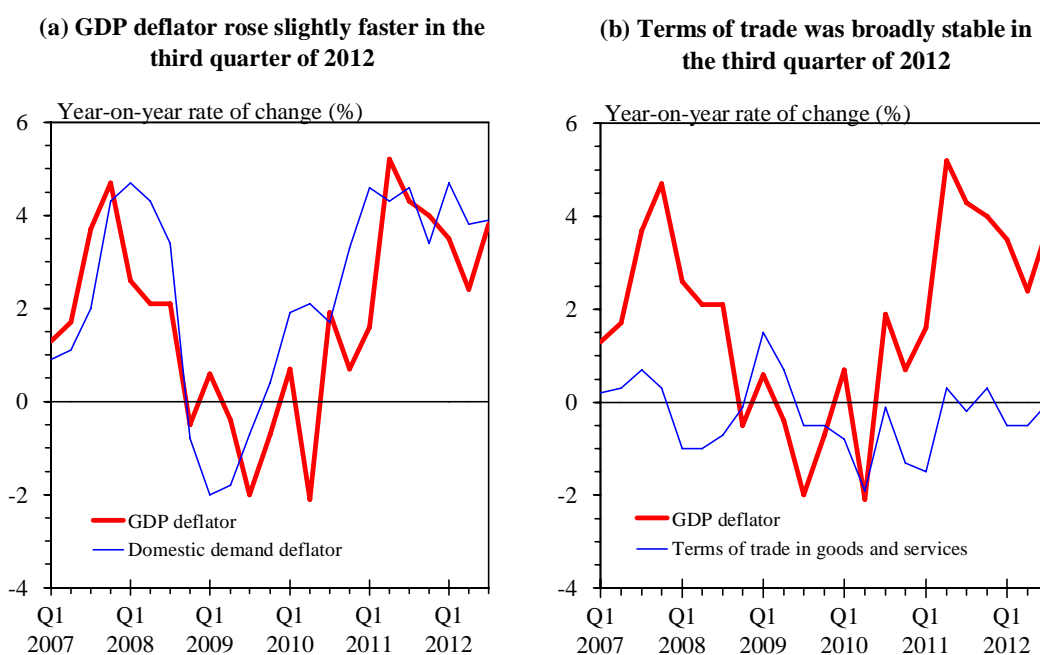
<u>Industry group</u>	<u>Annual</u>	<u>2011</u>				<u>2012</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Manufacturing	8.3	8.2	9.0	9.5	6.6	3.6	-0.6
Selected services sector <sup>(a)</sup>							
Accommodation services	13.2	12.7	13.3	12.8	13.7	12.1	8.2
Land transport	2.1	1.6	2.0	2.2	2.5	2.1	1.8
Water transport	-11.6	-2.3	-12.6	-21.1	-8.9	-4.3	18.5
Air transport	0.7	8.8	5.5	-2.1	-8.2	-3.3	1.2
Telecommunications	-2.5	-0.6	-2.9	-2.6	-3.9	-4.4	-1.6
Courier services	3.0	2.2	2.6	3.4	3.8	3.1	2.0

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

## GDP deflator

6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*<sup>(4)</sup> rose by 3.8% year-on-year in the third quarter of 2012, compared with 2.4% in the preceding quarter. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> was broadly stable in the third quarter of 2012 compared with a year earlier. Taking out the external components, the domestic demand deflator went up by 3.9% in the third quarter of 2012, broadly in line with consumer price inflation over the same period.

**Diagram 6.6 : GDP deflator**



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

	<u>Annual</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>2011</u>				<u>2012</u>		
			<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>#</sup>	<u>Q4</u> <sup>#</sup>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>#</sup>	<u>Q3</u> <sup>+</sup>	
Private consumption expenditure	4.0	3.2	4.5	4.9	3.5	3.7	2.6	2.1	
Government consumption expenditure	4.3	1.4	4.8	5.5	5.8	5.7	5.8	5.8	
Gross domestic fixed capital formation	4.6	8.6	3.6	3.9	2.8	6.2	6.6	8.1	
Total exports of goods	7.8	7.0	8.1	8.7	7.5	6.3	5.2	1.8	
Imports of goods	8.2	8.9	7.8	8.9	7.6	7.2	6.2	2.2	
Exports of services	7.6	7.3	7.8	8.0	7.6	5.6	4.8	2.6	
Imports of services	6.2	6.1	8.1	7.0	3.8	2.3	0.5	*	
<b>Gross Domestic Product</b>	<b>3.8</b>	<b>1.6</b>	<b>5.2</b>	<b>4.3</b>	<b>4.0</b>	<b>3.5</b>	<b>2.4</b>	<b>3.8</b>	
		<1.3>	<1.1>	<1.7>	<-0.1>	<0.7>	<0.1>	<3.0>	
Total final demand	6.7	6.3	6.9	7.3	6.2	5.6	4.7	2.6	
Domestic demand	4.2	4.6	4.3	4.6	3.4	4.7	3.8	3.9	
Terms of trade in goods and services	-0.3	-1.5	0.3	-0.2	0.3	-0.5	-0.5	*	

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

(#) Revised figures.

(+) Preliminary figures.

<> Seasonally adjusted quarter-to-quarter rate of change.

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

## Notes :

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

The expenditure ranges of the households covered in the 2009/10-based CPIs are shown below:

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

The weightings of the various components in the 2009/10-based CPIs are as follows:

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

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

	<u>2011</u>					<u>2012</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Selected developed economies								
US	3.2	2.1	3.4	3.8	3.3	2.8	1.9	1.7
Canada	2.9	2.6	3.4	3.0	2.7	2.3	1.6	1.2
EU	3.1	2.9	3.2	3.1	3.2	2.9	2.6	2.6
Japan	-0.3	-0.5	-0.4	0.1	-0.3	0.3	0.2	-0.4
Major emerging economies								
Mainland China	5.4	5.0	5.7	6.3	4.6	3.8	2.9	1.9
Russia	8.4	9.5	9.5	8.1	6.7	3.9	3.8	6.0
India	8.9	9.0	8.9	9.2	8.4	7.2	10.1	9.8
Brazil	6.6	6.1	6.6	7.1	6.7	5.8	5.0	5.2
Selected Asian economies								
Hong Kong	5.3	3.8	5.2	6.4	5.7	5.2	4.2	3.1
Singapore	5.2	5.2	4.7	5.5	5.5	4.9	5.3	4.2
Taiwan	1.4	1.3	1.6	1.3	1.4	1.3	1.7	2.9
South Korea	4.0	3.8	4.0	4.3	4.0	3.0	2.4	1.6
Malaysia	3.2	2.8	3.3	3.4	3.2	2.3	1.7	1.4
Thailand	3.8	3.0	4.1	4.1	4.0	3.4	2.5	2.9
Indonesia	5.4	6.8	5.9	4.7	4.1	3.7	4.5	4.5
Philippines	4.7	4.5	5.0	4.8	4.7	3.1	2.9	3.5
Vietnam	18.7	12.8	19.4	22.5	19.8	15.9	8.6	5.6
Macao	5.8	5.0	5.2	6.2	6.7	6.3	6.6	6.0

- (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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(\$Mn)					
Private consumption expenditure	752,801	722,961	771,443	811,654	868,691	982,368
Government consumption expenditure	137,979	138,147	136,354	130,566	131,837	138,967
Gross domestic fixed capital formation	295,076	272,127	287,360	302,152	337,153	340,356
<i>of which:</i>						
Building and construction	131,757	116,628	107,692	105,993	106,268	111,776
Machinery, equipment and intellectual property products	153,883	147,088	162,871	176,269	214,093	204,083
Changes in inventories	5,660	9,111	7,076	-4,761	-2,129	12,841
Total exports of goods &	1,562,121	1,749,089	2,027,031	2,251,744	2,467,357	2,698,850
Imports of goods &	1,601,527	1,794,059	2,099,545	2,311,091	2,576,340	2,852,522
Exports of services &	349,676	363,765	431,090	496,985	566,416	664,100
Imports of services &	204,445	204,472	243,860	265,124	289,634	334,204
<b>GDP</b>	<b>1,297,341</b>	<b>1,256,669</b>	<b>1,316,949</b>	<b>1,412,125</b>	<b>1,503,351</b>	<b>1,650,756</b>
<i>Per capita GDP (\$)</i>	<i>192,367</i>	<i>186,704</i>	<i>194,140</i>	<i>207,263</i>	<i>219,240</i>	<i>238,676</i>
<b>GNI</b>	<b>1,305,731</b>	<b>1,288,895</b>	<b>1,344,927</b>	<b>1,419,589</b>	<b>1,538,864</b>	<b>1,703,567</b>
<i>Per capita GNI (\$)</i>	<i>193,611</i>	<i>191,492</i>	<i>198,264</i>	<i>208,359</i>	<i>224,419</i>	<i>246,312</i>
Total final demand	3,103,313	3,255,200	3,660,354	3,988,340	4,369,325	4,837,482
Total final demand excluding re-exports <sup>(a)</sup>	1,945,600	1,919,463	2,088,521	2,243,119	2,436,589	2,697,292
Domestic demand	1,191,516	1,142,346	1,202,233	1,239,611	1,335,552	1,474,532
Private	995,065	947,804	1,012,565	1,062,587	1,163,262	1,297,607
Public	196,451	194,542	189,668	177,024	172,290	176,925
External demand	1,911,797	2,112,854	2,458,121	2,748,729	3,033,773	3,362,950

Definition of Terms :

Total final demand	= private consumption expenditure + government consumption expenditure + gross domestic fixed capital formation + changes in inventories + total exports of goods + exports of services
Private sector domestic demand	= private consumption expenditure + gross domestic fixed capital formation by the private sector + changes in inventories
Public sector domestic demand <sup>(a)</sup>	= 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>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>2011</u> Q4 <sup>#</sup>	Q1 <sup>#</sup>	<u>2012</u> Q2 <sup>#</sup>	Q3 <sup>#</sup>
Private consumption expenditure	1,026,482	1,019,955	1,099,411	1,237,872	329,784	317,966	330,312	323,133
Government consumption expenditure	148,017	152,512	157,226	167,729	42,925	46,522	43,535	46,191
Gross domestic fixed capital formation	350,796	339,552	387,087	435,511	116,019	114,237	122,948	135,068
<i>of which:</i>								
Building and construction	127,312	123,746	139,182	161,543	43,132	48,395	46,023	48,115
Machinery, equipment and intellectual property products	198,633	191,568	209,870	237,848	66,287	59,172	67,913	78,337
Changes in inventories	8,480	22,941	37,522	17,032	1,786	1,995	699	-8,243
Total exports of goods &	2,843,998	2,494,746	3,061,252	3,411,364	889,236	803,256	876,137	943,199
Imports of goods &	3,024,089	2,702,966	3,395,057	3,848,200	1,006,184	933,411	1,027,686	1,059,267
Exports of services &	720,837	672,794	829,495	952,336	260,693	242,187	233,050	258,863
Imports of services &	367,034	340,289	399,216	438,449	116,478	109,974	105,824	115,613
<b>GDP</b>	<b>1,707,487</b>	<b>1,659,245</b>	<b>1,777,720</b>	<b>1,935,195</b>	<b>517,781</b>	<b>482,778</b>	<b>473,171</b>	<b>523,331</b>
<i>Per capita GDP (\$)</i>	<i>245,406</i>	<i>237,960</i>	<i>253,085</i>	<i>273,657</i>	--	--	--	--
<b>GNI</b>	<b>1,807,994</b>	<b>1,709,007</b>	<b>1,815,316</b>	<b>2,003,897</b>	<b>528,518</b>	<b>492,024</b>	<b>494,311</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>259,851</i>	<i>245,096</i>	<i>258,437</i>	<i>283,373</i>	--	--	--	--
Total final demand	5,098,610	4,702,500	5,571,993	6,221,844	1,640,443	1,526,163	1,606,681	1,698,211
Total final demand excluding re-exports <sup>(a)</sup>	2,836,222	2,692,865	3,066,602	3,441,489	915,445	869,907	896,018	932,232
Domestic demand	1,533,775	1,534,960	1,681,246	1,858,144	490,514	480,720	497,494	496,149
Private	1,342,889	1,334,028	1,458,963	1,612,608	426,167	407,377	435,309	430,171
Public	190,886	200,932	222,283	245,536	64,347	73,343	62,185	65,978
External demand	3,564,835	3,167,540	3,890,747	4,363,700	1,149,929	1,045,443	1,109,187	1,202,062

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

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

(&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to Section II of report *Special Report on Gross Domestic Product - September 2012* published by Census and Statistics Department.

(--) 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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Private consumption expenditure	-1.0	-1.6	7.1	3.5	6.1	8.6
Government consumption expenditure	2.9	2.4	1.4	-2.6	0.9	3.2
Gross domestic fixed capital formation	-3.9	1.5	3.4	4.0	7.1	3.2
<i>of which:</i>						
Building and construction	-1.3	-5.4	-10.7	-7.6	-7.1	-0.3
Machinery, equipment and intellectual property products	-6.0	7.8	11.4	12.1	18.2	2.5
Total exports of goods &	8.0	14.0	14.9	10.4	9.3	7.0
Imports of goods &	7.6	13.1	13.7	8.0	9.2	8.8
Exports of services &	11.0	7.4	17.9	11.6	10.0	14.3
Imports of services &	4.1	-2.7	14.6	7.6	8.4	12.1
<b>GDP</b>	<b>1.7</b>	<b>3.1</b>	<b>8.7</b>	<b>7.4</b>	<b>7.0</b>	<b>6.5</b>
<b>Per capita GDP</b>	<b>1.2</b>	<b>3.3</b>	<b>7.9</b>	<b>6.9</b>	<b>6.3</b>	<b>5.6</b>
<b>RGNI</b>	<b>1.4</b>	<b>2.5</b>	<b>4.1</b>	<b>4.3</b>	<b>6.7</b>	<b>8.2</b>
<b>Per capita RGNI</b>	<b>1.0</b>	<b>2.7</b>	<b>3.3</b>	<b>3.9</b>	<b>6.0</b>	<b>7.3</b>
Total final demand	4.8	7.8	11.9	7.8	8.4	8.2
Total final demand excluding re-exports <sup>(a)</sup>	1.9	3.0	9.1	5.6	7.4	7.9
Domestic demand	-0.6	-0.1	5.3	2.0	6.1	7.8
Private	-1.0	-0.5	6.5	3.4	7.6	8.9
Public	2.0	1.9	-0.4	-5.7	-2.8	0.6
External demand	8.5	12.8	15.4	10.6	9.4	8.4

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.

(&) Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to Section II of report *Special Report on Gross Domestic Product - September 2012* published by Census and Statistics Department.

(--) Not applicable.

(\*) 0.05%.

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>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>2011</u>				<u>Average annual rate of change:</u>	
					Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2001 to 2011 <sup>#</sup>	5 years 2006 to 2011 <sup>#</sup>
Private consumption expenditure	1.9	0.8	6.3	8.2	5.9	6.4	3.1	2.8	3.9	5.1
Government consumption expenditure	2.0	2.3	3.3	2.2	2.5	2.5	3.5	3.7	1.8	2.6
Gross domestic fixed capital formation	1.4	-3.5	7.4	7.5	9.3	12.6	5.7	8.7	2.7	3.1
<i>of which:</i>										
Building and construction	6.8	-5.5	5.6	7.1	9.3	15.0	14.0	9.4	-2.0	2.6
Machinery, equipment and intellectual property products	*	-2.2	6.1	13.0	19.2	21.6	5.5	9.8	6.0	3.7
Total exports of goods &	1.9	-12.7	17.3	3.4	2.3	-5.2	-0.2	4.0	7.0	2.9
Imports of goods &	1.8	-9.5	18.1	4.7	4.2	-2.1	0.9	4.3	7.3	4.4
Exports of services &	5.0	0.4	14.8	6.7	5.0	2.7	2.9	0.1	9.8	8.1
Imports of services &	5.8	-4.7	11.1	3.5	2.7	3.7	1.6	0.9	5.8	5.4
<b>GDP</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.9</b>	<b>2.8</b>	<b>0.7</b>	<b>1.2</b>	<b>1.3</b>	<b>4.5</b>	<b>3.5</b>
<i>Per capita GDP</i>	<i>1.5</i>	<i>-2.7</i>	<i>6.0</i>	<i>4.2</i>	--	--	--	--	<b>4.0</b>	<b>2.9</b>
<b>RGNI</b>	<b>3.3</b>	<b>-4.6</b>	<b>3.7</b>	<b>5.8</b>	<b>4.0</b>	<b>-3.3</b>	<b>-1.4</b>	<b>N.A.</b>	<b>3.5</b>	<b>3.2</b>
<i>Per capita RGNI</i>	<i>2.7</i>	<i>-4.8</i>	<i>2.9</i>	<i>5.1</i>	--	--	--	--	<b>3.0</b>	<b>2.6</b>
Total final demand	2.2	-6.8	13.6	4.7	3.5	-0.8	1.0	3.1	6.1	4.2
Total final demand excluding re-exports <sup>(a)</sup>	1.7	-2.4	10.5	5.6	4.4	2.8	2.1	2.6	5.0	4.6
Domestic demand	1.4	0.9	7.2	6.1	5.0	5.3	2.3	3.1	3.6	4.6
Private	1.2	0.4	6.7	6.1	5.0	5.2	1.9	3.0	3.9	4.6
Public	3.2	4.5	10.2	5.6	5.0	5.6	5.0	4.0	1.8	4.8
External demand	2.5	-10.1	16.8	4.1	2.9	-3.5	0.4	3.1	7.6	4.0

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

	2007		2008		2009		2010 <sup>#</sup>		2011 <sup>#</sup>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	1,015	0.1	925	0.1	1,090	0.1	948	0.1	944	*
Manufacturing	32,365	2.0	31,506	1.9	28,714	1.8	30,410	1.7	31,095	1.6
Electricity, gas and water supply, and waste management	40,747	2.5	39,651	2.4	35,032	2.2	34,486	2.0	33,336	1.8
Construction	40,643	2.5	48,403	3.0	50,264	3.2	56,531	3.3	64,527	3.4
Services	1,490,475	92.9	1,499,529	92.6	1,466,724	92.7	1,616,300	93.0	1,771,154	93.2
<i>Import/export, wholesale and retail trades</i>	379,466	23.6	399,200	24.6	370,226	23.4	413,308	23.8	484,338	25.5
<i>Accommodation<sup>(a)</sup> and food services</i>	48,830	3.0	53,600	3.3	48,789	3.1	56,418	3.2	68,598	3.6
<i>Transportation, storage, postal and courier services</i>	119,862	7.5	98,390	6.1	99,208	6.3	137,941	7.9	119,576	6.3
<i>Information and communications</i>	51,551	3.2	49,127	3.0	47,893	3.0	55,024	3.2	63,078	3.3
<i>Financing and insurance</i>	322,644	20.1	277,112	17.1	255,900	16.2	284,203	16.3	314,446	16.5
<i>Real estate, professional and business services</i>	147,339	9.2	166,086	10.3	173,903	11.0	188,476	10.8	213,864	11.2
<i>Public administration, social and personal services</i>	262,395	16.3	278,100	17.2	288,109	18.2	296,184	17.0	310,752	16.3
<i>Ownership of premises</i>	158,388	9.9	177,915	11.0	182,696	11.5	184,745	10.6	196,502	10.3
<b>GDP at basic prices</b>	<b>1,605,245</b>	<b>100.0</b>	<b>1,620,013</b>	<b>100.0</b>	<b>1,581,824</b>	<b>100.0</b>	<b>1,738,675</b>	<b>100.0</b>	<b>1,901,056</b>	<b>100.0</b>
Taxes on products	64,634	--	58,233	--	54,689	--	68,707	--	69,656	--
Statistical discrepancy (%)	-1.2	--	1.7	--	1.4	--	-1.7	--	-1.8	--
<b>GDP at current market prices</b>	<b>1,650,756</b>	<b>--</b>	<b>1,707,487</b>	<b>--</b>	<b>1,659,245</b>	<b>--</b>	<b>1,777,720</b>	<b>--</b>	<b>1,935,195</b>	<b>--</b>

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

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

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

(--) Not applicable.

(\*) Less than 0.05%.

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

	(%)									
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>2011</u>		<u>2012</u>	
							Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Agriculture, fishing, mining and quarrying	-3.3	-4.3	-17.0	-4.6	3.9	-6.7	-1.9	-8.6	1.1	-6.3
Manufacturing	1.8	-0.8	-7.0	-8.2	3.3	0.7	0.2	-2.2	-1.6	-2.9
Electricity, gas and water supply, and waste management	0.8	1.4	0.7	1.5	-0.2	1.2	1.5	2.6	4.3	3.7
Construction	-9.2	-1.2	8.9	-7.5	15.6	8.4	3.5	7.5	12.8	10.2
Services	6.8	7.1	2.4	-1.7	7.0	4.9	4.3	2.8	1.9	1.6
<i>Import/export, wholesale and retail trades</i>	8.7	5.8	6.8	-9.5	16.7	7.7	4.9	6.1	0.2	1.2
<i>Accommodation<sup>(a)</sup> and food services</i>	9.7	10.7	1.7	-11.3	9.5	1.3	2.5	1.1	-0.5	1.9
<i>Transportation, storage, postal and courier services</i>	6.5	5.1	2.5	-5.5	6.0	7.4	7.4	5.7	4.3	-2.0
<i>Information and communications</i>	7.2	6.3	-1.2	1.3	1.5	2.8	1.9	3.0	0.7	1.8
<i>Financing and insurance</i>	16.0	16.8	-0.5	4.1	6.6	7.2	8.4	-0.5	2.8	0.5
<i>Real estate, professional and business services</i>	2.2	6.6	1.4	1.6	2.5	1.9	1.9	1.5	3.5	4.6
<i>Public administration, social and personal services</i>	0.8	2.7	1.4	3.0	2.4	3.0	3.1	2.9	2.9	3.3
<i>Ownership of premises</i>	3.5	3.0	2.0	0.3	0.8	1.0	1.1	1.2	0.3	0.8
Taxes on products	7.7	24.9	-1.7	-4.8	6.3	-6.1	-4.9	-19.5	-15.8	-9.9
<b>GDP in chained (2010) dollars</b>	<b>7.0</b>	<b>6.5</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.9</b>	<b>4.3</b>	<b>2.8</b>	<b>0.7</b>	<b>1.2</b>

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

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

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

	(\$Mn)								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011<sup>#</sup></u>	<u>2011</u>		<u>2012</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Current account <sup>(a)</sup>	214,939	255,808	157,661	116,490	126,402	36,911	33,199	5,653	-7,831
Goods	209,509	194,753	97,611	18,372	-71,087	-4,212	-11,279	-49,392	-75,013
Services	-33,285	-21,041	26,674	78,102	148,138	38,933	38,546	51,450	50,690
Primary income	52,811	100,507	49,762	37,596	68,702	7,828	10,737	9,246	21,140
Secondary income	-14,096	-18,412	-16,386	-17,580	-19,351	-5,638	-4,805	-5,651	-4,648
Capital and financial account <sup>(a)</sup>	-260,392	-254,709	-144,532	-88,838	-90,389	-18,744	-16,498	14,233	31,399
Capital account	-680	-1,958	-3,021	-4,436	-1,899	-98	-518	-85	-947
Financial account	-259,711	-252,750	-141,511	-84,402	-88,490	-18,646	-15,980	14,317	32,346
Financial non-reserve assets	-195,501	-28,774	470,987	-25,257	-1,707	-9,939	15,651	78,115	25,232
<i>Direct investment</i>	-44,955	77,371	-28,421	-122,026	72,417	21,834	-43,172	-8,846	9,557
<i>Portfolio investment</i>	-10,930	-281,141	-310,083	-442,460	4,005	-85,292	121,508	194,898	17,684
<i>Financial derivatives</i>	43,534	63,338	24,560	18,677	22,937	2,323	19,474	1,697	550
<i>Other investment</i>	-183,150	111,659	784,930	520,552	-101,066	51,196	-82,159	-109,633	-2,559
Reserve assets	-64,211	-223,976	-612,498	-59,145	-86,783	-8,707	-31,630	-63,798	7,114
Net errors and omissions	45,452	-1,099	-13,130	-27,651	-36,013	-18,167	-16,702	-19,885	-23,568
<b>Overall Balance of Payments</b>	<b>64,211</b>	<b>223,976</b>	<b>612,498</b>	<b>59,145</b>	<b>86,783</b>	<b>8,707</b>	<b>31,630</b>	<b>63,798</b>	<b>-7,114</b>

Notes : Figures have been revised to take into account the Balance of Payments revision exercise completed in September 2012.

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

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

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

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

	(\$Mn)								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>2011</u>	<u>2012</u>		
						Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>
Total exports of goods	2,698,850	2,843,998	2,494,746	3,061,252	3,411,364	889,236	803,256	876,137	943,199
Imports of goods	2,852,522	3,024,089	2,702,966	3,395,057	3,848,200	1,006,184	933,411	1,027,686	1,059,267
<b>Visible trade balance</b>	<b>-153,672</b>	<b>-180,091</b>	<b>-208,220</b>	<b>-333,805</b>	<b>-436,836</b>	<b>-116,948</b>	<b>-130,155</b>	<b>-151,549</b>	<b>-116,068</b>
	<b>(-5.4)</b>	<b>(-6.0)</b>	<b>(-7.7)</b>	<b>(-9.8)</b>	<b>(-11.4)</b>	<b>(-11.6)</b>	<b>(-13.9)</b>	<b>(-14.7)</b>	<b>(-11.0)</b>
Exports of services	664,100	720,837	672,794	829,495	952,336	260,693	242,187	233,050	258,863
Imports of services	334,204	367,034	340,289	399,216	438,449	116,478	109,974	105,824	115,613
<b>Invisible trade balance</b>	<b>329,896</b>	<b>353,803</b>	<b>332,505</b>	<b>430,279</b>	<b>513,887</b>	<b>144,215</b>	<b>132,213</b>	<b>127,226</b>	<b>143,250</b>
	<b>(98.7)</b>	<b>(96.4)</b>	<b>(97.7)</b>	<b>(107.8)</b>	<b>(117.2)</b>	<b>(123.8)</b>	<b>(120.2)</b>	<b>(120.2)</b>	<b>(123.9)</b>
Exports of goods and services	3,362,950	3,564,835	3,167,540	3,890,747	4,363,700	1,149,929	1,045,443	1,109,187	1,202,062
Imports of goods and services	3,186,726	3,391,123	3,043,255	3,794,273	4,286,649	1,122,662	1,043,385	1,133,510	1,174,880
<b>Visible and invisible trade balance</b>	<b>176,224</b>	<b>173,712</b>	<b>124,285</b>	<b>96,474</b>	<b>77,051</b>	<b>27,267</b>	<b>2,058</b>	<b>-24,323</b>	<b>27,182</b>
	<b>&lt;5.5&gt;</b>	<b>&lt;5.1&gt;</b>	<b>&lt;4.1&gt;</b>	<b>&lt;2.5&gt;</b>	<b>&lt;1.8&gt;</b>	<b>&lt;2.4&gt;</b>	<b>&lt;0.2&gt;</b>	<b>&lt;-2.1&gt;</b>	<b>&lt;2.3&gt;</b>

Notes : Figures in this table are reckoned on GDP basis and based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 6a. For details about the change of ownership principle, please refer to Section II of report *Special Report on Gross Domestic Product - September 2012* published by Census and Statistics Department.

- (#) 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 6a : Visible and invisible trade based on the change of ownership principle**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>2011</u> Q4 <sup>#</sup>	<u>2011</u> Q1 <sup>#</sup>	<u>2012</u> Q2 <sup>#</sup>	<u>2012</u> Q3 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	2,574,439	2,758,181	2,448,997	3,014,300	3,411,260	908,275	808,045	870,898	955,554
Imports of goods	2,364,930	2,563,428	2,351,386	2,995,928	3,482,347	919,554	857,437	945,911	977,575
<b>Visible trade balance</b>	<b>209,509</b>	<b>194,753</b>	<b>97,611</b>	<b>18,372</b>	<b>-71,087</b>	<b>-11,279</b>	<b>-49,392</b>	<b>-75,013</b>	<b>-22,021</b>
	(8.9)	(7.6)	(4.2)	(0.6)	(-2.0)	(-1.2)	(-5.8)	(-7.9)	(-2.3)
Exports of services	502,775	544,358	501,303	626,170	721,661	190,474	189,829	183,190	194,064
Imports of services	536,060	565,399	474,629	548,068	573,523	151,928	138,379	132,500	144,861
<b>Invisible trade balance</b>	<b>-33,285</b>	<b>-21,041</b>	<b>26,674</b>	<b>78,102</b>	<b>148,138</b>	<b>38,546</b>	<b>51,450</b>	<b>50,690</b>	<b>49,203</b>
	(-6.2)	(-3.7)	(5.6)	(14.3)	(25.8)	(25.4)	(37.2)	(38.3)	(34.0)
Exports of goods and services	3,077,214	3,302,539	2,950,300	3,640,470	4,132,921	1,098,749	997,874	1,054,088	1,149,618
Imports of goods and services	2,900,990	3,128,827	2,826,015	3,543,996	4,055,870	1,071,482	995,816	1,078,411	1,122,436
<b>Visible and invisible trade balance</b>	<b>176,224</b>	<b>173,712</b>	<b>124,285</b>	<b>96,474</b>	<b>77,051</b>	<b>27,267</b>	<b>2,058</b>	<b>-24,323</b>	<b>27,182</b>
	<6.1>	<5.6>	<4.4>	<2.7>	<1.9>	<2.5>	<0.2>	<-2.3>	<2.4>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	6.9	3.2	-11.4	18.0	5.0	4.3	-4.0	1.2	4.7
Imports of goods	9.9	3.7	-7.0	19.9	7.2	7.1	-0.7	2.9	6.1
Exports of services	15.9	4.9	1.7	15.4	7.2	6.2	3.9	3.5	-0.3
Imports of services	5.7	1.1	-12.8	10.0	-1.0	-0.9	0.9	-2.5	-3.1

Notes : Figures in this table are reckoned on GDP basis and based on the *System of National Accounts 2008* .

Statistics on visible and invisible trade presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to Section II of report *Special Report on Gross Domestic Product - September 2012* published by Census and Statistics Department.

(#) 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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		<u>2011</u>		<u>2012</u>	
	(% change)				(% change)	(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All markets</b>	<b>9.2</b>	<b>5.1</b>	<b>-12.6</b>	<b>22.8</b>	<b>10.1</b>	<b>3,337,253</b>	<b>6.9</b>	<b>-1.5</b>	<b>1.9</b>	<b>3.8</b>
Mainland of China	13.2	4.7	-7.8	26.5	9.3	1,747,355	9.3	-2.1	3.8	11.2
United States	-0.8	-2.4	-20.6	16.4	-0.4	330,771	-2.1	-0.1	4.4	2.1
Japan	-0.7	1.2	-10.0	17.2	5.9	135,155	5.2	6.2	8.4	7.5
India	51.2	50.0	0.2	42.4	25.6	93,518	10.4	-16.4	-16.8	-20.2
Germany	7.2	15.8	-15.5	1.6	10.7	89,264	2.2	-11.9	-19.4	-16.1
Taiwan	1.6	3.8	-0.4	25.4	24.3	85,270	17.4	-18.5	4.5	-12.9
Republic of Korea	2.0	-6.4	-13.0	24.4	14.2	61,274	3.4	-3.6	-5.9	-3.9
United Kingdom	1.7	0.7	-20.8	1.9	-3.4	58,688	-14.1	1.7	-7.9	-17.7
Singapore	3.8	9.6	-23.6	20.7	10.3	56,244	1.0	-9.4	4.6	1.1
Netherlands	8.2	2.0	-17.8	18.4	-4.1	42,302	-5.5	6.0	-1.5	-13.5
Rest of the world	11.8	9.4	-19.0	21.8	18.1	637,412	9.3	4.8	1.4	-2.3

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		<u>2011</u>	<u>2012</u>		
	(% change)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>All sources</b>	<b>10.3</b>	<b>5.5</b>	<b>-11.0</b>	<b>25.0</b>	<b>11.9</b>	<b>3,764,596</b>	<b>9.3</b>	<b>0.7</b>	<b>2.1</b>	<b>4.5</b>
Mainland of China	11.5	6.1	-11.4	22.4	10.9	1,696,807	7.0	3.0	4.1	8.5
Japan	7.2	3.6	-20.6	30.4	3.4	318,601	2.1	-6.6	3.6	-1.6
Singapore	18.2	0.1	-10.4	35.9	7.2	254,556	12.9	-7.4	-3.1	3.5
Taiwan	5.2	-6.4	-8.5	28.0	7.2	240,916	14.9	-9.9	5.7	8.4
United States	12.3	8.6	-5.7	26.0	18.0	211,368	21.8	5.1	-6.7	-0.2
Republic of Korea	-0.2	-1.1	-12.7	29.8	12.2	149,969	11.3	-11.6	-1.1	12.1
Malaysia	4.1	5.3	2.8	24.5	5.1	89,015	0.8	-9.5	-1.5	-6.1
India	29.7	21.5	-9.3	36.5	20.6	86,603	6.0	3.3	-7.6	-11.9
Thailand	8.1	11.1	-9.7	32.5	0.3	76,537	-25.1	-24.2	-2.5	-12.5
Germany	8.1	11.2	-6.2	15.1	13.9	65,688	-0.8	-12.3	-12.6	-16.3
Rest of the world	10.5	11.4	-8.8	20.5	24.5	574,536	20.4	15.6	4.7	3.3

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>		<u>2011</u>	<u>2012</u>		
	(% change)			(% change)		(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
<b>Overall</b>	<b>9.4</b>	<b>5.3</b>	<b>-10.8</b>	<b>27.3</b>	<b>17.3</b>	<b>1,026,078</b>	<b>15.6</b>	<b>5.4</b>	<b>1.5</b>	<b>6.0</b>
Foodstuffs	12.9	19.7	9.9	17.0	18.8	109,291	17.4	14.2	7.5	-3.0
Consumer goods	11.4	9.0	-14.0	33.8	36.0	250,466	14.7	21.8	0.6	-5.0
Raw materials and semi-manufactures	17.7	-4.5	-6.4	32.3	0.2	327,620	-4.5	-24.7	-5.7	5.8
Fuels	20.1	26.6	-18.4	33.8	21.9	141,639	24.3	9.0	-3.6	-7.5
Capital goods	-8.3	2.5	-18.7	12.9	27.3	196,972	49.5	42.0	14.8	31.8

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>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>		<u>2011</u>	<u>2012</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>17.2</b>	<b>8.5</b>	<b>-6.7</b>	<b>23.3</b>	<b>14.8</b>	<b>952,336</b>	<b>12.9</b>	<b>8.5</b>	<b>7.8</b>	<b>2.7</b>
Transportation	14.5	12.5	-18.6	26.3	10.0	255,152	8.2	5.5	2.6	-2.8
Travel	18.7	11.1	6.7	35.6	25.0	215,507	32.1	18.7	19.7	9.5
Trade-related	11.6	8.5	-4.3	18.0	12.6	274,613	9.3	4.5	5.1	3.0
Other services	28.3	1.8	-3.1	16.7	14.3	207,064	5.3	6.9	6.3	2.2
<b>Imports of services</b>	<b>15.4</b>	<b>9.8</b>	<b>-7.3</b>	<b>17.3</b>	<b>9.8</b>	<b>438,449</b>	<b>6.6</b>	<b>6.0</b>	<b>2.1</b>	<b>0.9</b>
Transportation	19.3	13.0	-21.6	20.7	10.2	134,357	6.6	6.3	-2.5	-4.6
Travel	7.6	6.8	-3.1	12.0	9.6	149,083	7.0	8.6	5.5	7.1
Trade-related	15.9	10.6	0.5	21.6	12.3	36,855	6.6	5.0	2.5	1.5
Other services	22.7	9.5	5.7	19.5	9.0	118,154	6.0	3.0	3.3	-1.1
<b>Net exports of services</b>	<b>19.2</b>	<b>7.2</b>	<b>-6.0</b>	<b>29.4</b>	<b>19.4</b>	<b>513,887</b>	<b>18.6</b>	<b>10.6</b>	<b>13.0</b>	<b>4.2</b>

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

Figures are based on the *System of National Accounts 2008*, other than the change of ownership principle. For figures based on the change of ownership principle, please see Table 10a. For details about the change of ownership principle, please refer to Section II of report *Special Report on Gross Domestic Product - September 2012* published by Census and Statistics Department.

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

**Table 10a: Exports and imports of services based on the change of ownership principle by component (at current market prices)**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>		<u>2011</u>	<u>2012</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>18.9</b>	<b>8.3</b>	<b>-7.9</b>	<b>24.9</b>	<b>15.3</b>	<b>721,661</b>	<b>14.0</b>	<b>9.6</b>	<b>8.5</b>	<b>2.6</b>
Transportation	14.5	12.5	-18.6	26.3	10.0	255,152	8.2	5.5	2.6	-2.8
Travel	18.7	11.1	6.7	35.6	25.0	215,507	32.1	18.7	19.7	9.5
Other services	23.9	2.4	-4.6	16.4	13.2	251,002	5.3	6.5	6.1	2.4
<b>Imports of services</b>	<b>8.3</b>	<b>5.5</b>	<b>-16.1</b>	<b>15.5</b>	<b>4.6</b>	<b>573,523</b>	<b>2.3</b>	<b>2.4</b>	<b>-2.7</b>	<b>-3.6</b>
Transportation	19.3	13.0	-21.6	20.7	10.2	134,357	6.6	6.3	-2.5	-4.6
Travel	7.6	6.8	-3.1	12.0	9.6	149,083	7.0	8.6	5.5	7.1
Other services	5.0	2.1	-19.0	15.1	*	290,083	-1.4	-2.4	-7.5	-8.8

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

Statistics on exports and imports of services presented in this table provide supplementary information for analysis of international trade in goods and services, compiled using the change of ownership principle in recording goods sent abroad for processing and merchanting under the *System of National Accounts 2008*. The statistics are consistent with the goods and services statistics in the current account of Hong Kong's Balance of Payments. For details about the change of ownership principle, please refer to Section II of report *Special Report on Gross Domestic Product - September 2012* published by Census and Statistics Department.

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

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

**Table 11 : Incoming visitors by source**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> Q4	Q1	<u>2012</u> Q2	Q3
<u>('000)</u>									
<b>All sources</b>	<b>28 169.3</b>	<b>29 506.6</b>	<b>29 590.7</b>	<b>36 030.3</b>	<b>41 921.3</b>	<b>11 497.9</b>	<b>11 222.7</b>	<b>11 100.0</b>	<b>13 053.6</b>
Mainland of China	15 485.8	16 862.0	17 956.7	22 684.4	28 100.1	7 716.2	7 895.5	7 687.3	9 743.8
South and Southeast Asia	2 888.1	2 936.2	2 885.2	3 500.9	3 751.1	1 076.2	816.0	984.9	804.2
Taiwan	2 238.7	2 240.5	2 009.6	2 164.8	2 148.7	509.1	495.7	497.8	570.0
Europe	1 772.2	1 711.4	1 610.5	1 757.8	1 801.3	521.7	483.4	443.1	406.7
Japan	1 324.3	1 324.8	1 204.5	1 316.6	1 283.7	353.6	344.1	304.8	346.6
United States	1 230.9	1 146.4	1 070.1	1 171.4	1 212.3	341.8	284.2	315.3	270.5
Others	3 229.2	3 285.3	2 854.0	3 434.5	3 623.9	979.3	903.8	866.7	912.0
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>11.6</b>	<b>4.7</b>	<b>0.3</b>	<b>21.8</b>	<b>16.4</b>	<b>16.7</b>	<b>15.6</b>	<b>15.3</b>	<b>17.7</b>
Mainland of China	13.9	8.9	6.5	26.3	23.9	24.7	21.1	24.5	26.8
South and Southeast Asia	8.6	1.7	-1.7	21.3	7.1	6.5	5.1	-2.6	-9.4
Taiwan	2.8	0.1	-10.3	7.7	-0.7	-3.2	-2.3	-8.9	-2.7
Europe	14.5	-3.4	-5.9	9.1	2.5	1.9	9.4	4.2	-1.4
Japan	1.0	*	-9.1	9.3	-2.5	5.9	5.3	12.0	4.7
United States	6.2	-6.9	-6.7	9.5	3.5	5.0	1.7	1.2	-3.3
Others	15.1	1.7	-13.1	20.3	5.5	2.3	5.6	-1.5	0.3

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

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

**Table 12 : Property market**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</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)	31 052	26 397	26 036	17 321	16 579	10 471	8 776
Commercial property	304	417	371	145	291	368	390
<i>of which :</i>							
Office space	166	299	279	34	108	320	341
Other commercial premises <sup>(b)</sup>	138	118	91	111	183	48	49
Industrial property <sup>(c)</sup>	29	15	1	17	27	16	78
<i>of which :</i>							
Industrial-cum-office premises	0	15	0	4	0	0	4
Conventional flatted factory space	3	0	1	0	0	16	70
Storage premises <sup>(d)</sup>	27	0	0	13	27	0	4
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	20 154	13 705	20 614	24 691	4 430	4 795	22 759
Subsidized sales flats <sup>(e)</sup>	1 072	320	0	0	0	2 010	2 200
<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	790.0	1 038.4	530.0	550.7	706.7	900.0	530.0
Commercial property	365.3	200.0	161.3	481.9	468.4	327.5	147.7
Industrial property <sup>(f)</sup>	107.1	0.8	16.4	35.1	23.9	103.5	106.6
Other properties	109.3	444.2	407.1	408.0	199.2	207.7	212.8
Total	1 371.8	1 683.3	1 114.8	1 475.8	1 398.2	1 538.6	997.1
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	72 974	71 576	100 630	103 362	82 472	123 575	95 931
Primary market	23 088	26 498	25 694	15 994	13 986	20 123	11 046
Secondary market	49 886	45 078	74 936	87 368	68 486	103 452	84 885
Selected types of non-residential properties <sup>(h)</sup>							
Office space	1 639	1 817	3 213	3 431	2 874	4 129	2 845
Other commercial premises	3 167	4 142	7 833	7 143	4 402	5 490	4 149
Flatted factory space	3 756	3 813	5 889	6 560	7 409	9 072	5 741

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> Q4	Q1	<u>2012</u> 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)	7 157	13 405	9 449	2 774	632	1 647	3 855
Commercial property	235	189	197	16	62	25	36
<i>of which :</i>							
Office space	151	124	155	10	39	13	22
Other commercial premises <sup>(b)</sup>	84	65	42	7	23	12	13
Industrial property <sup>(c)</sup>	3	21	105	2	120	40	8
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	3	21	32	0	0	37	8
Storage premises <sup>(d)</sup>	0	0	73	2	120	3	0
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	19 021	6 385	17 787	2 113	7 071	2 707	0
Subsidized sales flats <sup>(e)</sup>	370	1 110	0	0	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	546.8	560.3	580.6	102.8	369.2	152.6	245.5
Commercial property	178.3	156.3	133.6	34.5	125.8	21.7	28.8
Industrial property <sup>(f)</sup>	97.1	34.3	109.3	72.5	12.4	0.2	16.5
Other properties	253.2	459.2	232.7	55.3	43.6	67.0	223.3
Total	1 075.4	1 210.0	1 056.2	265.1	551.0	241.5	514.1
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(g)</sup>	115 092	135 778	84 462	13 739	18 749	22 452	21 097
Primary market	16 161	13 646	10 880	3 407	2 895	2 723	3 711
Secondary market	98 931	122 132	73 582	10 332	15 854	19 729	17 386
Selected types of non-residential properties <sup>(h)</sup>							
Office space	2 521	3 591	3 071	403	510	849	889
Other commercial premises	5 359	7 639	5 980	778	1 114	2 036	1 787
Flatted factory space	5 554	8 206	7 619	1 083	1 487	2 154	2 590

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>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	69.9	61.6	78.0	92.0	92.7	103.5	120.5
Office space	68.4	62.5	99.3	133.0	139.3	165.5	199.0
Shopping space	85.0	85.5	119.3	149.3	153.5	172.5	192.2
Flatted factory space	74.8	71.7	88.6	125.0	158.5	199.5	235.9
Property rental indices <sup>(b)</sup> :							
Residential flats	83.4	73.6	77.7	86.5	91.6	101.8	115.7
Office space	85.4	74.6	78.1	96.4	117.4	131.9	155.5
Shopping space	92.9	86.4	92.8	100.5	104.3	111.8	116.2
Flatted factory space	82.7	74.9	77.3	82.6	91.0	100.5	109.3
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-11.2	-11.9	26.6	17.9	0.8	11.7	16.4
Office space	-13.1	-8.6	58.9	33.9	4.7	18.8	20.2
Shopping space	-2.1	0.6	39.5	25.1	2.8	12.4	11.4
Flatted factory space	-8.8	-4.1	23.6	41.1	26.8	25.9	18.2
Property rental indices <sup>(b)</sup> :							
Residential flats	-12.6	-11.8	5.6	11.3	5.9	11.1	13.7
Office space	-15.4	-12.6	4.7	23.4	21.8	12.4	17.9
Shopping space	-6.5	-7.0	7.4	8.3	3.8	7.2	3.9
Flatted factory space	-8.4	-9.4	3.2	6.9	10.2	10.4	8.8

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

(b) All rental indices shown in this table have been adjusted for concessionary leasing terms such as provision of refurbishment, granting of rent-free periods, and waiver of miscellaneous charges, if known. For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined. For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> Q4	Q1	<u>2012</u> Q2 <sup>#</sup>	Q3 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	121.3	150.9	182.1	182.1	185.3	202.3	211.5
Office space	179.8	230.4	297.9	304.4	302.1	322.9	345.0
Shopping space	193.1	257.2	327.4	344.2	363.2	403.5	441.2
Flatted factory space	216.3	284.4	385.0	401.9	418.7	460.8	506.4
Property rental indices <sup>(b)</sup> :							
Residential flats	100.4	119.7	134.0	136.8	133.6	139.7	147.2
Office space	135.7	147.6	169.9	179.4	182.6	186.9	190.4
Shopping space	110.9	122.9	134.3	139.3	143.3	150.0	156.2
Flatted factory space	99.4	108.9	118.6	122.2	125.1	131.5	135.4
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	0.7	24.4	20.7	12.2	5.8	8.9	14.2
Office space	-9.6	28.1	29.3	19.9	9.2	7.2	11.5
Shopping space	0.5	33.2	27.3	21.0	19.2	24.3	31.3
Flatted factory space	-8.3	31.5	35.4	27.0	20.0	19.0	26.0
Property rental indices <sup>(b)</sup> :							
Residential flats	-13.2	19.2	11.9	7.7	4.4	4.4	7.1
Office space	-12.7	8.8	15.1	16.3	15.3	12.1	8.9
Shopping space	-4.6	10.8	9.3	9.2	12.0	12.6	14.3
Flatted factory space	-9.1	9.6	8.9	8.6	10.3	11.9	11.7

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

(+) Provisional figures.

**Table 14 : Monetary aggregates**

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	259,411	354,752	412,629	348,248	387,909	454,342	491,115
M2 <sup>(a)</sup>	1,984,049	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017	3,239,857
M3 <sup>(a)</sup>	2,004,225	2,122,861	2,219,557	2,345,838	2,795,545	3,300,500	3,261,306
Total money supply (\$Mn)							
M1	295,650	413,423	484,494	434,684	491,648	616,709	645,833
M2	3,518,326	3,813,442	4,166,706	4,379,057	5,054,332	6,106,348	6,268,058
M3	3,561,852	3,858,044	4,189,544	4,407,188	5,089,741	6,139,758	6,300,751
Deposit (\$Mn)							
HK\$	1,824,911	1,930,790	2,017,911	2,131,579	2,568,283	3,075,042	3,033,980
Foreign currency	1,492,631	1,636,227	1,848,145	1,936,322	2,188,993	2,793,856	3,024,004
Total	3,317,542	3,567,018	3,866,056	4,067,901	4,757,275	5,868,898	6,057,984
Loans and advances (\$Mn)							
HK\$	1,615,667	1,573,079	1,666,740	1,797,350	1,917,437	2,184,705	2,354,755
Foreign currency	460,659	462,000	488,964	514,637	550,392	776,971	930,883
Total	2,076,325	2,035,079	2,155,704	2,311,987	2,467,828	2,961,676	3,285,638
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	120.2	116.4	113.6	112.6	111.1	106.3	100.7
Import-weighted	121.8	118.2	115.4	114.1	112.6	107.6	101.3
Export-weighted	118.6	114.5	111.7	110.9	109.6	104.8	100.1
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	12.9	36.8	16.3	-15.6	11.4	17.1	8.1
M2 <sup>(a)</sup>	-0.7	6.2	4.8	5.5	19.2	18.1	-1.3
M3 <sup>(a)</sup>	-0.6	5.9	4.6	5.7	19.2	18.1	-1.2
Total money supply :							
M1	14.6	39.8	17.2	-10.3	13.1	25.4	4.7
M2	-0.9	8.4	9.3	5.1	15.4	20.8	2.6
M3	-0.9	8.3	8.6	5.2	15.5	20.6	2.6
Deposit							
HK\$	-1.6	5.8	4.5	5.6	20.5	19.7	-1.3
Foreign currency	-3.8	9.6	13.0	4.8	13.0	27.6	8.2
Total	-2.6	7.5	8.4	5.2	16.9	23.4	3.2
Loans and advances							
HK\$	-1.9	-2.6	6.0	7.8	6.7	13.9	7.8
Foreign currency	-14.3	0.3	5.8	5.3	6.9	41.2	19.8
Total	-5.0	-2.0	5.9	7.2	6.7	20.0	10.9
Nominal Effective Exchange Rate Indices <sup>(b)</sup>							
Trade-weighted	-0.7	-3.2	-2.4	-0.9	-1.3	-4.3	-5.3
Import-weighted	-0.4	-3.0	-2.4	-1.1	-1.3	-4.4	-5.9
Export-weighted	-0.9	-3.5	-2.4	-0.7	-1.2	-4.4	-4.5

**Definition of Terms :**

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

**Total Money Supply:**

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

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> Q4	Q1	<u>2012</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	671,241	730,093	794,726	794,726	803,741	809,505	862,098
M2 <sup>(a)</sup>	3,587,717	3,866,788	4,046,216	4,046,216	4,157,766	4,144,270	4,336,166
M3 <sup>(a)</sup>	3,604,843	3,878,193	4,055,404	4,055,404	4,164,459	4,150,722	4,343,359
Total money supply (\$Mn)							
M1	901,819	1,017,227	1,127,320	1,127,320	1,179,311	1,216,981	1,294,493
M2	6,602,310	7,136,271	8,057,530	8,057,530	8,261,020	8,318,695	8,581,471
M3	6,626,843	7,156,260	8,081,079	8,081,079	8,279,034	8,335,293	8,600,621
Deposit (\$Mn)							
HK\$	3,373,595	3,617,183	3,740,240	3,740,240	3,822,955	3,812,138	3,985,551
Foreign currency	3,007,445	3,245,081	3,851,020	3,851,020	3,845,838	3,893,680	3,954,523
Total	6,381,040	6,862,265	7,591,260	7,591,260	7,668,793	7,705,819	7,940,074
Loans and advances (\$Mn)							
HK\$	2,401,323	2,824,445	3,160,002	3,160,002	3,154,068	3,203,946	3,242,089
Foreign currency	887,160	1,403,281	1,920,659	1,920,659	2,041,828	2,113,558	2,175,733
Total	3,288,483	4,227,726	5,080,661	5,080,661	5,195,896	5,317,504	5,417,822
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	101.9	99.5	94.6	94.6	94.5	95.3	95.5
Import-weighted	102.2	99.2	93.9	94.0	93.9	94.7	94.8
Export-weighted	101.6	99.8	95.4	95.3	95.2	96.0	96.4
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	36.7	8.8	8.9	8.9	7.8	7.2	10.3
M2 <sup>(a)</sup>	10.7	7.8	4.6	4.6	7.5	6.2	11.0
M3 <sup>(a)</sup>	10.5	7.6	4.6	4.6	7.3	6.1	10.9
Total money supply :							
M1	39.6	12.8	10.8	10.8	12.6	11.3	15.7
M2	5.3	8.1	12.9	12.9	12.0	9.1	10.5
M3	5.2	8.0	12.9	12.9	11.9	9.0	10.4
Deposit							
HK\$	11.2	7.2	3.4	3.4	6.0	5.4	10.5
Foreign currency	-0.5	7.9	18.7	18.7	10.8	7.6	6.4
Total	5.3	7.5	10.6	10.6	8.4	6.5	8.4
Loans and advances							
HK\$	2.0	17.6	11.9	11.9	7.1	5.2	3.7
Foreign currency	-4.7	58.2	36.9	36.9	28.0	19.2	14.3
Total	0.1	28.6	20.2	20.2	14.4	10.4	7.7
Nominal Effective Exchange Rate Indices <sup>(b)</sup>							
Trade-weighted	1.2	-2.4	-4.9	-2.8	-1.6	0.8	2.2
Import-weighted	0.9	-2.9	-5.3	-2.8	-1.5	1.0	2.4
Export-weighted	1.5	-1.8	-4.4	-2.7	-1.6	0.8	2.1

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

(b) Period average.

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

(%)

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>	
					Q3	Q4	Q1	Q2
<b>Service Industry</b>								
Import and export trade	7.4	-13.7	19.7	8.9	3.4	4.9	-4.7	-2.8
Wholesale	6.3	-12.6	25.0	12.7	9.1	12.7	4.2	2.7
Retail	10.6	0.6	18.3	24.9	27.4	23.3	15.8	10.3
Transportation <i>within which :</i>	4.4	-19.9	24.5	4.4	2.4	-0.7	0.1	-0.6
Land transport	2.2	-2.6	6.0	7.0	4.2	7.8	8.3	13.4
Water transport	6.1	-24.1	20.5	0.6	-2.1	-5.7	-7.3	-8.1
Air transport	3.5	-21.0	33.7	6.7	5.5	0.7	2.9	1.3
Warehousing and storage	6.6	1.4	9.5	9.4	10.3	6.6	31.5	29.4
Courier	2.1	-6.1	28.3	17.3	11.2	8.8	11.4	7.8
Accommodation services <sup>(a)</sup>	3.8	-17.4	25.3	19.6	22.4	13.9	8.3	15.1
Food services	13.1	0.6	5.1	6.4	6.2	7.3	6.1	4.2
Information and communications <i>within which :</i>	6.0	-3.2	4.9	8.8	7.8	8.1	9.9	8.6
Telecommunications	9.8	1.4	3.0	8.1	7.9	6.5	14.8	9.7
Film entertainment	-0.7	-12.6	-6.4	-5.6	-10.3	1.4	-6.1	3.9
Banking	-16.9	1.5	8.8	10.8	7.1	-1.5	9.5	10.3
Financing (except banking) <i>within which :</i>	-19.4	-10.3	16.7	-2.4	-11.8	-22.8	-0.1	-7.0
Financial markets and asset management	-20.0	-11.7	15.3	-3.2	-13.6	-25.9	-0.8	-7.6
<i>within which : Asset management</i>	-5.2	-12.1	28.4	10.6	15.7	-15.2	-6.4	-11.6
Insurance	*	0.7	8.3	9.4	10.3	6.7	14.8	12.1
Real estate	-3.7	9.7	11.4	-0.9	-15.4	-9.7	6.7	2.5
Professional, scientific and technical services	6.8	-0.5	13.9	7.3	9.3	4.3	*	-0.2
Administrative and support services	9.4	-12.4	12.3	10.2	8.6	7.7	5.9	9.0
<b>Service Domain</b>								
Tourism, convention and exhibition services	10.1	3.2	30.6	20.6	18.8	26.5	19.1 <sup>+</sup>	14.0 <sup>+</sup>
Computer and information technology services	5.3	-15.0	32.5	10.4	0.8	13.6	15.7	22.0

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.

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

(+) Provisional figure.

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

**Table 16 : Labour force characteristics**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u> Q4	Q1 <sup>+</sup>	<u>2012</u> Q2 <sup>+</sup>	Q3 <sup>+</sup>
<u>(%)</u>									
Labour force participation rate	61.2	60.9	60.8	59.6	60.1	60.2	60.7	60.8	60.6
Seasonally adjusted unemployment rate	4.0	3.5	5.3	4.3	3.4	3.3	3.4	3.2	3.3
Underemployment rate	2.2	1.9	2.3	2.0	1.7	1.4	1.6	1.4	1.6
<u>('000)</u>									
Population of working age	5 916.0	5 977.1	6 022.9	6 093.8	6 164.4	6 201.0	6 221.8	6 244.7	6 261.4
Labour force	3 622.3	3 637.2	3 660.3	3 631.3	3 703.1	3 733.0	3 773.7	3 796.9	3 791.8
Persons employed	3 476.9	3 509.1	3 467.6	3 474.1	3 576.4	3 616.9	3 649.6	3 671.4	3 658.9
Persons unemployed	145.3	128.1	192.6	157.2	126.7	116.1	124.1	125.5	132.9
Persons underemployed	79.4	67.9	83.8	72.5	63.3	52.4	58.6	54.6	59.2
<u>(% change over a year earlier)</u>									
Population of working age	1.4	1.0	0.8	1.2	1.2	1.2	1.3	1.5	1.3
Labour force	1.4	0.4	0.6	-0.8	2.0	2.3	3.2	2.6	1.8
Persons employed	2.2	0.9	-1.2	0.2	2.9	2.9	3.3	3.0	1.6
Persons unemployed	-15.0	-11.9	50.4	-18.4	-19.4	-13.8	0.1	-8.8	5.5
Persons underemployed	-8.0	-14.5	23.4	-13.5	-12.7	-21.0	-10.7	-15.9	-9.3

Note : (+) Provisional figures.

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

Selected major industries	2007	2008	2009	2010	2011	2011			2012	No.
	(% change)					Sep	Dec	Mar	Jun	
						(% change over a year earlier)				
Manufacturing	-2.9	-3.5	-5.7	-4.5	-5.6	-5.2	-6.1	-6.2	-5.4	107 637
Construction sites (manual workers only)	-5.1	-1.5	2.2	9.6	13.2	12.8	25.2	20.1	22.4	71 721
Import and export trade	0.8	-0.3	-4.4	0.9	-0.3	0.1	-1.0	-1.4	-0.6	493 889
Wholesale	-0.3	-2.7	-2.0	1.2	*	0.5	-0.5	-1.0	0.7	64 458
Retail	2.1	2.8	-0.3	3.3	4.0	4.2	2.7	2.2	2.9	259 434
Food and beverage services	3.3	1.8	*	3.7	6.6	7.9	4.3	1.2	1.5	235 666
Accommodation services <sup>(a)</sup>	5.4	3.1	-1.0	1.5	5.8	7.1	4.8	10.3	7.8	36 612
Transportation, storage, postal and courier services	2.5	3.5	1.1	1.5	2.0	2.4	2.4	2.2	2.2	166 706
Information and communications	2.2	3.6	-1.6	1.3	3.4	3.6	4.9	6.6	5.3	95 891
Financing and insurance	7.3	5.6	-0.5	4.8	6.3	7.0	5.6	5.7	2.0	206 993
Real estate	4.4	2.7	0.5	4.1	8.0	8.8	8.6	4.5	4.7	124 355
Professional and business services (excluding cleaning and similar services)	4.8	3.4	0.9	2.2	4.2	5.0	4.5	4.5	3.9	255 153
Cleaning and similar services	0.6	-1.7	6.7	13.7	9.5	7.2	5.0	2.4	3.9	78 151
Education	3.3	4.8	5.3	3.4	1.5	1.9	2.3	2.0	3.0	172 325
Human health services	5.5	5.1	3.8	3.0	4.1	4.1	4.5	4.8	4.3	100 367
Residential care and social work services	1.4	1.3	1.5	1.8	1.3	1.4	-0.5	1.4	2.1	58 832
Arts, entertainment, recreation and other services	1.5	1.9	0.8	5.0	2.8	3.3	1.0	-0.3	1.3	119 065
Civil Service <sup>(b)</sup>	-0.4	0.1	1.1	0.5	0.7	0.8	1.2	1.5	1.2	159 217
Others <sup>(c)</sup>	0.9	7.0	-1.0	3.1	-0.6	-2.1	-4.2	-4.8	-6.1	10 411

Notes : Starting from March 2009, the survey coverage has been expanded to include more economic activities in some of the industries due to the change in industrial classification based on the Hong Kong Standard Industrial Classification Version 2.0. The activities newly covered are in the industries of transportation, storage, postal and courier services; professional and business services; and arts, entertainment, recreation and other services. The series of employment statistics under the HSIC Version 2.0 has also been backcasted to March 2000.

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

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

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

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

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

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>	
						Sep	Dec	Mar	Jun
<u>(number)</u>									
Building sites									
Private sector	29 240	28 899	28 776	28 620	31 780	34 248	37 391	37 650	39 260
Public sector <sup>(a)</sup>	7 767	8 136	10 277	11 463	12 335	10 947	11 177	10 810	9 612
Sub-total	37 007	37 034	39 053	40 083	44 115	45 195	48 568	48 460	48 872
Civil engineering sites									
Private sector	1 674	1 686	1 618	1 544	1 250	1 254	1 457	1 372	1 434
Public sector <sup>(a)</sup>	11 504	10 703	9 831	13 714	17 270	17 279	19 370	20 810	21 415
Sub-total	13 178	12 388	11 449	15 258	18 520	18 533	20 827	22 182	22 849
<b>Total</b>	<b>50 185</b>	<b>49 422</b>	<b>50 501</b>	<b>55 341</b>	<b>62 635</b>	<b>63 728</b>	<b>69 395</b>	<b>70 642</b>	<b>71 721</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-5.7	-1.2	-0.4	-0.5	11.0	15.8	42.0	40.6	36.8
Public sector <sup>(a)</sup>	1.6	4.7	26.3	11.5	7.6	*	-14.4	-23.2	-26.8
Sub-total	-4.2	0.1	5.5	2.6	10.1	11.6	23.3	18.6	16.8
Civil engineering sites									
Private sector	6.7	0.7	-4.0	-4.6	-19.0	-33.0	45.4	28.5	17.5
Public sector <sup>(a)</sup>	-9.1	-7.0	-8.1	39.5	25.9	22.4	28.8	23.2	37.8
Sub-total	-7.4	-6.0	-7.6	33.3	21.4	15.9	29.8	23.6	36.3
<b>Total</b>	<b>-5.1</b>	<b>-1.5</b>	<b>2.2</b>	<b>9.6</b>	<b>13.2</b>	<b>12.8</b>	<b>25.2</b>	<b>20.1</b>	<b>22.4</b>

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

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

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



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

(%)

Selected industry section	2007	2008	2009	2010	2011	2011		2012	
						Q3	Q4	Q1	Q2
<b>(in nominal terms)</b>									
Manufacturing	2.5	0.9	-3.5	2.6	7.2	4.9	8.0	14.0	5.8
Sewerage, waste management and remediation activities	17.0	-8.6	2.1	-0.1	5.6	1.7	12.4	6.4	4.4
Import/export and wholesale trade	1.8	6.3	-1.6	2.6	12.9	12.8	12.7	3.2	4.7
Retail trade	2.6	8.1	-1.5	3.9	12.3	15.3	13.6	15.6	6.7
Transportation, storage, postal and courier services	3.9	-0.6	-0.2	3.4	4.0	-3.1	3.1	-5.3	1.6
Accommodation <sup>(a)</sup> and food service activities	3.9	2.6	-0.6	3.3	9.7	7.3	9.9	6.8	6.1
Information and communications	-2.9	6.6	0.2	2.6	7.4	7.8	10.8	9.4	7.7
Financial and insurance activities	9.8	9.0	-3.3	7.2	11.5	7.9	7.0	5.8	3.7
Real estate activities	-0.4	8.0	-2.4	1.3	11.4	12.8	18.2	14.4	5.9
Professional and business services	4.8	3.5	0.6	2.4	2.0	7.2	5.6	6.3	6.8
Social and personal services	1.5	3.1	1.7	-2.4	3.1	9.0	5.9	8.3	8.7
<b>All industries surveyed</b>	<b>4.0</b>	<b>2.6</b>	<b>0.5</b>	<b>2.4</b>	<b>7.9</b>	<b>8.3</b>	<b>9.1</b>	<b>7.2</b>	<b>6.6</b>
<b>(in real terms)</b>									
Manufacturing	0.5	-3.3	-4.1	0.3	1.9	-1.5	2.2	8.4	1.5
Sewerage, waste management and remediation activities	14.8	-12.3	1.5	-2.3	0.3	-4.5	6.3	1.1	0.1
Import/export and wholesale trade	-0.2	1.9	-2.3	0.2	7.2	5.9	6.6	-1.9	0.4
Retail trade	0.6	3.6	-2.1	1.6	6.7	8.2	7.5	9.9	2.4
Transportation, storage, postal and courier services	1.9	-4.7	-0.8	1.1	-1.2	-9.0	-2.5	-10.0	-2.5
Accommodation <sup>(a)</sup> and food service activities	1.8	-1.7	-1.2	1.0	4.2	0.7	4.0	1.6	1.8
Information and communications	-4.7	2.2	-0.4	0.3	2.0	1.2	4.8	4.0	3.3
Financial and insurance activities	7.7	4.6	-3.9	4.8	6.0	1.3	1.3	0.6	-0.5
Real estate activities	-2.3	3.5	-3.0	-1.0	5.8	5.9	11.8	8.7	1.6
Professional and business services	2.8	-0.7	*	0.1	-3.1	0.6	-0.1	1.1	2.5
Social and personal services	-0.5	-1.2	1.1	-4.6	-2.1	2.3	0.2	2.9	4.3
<b>All industries surveyed</b>	<b>1.9</b>	<b>-1.7</b>	<b>-0.1</b>	<b>0.1</b>	<b>2.5</b>	<b>1.6</b>	<b>3.2</b>	<b>1.9</b>	<b>2.3</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 2009/10-based Composite CPI.

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) by the C&SD in October 2008, the new classification has been adopted in compiling the payroll statistics. Starting from the first quarter of 2009, all the payroll statistics, unless otherwise specified, are compiled based on the HSIC V2.0. The series of payroll indices under HSIC V2.0 has also been backcasted to the first quarter of 2004.

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

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

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

Selected industry section	(%)								
	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2011</u>		<u>2012</u>	
						Sep	Dec	Mar	Jun
<b>(in nominal terms)</b>									
Manufacturing	4.3	2.6	-1.2	-1.0	6.7	7.3	10.6	7.9	3.8
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	2.3	3.6	-1.1	2.6	7.8	9.7	8.4	7.3	4.3
Import/export and wholesale trades:	2.8	3.1	-1.2	2.7	8.3	10.3	--	7.6	--
Retail trade	-1.7	4.9	-0.2	1.1	-0.3	-1.1	--	3.6	--
Transportation	1.5	1.8	*	1.1	4.0	5.2	5.1	4.2	3.2
Accommodation <sup>(b)</sup> and food service activities	1.4	3.1	-2.3	2.5	9.3	10.5	10.9	8.1	7.6
Financial and insurance activities <sup>(c)</sup>	2.4	2.8	-0.5	3.0	6.7	7.5	7.0	4.3	2.6
Real estate leasing and maintenance management	1.4	2.7	-0.4	2.6	8.6	10.6	11.6	13.5	5.3
Professional and business services	4.8	4.9	0.8	3.4	12.6	15.6	14.7	13.1	5.7
Personal services	8.5	0.5	-0.7	3.4	9.6	12.8	13.1	12.2	9.5
<b>All industries surveyed</b>	<b>2.6</b>	<b>3.4</b>	<b>-0.9</b>	<b>2.4</b>	<b>8.1</b>	<b>9.9</b>	<b>9.4</b>	<b>8.0</b>	<b>5.1</b>
<b>(in real terms)</b>									
Manufacturing	2.4	-0.1	-1.8	-3.7	1.3	2.0	5.1	3.4	0.5
Import/export, wholesale and retail trades <sup>(a)</sup> <i>within which :</i>	0.4	0.9	-1.7	-0.2	2.4	4.3	3.0	2.9	1.0
Import/export and wholesale trades:	1.0	0.4	-1.7	-0.1	2.8	4.8	--	3.2	--
Retail trade	-3.5	2.2	-0.7	-1.6	-5.3	-6.0	--	-0.7	--
Transportation	-0.4	-0.8	-0.5	-1.7	-1.2	*	-0.1	*	-0.1
Accommodation <sup>(b)</sup> and food service activities	-0.4	0.4	-2.8	-0.3	3.8	5.0	5.3	3.7	4.2
Financial and insurance activities <sup>(c)</sup>	0.6	0.2	-1.0	0.2	1.3	2.2	1.6	*	-0.7
Real estate leasing and maintenance management	-0.4	0.1	-1.0	-0.2	3.1	5.2	6.0	8.8	2.0
Professional and business services	2.9	2.2	0.3	0.6	6.9	9.9	8.9	8.5	2.4
Personal services	6.5	-2.1	-1.2	0.6	4.1	7.2	7.4	7.6	6.0
<b>All industries surveyed</b>	<b>0.7</b>	<b>0.7</b>	<b>-1.5</b>	<b>-0.4</b>	<b>2.7</b>	<b>4.4</b>	<b>3.9</b>	<b>3.6</b>	<b>1.7</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 2009/10-based CPI(A).

Upon the implementation of the new Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) by the C&SD in October 2008, the new classification has been adopted in compiling the wage statistics. Starting from March 2009, all the wage statistics, unless otherwise specified, are compiled based on the HSIC V2.0. The series of wage indices under HSIC V2.0 has also been backcasted to March 2004.

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

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

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

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

(-- ) Not applicable.

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

(%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
GDP deflator	-3.4	-6.0	-3.6	-0.2	-0.5	3.1	1.3	-0.4
Domestic demand deflator	-4.8	-4.0	-0.1	1.1	1.6	2.4	2.6	-0.8
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-3.0	-2.6	-0.4	1.0	2.0	2.0	4.3	0.5
CPI(A)	-3.2	-2.1	*	1.1	1.7	1.3	3.6	0.4
CPI(B)	-3.1	-2.7	-0.5	1.0	2.1	2.2	4.6	0.5
CPI(C)	-2.8	-2.9	-0.9	0.8	2.2	2.7	4.7	0.6
Unit Value Indices :								
Domestic exports	-3.3	0.2	1.5	2.2	-2.1	0.8	5.1	-0.2
Re-exports	-2.7	-1.5	1.1	1.2	1.1	2.4	3.8	1.2
Total exports of goods	-2.7	-1.4	1.2	1.3	1.0	2.3	3.8	1.1
Imports of goods	-3.9	-0.4	2.9	2.7	2.1	2.3	4.4	-0.1
Terms of Trade Index	1.2	-1.0	-1.7	-1.4	-1.1	0.1	-0.5	1.3
Producer Price Index for all manufacturing industries <sup>(b)</sup>	-2.7	-0.3	2.2	0.8	2.2	3.0	5.6	-1.7
Tender Price Indices :								
Public sector building projects	-11.7	-0.3	-1.5	1.4	5.0	20.1	41.9	-15.9
Public housing projects	-9.6	-10.0	3.5	7.7	11.2	19.7	30.8	-6.8

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

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

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

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

N.A. Not yet available.

(--) Not applicable.

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

	(%)							
	<u>2010</u>	<u>2011</u>	<u>2011</u>	<u>2012</u>			<u>Average annual rate of change:</u>	
			Q4	Q1	Q2	Q3	10 years 2001 to 2011	5 years 2006 to 2011
GDP deflator	0.3 #	3.8 #	4.0 #	3.5 #	2.4 #	3.8 #	-0.6 #	1.6 #
Domestic demand deflator	2.2 #	4.2 #	3.4 #	4.7 #	3.8 #	3.9 #	0.4 #	2.1 #
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	2.4	5.3	5.7	5.2	4.2	3.1	1.1	2.9
CPI(A)	2.7	5.6	5.3	4.6	3.7	1.9	1.1	2.7
CPI(B)	2.3	5.2	6.0	5.5	4.5	3.7	1.1	3.0
CPI(C)	2.1	5.1	6.0	5.4	4.4	3.4	1.1	3.0
Unit Value Indices :								
Domestic exports	5.5	6.4	5.8	3.0	2.6	1.4	1.6	3.5
Re-exports	4.6	8.0	7.7	6.2	4.4	1.8	1.9	4.0
Total exports of goods	4.7	8.0	7.6	6.2	4.4	1.8	1.9	4.0
Imports of goods	6.4	8.1	7.1	5.0	3.9	2.3	2.4	4.2
Terms of Trade Index	-1.7	-0.1	0.5	1.1	0.5	-0.5	-0.5	-0.2
Producer Price Index for all manufacturing industries <sup>(b)</sup>	6.0	8.3	6.6	3.6	-0.6	N.A.	--	4.2
Tender Price Indices :								
Public sector building projects	12.5	11.6	11.2	11.1	8.9	N.A.	5.2	12.5
Public housing projects	6.7	10.1	9.1	6.9	6.2	N.A.	5.6	11.4

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

(%)

	Weight	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<b>All items</b>	<b>100.0</b>	<b>-3.0</b> <b>(--)</b>	<b>-2.6</b> <b>(--)</b>	<b>-0.4</b> <b>(--)</b>	<b>1.0</b> <b>(--)</b>	<b>2.0</b> <b>(--)</b>	<b>2.0</b> <b>(2.8)</b>	<b>4.3</b> <b>(5.6)</b>
Food	27.45	-2.1	-1.5	1.0	1.8	1.7	4.3	10.1
<i>Meals bought away from home</i>	17.07	-1.5	-1.5	0.2	0.9	1.3	2.5	5.9
<i>Food, excluding meals bought away from home</i>	10.38	-3.1	-1.7	2.5	3.2	2.5	7.1	16.8
Housing <sup>(a)</sup>	31.66	-5.7	-4.8	-5.2	0.1	4.7	2.0	4.1
<i>Private housing rent</i>	27.14	-6.5	-6.3	-6.6	-0.1	5.6	4.0	6.8
<i>Public housing rent</i>	2.05	-2.7	9.1	2.5	0.2	0.1	-17.7	-27.2
Electricity, gas and water	3.10	-7.0	1.4	11.4	4.1	2.1	-0.7	-6.5
Alcoholic drinks and tobacco	0.59	2.4	0.1	*	0.4	-3.7	-1.2	0.1
Clothing and footwear	3.45	0.7	-2.7	6.4	2.0	1.0	4.1	0.8
Durable goods	5.27	-6.3	-6.4	-2.2	-3.2	-6.4	-4.7	-2.0
Miscellaneous goods	4.17	1.7	2.3	3.6	1.5	1.7	2.5	5.0
Transport	8.44	-0.6	-0.4	0.4	1.4	0.7	-0.1	2.5
Miscellaneous services	15.87	-2.3	-3.2	-0.2	1.0	1.9	1.7	0.8

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

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

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

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

(--) Not applicable.

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

(%)										
	Weight	2009	2010	2011	2011				Average annual rate of change:	
					Q4	Q1	Q2	Q3	10 years 2001 to 2011	5 years 2006 to 2011
<b>All items</b>	<b>100.0</b>	<b>0.5</b>	<b>2.4</b>	<b>5.3</b>	<b>5.7</b>	<b>5.2</b>	<b>4.2</b>	<b>3.1</b>	<b>1.1</b>	<b>2.9</b>
		<b>(1.0)</b>	<b>(1.7)</b>	<b>(5.3)</b>	<b>(6.4)</b>	<b>(5.9)</b>	<b>(5.1)</b>	<b>(4.0)</b>	<b>(-)</b>	<b>(-)</b>
Food	27.45	1.3	2.4	7.0	8.2	7.4	6.6	5.1	2.5	5.0
<i>Meals bought away from home</i>	17.07	1.6	1.7	5.2	6.1	6.1	5.7	5.3	1.6	3.4
<i>Food, excluding meals bought away from home</i>	10.38	0.9	3.5	9.9	11.5	9.4	8.1	5.0	4.0	7.5
Housing <sup>(a)</sup>	31.66	3.7	0.4	7.2	8.4	8.1	6.4	2.8	0.5	3.5
<i>Private housing rent</i>	27.14	3.6	0.9	7.2	9.6	9.2	7.3	5.8	0.7	4.5
<i>Public housing rent</i>	2.05	9.5	-7.8	11.9	-1.5	-1.5	-1.1	-87.8	-3.0	-7.5
Electricity, gas and water	3.10	-25.3	43.3	-4.2	-16.1	-17.2	-18.3	3.6	0.6	-1.0
Alcoholic drinks and tobacco	0.59	18.7	3.4	17.1	20.0	11.6	0.1	0.5	3.5	7.3
Clothing and footwear	3.45	2.7	1.8	6.8	7.3	4.9	3.2	2.3	2.3	3.2
Durable goods	5.27	-3.0	-2.7	-3.8	-3.1	-1.8	-0.9	-1.2	-4.1	-3.2
Miscellaneous goods	4.17	2.3	2.4	3.8	3.3	3.4	2.2	1.4	2.7	3.2
Transport	8.44	-0.9	2.0	4.4	4.5	4.4	3.3	2.2	0.9	1.6
Miscellaneous services	15.87	-2.1	2.0	3.5	3.8	2.8	3.1	2.3	0.3	1.1

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

(%)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Private consumption expenditure	-3.4	-2.4	-0.4	1.6	0.9	4.1	2.5
Government consumption expenditure	-0.5	-2.2	-2.6	-1.7	0.1	2.2	4.4
Gross domestic fixed capital formation	-9.9	-9.2	2.2	1.1	4.2	-2.1	1.7
Total exports of goods	-2.9	-1.8	0.9	0.6	0.3	2.2	3.4
Imports of goods	-4.2	-0.9	2.9	1.9	2.1	1.7	4.1
Exports of services	-2.3	-3.1	0.5	3.3	3.6	2.5	3.4
Imports of services	0.4	2.7	4.0	1.0	0.8	3.0	3.8
<b>Gross Domestic Product</b>	<b>-3.4</b>	<b>-6.0</b>	<b>-3.6</b>	<b>-0.2</b>	<b>-0.5</b>	<b>3.1</b>	<b>1.3</b>
Total final demand	-3.6	-2.7	0.5	1.1	1.1	2.3	3.1
Domestic demand	-4.8	-4.0	-0.1	1.1	1.6	2.4	2.6

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>2009</u>	<u>2010<sup>#</sup></u>	<u>2011<sup>#</sup></u>	<u>2011</u>	<u>2012</u>			Average annual <u>rate of change:</u>	
				Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	10 years 2001 to 2011 <sup>#</sup>	5 years 2006 to 2011 <sup>#</sup>
Private consumption expenditure	-1.4	1.4	4.0	3.5	3.7	2.6	2.1	0.7	2.1
Government consumption expenditure	0.7	-0.2	4.3	5.8	5.7	5.8	5.8	0.4	2.3
Gross domestic fixed capital formation	0.3	6.1	4.6	2.8	6.2	6.6	8.1	-0.2	2.1
Total exports of goods	0.5	4.6	7.8	7.5	6.3	5.2	1.8	1.5	3.7
Imports of goods	-1.3	6.3	8.2	7.6	7.2	6.2	2.2	2.0	3.8
Exports of services	-7.0	7.4	7.6	7.6	5.6	4.8	2.6	1.5	2.6
Imports of services	-2.7	5.6	6.2	3.8	2.3	0.5	*	2.5	3.1
<b>Gross Domestic Product</b>	<b>-0.4</b>	<b>0.3</b>	<b>3.8</b>	<b>4.0</b>	<b>3.5</b>	<b>2.4</b>	<b>3.8</b>	<b>-0.6</b>	<b>1.6</b>
Total final demand	-1.1	4.3	6.7	6.2	5.6	4.7	2.6	1.1	3.0
Domestic demand	-0.8	2.2	4.2	3.4	4.7	3.8	3.9	0.4	2.1



