

## Press Release

(embargoed until 4:30 p.m. on 16 May 2014)

### **Economic Situation in the First Quarter of 2014 and Latest GDP and Price Forecasts for 2014**

The Government released today (Friday) the First Quarter Economic Report 2014, together with the preliminary figures on Gross Domestic Product for the first quarter of 2014.

The Government Economist, Mrs Helen Chan, described the economic situation in the first quarter of 2014 and provided the latest GDP and price forecasts for the year.

#### **MAIN POINTS**

- \* Hong Kong's economic growth remained moderate in the first quarter of 2014, at 2.5% year-on-year in real terms, somewhat slower than that of 2.9% in the preceding quarter. Merchandise exports were sluggish, reflecting the slow improvements in the advanced markets. Nevertheless, services exports and the domestic sector kept expanding, thereby maintaining the labour market in a state of full employment. On a seasonally adjusted quarter-to-quarter comparison, real GDP grew slightly by 0.2% in the first quarter, after a 0.9% increase in the preceding quarter.
- \* Total exports of goods decelerated markedly, to a 0.5% year-on-year growth in real terms in the first quarter. Exports to major advanced markets slackened sharply at the start of the quarter, though followed by a visible pick-up in March. Added to this was the lacklustre performance of major Asian markets during most of the quarter. Exports of services likewise slowed, to a 3.1% year-on-year growth in real terms, dragged by the subdued performance of trade-related and transportation services.
- \* Domestic demand held steady. Despite a high base of comparison a year ago, private consumption expenditure still grew further, by 2.0% year-on-year in real terms in the first quarter. Investment expenditure increased moderately, by 3.0%, mainly driven by the surge in building and construction expenditure. Machinery and equipment acquisition recorded a slight increase after several quarters of robust growth.
- \* The labour market stayed tight, with the seasonally adjusted unemployment rate edging down to a 16-year low of 3.1% in the first quarter. On the back of the persistently tight manpower resource balance, earnings sustained real improvements for 2013 as a whole. Grassroots workers continued to enjoy appreciable earnings growth in the first quarter of this year.
- \* The local stock market underwent some correction in the first quarter. The residential property market stayed quiet, with both prices and rentals edging down during the first quarter.

- \* Looking ahead, while the global economy had a slow start in 2014, the improved outlook for the year as a whole does not seem to have shifted by a significant extent. Indeed, recent US economic data have turned more positive after the adverse effects of the unusually cold weather on economic activity faded. Also, the recuperation of the eurozone economy has proceeded on a firmer footing. With the advanced economies likely to show faster growth in the coming quarters, the ensuing better trading environment should bring support to Asia's exports. The sustained solid growth of the Mainland economy will also be another mainstay to Hong Kong's exports going forward. Nonetheless, the external environment is still overcast by considerable uncertainties, including those associated with the US Federal Reserve's further tapering, which could possibly change interest rate expectations, heighten global financial volatility, and add headwinds to emerging markets with weaker fundamentals. The geopolitical tensions in Eastern Europe are also a concern, which if escalated further, could impinge on the economic confidence in Europe and hence disrupt the recovery process there.
- \* Domestic demand is likely to stay steady. The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises remained largely positive compared with the previous quarter. Infrastructure works, as a key driving force of domestic demand, should stay hectic. Moreover, favourable job and income conditions should be conducive to the local consumption market, although the growth pace would likely turn more moderate after expanding notably for a prolonged period.
- \* The outlook for the global economy should hopefully brighten up in the rest of the year, barring unexpected relapse stemming from the normalisation of US monetary policy and the geopolitical tensions. This should provide ground for somewhat faster growth of the Hong Kong economy in the latter part of this year. The GDP growth forecast of 3-4% for 2014, as announced in the Budget, is maintained in the current round of review.
- \* Underlying consumer price inflation eased slightly further, to 3.8% in the first quarter of 2014, from 4.0% in the preceding quarter. With rentals easing on a broad front, wage rise staying steady, while imported price pressures still modest, the upside risks to consumer price inflation should remain limited this year. With the actual outturn in the first quarter in line with expectations, the forecast rates of headline and underlying consumer price inflation for 2014 as put out in the Budget round, at 4.6% and 3.7% respectively, are maintained in the current round of review.

## DETAILS

### GDP

According to the preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew moderately by 2.5% in real terms in the first quarter of 2014 over a year earlier, slower than that of 2.9% in the preceding quarter (revised downward from the earlier estimate of 3.0%). On a seasonally adjusted quarter-to-quarter comparison, real GDP grew slightly by 0.2% in the first quarter of 2014, after the 0.9% growth in the preceding quarter (revised downward from the earlier estimate of 1.1%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the first quarter of 2014 are presented in *Table 1*. Developments in different segments of the economy in the first quarter of 2014 are described below.

### External trade

3. *Total exports of goods* slowed markedly, with a meagre 0.5% year-on-year growth in real terms in the first quarter of 2014. The deceleration from the 5.7% rise in the preceding quarter was in part due to the sharp moderation in exports of non-monetary gold after the strong growth in the previous quarters. The decline in exports to the US and the EU at the start of the year was another factor, due to the sluggishness of the advanced economies, especially the US, which was temporarily disrupted by the adverse weather conditions. The weak demand conditions in the advanced economies also weighed on the regional trade flows in Asia, causing a relapse in Hong Kong's exports to major Asian markets. Nevertheless, as the weather-related effects on the US economy abated and the eurozone recovery continued, exports to these two markets picked up visibly in March, resulting in moderate growth for the quarter as a whole. On a seasonally adjusted basis, total exports of goods fell by 3.4% in real terms in the first quarter from the preceding quarter.

4. *Exports of services* likewise slowed, to a 3.1% growth in real terms in the first quarter over a year earlier, down from the 4.7% growth in the preceding quarter. The main drag came from the setback in exports of trade-related services and transportation services in tandem with the relapse in trade flows. On the other hand, thanks to the sustained expansion of inbound tourism, exports of travel services grew notably further, albeit not as significant as the double-digit growth attained last year. Exports of financial and other business services also expanded further. On a seasonally adjusted basis, exports of services rose slightly by 0.2% in real terms in the first quarter over the preceding quarter.

## **Domestic sector**

5. Domestic demand held steady. *Private consumption expenditure* grew further by 2.0% year-on-year in real terms in the first quarter of 2014. This was somewhat slower than the 3.6% growth in the preceding quarter, due partly to a high base of comparison in the same quarter of 2013 and partly affected by the difference in the timing of Easter holidays in 2013 and 2014. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure grew solidly further, by 1.1% in the first quarter. *Government consumption expenditure* also maintained steady growth at 2.4% in the first quarter over a year earlier.

6. Overall investment spending in terms of *gross domestic fixed capital formation* increased moderately, by 3.0% year-on-year in real terms in the first quarter of 2014, following a 5.3% growth in the preceding quarter. Within this, machinery and equipment acquisition, which was typically volatile, grew slightly by 1.4% after notable gains in the preceding three quarters. On the other hand, overall building and construction expenditure rebounded notably, as expenditure on large-scale infrastructure works surged while private sector construction activity also revived somewhat.

## **The labour sector**

7. The labour market remained tight. The *seasonally adjusted unemployment rate* edged down to a 16-year low of 3.1% in the first quarter. The *underemployment rate* likewise fell to 1.2%, the lowest since September-November 1997. Thanks to full employment, wages and earnings saw further growth. With the tight manpower resource situation in the low-skilled segment and an additional boost from the upward adjustment of the Statutory Minimum Wage rate since May 2013, average employment earnings for full-time employees engaged in elementary occupations rose by 6.4% in the first quarter of 2014 over a year earlier, representing an increase of 2.0% in real terms.

## **The asset markets**

8. The *local stock market* underwent some correction in the first quarter, amid the swaying sentiment towards emerging markets under Fed's tapering, signs of slower growth momentum in the Mainland and the geopolitical risks surrounding Eastern Europe. The Hang Seng Index ended the first quarter at 22 151, 5% lower than at end-2013.

9. The *residential property market* stayed quiet in the midst of uncertainty over future US monetary policy and the continued impact from the Government's further demand management measures. Residential property prices and rentals edged lower, both by 1% during the first quarter. Despite this, overall flat prices in March still surpassed the 1997 peak by 41%. Meanwhile, office and shop rentals were flat, indicating that the upward pressures in non-residential property market had also abated.

## Prices

10. Consumer price inflation eased slightly. Domestically, the increase in private housing rental component moderated as the milder increases in fresh-letting rentals continued to feed through. The growth in wage costs was also basically steady. Externally, international food and commodity prices generally saw little upward pressure, while inflation in Hong Kong's most major import partners remained in check. *Headline consumer price inflation* was 4.2% in the first quarter of 2014, down from 4.3% in the fourth quarter of 2013. Netting out the effects of the Government's relief measures to more accurately reflect the underlying inflation trend, *underlying consumer price inflation* edged down to 3.8% in the first quarter of 2014, from 4.0% in the fourth quarter of 2013.

## Latest GDP and price forecasts for 2014

11. Looking ahead, while the global economy had a slow start in 2014, the improved outlook for the year as a whole does not seem to have shifted by a significant extent. Indeed, recent US economic data have turned more positive after the adverse effects of the unusually cold weather on economic activity faded. Also, the recuperation of the eurozone economy has proceeded on a firmer footing. With the advanced economies likely to show faster growth in the coming quarters, the ensuing better trading environment should bring support to Asia's exports. The sustained solid growth of the Mainland economy will also be another mainstay to Hong Kong's exports going forward. Nonetheless, the external environment is still overcast by considerable uncertainties, including those associated with the US Federal Reserve's further tapering, which could possibly change interest rate expectations, heighten global financial volatility, and add headwinds to emerging markets with weaker fundamentals. The geopolitical tensions in Eastern Europe are also a concern, which if escalated further, could impinge on the economic confidence in Europe and hence disrupt the recovery process there.

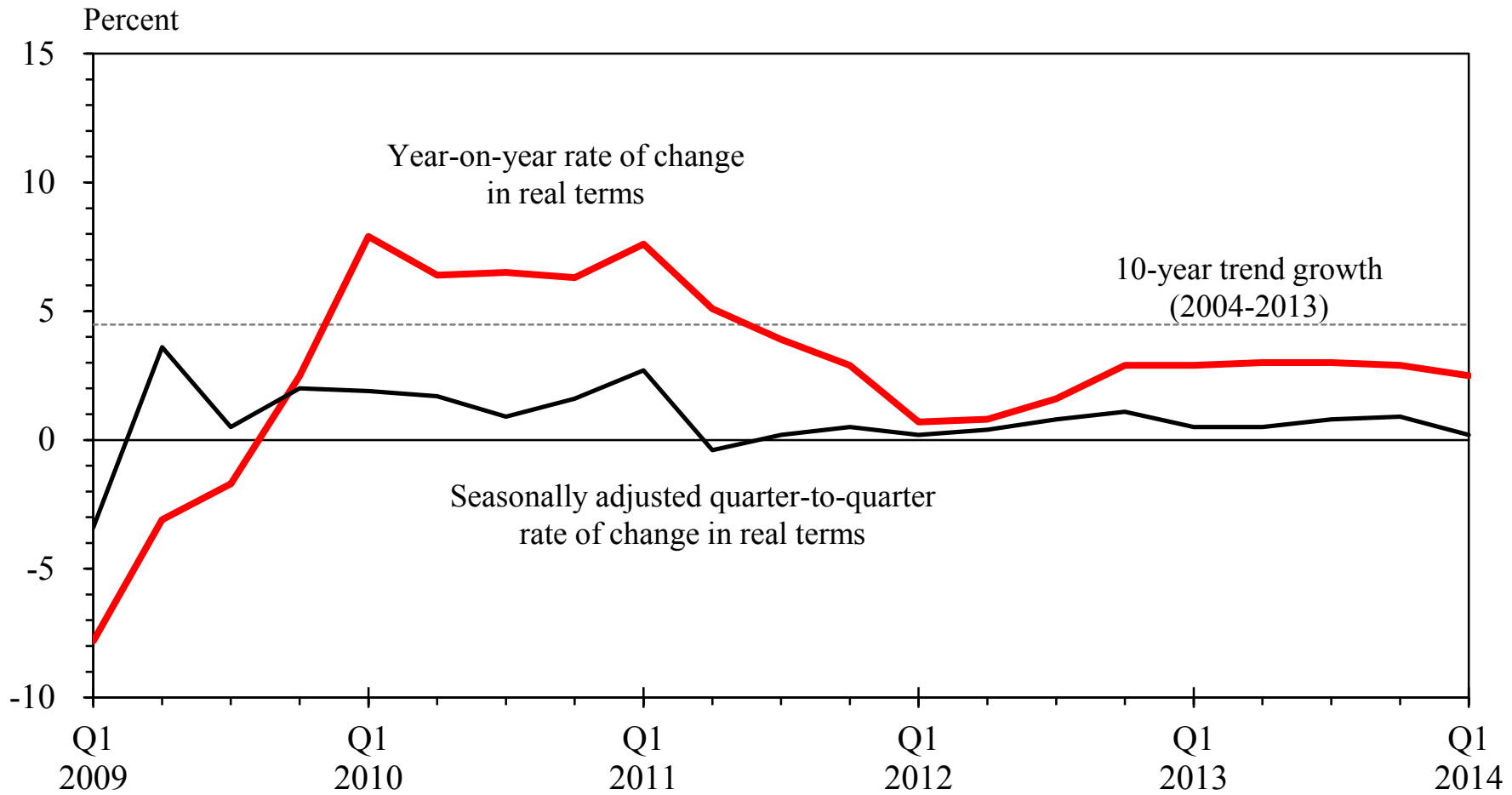
12. Domestic demand is likely to stay steady. The latest Quarterly Business Tendency Survey indicated that overall business sentiment among large enterprises remained largely positive compared with the previous quarter. Infrastructure works, as a key driving force of domestic demand, should stay hectic. Moreover, favourable job and income conditions should be conducive to the local consumption market, although the growth pace would likely turn more moderate after expanding notably for a prolonged period.

13. The outlook for the global economy should hopefully brighten up in the rest of the year, barring unexpected relapse stemming from the normalisation of US monetary policy and the geopolitical tensions. This should provide ground for somewhat faster growth of the Hong Kong economy in the latter part of this year. The GDP growth forecast of 3-4% for 2014, as announced in the Budget, is maintained in the current round of review (*Table 2*). For reference, the latest forecasts by private sector analysts mostly range from 3-4%, averaging around 3.5%.

14. On inflation outlook, with rentals easing on a broad front, wage rise staying steady, while imported price pressures still modest, the upside risks to consumer price inflation should remain limited this year. With the actual outturn in the first quarter in line with expectations, the forecast rates of headline and underlying consumer price inflation for 2014 as put out in the Budget round, at 4.6% and 3.7% respectively, are maintained in the current round of review (*Table 2*).

(The First Quarter Economic Report 2014 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 \$162 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, First Quarter 2014, which contains the GDP figures up to the first quarter of 2014, 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 first quarter of 2014 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>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>				<u>2014</u>
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	4.1	4.3	6.3 (2.9)	4.7 (-0.9)	2.7 (-0.2)	3.6 (1.8)	2.0 (1.1)
Government consumption expenditure	3.6	2.3	1.9 (*)	3.1 (1.8)	2.3 (*)	2.0 (0.3)	2.4 (0.4)
Gross domestic fixed capital formation	6.8	3.3	-3.0	7.6	2.7	5.3	3.0
<i>of which :</i>							
Building and construction	7.2	-0.9	-1.5	-0.7	3.1	-3.8	10.2
Machinery, equipment and intellectual property products	10.1	10.8	-4.4	19.8	7.6	17.5	1.4
Total exports of goods	1.8	6.6	8.8 (1.5)	6.1 (-1.4)	6.1 (3.2)	5.7 (2.1)	0.5 (-3.4)
Imports of goods	3.0	7.4	9.5 (3.4)	7.6 (-1.7)	6.6 (1.7)	6.1 (2.3)	1.2 (-0.6)
Exports of services	2.2	5.5	4.7 (1.8)	7.7 (3.3)	5.0 (-2.9)	4.7 (2.6)	3.1 (0.2)
Imports of services	1.9	2.0	0.3 (1.1)	-0.7 (-1.1)	2.6 (1.7)	5.5 (3.7)	-0.2 (-4.4)
<b>Gross Domestic Product</b>	<b>1.5</b>	<b>2.9</b>	<b>2.9</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.8)</b>	<b>2.9</b> <b>(0.9)</b>	<b>2.5</b> <b>(0.2)</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>3.7</b>	<b>1.4</b>	<b>1.8</b> <b>(-0.7)</b>	<b>0.6</b> <b>(*)</b>	<b>1.6</b> <b>(1.7)</b>	<b>1.5</b> <b>(0.5)</b>	<b>2.0</b> <b>(-0.1)</b>
<b>Composite CPI</b>							
<b>Headline</b>	<b>4.1</b>	<b>4.3</b>	<b>3.7</b> <b>(1.1)</b>	<b>4.0</b> <b>(1.3)</b>	<b>5.3</b> <b>(-0.8)</b>	<b>4.3</b> <b>(2.7)</b>	<b>4.2</b> <b>(1.0)</b>
<b>Underlying<sup>^</sup></b>	<b>4.7</b>	<b>4.0</b>	<b>3.8</b> <b>(1.1)</b>	<b>3.9</b> <b>(1.1)</b>	<b>4.3</b> <b>(0.8)</b>	<b>4.0</b> <b>(1.0)</b>	<b>3.8</b> <b>(0.9)</b>
<i>Change in nominal GDP (%)</i>	<b>5.3</b>	<b>4.3</b>	<b>4.8</b>	<b>3.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.6</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.

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

(\*) Change of less than 0.05%.



**Table 2****Economic forecasts for 2014  
(rate of change (%))**

	Forecasts for 2014 as released <u>on 26.2.2014</u> (%)	Latest forecasts for 2014 <u>on 16.5.2014</u> (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	3 to 4	<i>3 to 4</i>
<i>Nominal GDP</i>	4 to 5	<i>4 to 5</i>
<b>Composite Consumer Price Index (CCPI)</b>		
<i>Headline CCPI</i>	4.6	<i>4.6</i>
<i>Underlying CCPI</i>	3.7	<i>3.7</i>



# First Quarter Economic Report 2014

Government of the Hong Kong  
Special Administrative Region

# ***FIRST QUARTER ECONOMIC REPORT 2014***

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

*May 2014*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *Hong Kong's economic growth remained moderate in the first quarter of 2014, at 2.5% year-on-year in real terms. Merchandise exports were sluggish, reflecting the slow improvements in the advanced markets. Nevertheless, services exports and the domestic sector kept expanding, thereby maintaining the labour market in a state of full employment.*
- *The pace of global economic expansion was somewhat disappointing in the first quarter, despite an improved outlook for the year as a whole. Growth in total exports of goods moderated visibly in real terms in the first quarter. Exports to major advanced markets were weak at the start of the quarter, though with a visible pick-up in March. Added to this was the lacklustre performance of major Asian markets during most of the quarter. Exports of services also slowed, dragged by the subdued performance of trade-related and transportation services, though inbound tourism still showed appreciable growth.*
- *On the domestic front, private consumption expenditure grew further. Investment expenditure increased moderately, with the notable growth in overall building and construction expenditure providing the major driving force. Machinery and equipment acquisition grew slightly after several quarters of robust growth. The latest survey showed that business sentiment among large enterprises stayed largely positive.*
- *The labour market stayed tight, as evidenced by the sustained low unemployment and underemployment rates, as well as the high level of private sector vacancies. On the back of the persistently tight manpower resource balance, wages and earnings sustained real improvements for 2013 as a whole. Grassroots workers continued to enjoy solid earnings growth in the first quarter of 2014.*
- *The local stock market underwent some correction in the first quarter, reflecting impacts of various external developments, including the shifting sentiment on emerging markets amid Fed's tapering, concerns over Mainland's growth slowdown and the geopolitical risks surrounding Eastern Europe. The residential property market stayed quiet, with both prices and rentals going lower during the first quarter.*
- *Inflation eased slightly in the first quarter, as external price pressures stayed tame and local rental pressures continued to recede. The upside risks to inflation remain contained in the near term.*

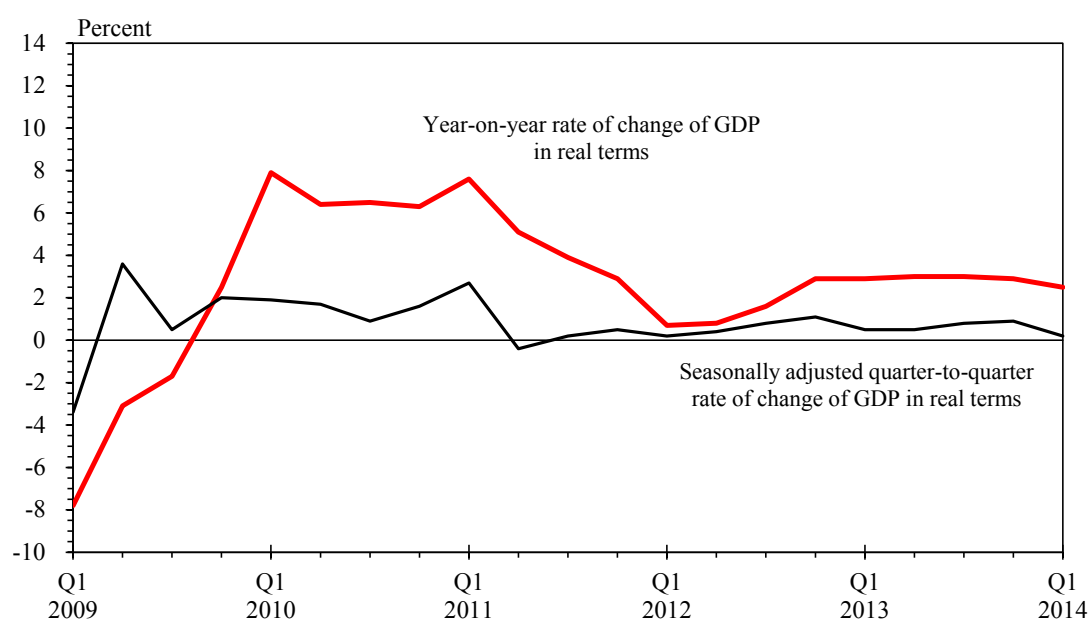
## Overall situation

1.1 The Hong Kong economy expanded moderately in the first quarter of 2014 over a year earlier, in the absence of stronger support from the external front. The US economy lost some steam on entering 2014 due to adverse weather conditions, while the recovery in Europe continued at a slow pace. The US Federal Reserve (Fed) began to taper asset purchases in January, adding volatility to the global financial conditions and negatively affecting those emerging market economies with higher inflation and larger external imbalances. Geopolitical risks also increased recently in some parts of the world, though this had not yet affected the global economy in any significant way. Against this background, trading and production activities in Asia were generally lacklustre in the first quarter. The Mainland's export performance was also not immune to these developments, although its overall economy stayed comparatively resilient. As part of a regional phenomenon, the performance of Hong Kong's merchandise exports was rather sluggish in the first quarter. Exports of services also slowed, dragged by the subdued performance of trade-related and transportation services, but still achieving moderate growth overall as inbound tourism maintained notable growth pace. This together with the further moderate growth of domestic demand helped support a full-employment situation in the labour market. Underlying consumer price inflation eased slightly in the first quarter amid subdued imported inflation and fading rental cost pressures.

1.2 In the first quarter of 2014, *Gross Domestic Product* (GDP)<sup>(1)</sup> grew by 2.5% in real terms over a year earlier, slightly slower than that of 2.9% in the preceding quarter (revised from the earlier estimate of 3.0%). On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, real GDP grew slightly by 0.2% in the first quarter, after the 0.9% growth in the preceding quarter (revised from the earlier estimate of 1.1%).



**Diagram 1.1 : Economic growth remained moderate in the first quarter of 2014**



## The external sector

1.3 *Total exports of goods* compiled under the GDP accounting framework slowed to a 0.5% year-on-year growth in real terms in the first quarter, after the 5.7% rise in the preceding quarter. This was in part due to the moderation in exports of non-monetary gold after the strong growth in the previous quarters. The decline in exports to the US and the EU at the start of the year was another factor, due to the sluggishness of the advanced economies, especially the US, which was temporarily disrupted by the adverse weather conditions. The weak demand conditions in the advanced economies also weighed on the regional trade flows in Asia, worsening the performance of Hong Kong's exports to major Asian markets. Nevertheless, as the weather-related effects on the US economy abated and the eurozone recovery continued, exports to these two markets picked up visibly in March, resulting in moderate growth for the quarter as a whole.

1.4 *Exports of services* also slowed, growing by 3.1% in real terms over a year earlier, moderated from the 4.7% growth in the preceding quarter. The main drag came from the setback in exports of trade-related services and transportation services amid sluggish trade flows. On the other hand, thanks to the sustained brisk expansion of inbound tourism, exports of travel services grew notably further, staying as the key driving force for overall services exports. Exports of financial and other business services also expanded further, partly driven by fund raising activity.



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

	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>				<u>2014</u>
			<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>±</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>							
Private consumption expenditure	4.1	4.3	6.3 (2.9)	4.7 (-0.9)	2.7 (-0.2)	3.6 (1.8)	2.0 (1.1)
Government consumption expenditure	3.6	2.3	1.9 (*)	3.1 (1.8)	2.3 (*)	2.0 (0.3)	2.4 (0.4)
Gross domestic fixed capital formation	6.8	3.3	-3.0	7.6	2.7	5.3	3.0
<i>of which :</i>							
Building and construction	7.2	-0.9	-1.5	-0.7	3.1	-3.8	10.2
Machinery, equipment and intellectual property products	10.1	10.8	-4.4	19.8	7.6	17.5	1.4
Total exports of goods	1.8	6.6	8.8 (1.5)	6.1 (-1.4)	6.1 (3.2)	5.7 (2.1)	0.5 (-3.4)
Imports of goods	3.0	7.4	9.5 (3.4)	7.6 (-1.7)	6.6 (1.7)	6.1 (2.3)	1.2 (-0.6)
Exports of services	2.2	5.5	4.7 (1.8)	7.7 (3.3)	5.0 (-2.9)	4.7 (2.6)	3.1 (0.2)
Imports of services	1.9	2.0	0.3 (1.1)	-0.7 (-1.1)	2.6 (1.7)	5.5 (3.7)	-0.2 (-4.4)
<b>Gross Domestic Product</b>	<b>1.5</b>	<b>2.9</b>	<b>2.9</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.5)</b>	<b>3.0</b> <b>(0.8)</b>	<b>2.9</b> <b>(0.9)</b>	<b>2.5</b> <b>(0.2)</b>
<i>Change in the main price indicators (%)</i>							
<b>GDP deflator</b>	<b>3.7</b>	<b>1.4</b>	<b>1.8</b> <b>(-0.7)</b>	<b>0.6</b> <b>(*)</b>	<b>1.6</b> <b>(1.7)</b>	<b>1.5</b> <b>(0.5)</b>	<b>2.0</b> <b>(-0.1)</b>
<b>Composite CPI</b>							
<b>Headline</b>	<b>4.1</b>	<b>4.3</b>	<b>3.7</b> <b>(1.1)</b>	<b>4.0</b> <b>(1.3)</b>	<b>5.3</b> <b>(-0.8)</b>	<b>4.3</b> <b>(2.7)</b>	<b>4.2</b> <b>(1.0)</b>
<b>Underlying<sup>^</sup></b>	<b>4.7</b>	<b>4.0</b>	<b>3.8</b> <b>(1.1)</b>	<b>3.9</b> <b>(1.1)</b>	<b>4.3</b> <b>(0.8)</b>	<b>4.0</b> <b>(1.0)</b>	<b>3.8</b> <b>(0.9)</b>
<b>Change in nominal GDP (%)</b>	<b>5.3</b>	<b>4.3</b>	<b>4.8</b>	<b>3.6</b>	<b>4.6</b>	<b>4.4</b>	<b>4.6</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.

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

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

## Box 1.1

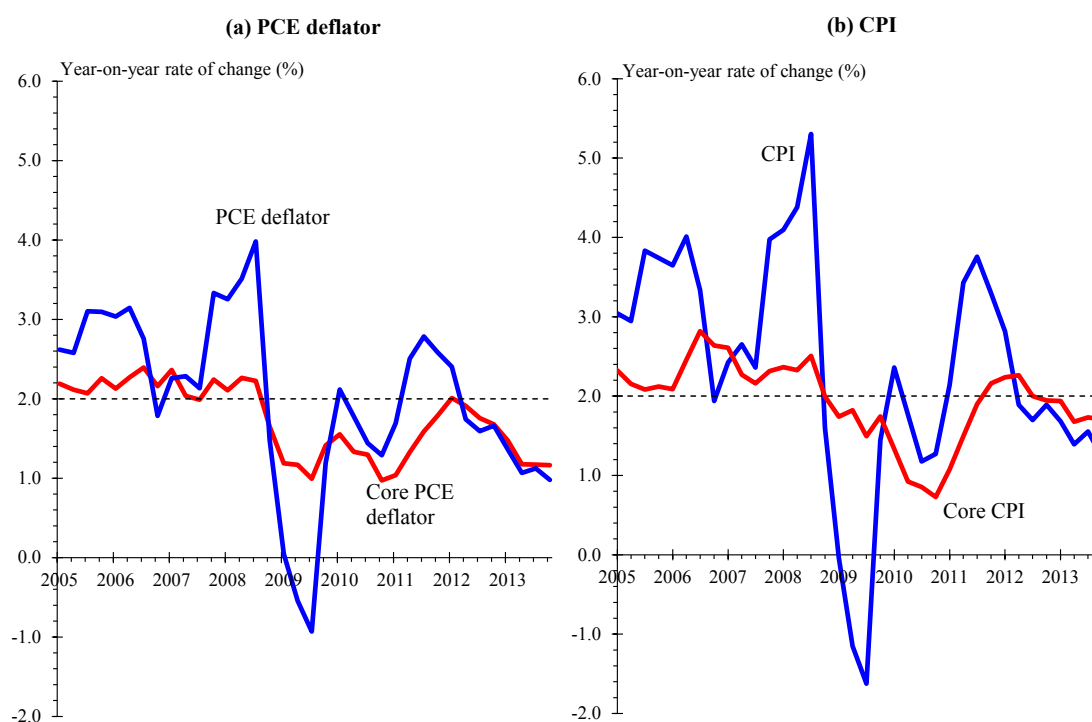
### Recent inflation situation in the US

The future path of the US monetary policy is a key source of uncertainty facing the global economy. This note discusses the recent inflation trend in the US, which matters because, together with the range of labour market indicators, it drives the US Federal Reserve (Fed)'s policy, under the dual mandate of the Fed to maximise employment and maintain price stability.

The Fed's recent policy statements reveal its concern on the ongoing low inflation. Indeed, the increase in the personal consumption expenditures (PCE) deflator, the Fed's preferred measure of inflation, has been running below the policy target of 2% since 2012 (*Chart 1a*). Core PCE inflation, which excludes the more volatile food and energy components and hence serves as a better guide for policy decision, has likewise been subdued. The consumer price index (CPI) also showed similar movements (*Chart 1b*). Conceivably, the low inflation stemmed from the great recession of 2008-2009, which slowed income growth and dampened consumption demand. The IMF estimated in April 2014 that the slack in the US economy would remain significant in 2014, with an output gap amounting to 3.3% of the GDP.

Analysed by the aggregate components of the PCE deflator, the price increase for the services component averaged 3.3% per annum during 2005 to 2008, more than offsetting the average annual 1.6% price decline for durable goods, thereby supporting the core PCE inflation at 2.2% per annum before the great recession. However, during 2009 to 2013, the price increase for services averaged 1.9% per annum, while prices of durable goods deflated further, resulting in an average annual rate of only 1.5% for core PCE inflation.

**Chart 1 : Inflation as measured by the PCE deflator and CPI**

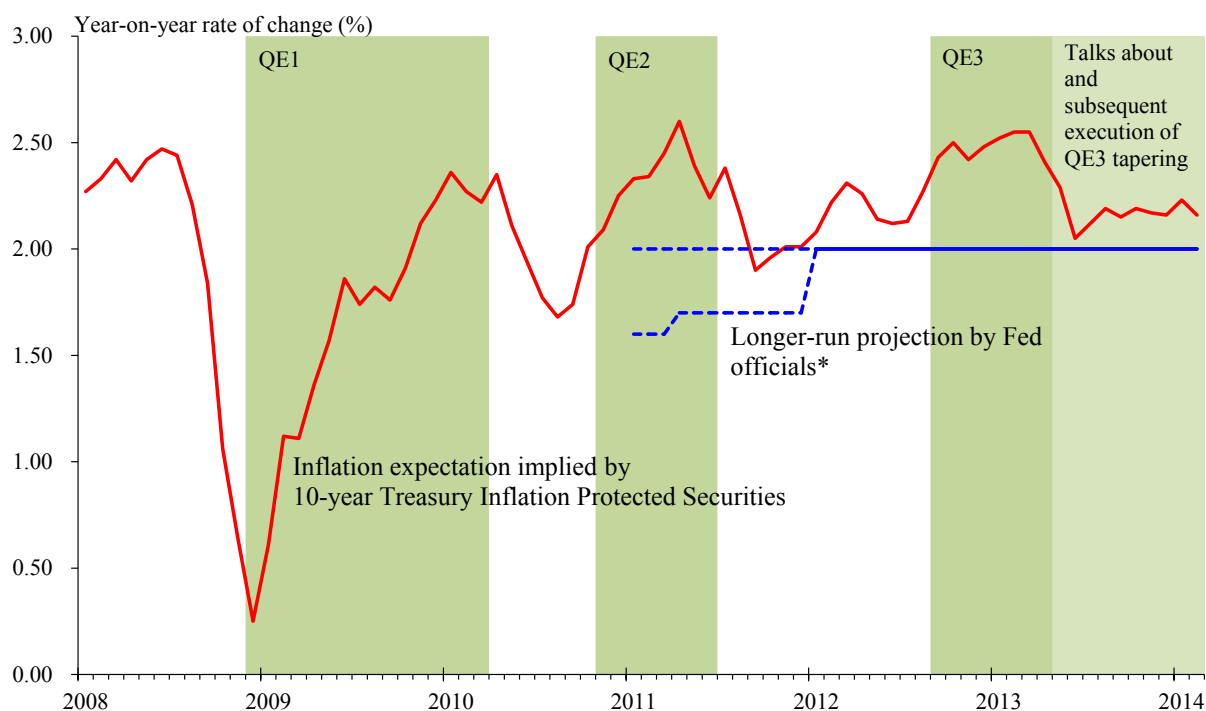


### Box 1.1 (Cont'd)

Within the services component, housing, healthcare, and financial services and insurance are the three largest sub-components, accounting for around 60% of total services consumption. They have shown varied price trends recently, with inflation of healthcare and financial services and insurance moving down, and that of housing picking up. In the period ahead, cost-cutting efforts by healthcare providers may continue to rein in healthcare inflation, while housing rents may see slower increase as well given that housing supply has been rising while demand is overcast by the looming monetary tightening.

Notwithstanding these trends, the Fed still expects inflation to move towards 2%. Since January 2012 the Fed's projection of longer-run PCE inflation has remained at 2% (**Chart 2**), partly reflecting its judgement that the ongoing monetary stimulus would strengthen the economic recovery and help lift inflation. The implied inflation rate derived from the yields of Treasury Inflation Protected Securities (TIPS), a gauge of expected inflation, has been largely consistent with the Fed's view (**Chart 2**). Indeed, inflation expectation is seemingly affected by the Fed's policy, as evident by pick up in TIPS implied rate in periods with quantitative easing.

**Chart 2 : Longer-term inflation expectation**



Notes : (\*) Projections by the Fed prior to 2011 are not available.  
Projections in 2011 consisted of a range whilst later ones consisted of a point only.

In sum, with the TIPS implied rate hovering around 2.2% since mid-2013, the longer-term inflation expectation is still well anchored at around the Fed's inflation target, lending support to the continuation of the Fed's asset purchase tapering. However, should the actual inflation rate stay low in the period ahead and even drive down longer-term expectation, the Fed might need to slow down, or even reverse, its unwinding of monetary stimulus, given its mandate to maintain price stability. With the far-reaching implications of inflation developments in the US, it is worthwhile to monitor the situation closely.

## The domestic sector

1.5 Domestic demand held steady. *Private consumption expenditure* grew further by 2.0% year-on-year in real terms in the first quarter of 2014. The somewhat slower growth was partly due to a high base of comparison in the same quarter of 2013 and partly affected by the difference in the timing of Easter holidays in 2013 and 2014. On a seasonally adjusted basis, private consumption expenditure grew solidly further, by 1.1% in the first quarter of 2014 over the preceding quarter. *Government consumption expenditure* also maintained steady growth at 2.4% in the first quarter.

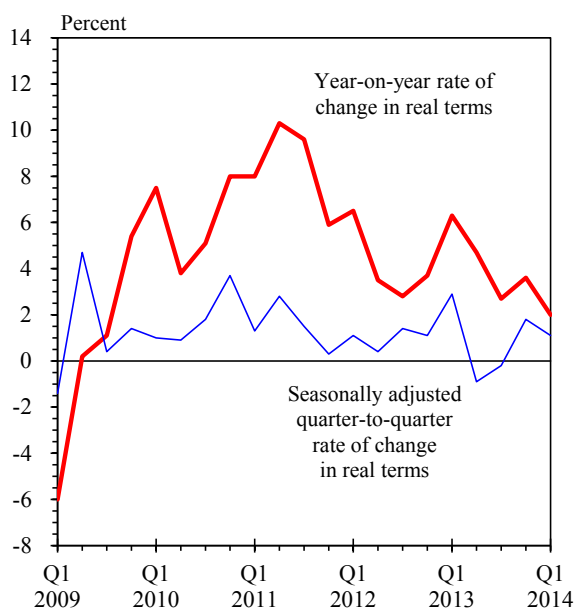
**Table 1.2 : Consumer spending by major component<sup>(a)</sup>  
(year-on-year rate of change in real terms (%))**

	Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>					Residents' expenditure abroad	Visitor spending	Private consumption expenditure <sup>(b)</sup>
		Food	Durables	Non- durables	Services				
2013 Annual	6.5	4.6	6.9	14.9	3.1	6.5	17.3	4.3	
H1	8.6	4.0	14.3	18.7	4.3	2.6	22.7	5.5	
H2	4.4	5.3	0.4	11.4	2.0	10.3	12.7	3.2	
Q1	8.5	4.2	27.9	11.4	4.0	5.1	17.9	6.3	
Q2	8.8	3.7	-0.2	26.1	4.6	0.2	27.6	4.7	
Q3	4.7	5.2	-0.7	12.6	2.3	6.6	15.0	2.7	
Q4	4.2	5.4	1.3	10.5	1.7	14.2	10.7	3.6	
2014 Q1	3.3	3.0	4.1	6.4	1.8	-0.1	7.9	2.0	

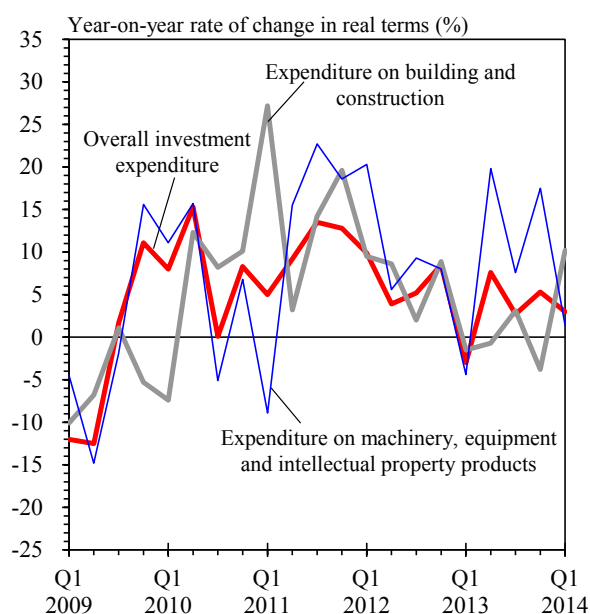
Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending, which are not separable from the survey data.

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

**Diagram 1.2 : Private consumption expenditure grew moderately further in the first quarter**



**Diagram 1.3 : Investment spending also increased moderately**



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* increased moderately by 3.0% year-on-year in real terms in the first quarter, lower than the 5.3% growth in the preceding quarter. Within this, machinery and equipment acquisition, which was typically volatile, grew slightly by 1.4% after notable gains in the preceding three quarters. Business sentiment among large enterprises revealed by the latest Quarterly Business Tendency Survey remained broadly positive, although the sentiment among small and medium-sized enterprises (SMEs) was still more cautious (see **Box 1.2** for details of the consultation on SMEs). On the other hand, overall building and construction expenditure rebounded notably, as expenditure on large-scale infrastructure works rose markedly while private sector construction activity revived somewhat.

## Box 1.2

### 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. In the recent past, the exercise has been conducted on a sample panel of around 400 SMEs. This note provides a further update of the results reported in *Box 1.1* in the *2013 Economic Background and 2014 Prospects*.

A set of diffusion indices is compiled to indicate the general directions of change in the respondents' views on business receipts, employment and new export orders versus the preceding month. The percentage of SMEs reporting tight access to credit is also reported. 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 rather sluggish, but some sectors posted relative improvements in recent months (*Table 1*). In April 2014, the diffusion index for the real estate sector fell below 50 again, after rising above the boom-bust threshold of 50 in March, indicating the still-weak business situation amid the quiet property market. The readings for business services stayed above 50 and indicated some improvement, but those of retail trade and restaurants fluctuated and remained below 50. As regards the external segment, the diffusion index for the logistics sector softened, but that for the import/export trades edged higher to come close to the 50 mark. As to the employment situation, the feedback from SMEs indicated broadly stable development in recent months (*Table 2*).

Specifically for SMEs in the import and export sector, their views on new export orders were sought separately to help gauge the likely export performance in the near term. The diffusion index on new export orders inched higher to 50 in April, pointing to a more steady external demand condition as the major advanced economies seemed to show some pick-up after a slow start at the beginning of the year.

The proportion of SMEs reporting tight credit access, after rising briefly in early 2014, eased back to a low level of 0.9% in April, reflecting the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

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

## Box 1.2 (Cont'd)

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

	2013									2014			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	45.8	46.7	45.8	48.2	48.2	47.4	47.4	48.2	49.1	48.1	47.2	47.2	46.3
Real estate	38.2	42.6	44.1	44.1	35.3	35.3	41.2	36.8	44.1	42.4	42.4	54.5	48.5
Retail trade	47.6	47.6	47.1	49.0	50.0	49.0	47.5	48.0	49.0	47.4	49.1	47.4	48.2
Wholesale trade	44.4	50.0	47.1	41.2	44.1	47.1	50.0	44.1	47.1	44.7	44.7	50.0	50.0
Business services	43.9	48.5	48.5	45.5	43.9	45.5	50.0	48.5	53.0	47.0	51.6	51.6	53.1
<i>External segments</i>													
Import/export trade	49.0	50.0	50.0	48.1	47.6	48.5	49.0	49.5	49.0	47.9	48.3	48.7	49.6
Logistics	47.4	44.7	50.0	47.4	44.7	44.7	44.7	52.8	50.0	47.2	50.0	50.0	47.2
<b>All the above sectors*</b>	<b>47.0</b>	<b>48.4</b>	<b>48.3</b>	<b>47.3</b>	<b>46.8</b>	<b>47.3</b>	<b>48.1</b>	<b>48.0</b>	<b>49.0</b>	<b>47.0</b>	<b>48.2</b>	<b>49.2</b>	<b>49.3</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**

	2013									2014			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
<i>Local segments</i>													
Restaurants	49.2	50.0	48.3	50.0	50.0	49.1	49.1	49.1	48.2	49.1	49.1	49.1	49.1
Real estate	50.0	50.0	48.5	50.0	45.6	48.5	47.1	47.1	47.1	50.0	50.0	50.0	48.5
Retail trade	50.0	50.0	50.0	50.0	50.0	49.5	50.0	50.0	50.0	49.6	50.4	49.1	50.5
Wholesale trade	50.0	50.0	50.0	50.0	47.1	50.0	50.0	50.0	47.1	50.0	50.0	50.0	52.6
Business services	51.5	50.0	50.0	48.5	51.5	48.5	50.0	51.5	50.0	50.0	50.0	51.6	50.0
<i>External segments</i>													
Import/export trade	50.0	50.5	51.0	49.0	49.5	49.5	50.0	51.0	50.0	50.4	50.4	49.6	50.4
Logistics	50.0	50.0	47.4	47.4	50.0	47.4	47.4	50.0	50.0	50.0	50.0	50.0	50.0
<b>All the above sectors*</b>	<b>50.1</b>	<b>50.2</b>	<b>50.1</b>	<b>49.3</b>	<b>49.5</b>	<b>49.3</b>	<b>49.7</b>	<b>50.3</b>	<b>49.5</b>	<b>50.0</b>	<b>50.2</b>	<b>49.7</b>	<b>50.3</b>

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

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

	2013									2014			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
Import/export trade	49.0	49.5	49.5	48.5	48.5	48.1	49.5	50.5	49.5	49.2	48.3	49.6	50.0

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

	2013									2014			
	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>
All selected sectors*	0.9	0.6	0.6	0.6	0.7	0.7	0.7	0.4	0.6	1.5	1.8	0.9	0.9

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

## **The labour sector**

1.7 The labour market tightened up further in the first quarter of 2014 as labour supply edged down while total employment stayed near record high. Job vacancies in the private sector also attained further appreciable increases over a year earlier in the fourth quarter of 2013. As a result, the *seasonally adjusted unemployment rate* edged down to a 16-year low of 3.1% in the first quarter, while the *underemployment rate* likewise fell to 1.2%, the lowest since September-November 1997. Amid a state of full employment, wages and earnings saw further growth. Amid the tight manpower resource situation in the low-skilled segment and an additional boost from the upward adjustment of the Statutory Minimum Wage rate since May 2013, the average monthly employment earnings for full-time employees in the lowest decile group rose further by 4.6% in nominal terms or 0.3% in real terms in the first quarter of 2014 over a year earlier.

## **The asset markets**

1.8 The *local stock market* underwent some correction in the first quarter amid the swaying sentiment towards emerging markets under Fed's tapering, signs of slower Mainland's growth momentum and the geopolitical risks surrounding Eastern Europe. The Hang Seng Index recovered some lost ground after mid-March amid expectation of further supportive measures by the Central Government to maintain solid economic growth. The Hang Seng Index ended the first quarter at 22 151, still 5% lower than end-2013. Average daily turnover rose to \$68.3 billion in the first quarter while fund-raising activity retreated compared with the preceding quarter.

1.9 The *residential property market* stayed quiet in the first quarter amid uncertainty over future US monetary policy and Government's further demand management measures introduced in late February 2013. Trading volume during the first quarter fell further by 34% from a year earlier and by 9% from the preceding quarter. Residential property prices edged lower by 1% during the first quarter. Despite the consolidation in recent months, overall flat prices in March still exceeded the 1997 peak by 41%, with the housing affordability ratio staying elevated at around 56% in the first quarter. Flat rentals retreated by 1% during the first quarter. Meanwhile, office and shop rentals recorded little changes, indicating that the upward pressures in non-residential property market were also contained.

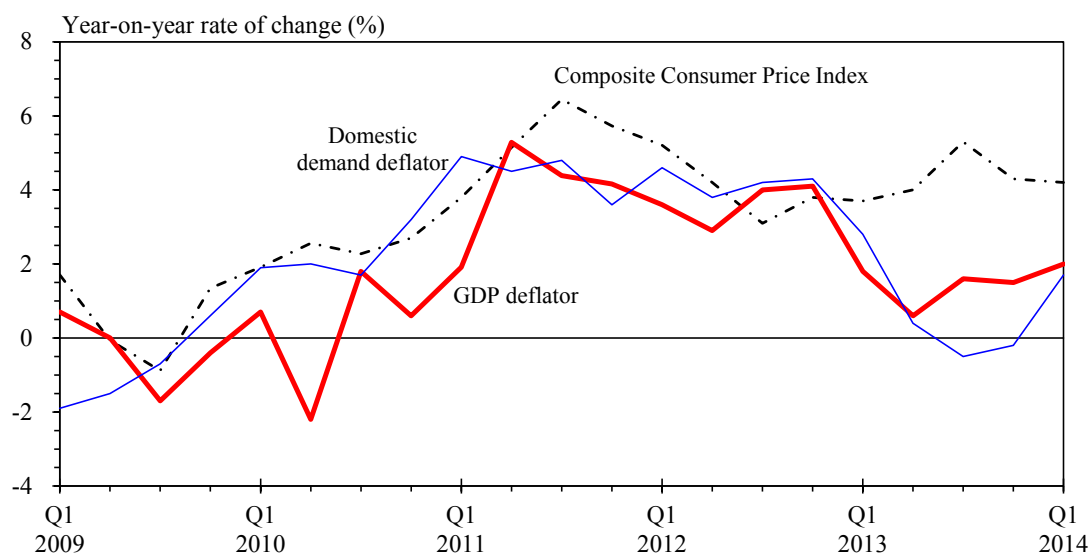


## Inflation

1.10 Consumer price inflation eased slightly in the first quarter of 2014. Domestically, the increase in private housing rental component moderated as the milder increases in the fresh-letting rentals continued to feed through. The growth in wage costs also held steady. Externally, international food and commodity prices generally saw little upward pressure, while inflation in Hong Kong's most major import partners remained in check. *Headline consumer price inflation* was 4.2% in the first quarter of 2014, down from 4.3% in the fourth quarter of 2013. Netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, the *underlying composite consumer price inflation* edged down to 3.8% in the first quarter of 2014, from 4.0% in the preceding quarter.

1.11 The *GDP deflator* rose by 2.0% in the first quarter, with a slightly better terms of trade, a moderated decline in prices for gross domestic fixed capital formation and a slower increase in prices for consumption expenditure.

**Diagram 1.4 : Consumer price inflation edged down in the first quarter**



## **GDP by major economic sector**

1.12 The performance of most service sectors saw improvement in 2013. Net output of the services sector as a whole grew moderately by 2.9% in real terms in 2013, higher than the 1.8% growth in 2012, but the performance varied across individual sectors. Net output of financing and insurance as well as professional and business services picked up to show solid growth in 2013 amid improved investment and business climate. Information and communications likewise grew at a firmer rate. Bolstered by buoyant demand from inbound tourism, retail and wholesale continued to grow notably while accommodation and food services also picked up. Import and export trade and transportation and storage improved from the weak performance of the preceding year, but the pace of expansion remained modest. On the other hand, the net output of real estate, which mainly reflects activity of private sector developers and property agency, contracted amid a quiet property market. As for the secondary sector, manufacturing sector showed little change in net output, while the construction sector expanded only modestly after registering three years of robust growth.

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

	<u>2012</u>	<u>2013</u>	<u>2012</u>				<u>2013</u>			
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>
Manufacturing	-0.8	0.1	-1.6	-2.9	-0.1	1.3	0.5	0.3	-0.9	0.5
Construction	8.3	1.1	10.8	7.2	1.2	13.1	-0.8	2.8	8.5	-4.3
Services <sup>(b)</sup>	1.8	2.9	1.4	0.9	2.0	2.7	2.8	3.8	2.5	2.8
Import/export, wholesale and retail trades	1.9	3.6	-0.1	0.6	2.1	4.1	5.4	5.1	1.8	2.8
Import and export trade	0.6	2.3	-2.4	-0.9	1.5	3.4	3.7	3.1	0.8	1.9
Wholesale and retail trades	7.3	9.2	10.2	7.2	4.5	7.6	12.2	12.9	6.4	6.4
Accommodation <sup>(c)</sup> and food services	1.8	3.7	-0.8	0.9	2.8	4.1	4.3	4.2	3.4	2.9
Transportation, storage, postal and courier services	0.9	2.5	3.0	-1.7	0.4	1.8	-0.5	2.9	2.4	5.4
Transportation and storage	0.7	2.0	3.0	-1.9	0.2	1.2	-0.9	2.8	1.2	5.1
Postal and courier services	6.4	12.9	3.2	1.6	7.4	12.5	7.7	6.5	27.9	10.2
Information and communications	2.8	4.2	0.7	1.4	4.1	4.5	6.5	3.0	4.3	2.9
Financing and insurance	0.8	5.6	2.2	-0.9	1.0	1.1	3.3	7.5	7.2	4.6
Real estate, professional and business services	3.1	0.1	3.4	4.5	3.2	1.7	-0.1	-0.8	-0.7	2.0
Real estate	3.9	-3.9	3.3	5.8	4.3	2.5	-2.4	-6.8	-5.2	-1.3
Professional and business services	2.3	4.2	3.1	3.1	2.2	1.1	2.3	5.3	3.7	5.3
Public administration, social and personal services	2.1	2.6	2.1	2.2	2.3	1.8	2.1	3.8	2.2	2.1

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.

## **Other economic developments**

1.13 The 2014-15 Budget laid out strategies to enhance Hong Kong's competitiveness and strengthen its position as an international business hub. A series of measures were unveiled, along with ongoing capital works, aiming at raising the efficiency in the flows of people, goods, capital and information, providing an enabling environment for innovation and technology industries to grow, consolidating the core competence of the four pillar industries, and helping SMEs in coping with various challenges. The Budget also pointed out the constraints of manpower, land supply and an ageing population to Hong Kong's future development and outlined ways and provided measures to overcome these constraints.

1.14 Specifically in preparation for challenges from an aging population, the Report of the Working Group on Long-Term Fiscal Planning was released in March, which assessed the current state of Hong Kong's public finances and made projections of the Government's long-term fiscal positions. Based on its assessment, the Working Group recommended a combination of strategies, including containing expenditure growth, preserving the revenue base and saving for future generations, to cope with the fiscal challenges ahead.

1.15 On the legal infrastructure, the New Companies Ordinance came into operation in March. By enhancing corporate governance, facilitating business, ensuring better regulation and modernising the law along with the dynamic business environment, the new Ordinance should help strengthen Hong Kong's status as an international commercial and financial centre.

1.16 In April, Shanghai-Hong Kong Stock Connect pilot programme was announced under the support of the Central Government, marking a new stage in the cooperation and interaction between the stock markets of the two places. The pilot program will allow Mainland investors who satisfy the eligibility criteria to trade eligible stocks listed on the Stock Exchange of Hong Kong (SEHK) through the Shanghai Stock Exchange (SSE), subject to an aggregate net quota of RMB250 billion and a daily net quota of RMB10.5 billion and some other criteria. At the same time, it will also allow Hong Kong and overseas investors to trade eligible stocks listed on the SSE through the SEHK directly, subject to an aggregate net quota of RMB300 billion and a daily net quota of RMB13 billion. The pilot program will be launched in about six months' time after the preparatory work is finished. Its implementation should help invigorate the circulation of offshore RMB market in Hong Kong market and further reinforce Hong Kong's premier offshore RMB business centre and international financial centre status.

**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*

- *Global economic growth remained rather moderate in the first quarter of 2014. While the slow recovery in the eurozone was largely on track, economic activity in the US early this year was disrupted by the unusually cold weather. Some emerging markets with weaker fundamentals were constrained by the volatile financial conditions amid the normalisation of the US monetary policy. As such, Asian exports were generally lacklustre on entering 2014 and Hong Kong's merchandise exports were likewise affected.*
- *Merchandise exports registered a slight year-on-year decline in real terms<sup>(1)</sup> in the first quarter of 2014, reversing the modest growth in the fourth quarter of 2013. Exports to advanced markets were weak at the beginning of the year, before showing a visible pick-up in March. The performance of many Asian markets was lacklustre during most of the quarter.*
- *Exports of services likewise slowed in the first quarter, dragged mainly by the setback in exports of trade-related services and transportation services amid sluggish trade flows. On the other hand, thanks to the sustained brisk expansion of inbound tourism, exports of travel services expanded appreciably further and remained a key growth impetus. Exports of financial and other business services also grew further, partly supported by fund-raising activity.*
- *The Financial Secretary in the 2014-15 Budget offered measures to provide continued support to SMEs in financing, market expansion, brand building and productivity enhancement given the still-uncertain external economic environment. The Budget also proposed measures to further consolidate our competitive edge in tourism and trading industries. Separately, the Government continued to deepen economic collaboration with the Mainland and overseas. The fourth Working Meeting of Hong Kong-Shanghai Financial Co-operation was held in early April to explore room for cooperation between the two places brought about by the establishment of the China (Shanghai) Pilot Free Trade Zone. The Investment Promotion and Protection Agreement between Hong Kong and Finland came into force in March, which should facilitate investment and trade flows between the two places.*

## Visible trade

### *Total exports of goods*

2.1 Hong Kong's exports had a slow start in 2014, broadly in line with the sluggish trading activity in other Asian economies. *Merchandise exports* (comprising re-exports and domestic exports) fell slightly by 0.3% in real terms in the first quarter of 2014 over a year earlier, after the 3.1% increase in the fourth quarter of 2013. On a seasonally adjusted quarter-to-quarter basis, merchandise exports also shrank, by 4.9% in the first quarter, reversing the 3.6% increase in the preceding quarter.

2.2 The external environment was rather subdued on entering 2014. The US economic growth decelerated notably in the first quarter, as the exceptionally cold winter conditions took its toll, even though indicators of business and consumer confidence suggested the underlying economic improvement should resume in the period ahead. Although the eurozone economy continued to recover, the growth pace was still slow, held back by the elevated unemployment rate, fiscal consolidation and a myriad of structural problems. The US Fed's tapering of asset purchases also increased the volatility of the global financial markets, particularly notable in January, adding headwinds to those emerging markets with higher inflation and larger current account deficits. Meanwhile, the Mainland economy expanded at a slower albeit still-robust pace in the first quarter, but its export performance also weakened amid lacklustre demand in the advanced economies. Given a softer start this year, the International Monetary Fund (IMF) trimmed its global economic growth forecast for 2014 slightly in April to 3.6%. If materialised, this would still be stronger than the 3.0% growth in 2013, implying a more supportive environment for international trade flows in the coming quarters.

**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<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms<sup>(a)</sup></u>	<u>Change in prices</u>
2013 Annual	3.6	2.8	1.3	3.8	3.0	1.3	-7.6	-9.4	2.2
Q1	4.0	4.0 (-1.9)	0.6	4.0	4.2 (-1.9)	0.5	-0.9	-4.5 (-1.2)	4.2
Q2	2.4	2.4 (-1.2)	0.4	2.6	2.6 (-1.1)	0.4	-7.9	-10.1 (-5.2)	2.3
Q3	3.3	2.0 (2.2)	1.7	3.6	2.2 (2.3)	1.7	-11.9	-12.9 (-1.0)	1.8
Q4	4.8	3.1 (3.6)	2.4	5.0	3.3 (3.7)	2.4	-8.5	-9.4 (-1.7)	0.6
2014 Q1	0.7	-0.3 (-4.9)	1.7	0.7	-0.4 (-5.2)	1.7	-1.1	3.7 (12.4)	-1.2

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

(a) The growth rates here are not strictly comparable with those in the GDP accounts in Table 1.1, due to differences in coverage and methodology.

2.3 *Re-exports*<sup>(2)</sup>, the mainstay of overall merchandise exports and accounting for 98.4% of total exports by value, fell slightly by 0.4% in real terms in the first quarter of 2014, in contrast to the 3.3% growth in the preceding quarter. *Domestic exports*, constituting the remaining 1.6% of total exports, rebounded to show a 3.7% year-on-year growth in real terms in the first quarter of 2014, reversing the 9.4% decline in the fourth quarter of 2013.

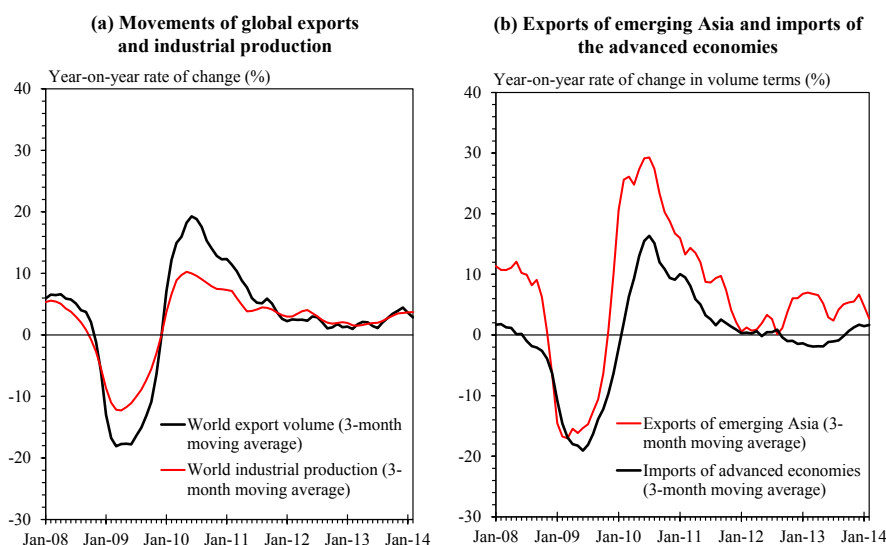


**Box 2.1**

**Recent global trade performance**

Global trade flows, which tend to track world economic performance closely, have been rather weak in the past few years. World exports saw some relative improvement in the second half of 2013, amid strengthening global activity as reflected by the mild acceleration of world industrial production (*Chart 1a*). Nonetheless, exports of emerging Asian economies were mixed, alongside lacklustre import demand from the advanced markets (*Chart 1b*).

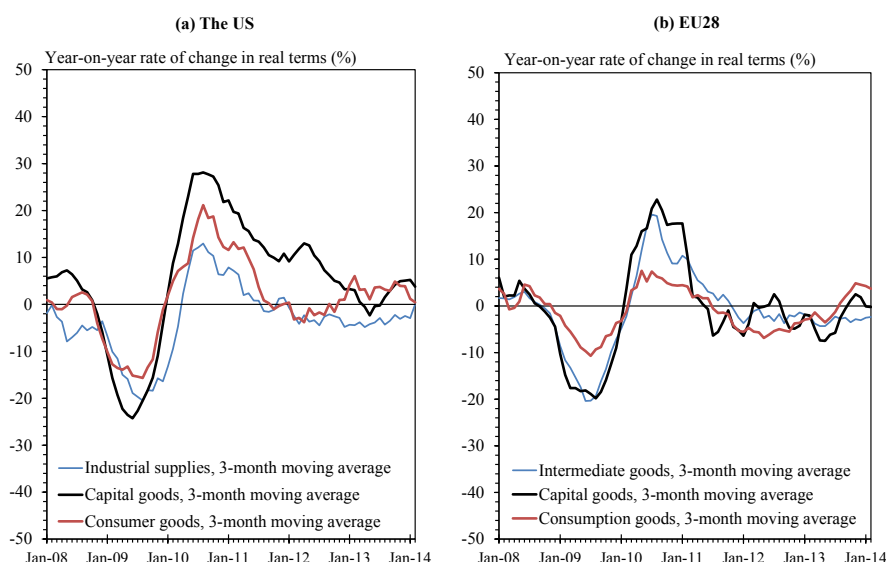
**Chart 1 : Emerging Asia’s exports remained mixed alongside weak demand from the advanced economies**



Source : CPB Netherlands Bureau for Economic Policy Analysis

To shed light on the recent export performance of the Asian economies, it is useful to dissect the import demand of the advanced economies (the US and the EU in particular) by major selected end-uses, as shown in *Chart 2*.

**Chart 2 : Imports of the US and the EU by major selected end-uses**

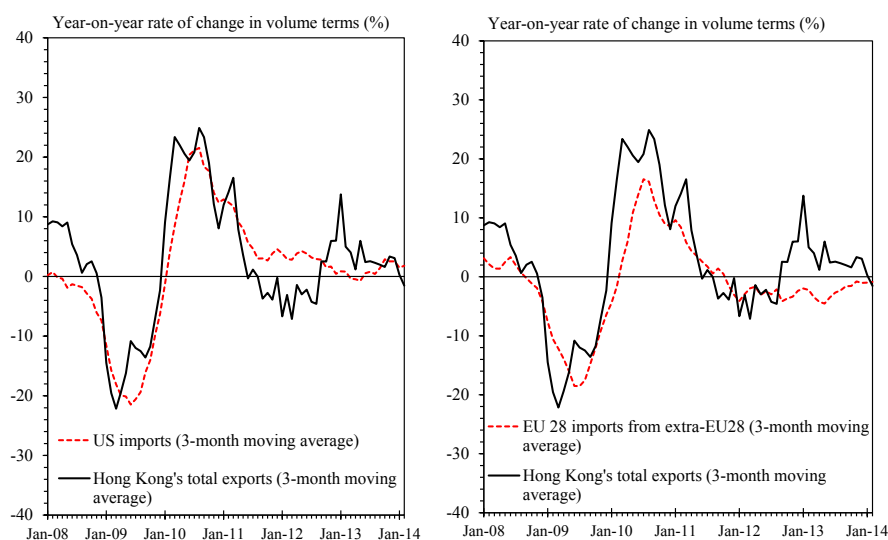


## Box 2.1 (Cont'd)

It can be seen from the charts that, while the imports of capital goods by the US and the EU showed relative improvement since early 2013, their imports of raw materials stayed largely subdued. Moreover, their import demand for consumer goods was mixed in recent quarters. The faster year-on-year growth in the EU in the second half of 2013 was due partly to a low base of comparison, while the political gridlock over fiscal issues in late 2013 and the unusually cold weather conditions in early 2014 seemed to have dampened the import demand from the US. On the whole, the above developments suggest that the recovery of the advanced economies has not been accompanied by a sustained, broad-based strengthening in their import demand.

Against this background, Hong Kong's recent export performance has likewise relapsed (*Chart 3*). Given that the EU and the US represent our second and third largest export markets respectively, their soft import demand created strong headwinds for Hong Kong's exports, particularly those of consumer goods<sup>(1)</sup>. Moreover, as the export performance of many Asian economies is still highly dependent on the final demand of the advanced economies, the weak import demand in the US and the EU also indirectly weighed on Hong Kong's recent export performance by posing a drag on intra-regional trade flows in Asia<sup>(2)</sup>.

**Chart 3 : Hong Kong's exports were lacklustre of late on weak US and EU demand**



As such, the near-term export outlook of Hong Kong and Asia will hinge upon the strength of import demand in the advanced economies. Still, it is widely envisaged that the growth pace of the advanced economies is likely to quicken later this year, with the International Monetary Fund (IMF) predicting a pick-up in economic growth of the US and the eurozone in 2014. If materialised, this should imply a more supportive environment for international trade flows in the coming quarters, hopefully resulting in a turnaround in Asia's exports, including Hong Kong's exports.

(1) In 2013, consumer goods accounted for 57.6% and 50.6% of Hong Kong's total exports to the US and the EU respectively, representing the most important end-use category of our exports to them. In value terms, Hong Kong's total exports of consumer goods to the US and the EU decreased by 5.8% and 7.2% respectively in 2013.

(2) For a more detailed analysis on intra-regional trade in East Asia, please refer to *Box 2.1* in the *Half-yearly Economic Report 2013*.

## Box 2.2

### Recent situation of global current account imbalances

The large global current account imbalances in the mid-2000s, fuelling protectionist sentiment, were a key source of trade conflicts. Nevertheless, the situation improved notably in recent years, alleviating the threat of protectionism to world trade. Particularly remarkable was the rapid decline of the current account deficit in the US to 2.3% of GDP in 2013 from its peak of 5.7% in 2006, based on data compiled by the International Monetary Fund. The current account balance of the debt-ridden eurozone members taken together saw a turnaround, from severe deficits to a slight surplus in 2013. On the other hand, the current account surplus of Mainland as a percentage of GDP shrank sharply from a high of 10.1% in 2007 to only 2.1% in 2013. Japan's current account surplus has also become much smaller in recent years, while that of oil-exporting countries in the Middle-east and North Africa came off the peak amid more stable oil prices. (*Chart 1*).

The improvement of the world external imbalances proceeded quickly in the aftermath of the global financial tsunami of 2008. Given worsening consumption and investment sentiment amid sharp swings in global asset prices and economic downturn, imports of deficit countries plunged, which outpaced the fall in exports and reduced the current account gaps. At the same time, many surplus countries made use of their policy room to expand domestic demand in the face of flagging external demand, which lent support to their imports and sped up the current account adjustment.

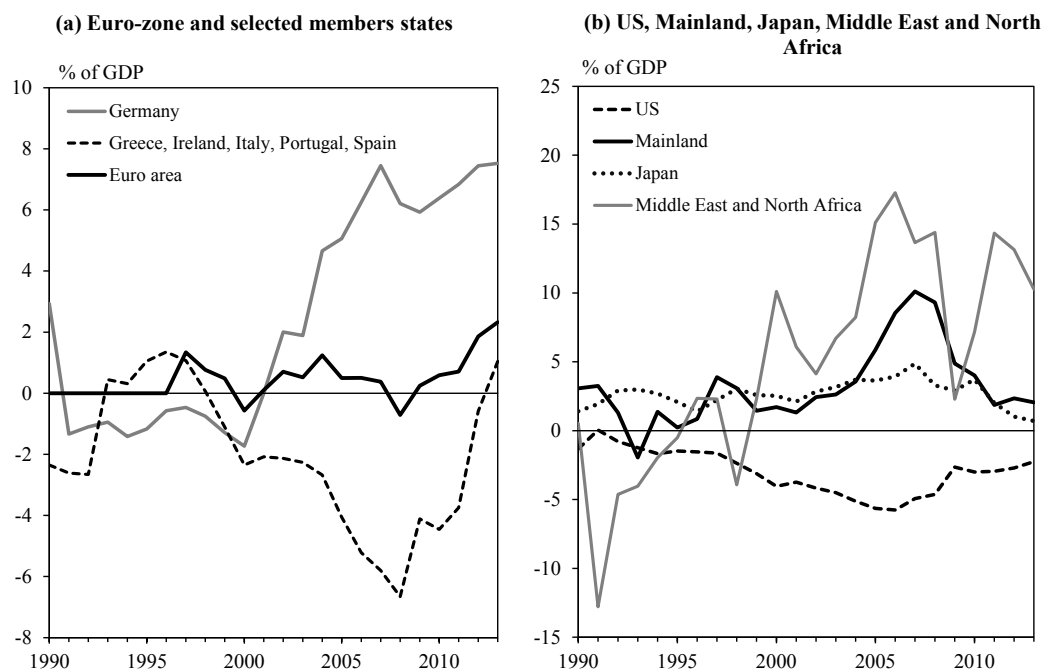
Since the current account balance is a mirror of the difference between national saving and investment, its adjustment also reflected fiscal reforms and other structural changes that altered public and private sector spending patterns. In the US and many deficit countries in the eurozone, private sector deleveraging has made a long stride as households cut back consumption and residential investment in the wake of high unemployment and falling home prices while corporates scaled back capital expenditure amid a subpar recovery environment. The authorities also cut government expenditure and repealed tax concessions to lower budget deficits. The attendant increases in savings and decreases in investment dented import demand and lowered the current account deficits in these countries.

Over this period, the Mainland stepped up reforms to steer the economy towards domestic demand-led growth, as enshrined in the National 12<sup>th</sup> Five Year Plan. The progress in pension and healthcare reforms in recent years should have also helped encourage households to reduce precautionary savings. The supportive policy mix in the Mainland was conducive to import expansion, driving its current account surplus lower amid weaker export performance. In Japan, the closure of nuclear plants after the devastating earthquake in 2011 has sent the energy imports bill significantly higher, throwing the trade balance into deficit and thereby compressing the current account surplus to a historically low.

The global rebalancing should also have been facilitated to some extent by the real exchange rate adjustments in surplus and deficit countries. Between 2008 and 2012, both the US dollar and the euro experienced real exchange rate depreciations, while the renminbi appreciated notably in real terms since the re-start of exchange rate reform in 2010 and the Japanese yen also came under persistent upward pressure before 2012. These exchange rate trends encouraged deficit countries to cut imports and surplus countries to switch expenditure to local consumption and investment. But these trends were partly reversed since early 2013, as the Fed planned for asset purchase tapering and Japan pursued more aggressive monetary easing.

## Box 2.2 (Cont'd)

### Chart 1: The global landscape of current account balances

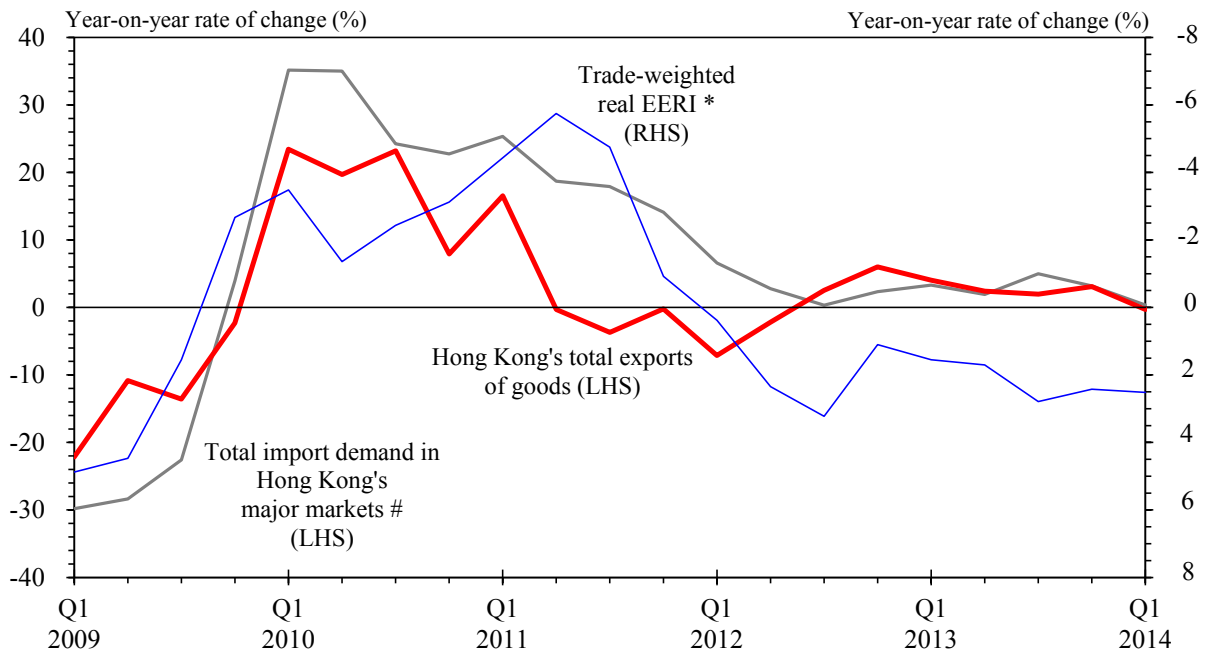


Yet, several emerging market economies have bucked the improving trend of global imbalances. Brazil, India, Indonesia, Turkey and South Africa, for examples, all ran a twin deficit of current account and government budget in 2012 and 2013, with their current account deficits growing and increasingly financed by short-term capital flows, leaving them more vulnerable to capital flow reversals and higher interest rates when the US Fed began to reduce monetary stimulus. Also, the current account surplus of Germany was sizeable as import growth was dragged by a slow domestic demand pick-up, while those of oil exporting countries remained large, leaving scope for further improvement.

Apart from fuelling protectionist sentiment, large global external imbalances were sometimes conceived as a potential source of excessive capital flows across regions. While the recent global financial crisis had more to do with lax supervision and regulation of financial markets in some major economies, reducing global imbalances should be conducive to global financial stability. More importantly, the rebalancing should help mitigate trade friction and lay a stronger foundation for the global trade recovery down the road, to the benefit of export-oriented economies, including those in Asia.

In sum, though with some notable exceptions, the current account imbalances among major economies have narrowed remarkably in recent years. However, the future prospect is still subject to uncertainty. Deficit countries should hammer out longer-term sustainable fiscal plan to cope with rising public spending needs in the face of demographic shifts and follow through structural reforms to lift their external competitiveness. Surplus countries have to deepen supply-side reforms to attain higher productivity gains and expand domestic demand. Emerging market economies with large current account deficits should also take prompt actions to address local vulnerability and get prepared for heightened financial volatility caused by the eventual exit of US Fed from its unconventional monetary policy.

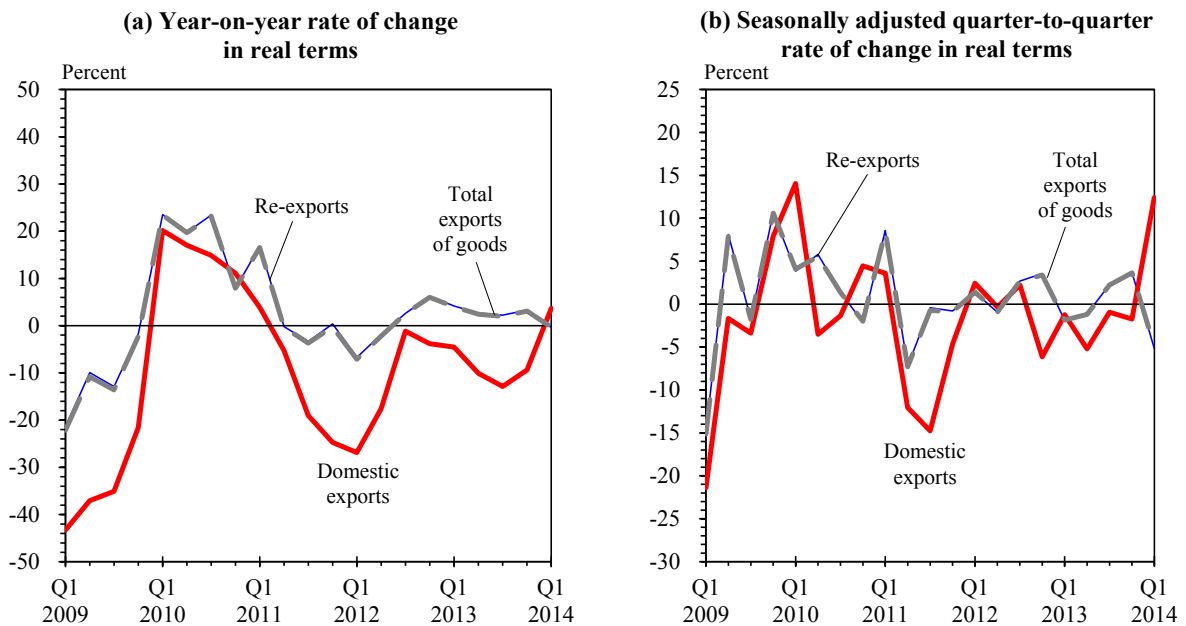
**Diagram 2.1 : Merchandise exports were rather weak in the first quarter of 2014**



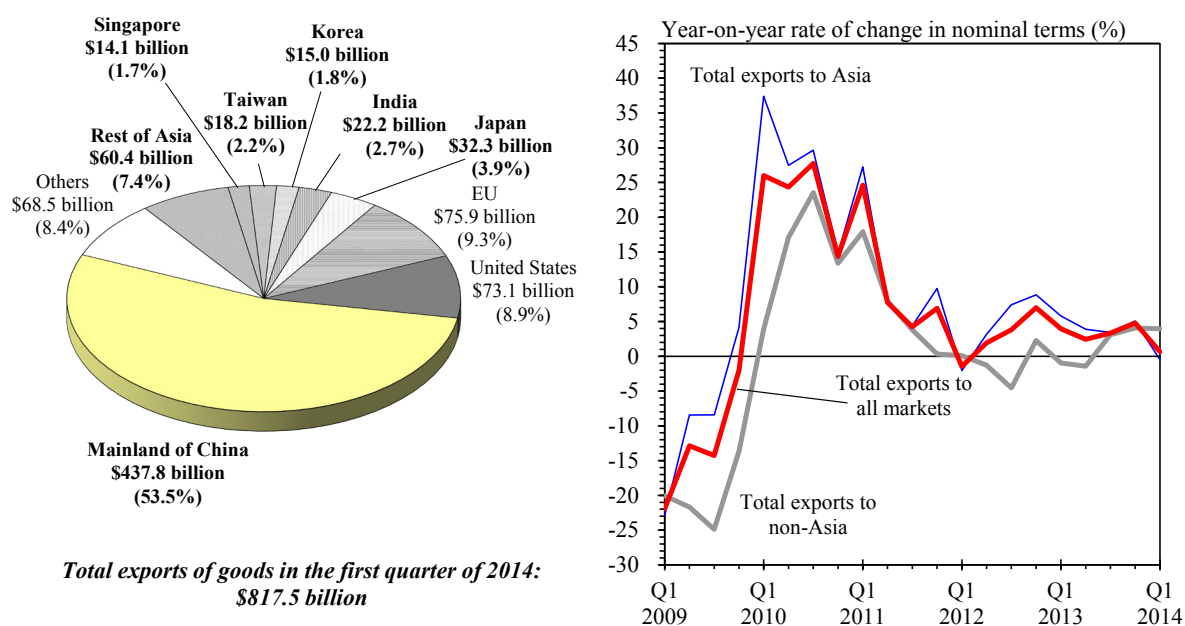
Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in Asia, the United States and the European 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 first quarter of 2014 is based on statistics for January and February 2014.

**Diagram 2.2 : Re-exports fell slightly while domestic exports rebounded**



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



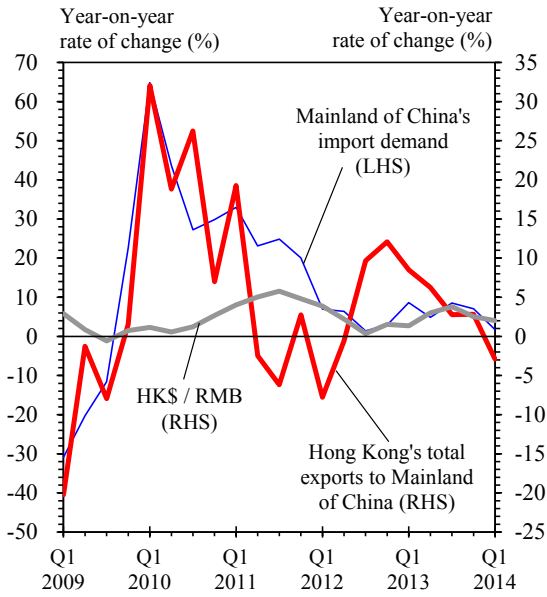
**Table 2.2 : Total exports of goods by major market (year-on-year rate of change in real terms (%))**

	<u>Annual</u>	<u>Q1</u>	<u>2013</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>2014</u> <u>Q1</u>
Mainland of China	4.9	8.5	6.3	2.8	2.8	-2.9
United States	-4.3	-5.0	-8.0	-1.0	-3.6	3.9
European Union	-0.6	-5.4	-2.5	2.7	2.4	1.2
Japan	-6.3	-4.9	-5.5	-8.3	-6.2	-2.1
India	7.7	0.3	8.0	6.7	16.8	7.6
Taiwan	-6.1	14.2	-12.1	-7.6	-13.9	-5.9
Korea	6.3	0.5	2.0	4.5	18.6	1.8
Singapore	2.5	5.2	0.2	-0.9	6.2	6.8

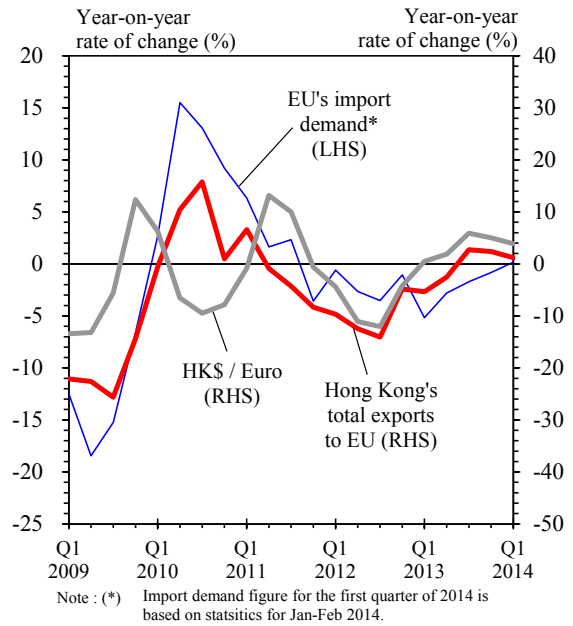
2.4 Analysed by major markets, merchandise exports to major Asian economies were fairly mixed in the first quarter of 2014, mirroring the slower trading and production activities in the region as the final import demand of advanced economies had yet to pick up to render a stronger support. As such, total exports to the Mainland fell modestly by 2.9% year-on-year in real terms, though this should be viewed in conjunction with the relatively high base of comparison in the same period a year earlier. Exports to Japan fell moderately further, due partly to the subdued import demand there amid a weaker yen. The performance of exports to a number of higher-income Asian markets also turned softer in the first quarter, with exports to Korea easing to show only meagre growth and those to Taiwan falling, although exports to Singapore grew solidly further. Meanwhile, exports to India stayed relatively resilient.

2.5 Exports to major advanced markets were mixed in the first quarter of 2014. In the first two months of the quarter, exports to the US declined over a year earlier in real terms, partly attributable to the heavy snowfall across the US eastern seaboard, which interrupted production and trading activity. Meanwhile, exports to the EU also logged a moderate contraction amid the sluggishness there. Nevertheless, as the weather-related effects on the US economy abated and the eurozone recovery continued, exports to these two markets picked up visibly in March. For the quarter as a whole, exports to the US and the EU registered modest increases of 3.9% and 1.2% respectively on a year-on-year comparison.

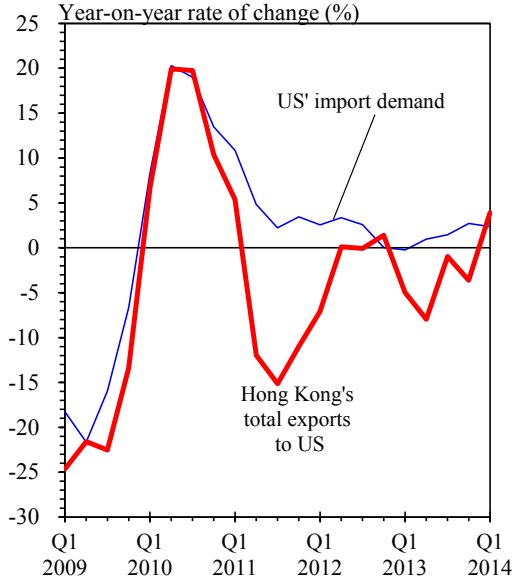
**Diagram 2.4 : Exports to the Mainland fell modestly in the first quarter**



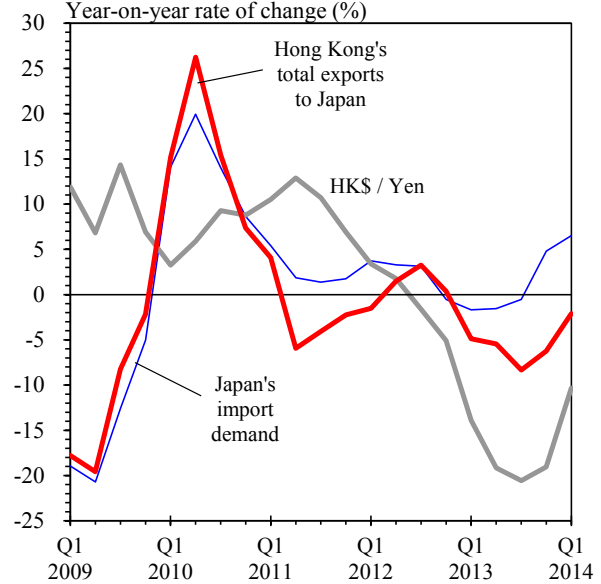
**Diagram 2.5 : Exports to the EU grew modestly**



**Diagram 2.6 : Exports to the US rebounded in the first quarter**

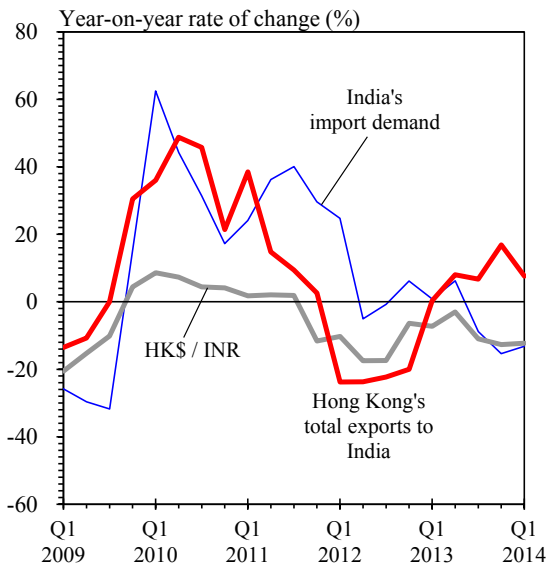


**Diagram 2.7 : Exports to Japan fell moderately further partly on yen weakness**

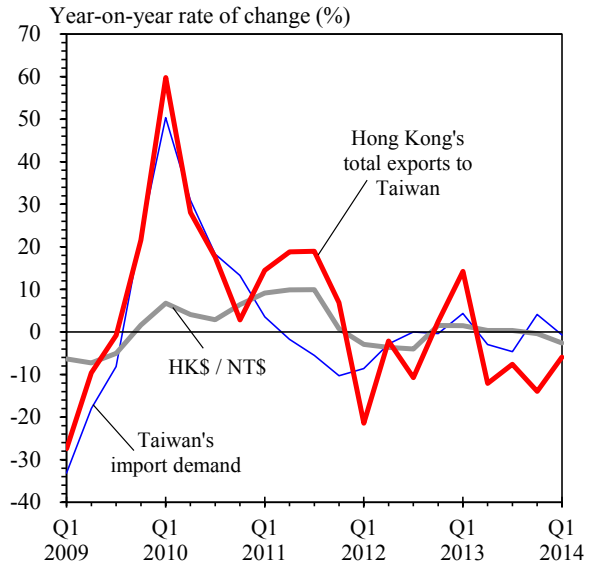




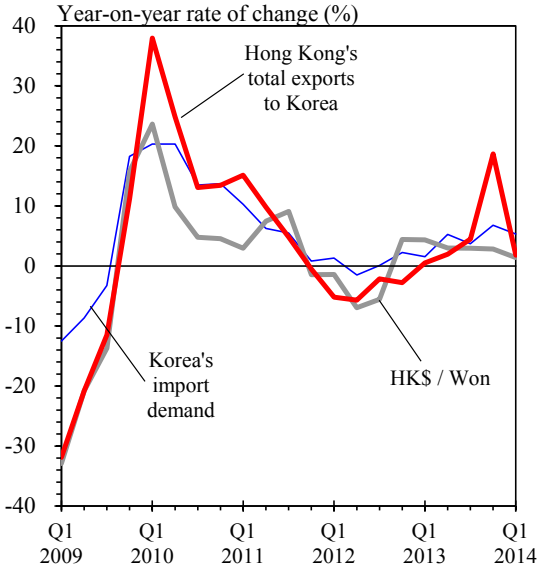
**Diagram 2.8 : Exports to India were relatively resilient**



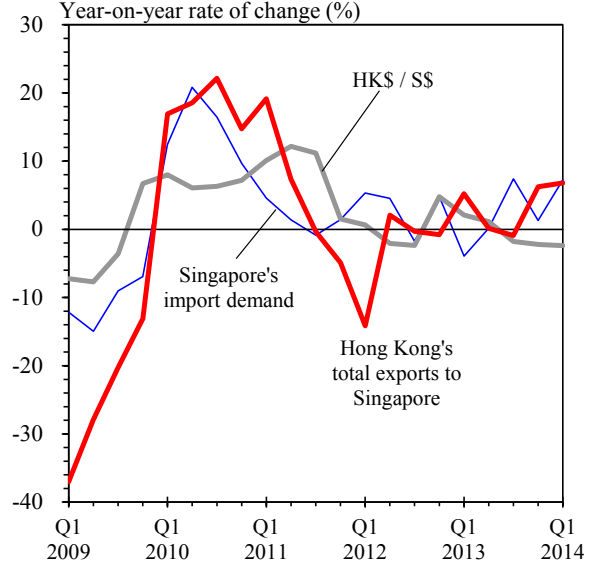
**Diagram 2.9 : Exports to Taiwan stayed weak**



**Diagram 2.10 : Exports to Korea decelerated markedly**



**Diagram 2.11 : Exports to Singapore held up**



## *Imports of goods*

2.6 *Imports of goods* grew mildly by 1.1% year-on-year in real terms in the first quarter of 2014, down from 4.0% in the fourth quarter of 2013, alongside the moderation in re-export trade and hence the associated import intake. Yet, *retained imports*, which accounted for over one-quarter of total imports, grew solidly by 4.8% in real terms in the first quarter over a year earlier, further to the 5.9% growth in the preceding quarter, reflecting the further expansion of domestic demand. Analysed by end-use category, retained imports of foodstuffs and consumer goods increased, bolstered by the further expansion of local consumption market. Retained imports of raw materials and semi-manufactures rebounded in the first quarter. Yet, retained imports of fuels dropped, and retained imports of capital goods decelerated notably after strong growth in the preceding three quarters.

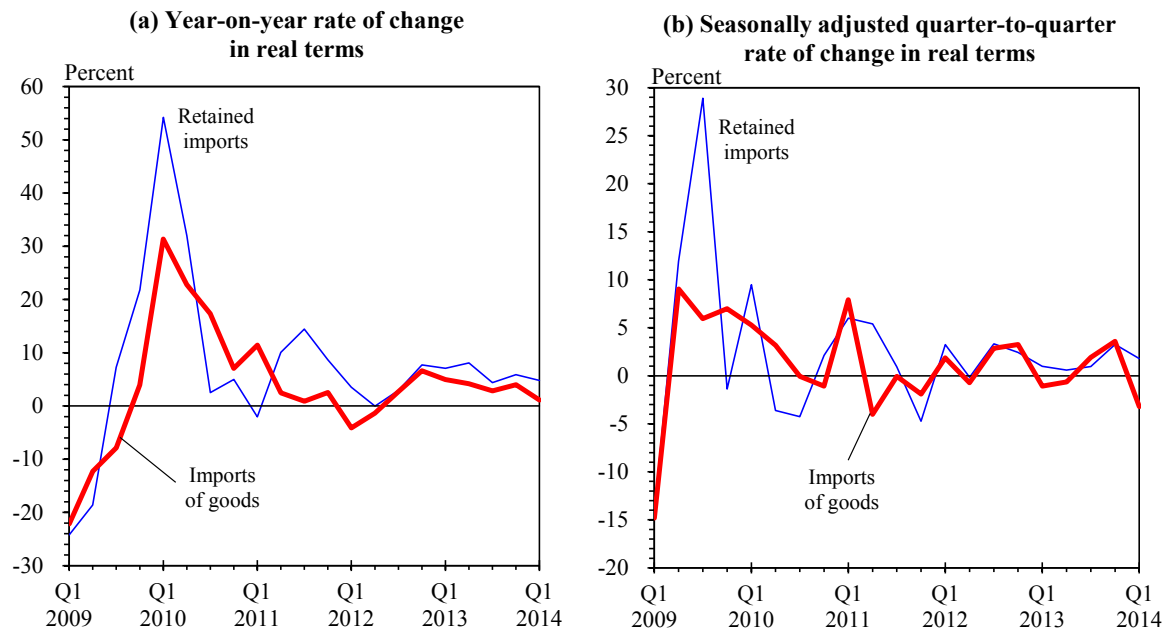
**Table 2.3 : Imports of goods and retained imports  
(year-on-year rate of change (%))**

		<u>Imports of goods</u>				<u>Retained imports</u> <sup>(a)</sup>			
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>Change in prices</u>
2013	Annual	3.8	3.9	0.9	3.7	6.3	-0.3		
	Q1	4.9	5.0	(-1.1)	1.1	7.1	(1.0)	2.9	
	Q2	3.5	4.2	(-0.6)	0.2	5.8	(0.6)	-0.4	
	Q3	2.6	2.8	(1.9)	0.6	-0.1	(1.0)	-2.1	
	Q4	4.3	4.0	(3.6)	1.5	2.5	(3.3)	-0.8	
2014	Q1	2.1	1.1	(-3.2)	2.1	5.9	(1.8)	3.2	

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

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

**Diagram 2.12 : Imports grew mildly while retained imports maintained solid growth**



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

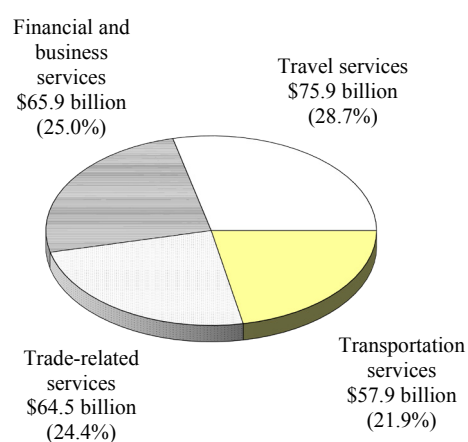
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2013	Annual	2.9	9.3	22.3	-3.3	0.2
	Q1	4.7	12.0	-3.1	12.3	7.6
	Q2	1.3	1.3	38.7	-0.8	-5.4
	Q3	9.5	12.1	16.8	-9.1	-5.9
	Q4	-3.0	11.6	32.7	-13.1	5.2
2014	Q1	4.0	1.9	6.1	9.7	-8.5

## Invisible trade

### *Exports of services*

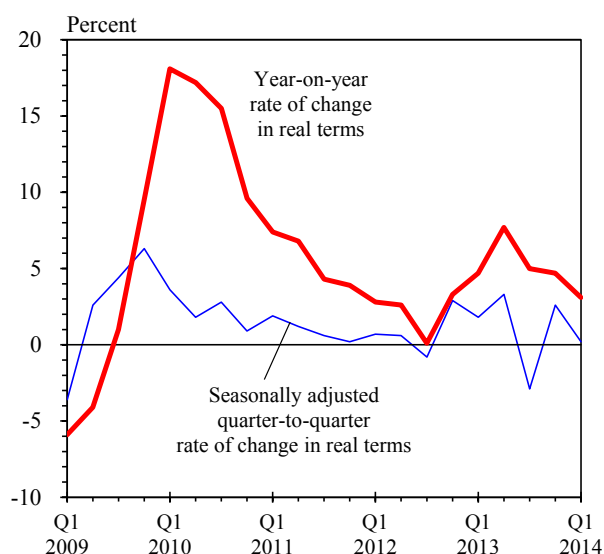
2.7 *Exports of services* went up by 3.1% year-on-year in real terms in the first quarter of 2014, moderated from the 4.7% increase in the preceding quarter. The main drag came from the setback in exports of trade-related services and transportation services amid sluggish trade flows. On the other hand, bolstered by sustained expansion of inbound tourism, exports of travel services grew further and remained a key driver of growth for the overall exports of services. Exports of financial and other business services also expanded moderately in the first quarter, partly supported by fund-raising activity.

**Diagram 2.13 : Major service groups accounted for similar shares of Hong Kong's service exports, reflecting a diversified base**



*Exports of services in the first quarter of 2014:*  
**\$264.3 billion**

**Diagram 2.14 : Exports of services grew further in the first quarter**



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

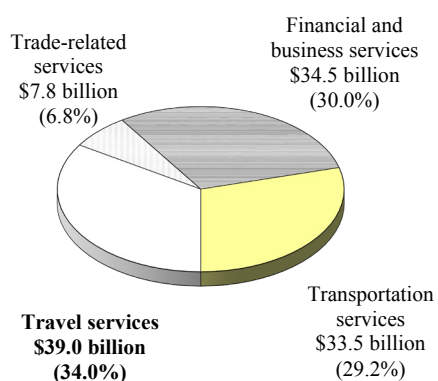
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services<sup>(a)</sup></u>	<u>Transportation services</u>	<u>Travel services<sup>(b)</sup></u>	<u>Financial and business services</u>
2013	Annual	5.5	1.2	-1.1	18.2	3.5
	Q1	4.7 (1.8)	2.8	-3.9	19.0	0.6
	Q2	7.7 (3.3)	1.8	-3.4	28.8	4.6
	Q3	5.0 (-2.9)	0.3	0.5	15.9	4.3
	Q4	4.7 (2.6)	0.5	2.4	11.3	5.0
2014	Q1	3.1 (0.2)	-0.2	1.6	7.9	2.0

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

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

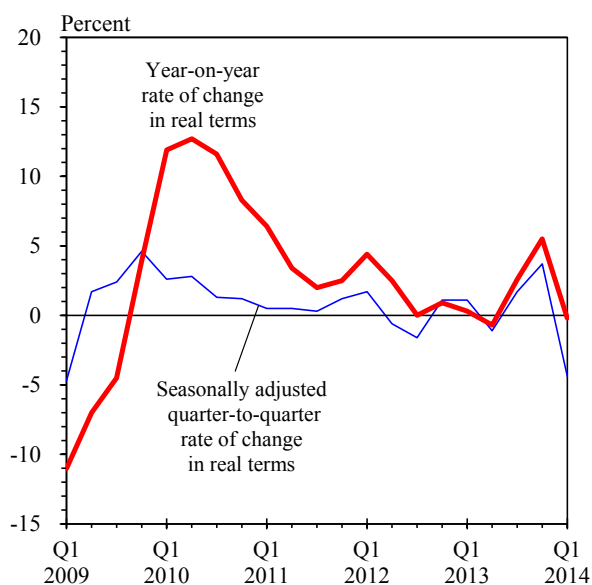
2.8 *Imports of services* fell modestly by 0.2% year-on-year in real terms in the first quarter of 2014, compared with a 5.5% increase in the preceding quarter. Within this, imports of travel services posted a year-on-year contraction, due mainly to a high base of comparison as a result of the timing of Easter holidays, which fell in late March in 2013 but in mid-April in 2014. Meanwhile, imports of transportation services and trade-related services stayed weak in tandem with the slack international and regional trade flows. On the other hand, imports of financial and other business services expanded moderately further.

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



*Imports of services in the first quarter of 2014:  
\$114.9 billion*

**Diagram 2.16 : Imports of services fell modestly**



**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>(+)</sup>	Transportation services	Trade-related services	Financial and business services
2013	Annual	2.0	6.3	-1.7	-1.1	1.6
	Q1	0.3 (1.1)	5.8	-6.0	2.3	0.2
	Q2	-0.7 (-1.1)	1.1	-4.4	-1.2	2.2
	Q3	2.6 (1.7)	5.5	0.4	-2.4	3.2
	Q4	5.5 (3.7)	12.6	3.6	-2.2	1.1
2014	Q1	-0.2 (-4.4)	-1.7	-0.7	-0.7	2.2

Notes : (+) Comprising mainly outbound travel spending.

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

## Visible and invisible trade balance

2.9 The visible trade account registered a slightly larger deficit in the first quarter of 2014 than in the same period of last year, as exports were constrained by the lacklustre external environment while retained imports were buttressed by the further expansion of domestic demand and remained on the rise. As the invisible trade account surplus fell short of the deficit in the visible account, the combined visible and invisible trade account in the first quarter of 2014 posted a small deficit of \$9 billion, equivalent to 0.8% of the total value of imports of goods and services. This compared to the corresponding deficit of \$10 billion in the same quarter of 2013, equivalent to 0.9% of total import value.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			<u>As % of imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2013	Annual	3,816	1,063	4,395	467	-579	597	18	0.4
	Q1	872	256	1,024	114	-152	143	-10	-0.9
	Q2	929	249	1,100	107	-171	142	-29	-2.4
	Q3	1,000	271	1,117	118	-117	153	36	2.9
	Q4	1,015	286	1,153	127	-138	159	21	1.6
2014	Q1	871	264	1,029	115	-158	149	-9	-0.8

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

## Other developments

2.10 The small and medium enterprises (SMEs) play a pivotal role in Hong Kong's economy and employment market, but they are vulnerable to the uncertain external economic environment. As such, the Financial Secretary in the 2014-15 Budget proposed a number of measures to provide support to the SMEs. In particular, the application period for the special concessionary measures under the SME Financing Guarantee Scheme would be extended for one year to the end of February 2015 to facilitate access to liquidity by the SMEs. The Small Business Policy (SBP) scheme by the Hong Kong Export Credit Insurance Corporation launched in March 2013 would also be extended to increase the flexibility of SMEs in taking out insurance cover when engaging in export trade. The Government would extend the network of the Hong Kong Trade Development Council (HKTDC) Design Gallery and continue to make use of dedicated funds to assist local enterprises in developing brands, moving

to higher-end markets, as well as exploring new opportunities in the Mainland market.

2.11 The 2014-15 Budget also proposed measures to further enhance the competitiveness of Hong Kong's tourism and trading industries. Six sites facing Victoria Harbour within the "hotel belt" adjacent to the Kai Tak Cruise Terminal will be gradually released to the market, to be developed into a distinctive hotel cluster. To attract convention and exhibition visitors to Hong Kong, it is also proposed that the Hong Kong Tourism Board (HKTB) be allocated an additional \$45 million to provide services and concessions to convention and exhibition organisers and participants.

2.12 Efforts to deepen economic ties with the Mainland via various G-to-G platforms and other channels continued. In early April, the fourth Working Meeting of Hong Kong-Shanghai Financial Co-operation was held in Shanghai to exchange views on ways to enhance financial co-operation following the establishment of the China (Shanghai) Pilot Free Trade Zone. In addition, the Hong Kong Economic and Trade Office in Wuhan of the Hong Kong Special Administrative Region (Wuhan ETO) commenced operation on 1 April 2014, which will assist Hong Kong people and enterprises to seize the opportunities brought about by the rapid development of the central region of the Mainland.

2.13 Separately, the Investment Promotion and Protection Agreement between Hong Kong and Finland, signed in July 2009, came into force in March 2014. The Agreement will facilitate investment and trade flows between Hong Kong and Finland, benefiting the economic development of both places.



## 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. In addition, non-monetary gold is recorded as a separate item in the statistics of merchandise trade and not included in the trade aggregates reported in Chapter 2, but is included in the trade aggregates under GDP in accordance to the international compilation standard.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *The residential property market continued to consolidate in the first quarter of 2014. Market sentiment remained cautious under the sustained effects of the Government's various counter-cyclical measures, and weakened further with the gradual tapering of asset purchases by the US Federal Reserve since January. Overall flat prices recorded a mild decline during the quarter, while trading activities shrank further.*
- *Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. Reflecting the Government's sustained efforts, total flat supply in the coming three to four years rose to 72 000 units. In February the Government announced the 2014-15 Land Sale Programme which is capable of providing a total of about 15 500 flats. Combining the various land supply sources, it is estimated that housing land supply in the coming year could provide for some 30 000 private flats.*
- *The commercial and industrial property markets likewise remained quiet in the first quarter. Trading activities went further lower, while sale prices and rentals were generally flat.*
- *Inbound tourism continued to put up a robust performance in the first quarter, with overall visitor arrivals leaping by 15.3% over a year earlier to 14.7 million. Mainland visitors remained the key source of growth.*
- *As the external trade environment was rather sluggish, the logistics sector only saw moderate growth in the first quarter. Total container throughput rose by 2.5%. Air freight throughput fared relatively better, recording an increase of 5.6%.*

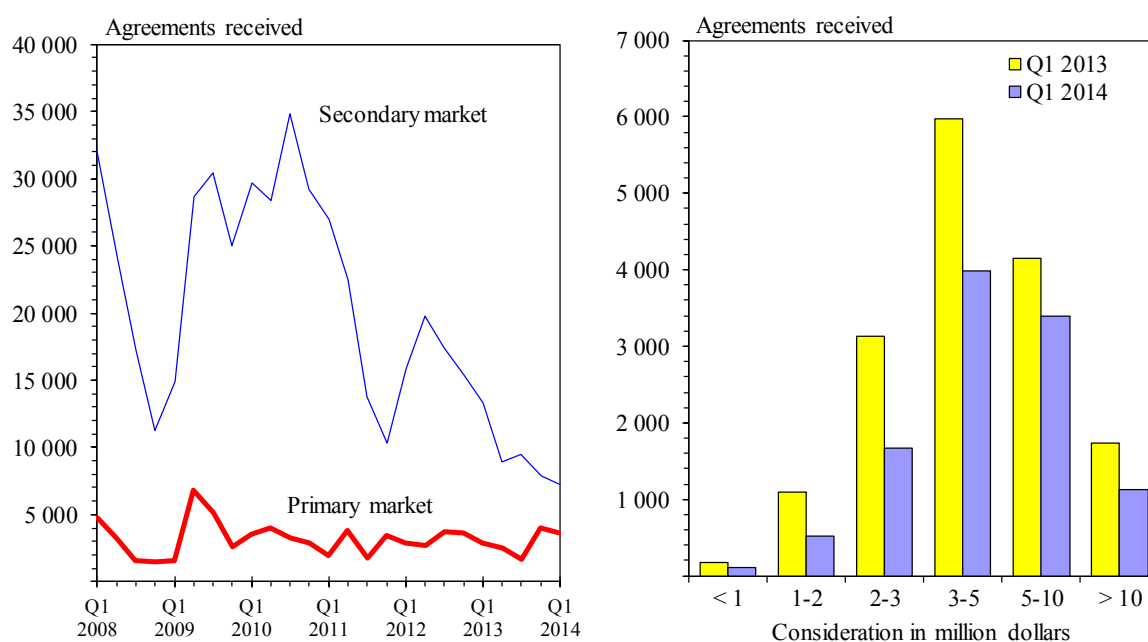
## Property

3.1 The *residential property market* continued to consolidate in the first quarter of 2014. Market sentiment remained cautious under the sustained effects of the Government's various counter-cyclical measures, and weakened further with the gradual tapering of asset purchases by the US Federal Reserve since January. Flat prices recorded a mild decline during the quarter. With most buyers sitting on the sidelines, trading activities shrank further. In face of the market consolidation, developers continued to adopt a conservative pricing strategy and offered various discounts and concessions in launching primary projects.

3.2 Overall flat prices fell by 1% between December 2013 and March 2014, with prices of small/medium-sized and luxury flats both recording a decline of 1%. Nonetheless, following the rally in the past few years, overall flat prices in March 2014 still surpassed the 1997 peak by a sharp 41%.

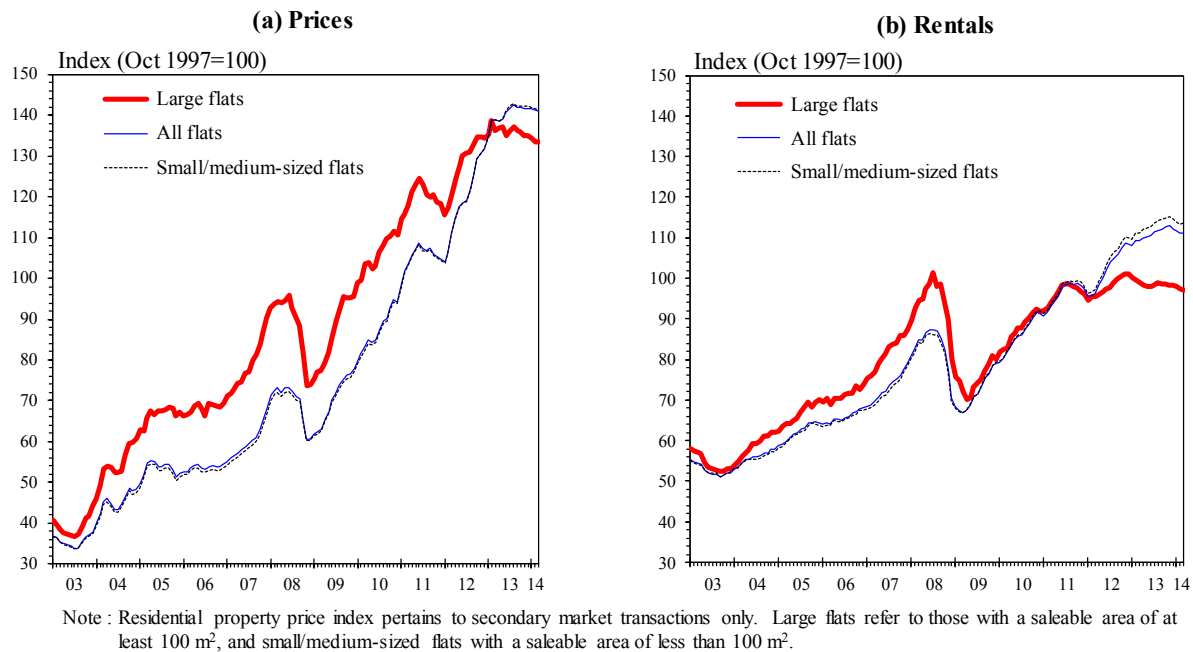
3.3 Reflecting the subdued trading, the total number of sale and purchase agreements for residential property received by the Land Registry decreased by 9% from the preceding quarter or a sharp 34% from a year earlier to 10 788 in the first quarter, the lowest level on record. Within the total, primary and secondary market transactions fell by 10% and 9% respectively from the preceding quarter. In parallel, total consideration plummeted by 18% to \$68.9 billion.

**Diagram 3.1 : Trading activities shrank further in the first quarter**



3.4 The leasing market likewise cooled off, with overall flat rentals in March 2014 edging down by 1% from December 2013. Within the total, rentals of small/medium-sized flats and large flats exhibited a similar decline, both by 1%. Reflecting the movements in flat prices and rentals, the average rental yield for residential property hovered at a low of 2.8% in March 2014, virtually unchanged from December 2013.

**Diagram 3.2 : Both flat prices and rentals registered marginal decreases**



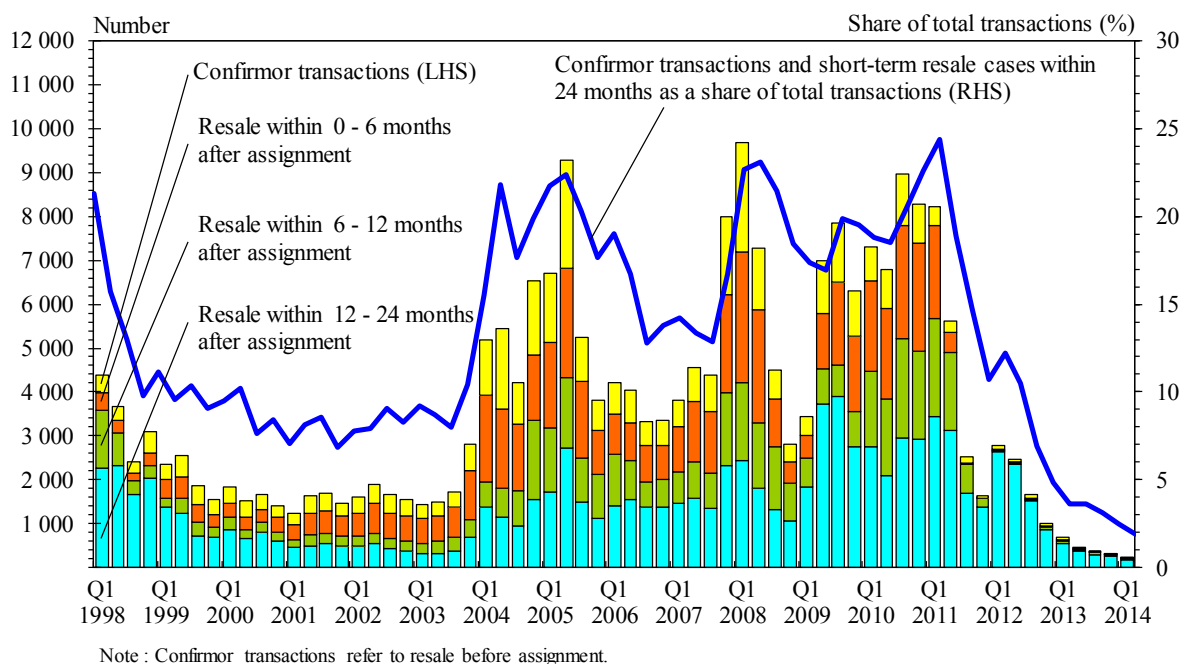
3.5 Raising flat supply through increasing land supply is the Government's top policy priority in ensuring the healthy and stable development of the property market. To sustain these efforts, in February 2014 the Government announced the 2014-15 Land Sale Programme which included 34 residential sites capable of providing a total of about 15 500 flats. Combining the various housing land supply sources including the Land Sale Programme, railway property development projects, redevelopment projects of the Urban Renewal Authority, projects subject to lease modification/land exchange and other sources, it is estimated that the total housing land supply in 2014-15 could provide for some 30 000 private flats.

3.6 As a result of the Government's various efforts, the *total supply of flats* in the coming few years (comprising unsold flats of completed projects, flats under construction but not yet sold and flats on disposed sites where construction can start any time) rose from 71 000 units as estimated at end-2013 to 72 000 units as estimated at end-March 2014. In addition, another 15 800 units could be added to the total supply after the conversion of a number of

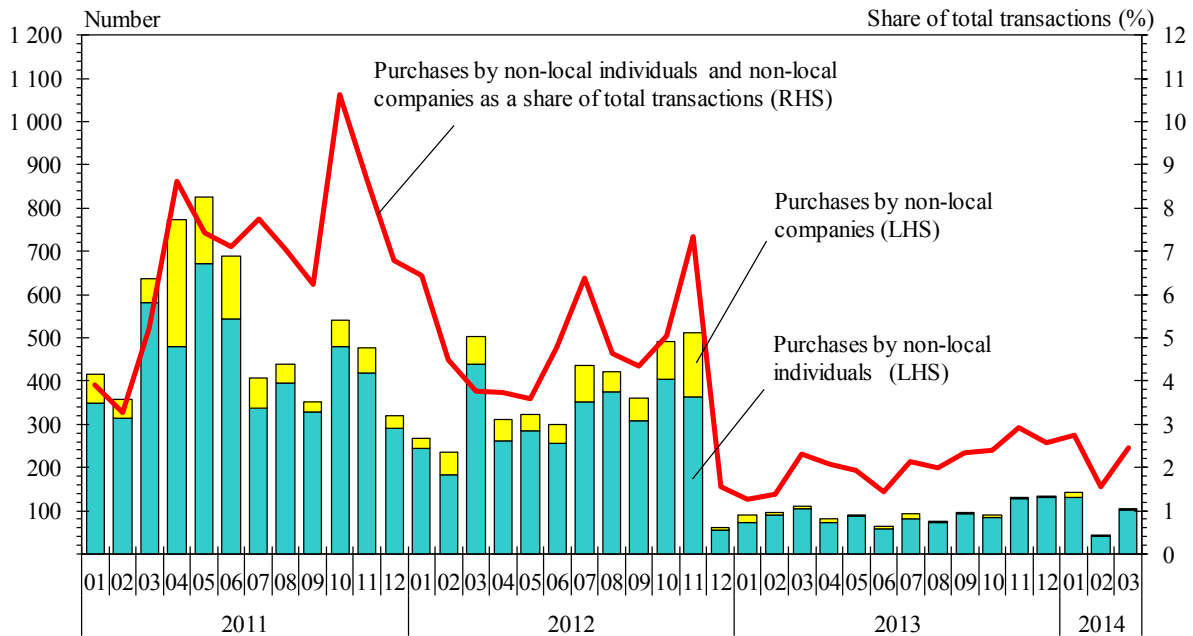
residential sites into “disposed sites”.

3.7 As it takes time to increase supply, the Government has also put in significant efforts to manage demand and reduce the possible risks to financial stability arising from an exuberant property market<sup>(1)</sup>. These measures have yielded notable results. On *speculative activities*, the number of short-term resale (comprising confirmor transactions and resale within 24 months after assignment) fell to a record low of 77 cases per month or 1.9% of total transactions in the first quarter of 2014, compared with the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer’s Stamp Duty, *purchases by non-local individuals and non-local companies* stayed low at 96 cases per month or 2.4% of total transactions in the first quarter, much lower than the monthly average of 365 cases or 4.5% in January to October 2012. As to *mortgage lending*, the average loan-to-value ratio of new mortgages in the first quarter, at 55%, was lower than the average of 64% in January to October 2009 before the first round of macro-prudential measures for residential property mortgage lending was introduced by the Hong Kong Monetary Authority.

**Diagram 3.3 : Speculative activities stayed subdued**

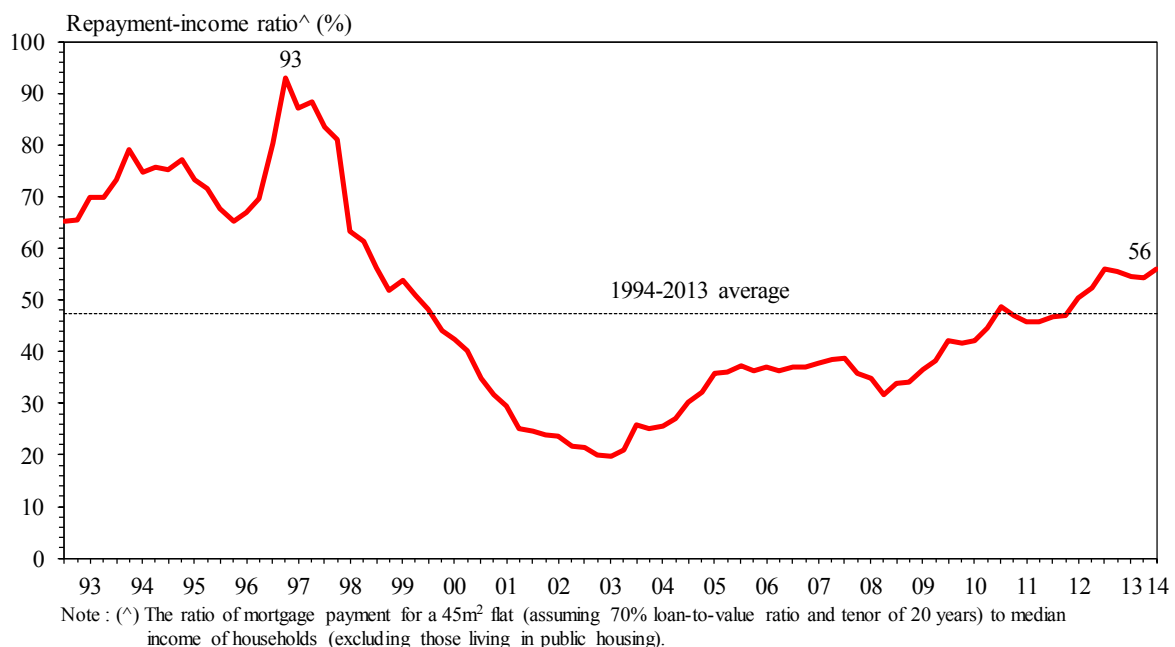


**Diagram 3.4 : Purchases by non-local buyers remained low**



3.8 Notwithstanding the recent market consolidation, the risks of a property market bubble remained elevated. 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) stayed high at around 56% in the first quarter of 2014, exceeding the long-term average of 47.3% over 1994-2013. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 73%.

**Diagram 3.5 : The mortgage payment to income ratio stayed elevated**



3.9 The US Federal Reserve has gradually reduced its asset purchases since January 2014. While the actual pace of exit from the ultra-loose monetary policy in the US is still uncertain, there might be wider fluctuations in interest rate expectation and international capital flows as the interest rate up-cycle draws nearer, with ramifications on asset prices, including flat prices in Hong Kong. The Government will continue to monitor the situation closely, and respond in a prompt and appropriate manner.

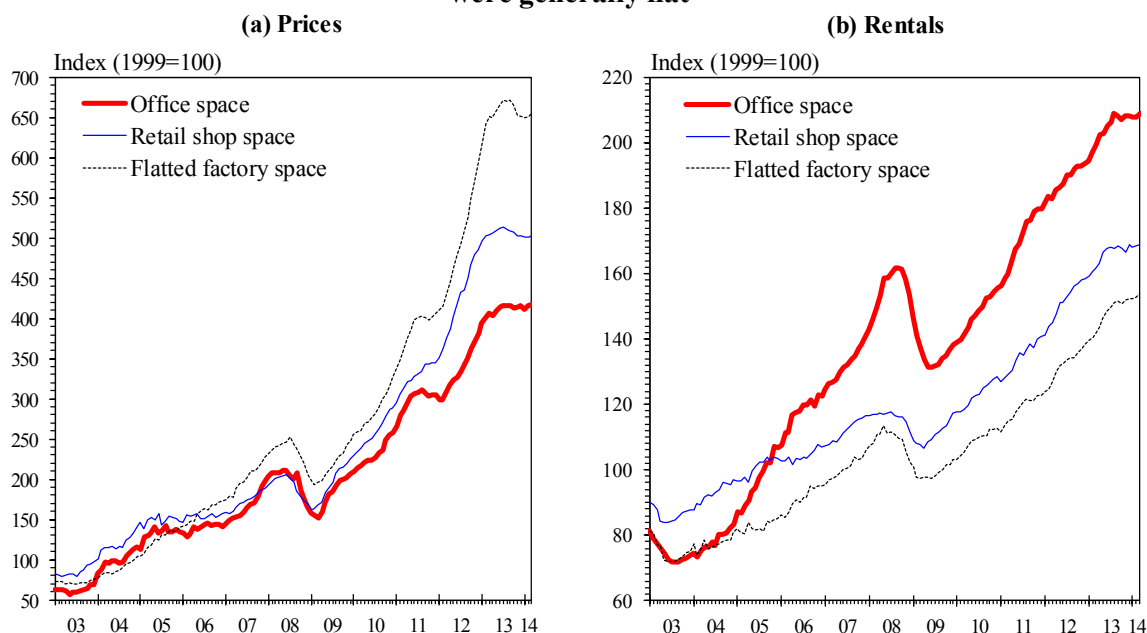
3.10 The *commercial* and *industrial property markets* likewise remained quiet in the first quarter, with sentiment also dampened by uncertainties arising from the timing and pace of the US's exit from its extremely loose monetary policy. Trading activities continued to shrink, while sale prices and rentals for most segments were generally flat.

3.11 Transactions for *retail shop space* plummeted by 36% from the preceding quarter to a low level of 520 cases in the first quarter of 2014<sup>(2)</sup>. Between December 2013 and March 2014, both sale prices and rentals of retail shop space were little changed. Yet the average rental yield for retail shop space edged up from 2.4% in December 2013 to 2.5% in March 2014.

3.12 For *office space*, transactions also dwindled by 21% to a record low of 210 cases in the first quarter. Overall office prices edged up by 1% between December 2013 and March 2014. Within the total, prices of Grade B office space were virtually flat, while those of Grade A and C office space declined by 1% and 3% respectively. Over the same period, overall office rentals were little changed. Rentals of Grade A office space were flat, while those of Grade B and C office space both went up by 1%. The average rental yields for Grade A, B and C office space were all at 2.9% in March 2014, compared with 2.9%, 2.9% and 2.8% in December 2013.

3.13 Similarly, transactions for *flatted factory space* fell further by 12% to 540 cases in the first quarter. Sale prices saw little change between December 2013 and March 2014, while rentals went up by 1%. The average rental yield stayed at 2.8% in March 2014, same as in December 2013.

**Diagram 3.6 : Prices and rentals of non-residential properties were generally flat**



## Land

3.14 Reflecting the Government's efforts to increase land supply, nine residential sites and one commercial site, with a total area of about 8.1 hectares, were disposed in the first quarter, fetching a land premium of about \$16.6 billion. The tender exercises for one commercial/office site and eight residential sites also commenced in the quarter.

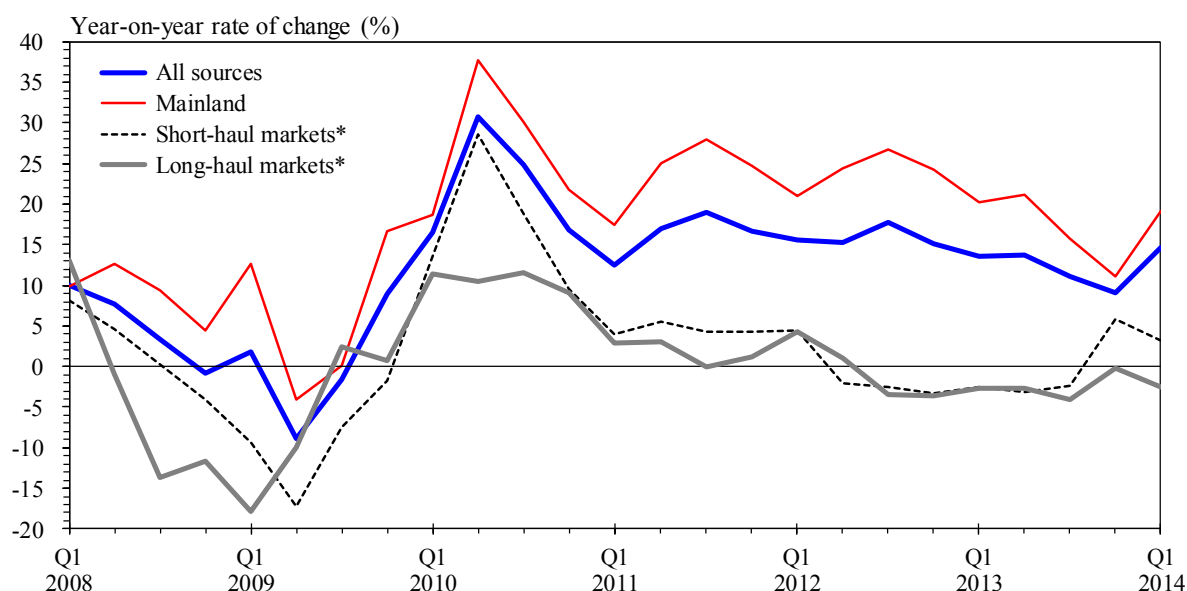
3.15 There were two land exchanges approved in the first quarter. Meanwhile, a total of 16 sites were approved for lease modifications.

## Tourism

3.16 Inbound tourism continued to put up a robust performance in the first quarter, with overall *visitor arrivals* leaping by 15.3% over a year earlier to 14.7 million. Mainland visitors remained the major growth driver, surging by 20.1% to 11.4 million. Visitors from short-haul markets increased at a modest pace, by 3.4%. Visitors from long-haul markets remained on a decline, down by 1.9%, reflecting the sluggish growth in most advanced economies<sup>(3)</sup>. Analysed by the length of stay, overnight visitors went up by 13.5%, and same-day visitors by a more impressive 17.0%. As a result, the share of same-day visitors edged up from 53.1% a year earlier to 53.9% in the first quarter, while that of overnight visitors edged down from 46.9% to 46.1%.



**Diagram 3.7 : Inbound tourism sustained robust growth**



Note : (\*) See note (3) at the end of this chapter for the definition of short-haul and long-haul markets.

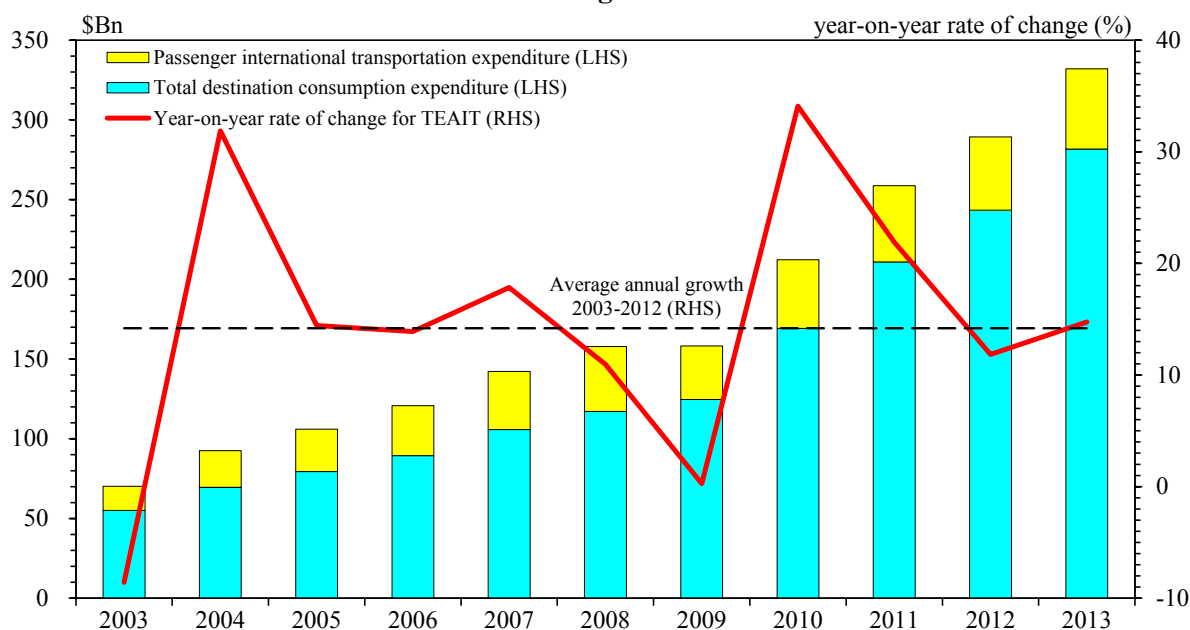
3.17 Supported by the rise in overall visitor arrivals, the average hotel room occupancy rate rose from 87% a year earlier to 90% in the first quarter, and the average achieved hotel room rate rose by 1.7% to \$1,495<sup>(4)</sup>. Meanwhile, Tourism Expenditure Associated to Inbound Tourism (TEAIT) rose noticeably by 14.8% over 2012 to \$332.0 billion in 2013 (**Box 3.1**).

### Box 3.1

#### Tourist spending in 2013

In tandem with the strong influx of visitor arrivals, tourist spending in Hong Kong has been recording solid growth in the past decade or so. Data from the Hong Kong Tourism Board showed that total tourism expenditure associated to inbound tourism (TEAIT)<sup>(1)</sup> rose by another 15% to a record high of \$332 billion in 2013 (*Chart 1*). While moderating from the surge during 2010-2012, this was still an impressive growth and comparable to the long-term average annual growth of 14% over 2003-2012. Within the total, destination consumption expenditure of all visitors (comprising overnight visitors, same-day in-town visitors and other visitors including cruise-in/cruise-out passengers, servicemen, aircrew members, transit/transfer passengers) leapt by 16% to \$282 billion in 2013. Passenger international transportation expenditure also went up by 10% to \$50 billion.

**Chart 1: Tourism expenditure associated to inbound tourism (TEAIT) recorded solid growth in 2013**



Analysed by type of passenger, destination consumption expenditure by same-day in-town visitors surged by 29% in 2013, supported by increases in both the number of such visitors (+15%) and per capita spending (+12%). By comparison, the rise in total spending by overnight visitors, at 12%, was less rapid, as the rises in visitor arrivals (+8%) and per diem spending (+8%) were also accompanied by a shorter length of stay (-4%, from 3.52 nights to 3.38 nights) (*Table*).

(1) TEAIT comprises destination consumption expenditure and passenger international transportation expenditure. Destination consumption expenditure is the sum of payments made by all inbound visitors and travellers for goods and services they consume in Hong Kong. Passenger international transportation expenditure represents the receipts of Hong Kong based carriers for the cross-boundary transportation of non-resident visitors by air, sea or land.

### Box 3.1 (Cont'd)

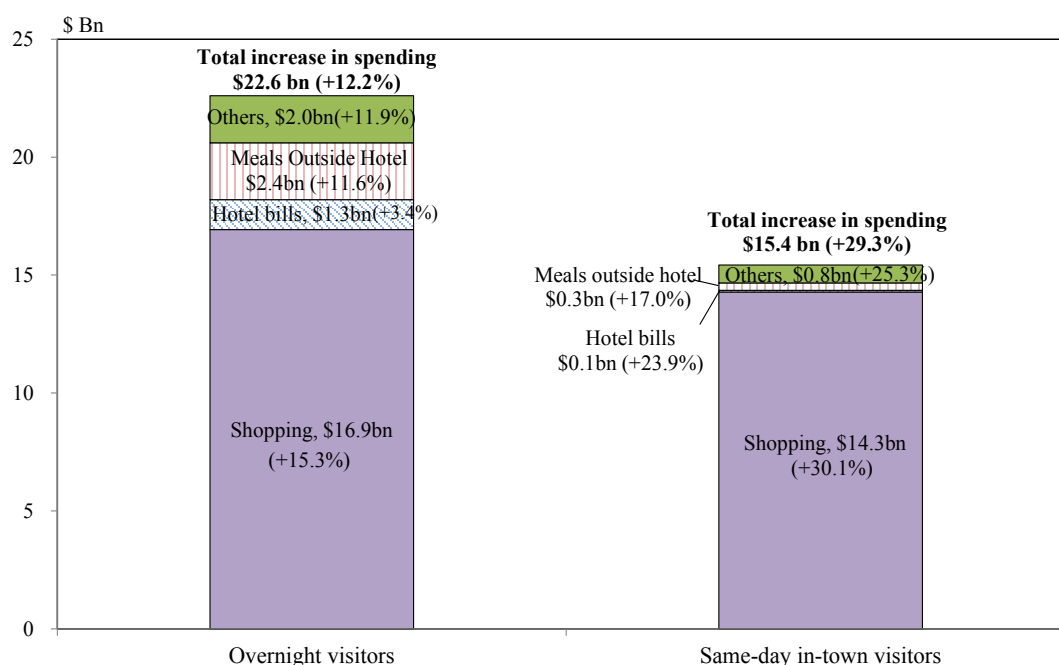
**Table : Performance indicators of overnight and same-day in-town visitors in 2013**

	<b>Overnight visitors</b>	<b>Same-day in-town visitors</b>
Visitor spending (\$ billion)	208.4 (12.2%)	68.0 (29.3%)
Number of visitors (million)	25.7 (8.0%)	28.6 (15.4%)
Per capita visitor spending (\$)	8,123 (3.9%)	2,378 (12.1%)
Per diem spending (\$)	2,404 (8.3%)	n.a.
Length of stay (number of nights)	3.38 (-4.1%)	n.a.

Notes : Spending by other visitors (e.g. cruise-in/cruise-out, transit passengers) is not included in the table.  
 Figures in brackets represent the year-on-year rates of change.  
 (n.a.) Not applicable.

Expenditure on shopping was a major driving force for the increase in tourist spending. In 2013, spending on shopping increased the fastest, by 15% for overnight visitors and a more impressive 30% for same-day in-town visitors (**Chart 2**). Indeed, both overnight and same-day in-town visitors spent the most on shopping, accounting for 61% and 91% of their destination consumption expenditure respectively. Meanwhile, spending on hotel bills, meals outside hotel, and other items (e.g. entertainment, tours) increased by 3%, 12% and 12% respectively for overnight visitors, and by 24%, 17% and 25% respectively for same-day in-town visitors.

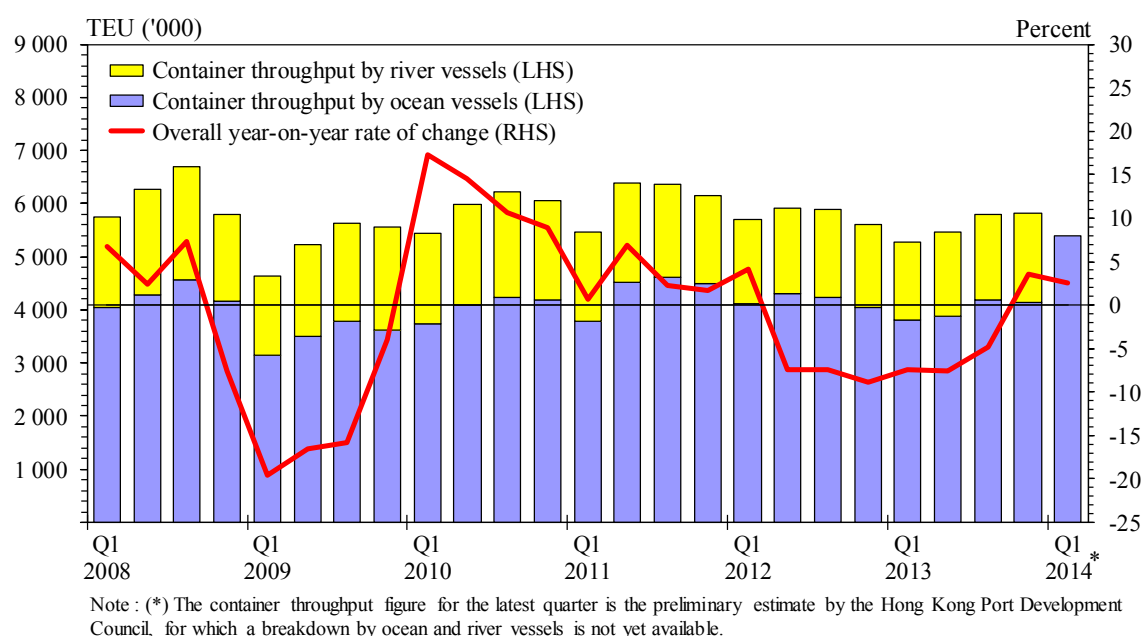
**Chart 2 : Increase in spending by category in 2013**



## Logistics

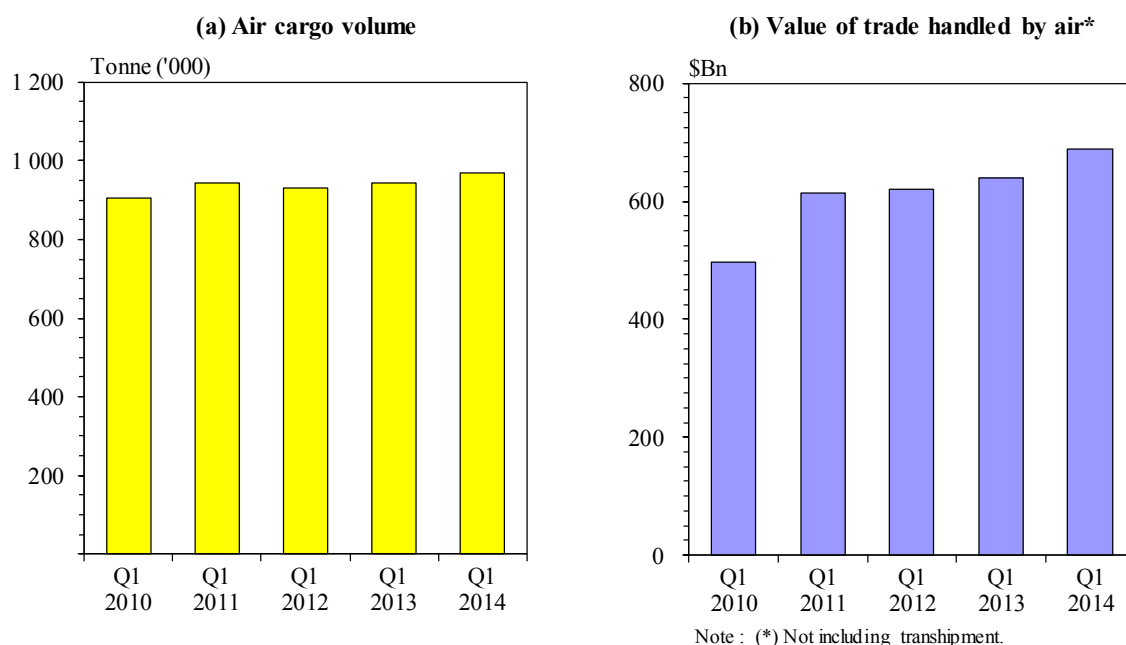
3.18 As the external trade environment was rather sluggish, the logistics sector only saw moderate growth in the first quarter. *Total container throughput* rose by 2.5% over a year earlier to 5.4 million TEUs. The value of trade handled at the Hong Kong port increased marginally by 0.1%, yet its share in total trade edged down from 23.5% a year earlier to 23.2% in the first quarter.

**Diagram 3.8 : Container throughput rose modestly**



3.19 *Air freight throughput* fared relatively better, rising by 5.6% to 1.0 million tonnes in the first quarter. The total value of trade by air increased by a notable 7.7%, and its share in overall trade value expanded from 36.9% to 39.2%.

**Diagram 3.9 : Air cargo throughput and value of trade handled by air rose further**



## Transport

3.20 Traffic flows for most major modes of transport registered growth in the first quarter. Supported by sustained increase in visitor arrivals, air passenger traffic increased by 5.3% to 15.0 million, and water-borne passenger trips by 1.0% to 6.9 million. As to land-based cross-boundary traffic movements, average daily passenger trips rose by 1.5% to 581 000, while average daily vehicular movements edged down by 0.7% to 40 000.

## Energy

3.21 In order to meet future electricity demand and improve the environment, in March the Government launched a three-month public consultation on the future fuel mix for electricity generation in Hong Kong. Two fuel mix options were proposed. The first option (“grid purchase”) proposed importing electricity through purchase from the Mainland power grid, and the second option (“local generation”) proposed using more natural gas for local electricity generation. After considering the views and comments from the public, the Government would decide the future fuel mix, which would provide a basis for planning the necessary electricity infrastructure in future.

## **Environment**

3.22 The Air Pollution Control (Marine Light Diesel) Regulation was approved by the Legislative Council in March. With a view to reducing emissions from local vessels, the Regulation introduced regulatory control on the quality of marine light diesel (MLD) with effect from 1 April 2014. The control would help improve the ambient air quality and reduce health risks for the population.

### **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. For details of the measures promulgated in 2012, see Box 3.1 in the Third Quarter Economic Report 2012 and Box 4.1 in the 2012 Economic Background and 2013 Prospects. For details of the measures promulgated in 2013, see Box 4.2 in the 2012 Economic Background and 2013 Prospects and Box 3.1 in the First Quarter Economic Report 2013. For details of the measures promulgated in 2014, see Box 4.1 in the 2013 Economic Background and 2014 Prospects.
- (2) 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.
- (3) Short-haul markets refer to North Asia, South and Southeast Asia, Taiwan and Macao, but excluding the Mainland, while long-haul markets refer to the Americas, Europe, Africa, the Middle East, Australia, New Zealand and South Pacific. In the first quarter of 2014, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 78%, 15% and 8% of total visitors.
- (4) 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 first quarter of 2014 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar spot exchange rate remained generally stable against the US dollar during the quarter. Meanwhile, the Hong Kong dollar Nominal and Real Effective Exchange Rate Indices rose alongside the strengthening of the US dollar.*
- *The monetary aggregates recorded modest growth in the first quarter. Yet, total loans and advances expanded at an accelerated pace, mainly driven by strong growth in foreign currency loans.*
- *The local stock market underwent some correction in the first quarter, due in part to concerns over possible capital outflow from the emerging markets amid the US Federal Reserve's asset purchase tapering. Market sentiment was also affected by signs of economic slowdown in the Mainland. The Hang Seng Index fell by 5.0% from end-2013 to 22 151 at end-March 2014. Trading activities picked up further, while fund raising activities showed wide fluctuations from quarter to quarter.*
- *In early April, the China Securities Regulatory Commission and the Securities and Futures Commission have jointly approved, in principle, the Shanghai-Hong Kong Stock Connect, a pilot programme for establishing stock market trading links between Shanghai and Hong Kong. The programme will strengthen the strategic co-operation and interaction between the two markets and further increase the liquidity of the offshore RMB market in Hong Kong. It would also reinforce Hong Kong's position as an international financial centre and offshore RMB business centre.*

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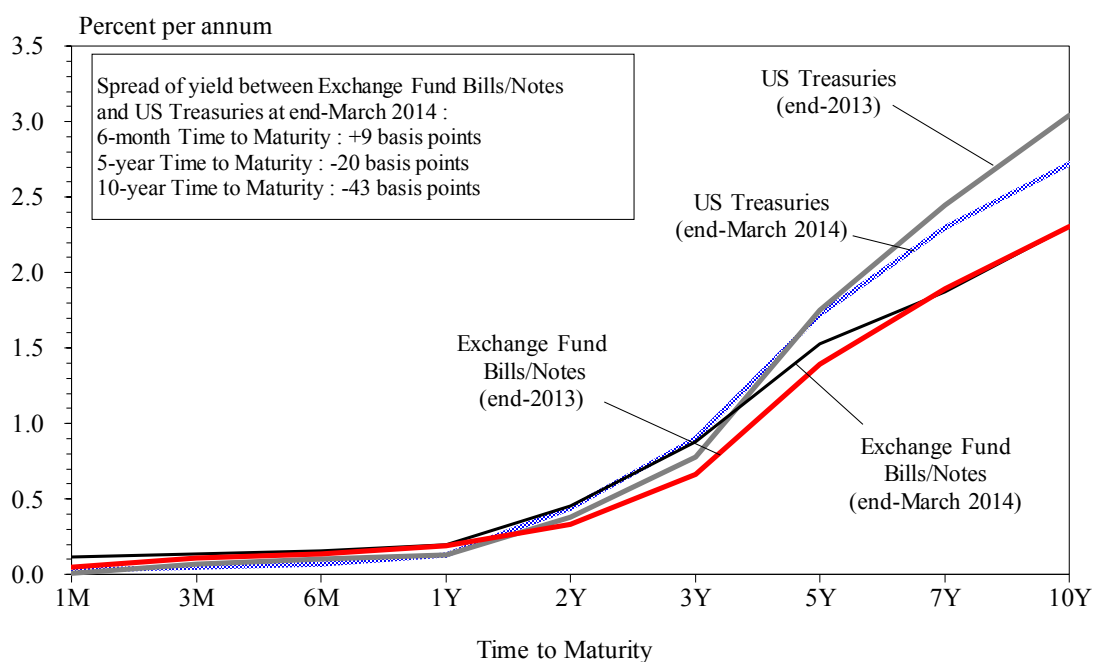
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

## Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the first quarter of 2014 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 held unchanged at 0.5% during the quarter<sup>(1)</sup>. The Hong Kong dollar interbank interest rates also remained low, with the overnight and three-month HIBOR fixings inching down from 0.08% and 0.38% at end-2013 to 0.06% and 0.37% respectively at end-March 2014.

4.2 The *US dollar yield curve* flattened in the first quarter of 2014, with a decline in yields at the longer tenor. Meanwhile, the *Hong Kong dollar yields* showed slight increases at the shorter tenor. As a result, the positive yield spread between 6-month Exchange Fund Bills and 6-month US Treasury Bills edged up from four basis points at end-2013 to nine basis points at end-March 2014, while the negative yield spread between 10-year Exchange Fund Notes and 10-year US Treasury Notes narrowed notably from 74 basis points to 43 basis points.

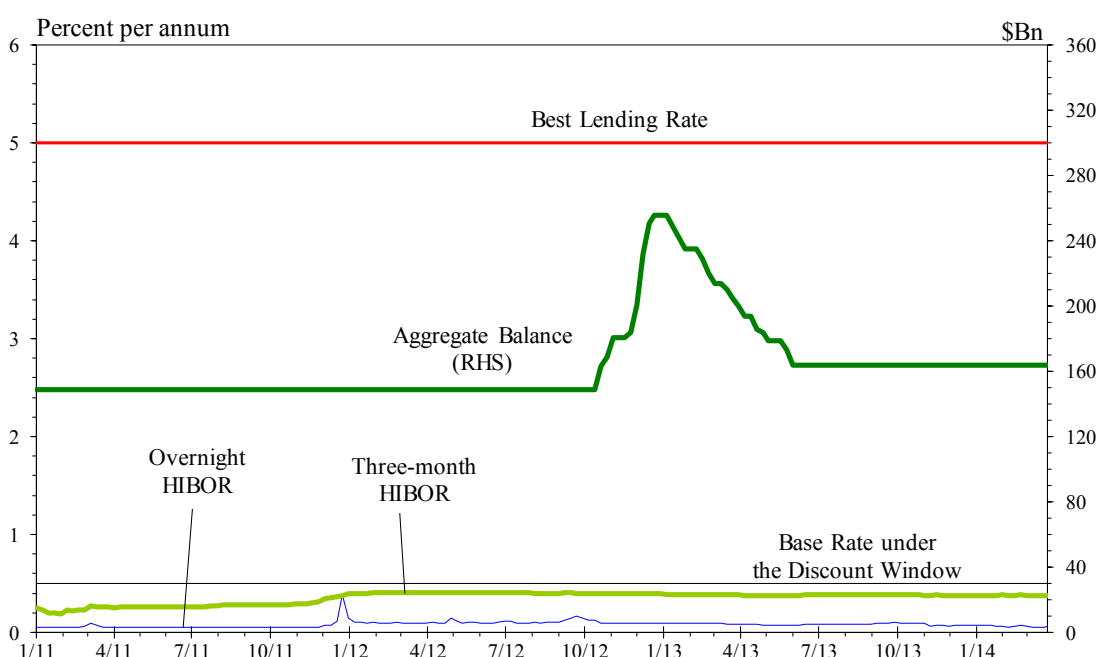
**Diagram 4.1 : Both the US dollar yield curve and Hong Kong dollar yield curve flattened**





4.3 Interest rates on the retail front also stayed low. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% in the first quarter. The *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks (which are for deposits of less than \$100,000) also remained low, at 0.01% and 0.16% respectively. Meanwhile, the *composite interest rate*<sup>(2)</sup>, which indicates the average cost of funds for retail banks, edged up from 0.39% at end-2013 to 0.41% at end-March 2014, still a very low level by historical standards.

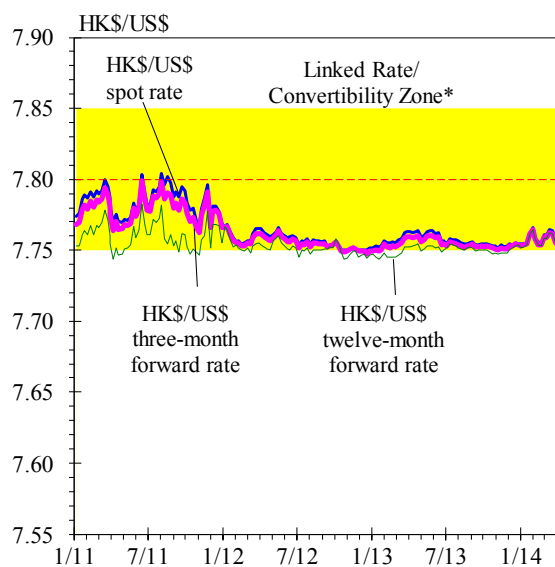
**Diagram 4.2 : Hong Kong dollar interest rates remained low  
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* remained generally stable against the US dollar during the quarter, moving within a narrow range between 7.754 and 7.768. It closed at 7.757 at end-March 2014, little changed from 7.754 at end-2013. Meanwhile, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* to the spot rate widened from 8 and 17 pips (each pip equivalent to HK\$0.0001) to 26 and 31 pips respectively.

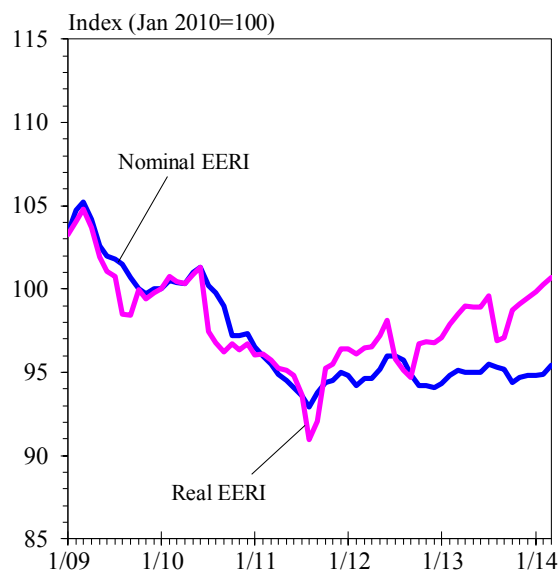
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against the renminbi (RMB) though weakened against most other major currencies, the *Hong Kong dollar Nominal Index* and the *Real Effective Exchange Rate Index*<sup>(3)</sup> increased by 0.6% and 1.2% respectively during the first quarter.

**Diagram 4.3 : Hong Kong dollar remained generally 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.

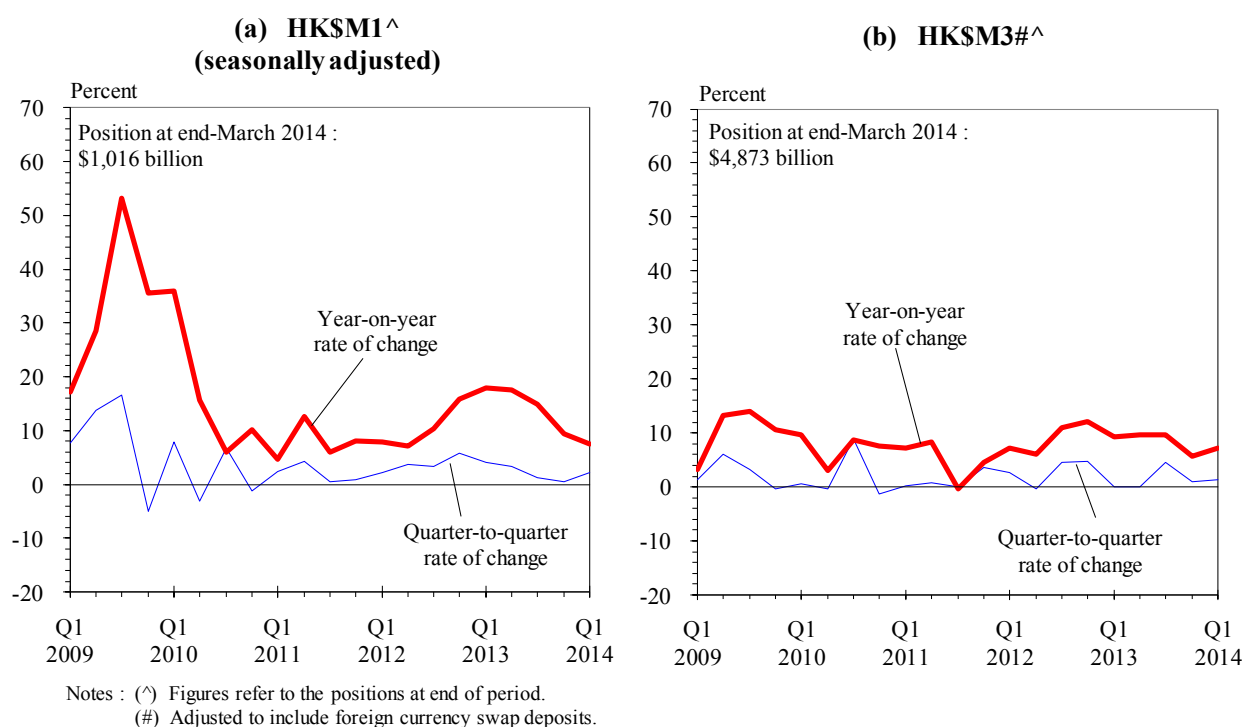
**Diagram 4.4 : The trade-weighted nominal and real EERIs increased in the first quarter (average for the month)**



## Money supply and banking sector

4.6 The monetary aggregates recorded modest growth in the first quarter. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) grew by 2.2% over end-2013 to \$1,016 billion at end-March 2014, and the broad money supply (HK\$M3) by 1.4% to \$4,873 billion<sup>(4)</sup>. Meanwhile, *total deposits* with authorised institutions (AIs)<sup>(5)</sup> edged up by 0.1% to \$9,189 billion, with Hong Kong dollar deposits expanding by 1.2% but foreign currency deposits declining by 0.9%.

**Diagram 4.5 : The monetary aggregates recorded modest 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>
2013	Q1	4.0	1.0	0.1	1.1	0.1	1.1
	Q2	3.3	2.7	0.0	1.9	0.1	1.9
	Q3	1.2	3.9	4.6	5.5	4.6	5.5
	Q4	0.6	1.8	0.9	3.4	0.9	3.4
2014	Q1	2.2	0.8	1.4	0.9	1.4	0.9
Total amount at end-March 2014 (\$Bn)		1,016	1,523	4,862	10,146	4,873	10,178
% change over a year earlier		7.4	9.5	7.1	12.1	7.1	12.2

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Yet, total loans and advances grew by an accelerated 5.7% over end-2013 to \$6,825 billion at end-March 2014. Within the total, foreign currency loans and Hong Kong dollar loans rose by 8.0% and 3.9% respectively (**Box 4.1**). Reflecting the respective movements in deposits and loans, the loan-to-deposit ratio for foreign currency picked up from 59.5% at end-2013 to 64.9% at end-March 2014, and that for Hong Kong dollar from 82.1% to 84.3%.

4.8 Loans for use in Hong Kong expanded by a solid 6.5% over end-2013 to \$4,825 billion at end-March 2014, and loans for use outside Hong Kong by 3.7% to \$2,000 billion. Within the former, loans to most economic sectors showed increases. Trade financing rebounded by a noticeable 12.4%, and loans to manufacturing rose by 7.4%. Loans to wholesale and retail trade went up by 5.5% amid the continued expansion in the local consumption market. Alongside the pick-up in stock market trading activities, loans to financial concerns leapt by 11.6%. By comparison, loans for purchase of residential property and loans to building, construction, property development and investment only rose modestly, by 1.0% and 2.8% respectively, amid the generally quiet property market.

**Table 4.2 : Loans and advances**

All loans and advances for use in Hong Kong											
Loans to :											
		Trade	Manu-	Wholesale	Building,	Purchase	Financial	Stock-	All loans		Total
		finance	facturing	and	construction,	of	concerns	brokers	and advances	and advances	loans
				retail	and	residential			for use	outside	and
<u>% change during</u>		<u>the quarter</u>		<u>trade</u>	<u>investment</u>	<u>property</u> <sup>(a)</sup>	<u>concerns</u>	<u>brokers</u>	<u>Total</u> <sup>(b)</sup>	<u>Hong Kong</u> <sup>(c)</sup>	<u>advances</u>
2013	Q1	19.3	2.5	1.1	-0.7	1.7	3.2	26.2	2.9	3.3	3.0
	Q2	23.9	9.3	8.9	4.2	1.3	3.3	17.2	7.1	4.3	6.3
	Q3	7.8	4.3	6.6	4.3	0.5	3.9	125.7	3.6	8.5	5.0
	Q4	-9.7	0.8	1.6	-0.9	0.3	7.9	-53.1	-0.3	3.9	0.9
2014	Q1	12.4	7.4	5.5	2.8	1.0	11.6	38.2	6.5	3.7	5.7
Total amount at end-March 2014 (\$Bn)		618	232	441	1,020	959	365	43	4,825	2,000	6,825
% change over a year earlier		35.5	23.4	24.5	10.8	3.2	29.3	71.3	17.8	21.9	19.0

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.

## Box 4.1

### Mainland-related exposures of the Hong Kong banking sector<sup>(1)</sup>

Recently, there has been escalated interest in the growth in Mainland-related lending in the Hong Kong banking sector, as such lending has contributed a notable part to the overall loan growth of the banking sector. To better understand the situation and the risk landscape involved, the HKMA published an article titled “Mainland-related exposures” in April 2014<sup>(2)</sup>. The following paragraphs summarise the key points of the HKMA article.

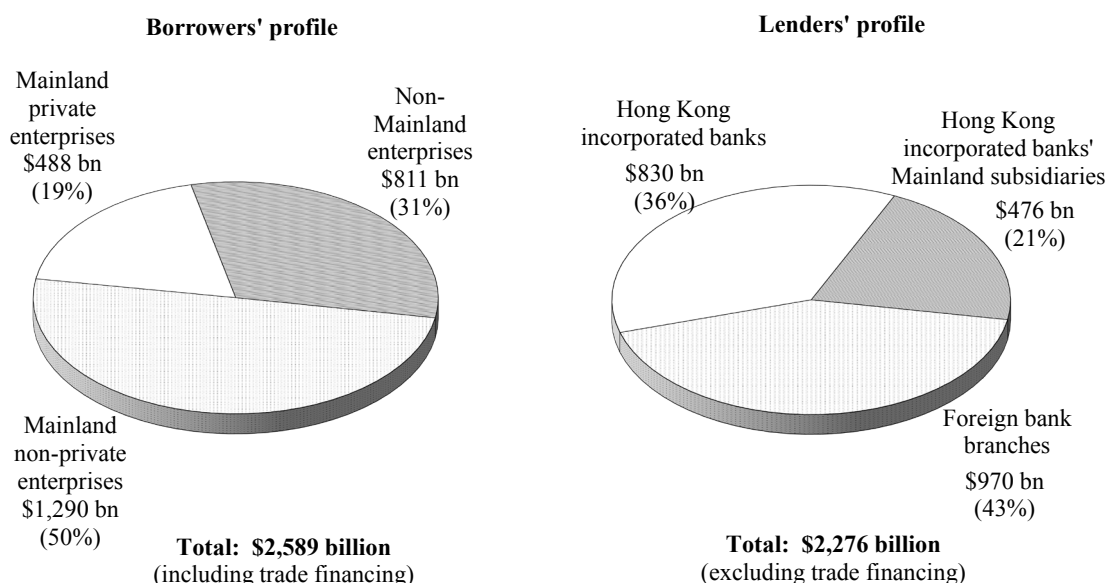
#### *Hong Kong as a regional hub for financial intermediation*

Hong Kong is a regional hub for financial intermediation. The role has become more prominent in recent years as a result of Hong Kong’s increasing financial and economic integration with the Mainland and the continuous economic growth of the latter. Local and international corporates utilise the Hong Kong platform to raise funds for supporting their business ventures in the Mainland, while Mainland enterprises obtain funds here to finance their business expansion and acquisitions both on the Mainland and in other markets.

Meanwhile, foreign banks including those from Japan, Singapore, Australia and the United States recognise the unique advantage of Hong Kong and have, in recent years, increasingly participated in financial intermediation activities using their Hong Kong branches.

At end-2013, Mainland-related lending of the Hong Kong banking sector amounted to \$2,589 billion, comprising \$2,276 billion of customer loans and \$313 billion of trade financing. Reflecting Hong Kong’s status as a regional hub for financial intermediation, both the lenders and borrowers have diversified profiles. Among the borrowers, Mainland non-private enterprises, mostly large state-owned enterprises, accounted for the majority, at 50% of the total Mainland-related lending. Mainland private enterprises took up 19%, while the remaining 31% was borrowed by non-Mainland enterprises, including international corporations and Hong Kong conglomerates. On the lenders side, 43% of Mainland-related lending (excluding trade financing) was made by foreign bank branches. Hong Kong incorporated banks and their Mainland subsidiaries accounted for 36% and 21% respectively (*Chart*).

**Chart : Diversified profiles of borrowers and lenders**



Note: Figures in brackets denote the share of loans to the corresponding total.

(1) This box article is jointly prepared by the HKMA and the Economic Analysis Division.

(2) For the HKMA article, please see: <http://www.hkma.gov.hk/eng/key-information/insight/20140415.shtml>.

#### **Box 4.1 (Cont'd)**

##### *HKMA's regulatory framework*

Given the increasing exposure of the Hong Kong banking sector to Mainland-related lending, it is important to ensure that the risks involved are properly managed. Considering the risk profile of Mainland-related lending and the high degree of heterogeneity in various aspects (e.g. lender type, borrower industry, loan use, credit risk mitigation), from the perspective of a banking supervisor, it is not appropriate to manage the risks of Mainland-related lending using across-the-board hard limits. Therefore, the HKMA's focus is on the robustness of banks' risk management systems, in particular the effectiveness of credit risk and liquidity risk management, and the resilience of banks to possible credit loss in the event of deterioration in loan quality.

Furthermore, the HKMA has stepped up its supervisory efforts in credit risk management since 2010 in light of the significant credit growth. Specifically, these efforts include: (1) regular and thematic onsite examinations of banks' credit underwriting processes; (2) Stable Funding Requirement on banks with high loan growth to ensure adequate long-term funding to support loan growth; and (3) regular supervisory stress-testing to assess banks' resilience to credit shocks.

The HKMA's assessment results show that credit risks of the Hong Kong banking sector, including those of the Mainland-related loans, are properly managed. Also, there is no sign of credit quality deterioration for Mainland-related loans. At end-2013, the classified loan ratio of the banking sector's Mainland-related lending portfolio stood at 0.29%, lower than that of the sector's total lending portfolio at 0.48%.

The HKMA will continue to closely monitor banks' asset quality and ensure that banks are resilient to credit loss throughout the economic cycle by maintaining strong capital positions and, where necessary and appropriate, regulatory reserves. It will also continue to ensure that banks will uphold their credit underwriting standards and prudently manage their liquidity risks.

4.9 The Hong Kong banking sector remains resilient. Hong Kong incorporated AIs were well capitalised, with the total capital adequacy ratio staying high at an average of 15.9% at end-2013. So far no AIs have encountered any difficulty in complying with the statutory minimum ratios required by the HKMA under the Basel III framework<sup>(6)</sup>.

4.10 The HKMA has been implementing the Basel III framework promulgated by the Basel Committee on Banking Supervision in accordance with the transitional timetable set by the Basel Committee, which commenced on 1 January 2013 and is expected to complete on 1 January 2019. Following the first phase of Basel III standards<sup>(7)</sup> which took effect in 2013, the HKMA is preparing the next phase of implementation of Basel III standards which include capital buffer requirements, the liquidity coverage ratio, as well as disclosure requirements associated with these standards and the leverage ratio. Having considered the comments received in the different rounds of consultations launched in 2013, the HKMA has been developing the implementing rules, including amendments to the Banking (Capital) Rules and the Banking (Disclosure) Rules, and a new set of Banking (Liquidity) Rules, for submission to the Legislative Council in 2014.

4.11 In March 2014 the HKMA launched the industry consultation on the proposals for establishing and implementing a local regulatory and supervising framework for systemically important AIs in Hong Kong, with reference to the Basel Committee's principles. Through the application of a range of prudential and supervisory requirements to these designated AIs, the proposals would help reduce the probability of failure of these AIs, thereby ensuring the resilience of the financial sector of Hong Kong.

4.12 Meanwhile, the HKMA continues to participate in the Basel Committee's implementation monitoring process (IMP) and carry out its local IMP on an expanded sample of AIs to assess both the impact of the Basel III requirements and the implementation progress of AIs, especially on the implementation of the liquidity standards. Based on the local IMP results to date, AIs in Hong Kong are generally not expected to encounter major difficulties in complying with the new liquidity standards, although some AIs may need to adjust their liquidity profiles or liquid asset composition to meet the requirements.

4.13 Asset quality of the local banking sector remains good. The ratio of classified loans to total loans stayed low at 0.48% at end-2013, virtually unchanged from the level at end-September. The delinquency ratio for credit card lending edged down from 0.22% to 0.20% over the same period. The delinquency ratio for residential mortgage loans also stayed at 0.02% at end-March 2014, unchanged from end-2013.

**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 (gross)</u>
2012	Q1	98.17	1.27	0.57
	Q2	98.19	1.28	0.52
	Q3	98.19	1.31	0.50
	Q4	98.16	1.36	0.48
2013	Q1	98.32	1.22	0.46
	Q2	98.42	1.11	0.47
	Q3	98.25	1.27	0.48
	Q4	98.33	1.20	0.48

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

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

4.14 Offshore RMB business in Hong Kong recorded further growth in the first quarter. *RMB trade settlement handled by banks in Hong Kong* surged by 21.6% over the preceding quarter or 79.2% over a year earlier to RMB1,489 billion. The outstanding *RMB deposits and certificates of deposit* rose to RMB1,158 billion at end-March 2014, 9.9% higher than at end-2013. RMB financing activities were also vibrant. On the back of active issuance by international corporates and financial institutions, *RMB bond issuance* in the first quarter surged by 43.4% over the preceding quarter to RMB59 billion. Meanwhile, the *outstanding amount of RMB loans* rose by 4.4% over end-2013 to RMB121 billion at end-March 2014.



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

<u>As at end of period</u>		<u>Interest rates on<sup>(a)</sup></u>					<u>Number of AIs engaged in RMB business</u>	<u>Amount of cross-border RMB trade settlement<sup>(c)</sup></u> (RMB Mn)
		<u>Demand and savings deposits</u> (RMB Mn)	<u>Time deposits</u> (RMB Mn)	<u>Total deposits</u> (RMB Mn)	<u>Savings deposits<sup>(b)</sup></u> (%)	<u>Three-month time deposits<sup>(b)</sup></u> (%)		
2013	Q1	144,314	523,744	668,058	0.25	0.52	140	830,955
	Q2	127,512	570,447	697,959	0.25	0.53	140	864,366
	Q3	135,217	594,801	730,018	0.25	0.53	143	921,282
	Q4	151,055	709,417	860,472	0.25	0.53	146	1,224,349
2014	Q1	167,082	777,828	944,910	0.25	0.53	147	1,488,813
% change over the preceding quarter		10.6	9.6	9.8	N.A.	N.A.	N.A.	21.6
% change over a year earlier		15.8	48.5	41.4	N.A.	N.A.	N.A.	79.2

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 in the first quarter of 2014. Total gross issuance of Hong Kong dollar debt securities rose by 0.7% over the preceding quarter or 4.1% over a year earlier to \$593.1 billion<sup>(8)</sup>. Within the total, private sector debt issuance rebounded by a sharp 40.8% over the preceding quarter, with across the board increase in issuance by AIs, local corporations and non-MDBs overseas borrowers. By contrast, public sector debt issuance shrank by 2.5%, as the increase in new debts issued by the Government and statutory bodies/government-owned corporations was more than offset by the decline in Exchange Fund papers issuance. At end-March 2014, the total outstanding balance of Hong Kong dollar debt securities edged up by 0.6% over end-2013 to \$1,428.4 billion, equivalent to 29.3% of HK\$M3 or 24.5% of Hong Kong dollar-denominated assets of the entire banking sector<sup>(9)</sup>.

4.16 As to the Government Bond (GB) Programme, the Financial Secretary announced in the 2014-15 Budget the proposal to issue another tranche of inflation-linked bond (i.e. iBonds) of up to \$10 billion. Meanwhile, a total of \$7.5 billion institutional GBs, with tenors ranging from two to ten years, were issued in the first quarter. Separately, the tenth issuance schedule, which covers the six-month period from March to August 2014, was announced in January 2014. As at end-March 2014, the outstanding size of bonds issued under the GB Programme amounted to \$94 billion, including ten institutional issues for \$64 billion, and three retail issues (iBonds) for \$30 billion.

4.17 To promote the liquidity of the institutional bond market, in 2013 the HKMA devised two liquidity enhancement measures, namely the bond swap facility and the switch tender. The bond swap facility allows Primary Dealers to temporarily swap their institutional GB holdings with the Government, and was launched on 17 February 2014. As to the switch tender, it allows the Government to initiate a tender for Primary Dealers to bid for the permanent switching from one GB to another GB under a competitive tender environment. The first switch tender will be held in mid-May 2014. These measures will enhance the effectiveness of market-making activities and liquidity management on the part of the Primary Dealers, and facilitate end-investors to trade more efficiently in the market.

**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	AIIs	Local corporations	Non-MDBs Overseas borrowers <sup>(^)</sup>	Private Sector total	MDBs <sup>(^)</sup>	Total
<b>New Issuance</b>										
2013 Annual	2,123.4	10.7	30.0	2164.1	143.0	25.6	23.1	191.7	0.9	2,356.8
Q1	508.9	3.5	7.0	519.4	32.5	11.6	6.1	50.3	-	569.7
Q2	537.6	5.0	13.0	555.6	39.5	2.2	7.5	49.2	-	604.7
Q3	532.0	1.1	7.0	540.1	43.2	6.6	2.4	52.2	0.9	593.2
Q4	545.0	1.1	3.0	549.1	27.8	5.2	7.1	40.0	-	589.1
2014 Q1	525.4	2.5	7.5	535.4	33.3	9.8	13.3	56.4	1.3	593.1
% change in 2014 Q1 over 2013 Q1	3.2	-28.6	7.1	3.1	2.4	-15.8	117.6	12.2	-	4.1
% change in 2014 Q1 over 2013 Q4	-3.6	120.4	150.0	-2.5	19.8	89.1	88.3	40.8	-	0.7
<b>Outstanding (as at end of period)</b>										
2013 Q1	708.6	45.7	72.0	826.4	249.7	123.0	145.8	518.5	10.2	1,355.1
Q2	750.1	43.2	85.0	878.3	250.9	117.0	149.0	516.9	9.9	1,405.0
Q3	750.6	40.1	88.5	879.2	248.1	122.9	148.1	519.2	10.4	1,408.7
Q4	751.2	39.8	91.5	882.5	250.1	127.9	148.7	526.7	10.2	1,419.4
2014 Q1	751.5	40.1	95.5	887.1	249.0	130.4	150.9	530.3	11.1	1,428.4
% change over a year earlier	6.0	-12.4	32.6	7.3	-0.3	6.0	3.5	2.3	8.7	5.4
% change over the preceding quarter	0.0	0.7	4.4	0.5	-0.4	1.9	1.5	0.7	8.2	0.6

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

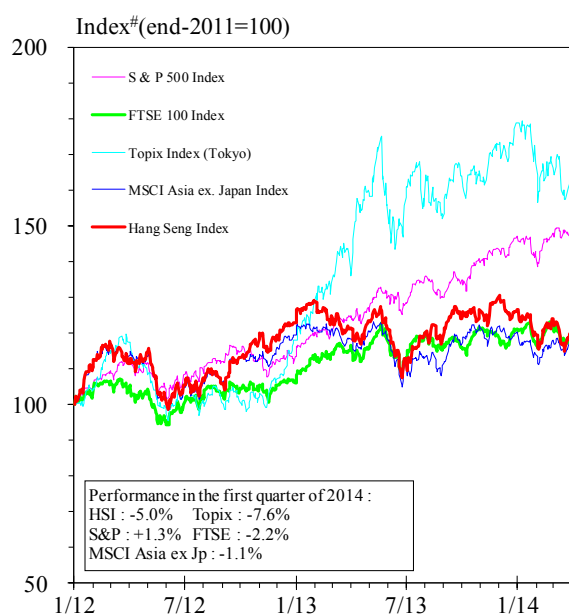
(^) MDBs : Multilateral Development Banks.

## The stock and derivatives markets

4.18 The *local stock market* underwent some correction in the first quarter of 2014, due in part to concerns over possible capital outflow from the emerging markets amid the US Federal Reserve's asset purchase tapering. Market sentiment was also affected by signs of economic slowdown in the Mainland. The Hang Seng Index (HSI) fell from a high of 23 340 on 2 January to 21 182 on 20 March. Though recouping part of the loss later, HSI still declined by 5.0% from end-2013 to 22 151 at end-March 2014. In parallel, *market capitalisation* of the Hong Kong stock market shrank by 4.1% to \$23.1 trillion. According to the World Federation of Exchanges, the local stock market was the fifth largest stock exchange in the world and the second largest in Asia<sup>(10)</sup>.

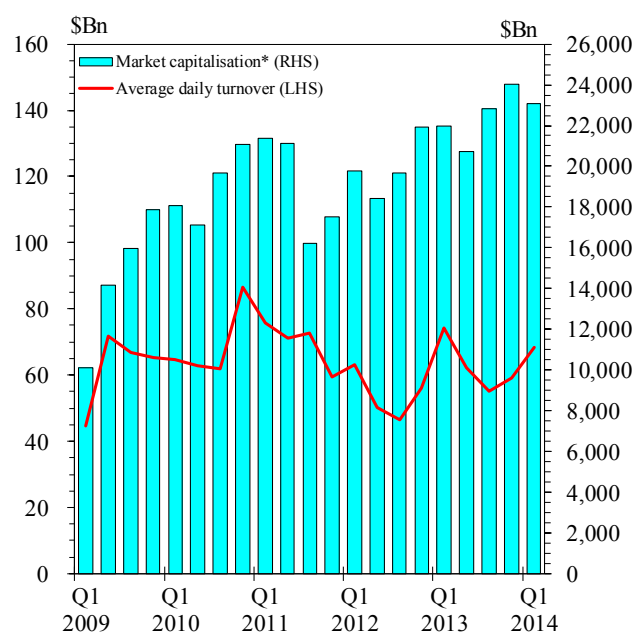
4.19 Meanwhile, trading activities continued to pick up. *Average daily turnover* in the securities market jumped by 15.7% over the preceding quarter to \$68.3 billion in the first quarter, though still 8.1% lower than a year earlier. As to *derivatives products*<sup>(11)</sup>, the average daily trading volume of futures and options rose by 7.8% over the preceding quarter. Analysed by products, trading of stock options, H-shares Index futures, HSI futures and HSI options all increased, by 10.8%, 3.8%, 2.9% and 0.8% respectively. The average daily trading value of securitised derivatives products surged by 22.7% against a low base of comparison in the preceding quarter, with trading of callable bull/bear contracts and derivative warrants rising by 23.0% and 22.4% respectively.

**Diagram 4.6 : The Hang Seng Index underwent some correction in the first quarter of 2014**



Notes : (#) Position at end of month.

**Diagram 4.7 : Market capitalisation shrank while trading activities picked up further**



Note : (\*) Position at end of quarter.

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

		Hang Seng Index <u>futures</u>	Hang Seng Index <u>options</u>	H-shares Index <u>futures</u>	Stock <u>options</u>	Total futures and options <u>traded</u> *	Derivative warrants <u>(\$Mn)</u>	Callable bull/bear contracts <u>(\$Mn)</u>	Total Securitized derivatives traded <u>(\$Mn)</u> <sup>^</sup>
2013	Annual	80 247	35 252	85 538	249 295	532 905	7,309	5,202	12,510
	Q1	82 570	38 464	77 111	278 115	552 686	10,268	6,032	16,301
	Q2	91 137	43 304	87 653	256 162	563 658	7,150	5,433	12,583
	Q3	78 192	31 109	87 853	217 169	503 305	6,190	5,250	11,441
	Q4	69 587	28 614	89 157	247 867	514 398	5,783	4,138	9,920
2014	Q1	71 607	28 842	92 576	274 757	554 700	7,077	5,090	12,167
% change in 2014 Q1 over 2013 Q1		-13.3	-25.0	20.1	-1.2	0.4	-31.1	-15.6	-25.4
% change in 2014 Q1 over 2013 Q4		2.9	0.8	3.8	10.8	7.8	22.4	23.0	22.7

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

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

4.20 Given the nature of the business, fund raising activities continued to showed wild fluctuation from quarter to quarter. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)<sup>(12)</sup>, plunged by 45.7% from the high base in the preceding quarter to \$102.0 billion in the first quarter of 2014, but was sharply higher by 59.8% over a year earlier. Within the total, the amount of funds raised through initial public offerings plummeted by 57.8% from the preceding quarter to \$46.0 billion.

4.21 Mainland enterprises continued to play a dominant role in the Hong Kong stock market. At end-March 2014, a total of 817 Mainland enterprises (including 187 H-share companies, 129 “Red Chips” companies and 501 private enterprises) were listed on the Main Board and GEM, accounting for 49% of the total number of listed companies and 56% of total market capitalisation. In the first quarter, Mainland-related stocks accounted for 70% of equity turnover and 60% of total equity fund raised in the Hong Kong stock exchange (HKEx).

4.22 The Securities and Futures Commission (SFC) launched the consultation on the proposals to amend the Code on Real Estate Investment Trusts (REITs) in January. With the aim of introducing greater flexibility in the investment scope of REITs, it is proposed that REITs be allowed to invest in properties under development or engage in property development activities, and invest in financial instruments, subject to relevant restrictions and requirements. The proposals would facilitate the long-term development of the Hong Kong REIT market and enhance Hong Kong's status as an international asset management centre.

4.23 In February, the SFC launched the consultation on the proposal to strengthen regulation of alternative liquidity pools (ALPs). Also known as alternative trading systems and "dark pools", ALPs are electronic systems operated by licensed or registered persons through which the crossing or matching of orders involving listed or exchange traded securities are conducted with no pre-trade transparency. SFC proposed to enhance and standardise the regulatory obligations of ALP operators in such areas as improving disclosure, restricting the access of ALPs to only institution investors, maintaining system adequacy, and introducing additional control and other reporting/record-keeping requirements. The proposals would help strike a balance between market development, and market integrity and investor protection in Hong Kong.

4.24 In early March 2014, the HKEx announced that the first deliverable RMB currency futures in the world would be introduced to after-hours trading on 7 April. Most of the current trading, clearing and risk management measures for HKEx's after-hour futures trading will apply to the RMB currency futures. The wider range of RMB-related products would facilitate the internationalisation of the RMB, thereby enhancing Hong Kong's position as an offshore RMB centre.

4.25 In early April, the China Securities Regulatory Commission and the SFC jointly approved, in principle, the development of Shanghai-Hong Kong Stock Connect, a pilot programme for establishing stock market trading links between Shanghai and Hong Kong. When launched, the programme will allow eligible Mainland investors to trade eligible stocks listed on the HKEx through the Shanghai Stock Exchange (SSE) directly, and allow Hong Kong and overseas investors to trade eligible stocks listed on the SSE through the HKEx directly<sup>(13)</sup>. The programme will strengthen the strategic co-operation and interaction between the two securities markets, catalyse the two-way RMB fund flows between the onshore and offshore markets, and further increase the liquidity of the offshore RMB market in Hong Kong. It would also reinforce Hong Kong's position as an offshore RMB business centre.

## **Fund management and investment funds**

4.26 The fund management business showed some growth in the first quarter. Gross retail sales of *mutual funds* rose by a sharp 40.9% over the preceding quarter or by 3.4% from a year earlier to US\$20.6 billion<sup>(14)</sup>. The aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*<sup>(15)</sup> edged up by 0.4% over end-2013 to \$516 billion at end-March 2014. The amount of net assets managed by *retail hedge funds* also recorded a slight increase<sup>(16)</sup>.

4.27 In March, the Government launched the consultation on introducing a new open-ended fund company structure to expand Hong Kong's legal infrastructure for investment fund vehicles, so as to provide market participants with more flexibility in establishing and operating funds in Hong Kong. Currently, an open-ended investment fund could be established in the form of a unit trust but not in corporate form. Given the increasing popularity of corporate fund structure, the proposals would help attract more mutual funds and private funds choosing to domicile in Hong Kong, thereby strengthening Hong Kong's position as a premier international asset management centre.

## **Insurance sector**

4.28 The *insurance sector*<sup>(17)</sup> expanded further in 2013, with most underlying business segments recording solid growth. Gross premium income from long-term business jumped by 18.9%. Within the total, premium income from non-investment linked plans went up by 21.0% and that from investment-linked plans by 11.7%. Also, gross and net premium for general business rose by 7.1% and 8.0% respectively.

**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	
2012 Annual	39,312	27,008	2,215	60,339	17,122	104	279	77,844	117,156
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
Q3	10,264	6,930	464	15,351	3,998	26	115	19,490	29,754
Q4	8,796	5,877	163	15,235	5,239	34	35	20,543	29,339
2013 Annual	42,120	29,179	3,038	73,015	19,132	156	285	92,588	134,708
Q1	12,359	8,759	657	17,527	4,919	36	53	22,535	34,894
Q2	10,428	7,446	864	17,570	5,597	40	61	23,268	33,696
Q3	10,512	7,314	671	18,910	3,831	40	50	22,831	33,343
Q4	8,821	5,660	846	19,008	4,785	40	121	23,954	32,775
% change in 2013 Q4 over 2012 Q4	0.3	-3.7	419.0	24.8	-8.7	17.6	245.7	16.6	11.7
% change in 2013 over 2012	7.1	8.0	37.2	21.0	11.7	50.0	2.2	18.9	15.0

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

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

4.29 The Inland Revenue (Amendment) (No.3) Bill 2013, which would provide tax concession for captive insurers with effect from the year of assessment 2013/14 onwards, was passed by the Legislative Council in March 2014. With a view to attracting more enterprises to establish their captive insurers in Hong Kong for underwriting risks of companies within the same group to which they belong, the profits tax on offshore risks insurance business of captive insurers would be reduced by 50%. This would help form a cluster of captive insurers, thereby reinforcing Hong Kong's status as a regional insurance hub, while at the same time making Hong Kong's risk management services more diversified and promoting the development of other professional services including reinsurance, legal and actuarial services in Hong Kong.



## Notes :

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

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

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

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

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

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

- (5) AIs include licensed banks, restricted licence banks and deposit-taking companies. At end-March 2014, there were 158 licensed banks, 21 restricted licence banks and 23 deposit-taking companies in Hong Kong. Altogether, 202 AIs (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.

- (6) Basel III was introduced by the Basel Committee in December 2010 (and subsequently revised in June 2011) to strengthen the resilience of banks and banking systems in the light of lessons drawn from the global financial crisis. It tightens the definition of regulatory capital and increases the minimum common equity requirement from 2% to 4.5% of risk-weighted assets and the Tier 1 capital from 4% to 6% (with the total capital ratio remaining at 8%); requires banks to hold a Capital Conservation Buffer of 2.5% during good times and a Countercyclical Capital Buffer in the range of 0% to 2.5% (or higher at national discretion) at times of excessive credit growth, both to be met by common equity. It introduces a supplementary leverage ratio as a backstop to risk-weighted capital measures and enhances the transparency of the capital base. In addition, Basel III introduces two liquidity standards i.e. the Liquidity Coverage Ratio (LCR) to promote short term liquidity resilience and the Net Stable Funding Ratio (NSFR) to encourage more stable funding structures. The LCR is scheduled to take effect from 1 January 2015, starting with a minimum required level of 60% which is to be stepped up by 10 percentage points annually until achieving 100% by 1 January 2019. The NSFR is scheduled to take effect from 1 January 2018.
- (7) The first phase of Basel III standards, which covers revised minimum capital requirements calculated based on a stricter definition of capital base and a wider risk coverage, took effect in Hong Kong with the amendments to the Banking (Capital) Rules (by way of the Banking (Capital) (Amendment) Rules 2012) coming into operation since 1 January 2013. To implement the Basel Committee's disclosure requirements associated with these standards, amendments were introduced in the Banking (Disclosure) Rules (by way of the Banking (Disclosure) (Amendment) Rules 2013) which took effect from 30 June 2013.
- (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 AIs 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 60 securities exchanges, covering almost all globally recognised stock exchanges.
- (11) At end-March 2014, there were 74 classes of stock options contracts and 41 classes of stock futures contracts.
- (12) At end-March 2014, there were 1 471 and 195 companies listed on the Main Board and GEM respectively.
- (13) As to the operating details of Shanghai-Hong Kong Stock Connect, initially all Mainland institutional investors and eligible individual investors (i.e. individuals who hold an aggregate balance of not less than RMB500,000 in their securities and cash accounts) will be accepted to trade eligible stocks listed on the HKEx through SSE directly. Meanwhile, all Hong Kong and overseas institutional and individual investors will be accepted to trade eligible stocks listed on the SSE through the HKEx directly. Being a pilot programme, the Shanghai-Hong Kong Stock Connect will be implemented in a progressive and risk-controllable manner, and cross-border investment will be subject to quotas. The buying of the eligible HKEx securities by Mainland investors will be capped at an aggregate net quota of RMB250 billion and a

daily net quota of RMB10.5 billion. The buying of the eligible SSE securities by Hong Kong and overseas investors will be capped at an aggregate net quota of RMB300 billion and a daily net quota of RMB13 billion. These quotas will be subject to consideration of any appropriate adjustment in accordance with the actual operational circumstances.

- (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-March 2014, the survey covered a total of 1 182 active authorised funds.
- (15) At end-March 2014, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 477 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 266 000 employers, 2.49 million employees and 212 000 self-employed persons have participated in MPF schemes.
- (16) At end-March 2014, there were three SFC-authorised retail hedge funds with combined net asset size of US\$259 million. The amount of net assets under management edged up by 0.8% from the end-2013 level, and represented an increase of 1.5 times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (17) At end-March 2014, there were 158 authorised insurers in Hong Kong. Within this total, 44 were engaged in long-term insurance business, 95 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

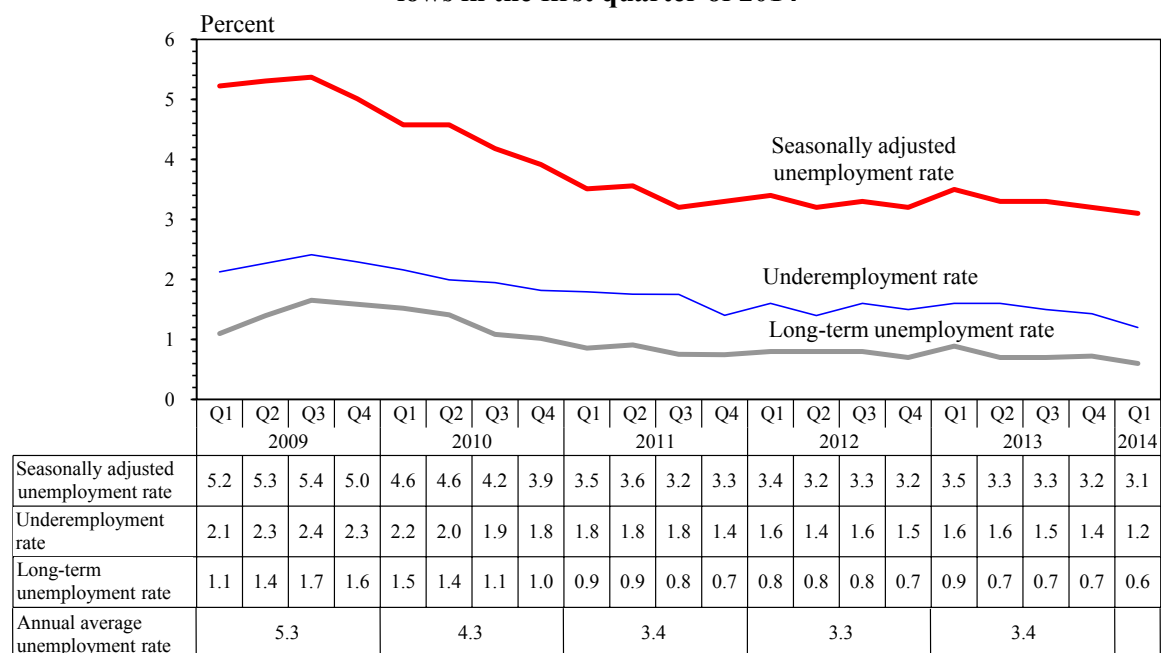
### *Summary*

- *The labour market stayed tight in the first quarter of 2014, as evidenced by the sustained low unemployment and underemployment rates, as well as the high level of private sector vacancies.*
- *The labour force went marginally lower year-on-year in the first quarter of 2014. Constrained by the dip in the labour supply, total employment was virtually unchanged over a year earlier, yet still sustaining at a near record high on the back of continued job creation in the corporate sector.*
- *Labour demand remained strong, thereby keeping unemployment rates at relatively low levels for most sectors. The seasonally adjusted unemployment rate hit a 16-year low of 3.1% in the first quarter of 2014. The underemployment rate likewise edged down to 1.2%, the lowest level since the latter part of 1997.*
- *On the back of the persistently tight manpower resource balance, nominal wages and earnings rose further in the fourth quarter of 2013 and sustained real improvements for the year as a whole. More recent data indicated that grassroots workers continued to enjoy appreciable earnings growth.*

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

5.1 The labour market remained tight upon entering 2014 on the back of a stable domestic segment. Thanks to the sturdy labour demand, total employment stayed near its record high in the first quarter of 2014 despite a marginal year-on-year decline in the labour force. As a result, the seasonally adjusted *unemployment rate*<sup>(2)</sup> inched down by 0.1 percentage point to a 16-year low of 3.1% in the first quarter of 2014. The *underemployment rate*<sup>(3)</sup> likewise went down further, by 0.2 percentage point to 1.2%, the lowest level since the latter part of 1997. Reflecting the persistent tightness in the labour market, job vacancies in the private sector surged further, while wages and earnings sustained solid growth towards end-2013. The lower-paid segment continued to fare better, thanks in part to the upward adjustment of the Statutory Minimum Wage (SMW) rate in May 2013.

**Diagram 5.1 : Both unemployment and underemployment rates edged down to their 16-year lows in the first quarter of 2014**



## Labour force and total employment

5.2 The *labour force*<sup>(4)</sup> contracted mildly by 0.3% over a year earlier in the first quarter of 2014. Following a pick-up in 2013, the labour force participation rate fell to 60.6% in the first quarter of 2014, a level broadly similar to that in 2012. Also contributory was the slower expansion in the working-age population (i.e. land-based non-institutional population aged 15 and above) at 0.6% year-on-year, as against a 1.2% growth recorded in the same quarter last year. On the demand side, *total employment*<sup>(5)</sup>, having hit a new record high of 3 764 800 in November 2013 – January 2014, levelled off in the more recent months. When compared with a year ago, employment showed little change in the first quarter of 2014, conceivably being capped by the dip in the labour supply over the same period.

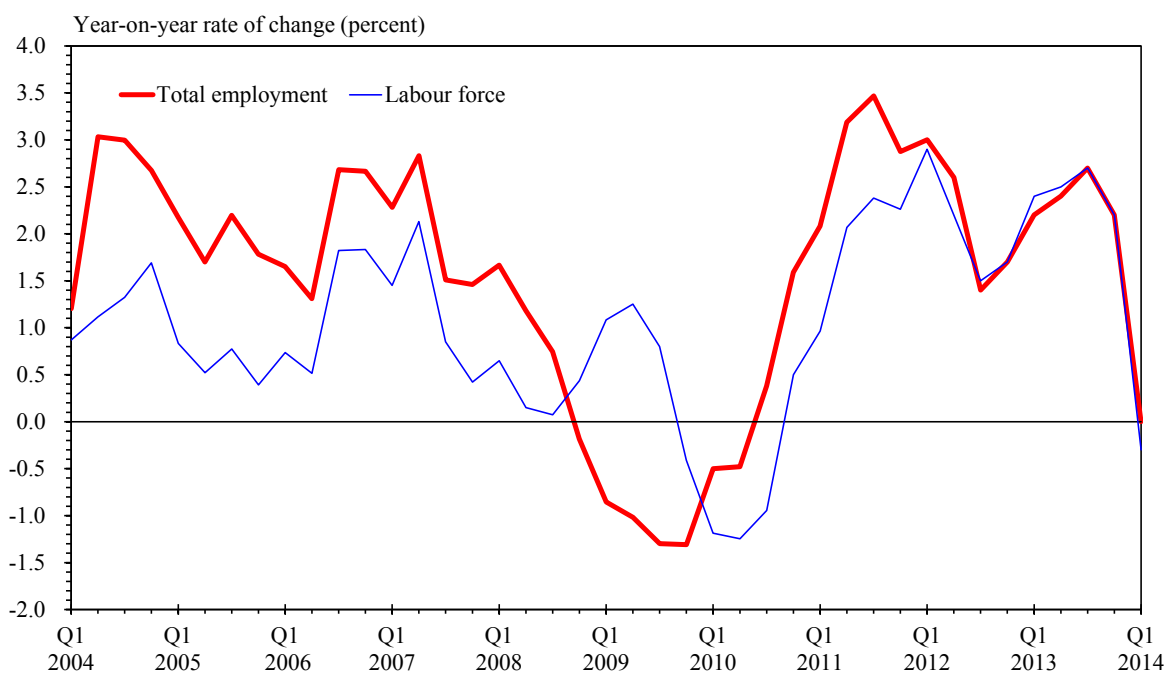
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed<sup>(a)</sup></u>	<u>Persons underemployed</u>
2013	Annual	3 858 800 (1.9)	3 728 000 (1.8)	130 800	58 200
	Q1	3 852 700 (2.4)	3 720 200 (2.2)	132 500	61 100
	Q2	3 877 200 (2.5)	3 745 100 (2.4)	132 100	61 400
	Q3	3 884 300 (2.7)	3 750 100 (2.7)	134 200	57 000
	Q4	3 878 800 (2.2)	3 760 400 (2.2)	118 400	55 500
<i>Three months ending</i>					
2014	Jan	3 877 700 (1.3)	3 764 800 (1.6)	112 900	51 500
	Feb	3 844 300 (0.2)	3 731 900 (0.5)	112 500	46 900
	Mar	3 840 100 (-0.3)	3 721 000 ( § )	119 100	47 700
		<-1.1>	<-1.0>		

- 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 first quarter of 2014.  
 § Change less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : The virtually unchanged employment in the first quarter of 2014 over a year earlier was matched by a mild contraction in the labour force**



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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014 Q1</u>
<u>Male</u>						
15-24	38.1	35.4	35.7	36.4	37.8	36.0
<i>of which:</i>						
15-19	12.5	10.2	9.9	10.5	11.0	10.2
20-24	64.1	60.6	61.1	61.1	62.5	59.7
25-29	94.7	94.0	93.9	94.5	93.8	92.1
30-39	96.4	96.5	96.5	96.8	96.9	96.6
40-49	95.1	95.0	95.1	95.3	95.5	94.8
50-59	84.3	84.4	84.9	85.1	86.8	86.0
≥ 60	21.3	22.0	23.4	25.6	26.9	27.2
Overall	69.4	68.5	68.4	68.7	69.1	68.3
<u>Female</u>						
15-24	40.3	36.7	37.0	37.5	40.0	37.5
<i>of which:</i>						
15-19	11.3	9.2	9.1	9.7	11.5	11.0
20-24	66.0	61.4	62.1	62.0	64.2	60.0
25-29	87.0	86.6	87.5	87.2	86.6	85.3
30-39	77.3	75.6	76.8	77.5	78.5	79.1
40-49	68.8	68.2	69.9	70.8	72.8	73.1
50-59	48.9	49.0	51.6	53.8	56.1	56.2
≥ 60	6.6	6.8	8.1	8.8	9.6	10.1
Overall	53.2	51.9	53.0	53.6	54.5	54.2
<u>Both genders combined</u>						
15-24	39.2	36.0	36.4	37.0	38.9	36.7
<i>of which:</i>						
15-19	11.9	9.7	9.5	10.1	11.2	10.6
20-24	65.1	61.0	61.6	61.6	63.4	59.8
25-29	90.3	89.8	90.2	90.3	89.7	88.2
30-39	85.3	84.3	84.9	85.4	85.9	86.2
40-49	80.8	80.2	81.0	81.4	82.5	82.4
50-59	66.5	66.5	68.0	69.2	71.0	70.5
≥ 60	13.7	14.1	15.5	16.9	17.9	18.3
Overall	60.8	59.6	60.1	60.5	61.2	60.6

Source : General Household Survey, Census and Statistics Department.

## Profile of unemployment

5.3 Comparing the first quarter of 2014 with the preceding quarter, as both the labour force and total employment declined by a broadly similar magnitude, the number of unemployed persons rose only marginally by 700 to 119 100. After netting out seasonal fluctuations, the seasonally adjusted unemployment rate edged down by 0.1 percentage point to a 16-year low of 3.1%, suggesting that the labour market have tightened up further.

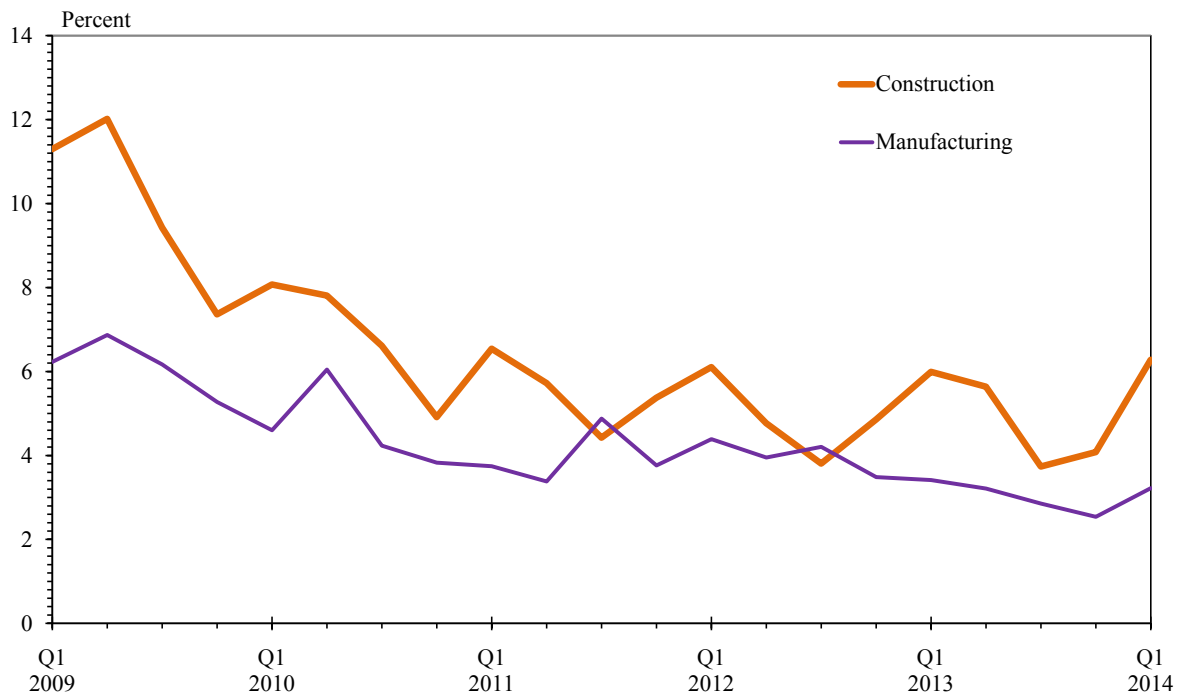
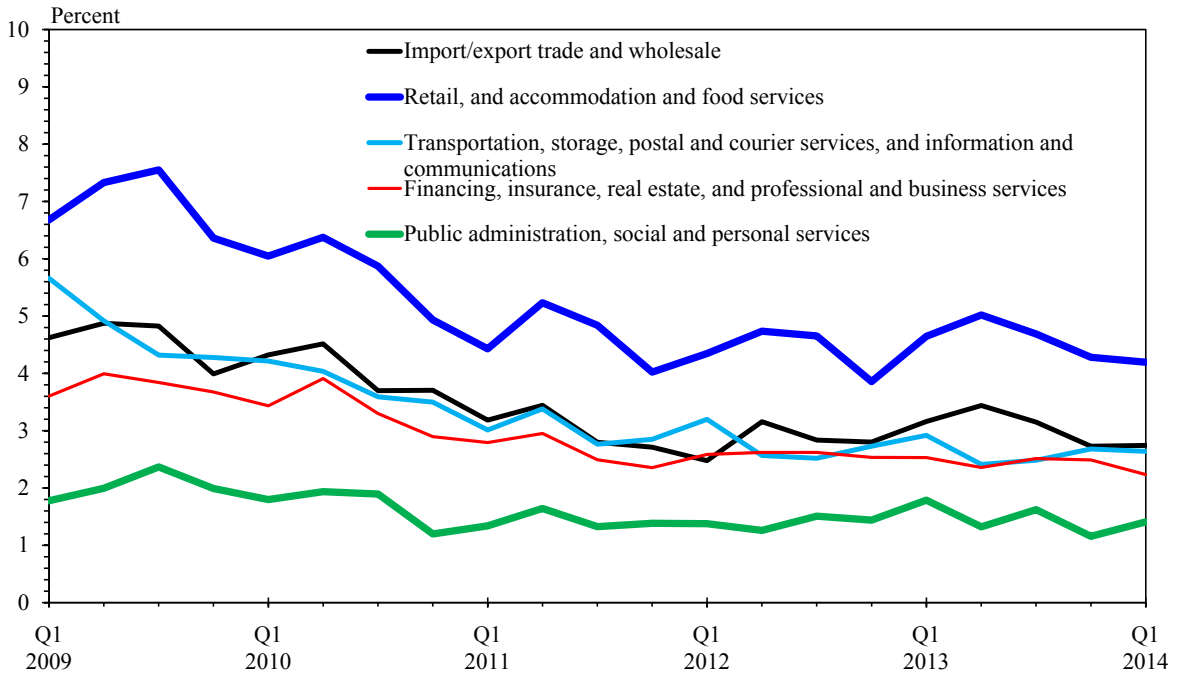
5.4 Unemployment rates of many major sectors remained at relatively low levels in the first quarter of 2014. In particular, for the retail, accommodation and food services, information and communications, and financing and insurance sectors, their unemployment rates in the first quarter of 2014 went lower both on year-on-year and quarter-to-quarter comparisons, with the former two reflecting the firm consumption demand and the latter two reflecting the sturdy demand for higher-skilled professionals in these steadily expanding sectors. Indeed, unemployment rates of many services sectors were well below 3%, essentially signifying the tightness in the manpower resource balance. Against this, however, the unemployment rate of the construction sector went up notably by 2.2 percentage points from the preceding quarter, and also by 0.3 percentage point over a year earlier, mainly led by the decoration, repair and maintenance for buildings segment. Conceivably, this reflected both the seasonal fall in the activity level around the Lunar New Year and the subdued residential property trading in the past year or so. For the *low paying sectors*<sup>(6)</sup> as a whole, the unemployment rate stayed at a low level of 2.9%, still lower than the respective levels immediately before the implementation of SMW in May 2011 and the upward adjustment of the SMW rate in May 2013, reflecting the generally favourable job conditions in the lower-paid segment.

5.5 In terms of occupational category, the manpower situation in the higher-skilled segment remained tight, with its unemployment rate staying at a low level of 1.6% in the first quarter of 2014. In contrast, the unemployment rate of the lower-skilled segment rose back by 0.4 percentage point over the preceding quarter to 3.6%, led by craft and related workers which largely mirrored the seasonal rise in unemployment rate in the construction sector.

5.6 As for other socio-economic attributes, unemployment rates declined from a year ago across all age groups and different educational attainment categories, with the exception of those aged 60 and above, and those with only upper secondary education. Nonetheless, the unemployment rates of the latter two groups still remained at relatively low levels of around 3%.



**Diagram 5.3 : Unemployment rates remained generally low in major economic sectors**



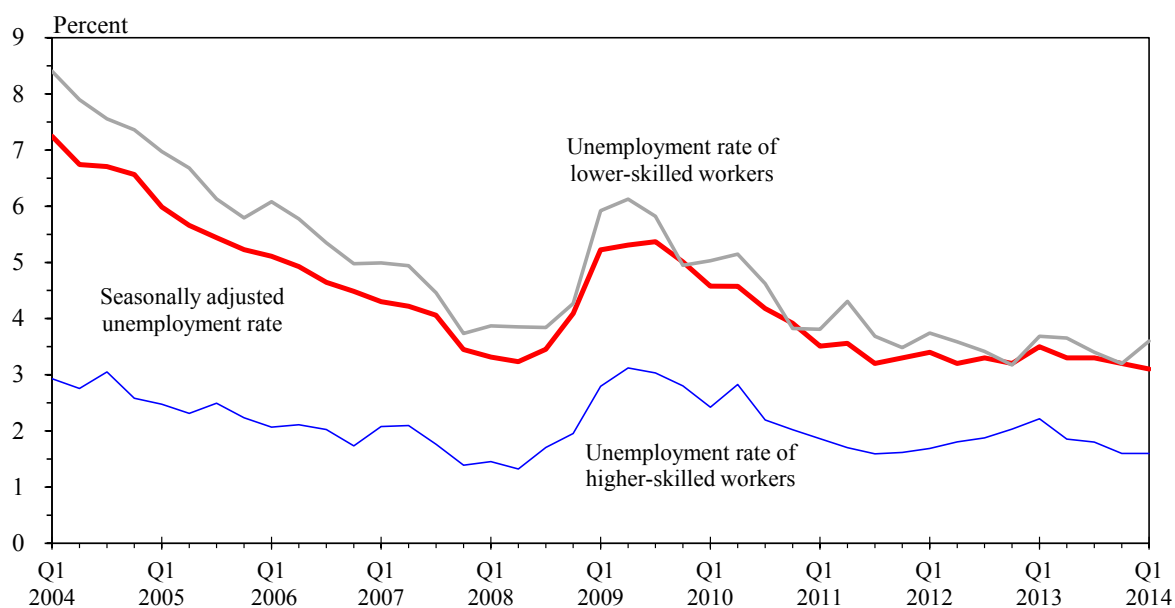
**Table 5.3 : Unemployment rates by major economic sector**

	<u>2013</u>				<u>2014</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Import/export trade and wholesale	3.2	3.4	3.1	2.7	2.7
Retail	4.4	4.9	4.2	4.2	4.1
Accommodation and food services	5.0	5.2	5.3	4.4	4.3
Transportation, storage, postal and courier services	3.0	2.4	2.2	2.7	2.9
Information and communications	2.8	2.6	3.2	2.6	1.9
Financing and insurance	2.7	2.4	2.7	2.2	1.5
Real estate	2.3	1.9	2.5	2.5	2.6
Professional and business services	2.5	2.6	2.4	2.7	2.6
Public administration, social and personal services	1.8	1.3	1.6	1.2	1.4
Manufacturing	3.4	3.2	2.9	2.5	3.2
Construction	6.0	5.6	3.7	4.1	6.3
Overall	3.4 (3.5)	3.4 (3.3)	3.5 (3.3)	3.1 (3.2)	3.1 (3.1)

Note : ( ) Seasonally adjusted unemployment rates.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.4 : The uptick in the unemployment rate of lower-skilled workers in the first quarter of 2014 largely reflected the influence of seasonal factors**



**Table 5.4 : Unemployment rates\* by skill segment**

	<u>2013</u>				<u>2014</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Higher-skilled segment</u>	2.2	1.9	1.8	1.6	1.6
Managers and administrators	1.9	1.6	1.3	1.6	1.4
Professionals	1.9	1.4	1.3	1.4	1.1
Associate professionals	2.5	2.2	2.3	1.8	1.8
<u>Lower-skilled segment<sup>^</sup></u>	3.7	3.7	3.4	3.2	3.6
Clerical support workers	3.0	2.9	3.6	3.0	2.8
Service and sales workers	4.5	4.4	4.2	4.0	4.1
Craft and related workers	5.5	5.3	3.5	4.2	5.9
Plant and machine operators and assemblers	1.8	1.8	2.1	2.1	2.5
Elementary occupations	3.3	3.4	3.0	2.6	3.1

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

<sup>^</sup> Including other occupations.

Source : General Household Survey, Census and Statistics Department.

**Table 5.5 : Unemployment rates\* by age and educational attainment**

	<u>2013</u>				<u>2014</u>
	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<u>Age</u>					
15-24	8.1	9.6	11.3	8.8	7.5
<i>Of which:</i>					
15-19	13.5	17.8	14.9	11.5	10.3
20-24	7.3	8.3	10.7	8.4	7.0
25-29	3.3	3.5	3.8	3.7	3.1
30-39	2.3	2.5	2.3	1.9	2.2
40-49	3.3	2.7	2.6	2.7	2.8
50-59	3.5	3.1	2.8	2.7	3.0
≥ 60	2.4	2.6	2.1	1.9	2.8
<u>Educational attainment</u>					
Primary education and below	4.1	4.1	3.2	3.2	3.6
Lower secondary education	5.1	4.5	3.5	3.9	4.1
Upper secondary education <sup>^</sup>	3.1	3.2	3.4	3.0	3.2
Post-secondary education	2.9	3.0	3.6	2.7	2.4

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

^ Including craft courses.

Source : General Household Survey, Census and Statistics Department.

5.7 Other indicators measuring the intensity of unemployment showed that labour market conditions remained buoyant in the first quarter of 2014. The number of long-term unemployed persons (i.e. unemployed for six months or longer) decreased by 3 700 over the preceding quarter to 24 900, while the long term unemployment rate edged lower by 0.1 percentage point to 0.6%, the lowest level since the first quarter of 1998. Meanwhile, the median duration of unemployment at 62 days was visibly shorter than the 79 days recorded a year earlier. As regards the reasons of unemployment, the proportion of dismissal or lay-offs among the total number of unemployed persons was 51.9%, broadly the same as the year-ago level.

## **Profile of underemployment**

5.8 The underemployment situation improved further in the first quarter of 2014. The underemployment rate fell by 0.2 percentage point over the preceding quarter to 1.2%, the lowest quarterly level since the third quarter of 1997. In absolute terms, the number of underemployed persons declined markedly by 7 800 to 47 700 over the same period. In terms of economic sector, more visible decreases in underemployment rate were recorded in the construction, and warehousing and support activities for transportation sectors, more than offsetting the increases seen in the insurance, and accommodation services sectors. Analysed by occupational category, craft and related workers, and workers engaged in elementary occupations were those seeing more apparent declines in underemployment rate over the same period.

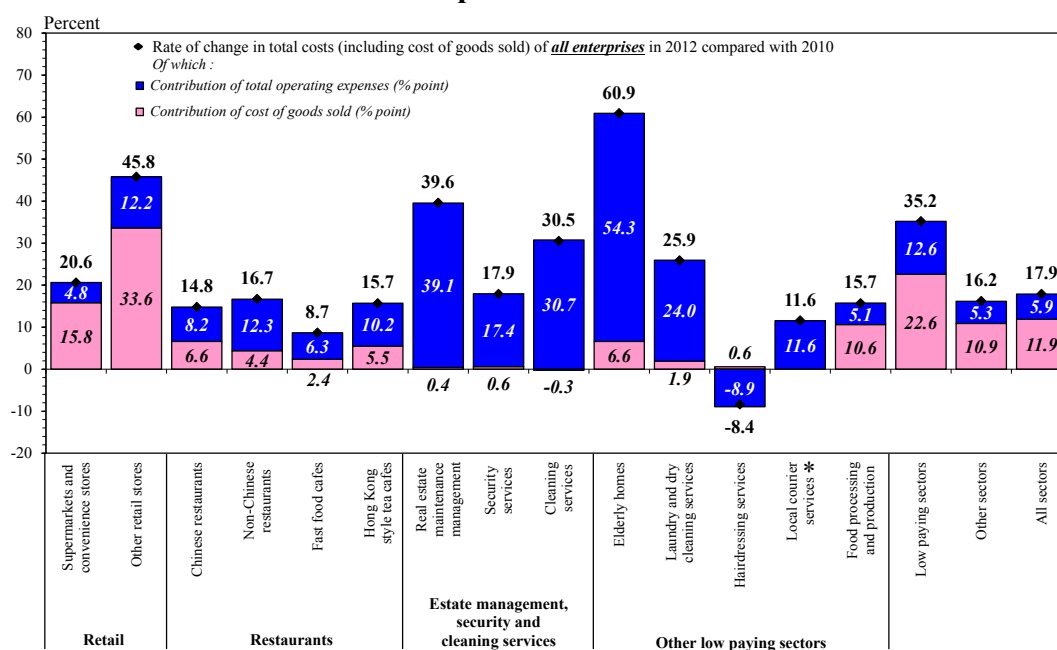
## Box 5.1

### Business performance of enterprises after the implementation of Statutory Minimum Wage

The implementation of Statutory Minimum Wage (SMW) since May 2011 has protected grassroots employees from excessively low wages, but also incurred additional labour costs on enterprises. At the same time, rises in local rentals and other operating expenses amid a resilient domestic sector have also posed further pressure on the operation of enterprises. Based on the latest results of the 2012 Annual Survey of Economic Activities conducted by the Census and Statistics Department, this article analyses how the business performance of different sectors<sup>(1)</sup> evolved between 2010 (i.e. pre-SMW implementation) and 2012, in particular the operation of the low paying sectors (LPS) and small and medium enterprises (SMEs) which generally have lower profit margin, to see whether the mitigation measures taken by enterprises after the implementation of SMW suffice to ease the cost pressure stemming from various fronts.

As the overall economy only posted modest growth in 2012, almost all sectors saw slower increases in business receipts. LPS were no exception, with the growth in business receipts decelerating visibly from 24.3% in 2011 to 9.7%. Comparing 2012 with 2010, LPS as a whole registered a cumulative rise of 36.4% in business receipts, but individual LPS fared less satisfactorily. For instance, business receipts of fast food cafes and local courier services recorded mere increases of 5.4% and 2.9% respectively over the same period, while those of hairdressing services even fell by 13.2%. On business costs, thanks to the relative stabilisation in global food and commodity prices and the slower pace of business expansion in 2012, upward pressure on total costs (including cost of goods sold) eased somewhat when compared to 2011. Nevertheless, comparing 2012 with 2010, the total costs of LPS still surged by 35.2% cumulatively, with more notable increases seen in elderly homes (up 60.9%), other retail stores (up 45.8%) and real estate maintenance management (up 39.6%). Analysed by the nature of costs, cost pressure of LPS like restaurants, estate management, security and cleaning services, elderly homes, laundry and dry cleaning services, and local courier services mainly came from total operating expenses (viz. staff costs; rent, rates and government rent; and other operating expenses, which are analysed below in detail). In contrast, the contribution of cost of goods sold to the upsurge in total costs was prominent in the retail sector (*Chart 1*).

**Chart 1: Rise in total operating expenses inflicted pressure on the operation of most LPS**



Note: (\*) No cost of goods sold is involved in the industry.

Sources: 2010 and 2012 Annual Survey of Economic Activities, Census and Statistics Department.

(1) The statistics discussed in this article pertain to those enterprises with employees only.

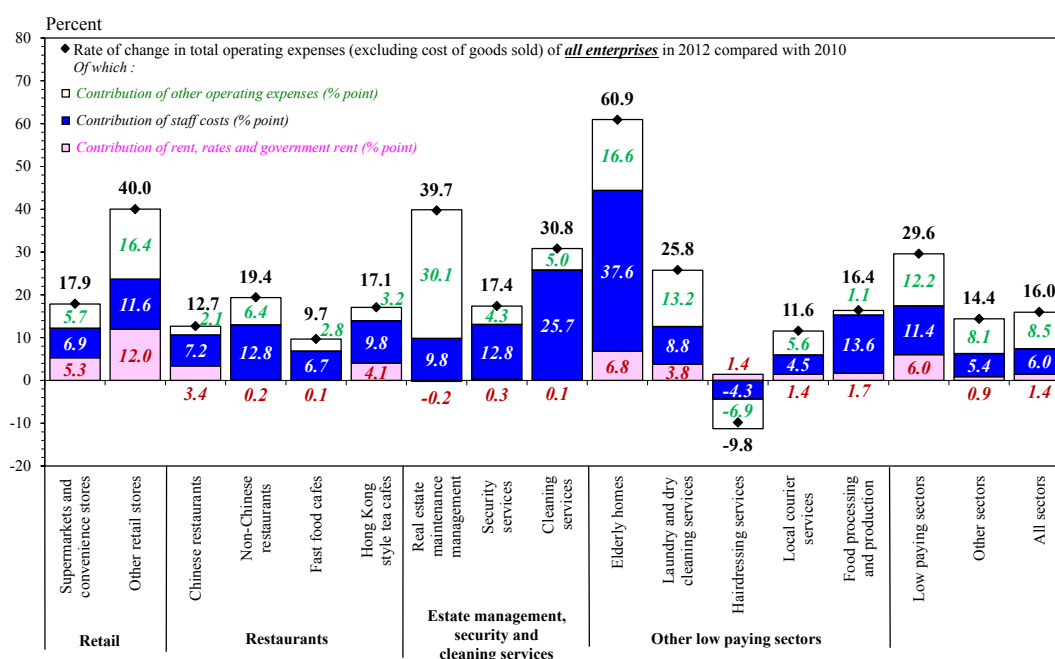
## Box 5.1 (Cont'd)

### Total operating expenses

Further analysis showed that staff costs were one of the key factors underlying increases in total operating expenses in most LPS (**Chart 2**). Comparing 2012 with 2010, a cumulative increase of 20.9% in average staff costs per employee was recorded in LPS, much higher than the 8.7% increase in other sectors (i.e. non-LPS). The most visible increases were seen in Chinese restaurants (up 30.2%), laundry and dry cleaning services (up 26.2%) and cleaning services (up 25.4%).

Apart from rising staff costs, some sectors also faced the problem of manpower shortage and thus had to adopt mitigation measures. Statistics showed that Chinese restaurants and security services companies registered a cumulative decline of 16.8% and 7.9% respectively in the average number of employees per enterprise over the same period, suggesting that LPS might have gradually adjusted their mode of operation to meet the challenges of pay rise and manpower shortage. Examples of adjustments included setting up of centralised food factories and outsourcing of utensil washing operations by some restaurants, and installation of security monitoring systems to replace night-shift security guards in some buildings.

**Chart 2: Rising staff costs and other operating expenses accounted for a significant portion of increases in total operating expenses of LPS**



Sources: 2010 and 2012 Annual Survey of Economic Activities, Census and Statistics Department.

On the other hand, increases in other operating expenses (e.g. advertisement and business promotion expenses, management fees or payment for outsourced services, utilities, etc.) also pushed up the total operating expenses of many LPS. In other retail stores, for instance, other operating expenses went up visibly by 56.1% in 2012 over 2010, due in part to increased business promotion activities. Moreover, business cost might also go up alongside the increases in the prices of products and services of related sectors. For example, higher payments for outsourced security and cleaning services and the likes may have contributed to the surge in other operating expenses by 50.1% between 2010 and 2012 within the real estate maintenance management sector. Meanwhile, other operating expenses in elderly homes went up markedly (by a cumulative 107.9% within two years), partly owing to rises in nursing and medical costs, and its share in the total operating expenses increased from 15.3% in 2010 to 19.8% in 2012.

Comparing 2012 with 2010, although the increases in rent, rates and government rent were modest relative to staff costs and other operating expenses, they still contributed substantially to the rise in total operating expenses incurred by retail, Chinese restaurants, Hong Kong

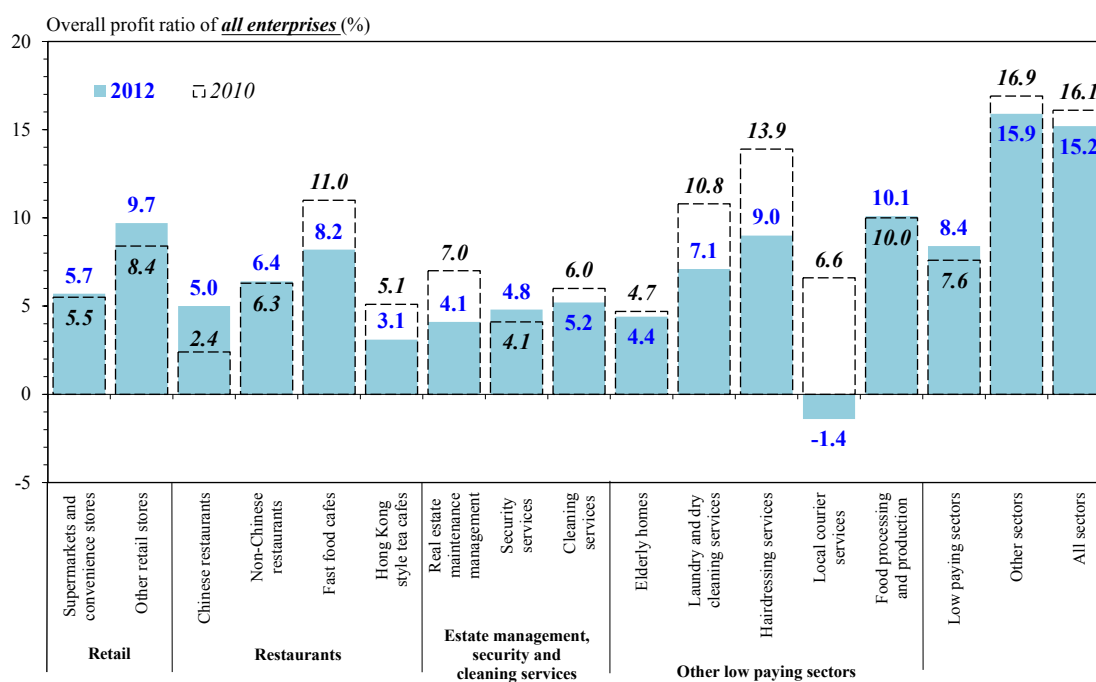
### Box 5.1 (Cont'd)

style tea cafes, elderly homes, and laundry and dry cleaning services. Undeniably, the increases in the overall rental expenses of these sectors could be partly attributed to business expansion as their business receipts grew in tandem over the same period. However, in some sectors such as supermarkets and convenience stores, and laundry and dry cleaning services, their rental expenses still increased by 14.4% and 37.2% respectively in 2012 over 2010 despite a drop in the number of enterprises, suggesting that these sectors might find it more difficult to adjust the locations of their outlets as a means to combat rental rises.

#### Profitability

Although enterprises had adopted mitigation measures to control costs after the implementation of SMW, the profitability of some LPS worsened from 2010 to 2012. Among which were hairdressing services, laundry and dry cleaning services, real estate maintenance management and fast food cafes, with their overall profit ratios (i.e. ratio of profit<sup>(2)</sup> to business receipts) down significantly by 4.9, 3.7, 2.9 and 2.8 percentage points respectively. Local courier services witnessed a particularly noticeable deterioration, recording an overall loss of 1.4% in 2012 (*Chart 3*). This might reflect the incapability of some LPS to fully absorb the additional costs through price pass-through or other mitigation measures. Besides, despite a slight improvement in the overall profit ratios of LPS during the two years, the proportion of enterprises that recorded losses went up by 4.7 percentage points to 31.9%, representing nearly 3 000 more enterprises. In other words, enterprises originally running at a thin margin had probably reversed to a loss. Should the operating environment become more challenging, these enterprises might face a higher risk of scaling down further or even closing down, putting the livelihood of their employees also at stake.

**Chart 3: Profitability of some LPS worsened noticeably**



Sources: 2010 and 2012 Annual Survey of Economic Activities, Census and Statistics Department.

#### Small and medium enterprises (SMEs)

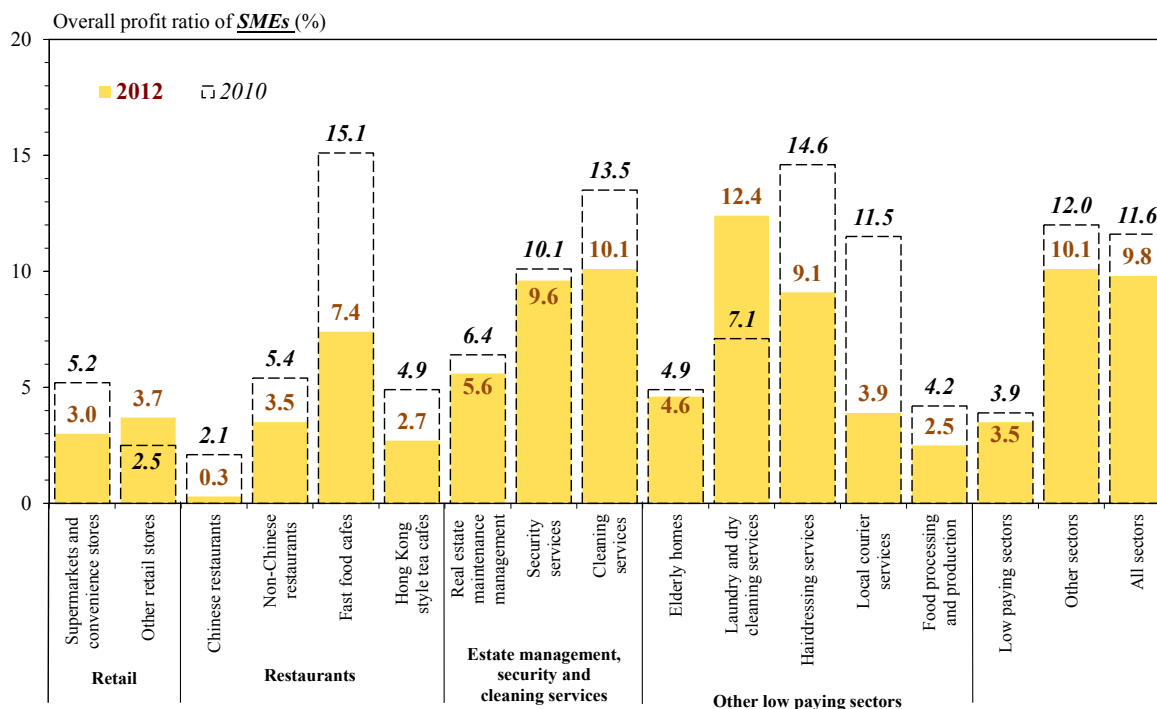
Due to resource constraints, SMEs were usually less powerful in pricing and cost control than larger enterprises, as reflected by their generally lower overall profit ratios. In 2012, the overall profit ratio of SMEs in all LPS was 3.5%, lower than the 3.9% in 2010. Meanwhile, the overall profit ratios of SMEs in most LPS declined considerably as compared to 2010 (*Chart 4*), with restaurants recording the most visible decreases.

(2) Earnings before tax (abbreviated as profit) in 2010 refer to profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation; provisions; etc.; amortisation was deducted from profit in 2012.



### Box 5.1 (Cont'd)

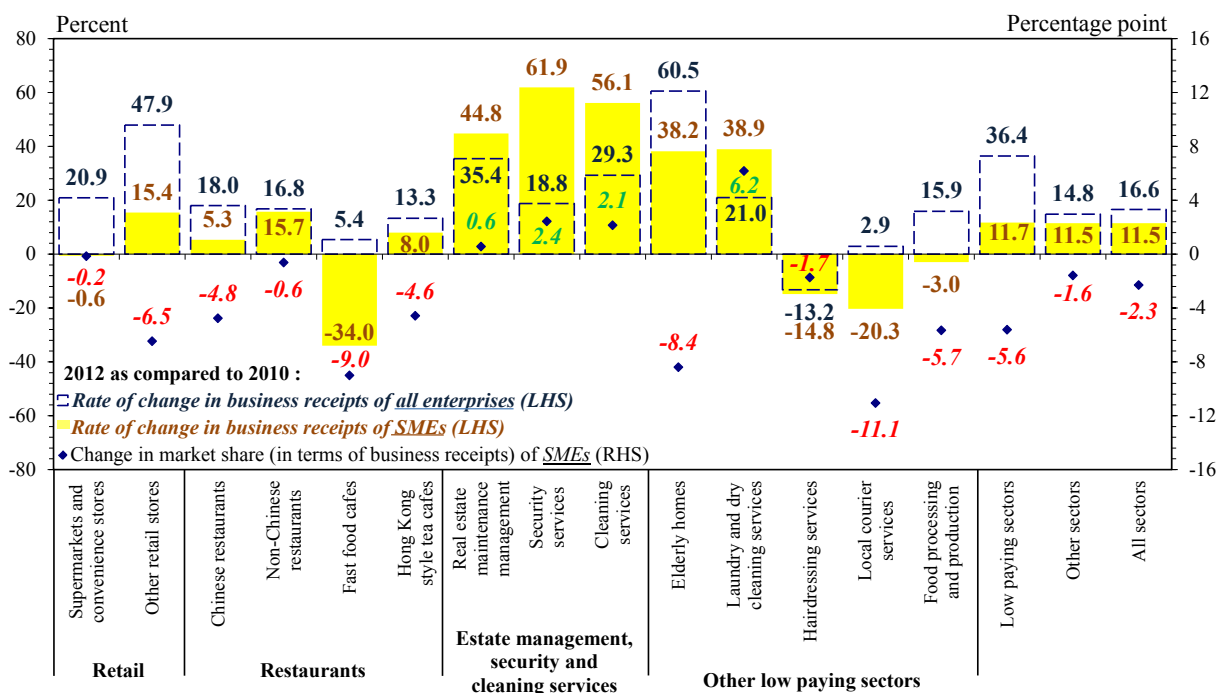
#### Chart 4: Dwindling profit ratios of SMEs were observed in most LPS



Sources: 2010 and 2012 Annual Survey of Economic Activities, Census and Statistics Department.

In fact, comparing 2012 with 2010, the market shares of SMEs (i.e. share of business receipts of SMEs among all enterprises) fell by varying degrees across most LPS, with the exception of estate management, security and cleaning services. The most obvious amongst them included local courier services (down 11.1 percentage points), fast food cafes (down 9.0 percentage points) and elderly homes (down 8.4 percentage points) (*Chart 5*). However, as LPS had already undergone most of the consolidation in 2011, no discernible changes were observed in the market shares of SMEs among LPS in 2012.

#### Chart 5: Market shares of SMEs fell significantly across most LPS



Sources: 2010 and 2012 Annual Survey of Economic Activities, Census and Statistics Department.

**Box 5.1 (Cont'd)****Final remarks**

In overall terms, enterprises experienced prominent rises in labour costs after the implementation of SMW. This, coupled with increases in rentals and other operating expenses over the same period, put the operation of enterprises in most LPS under pressure. In spite of the mitigation measures adopted by enterprises, the figures of 2012 showed that the profitability of many LPS had turned markedly weaker than it was in 2010. With the proportion of enterprises recording losses also on the rise, it was apparent that the operating environment of some sectors was quite challenging. SMEs, having lower profit ratios in general, were dealt an even harder blow, as evidenced by their dwindling market shares. The stable macroeconomic and labour market conditions since the implementation of SMW had, to a certain extent, alleviated the pressure arising from SMW and the increases in other business costs on corporate profits. However, SMEs in individual LPS still recorded noticeable declines in overall profit ratios and market shares. Continued monitoring is deemed necessary for gaining a deeper and more thorough understanding of the impact of SMW implementation on business performance.

## **Profile of employment in establishments**

5.9 The quarterly statistics collected from private sector establishments on employment, vacancies, wages and payroll are available only up to December 2013. To bring the analysis more up-to-date, attempts have been made wherever possible by drawing reference to information from supplementary sources.

5.10 Job creation remained vibrant towards end-2013, with total employment in private sector establishments growing visibly further by 2.4% year-on-year to an all-time-high of 2 727 900 in December 2013. Supported by the intensive public infrastructure works, construction sites (covering manual workers only) resumed a double-digit increase in employment (up 13.4% year-on-year), following the respectable growth of 6.3% in September. Job gains were also observed in most service industries, including notably accommodation services (up 6.3%), information and communications (up 6.2%), and professional and business services (up 4.9%). The decline in employment in import/export trade and wholesale also eased slightly (down 0.3%), conceivably benefiting from the relative improvement in external trade back then. On the other hand, the secular downtrend in manufacturing employment continued (down 1.5%). Analysed by establishment size, job creation picked up among small and medium-sized enterprises (SMEs)<sup>(7)</sup> in December 2013, with their headcounts rising by 2.9% over a year earlier and accounting for 59% of the employment growth. Over the same period, employment at large enterprises grew by 1.8% year-on-year after a respectable growth of 2.5% in September. For 2013 as a whole, total employment in private sector establishments increased briskly further by 1.9%, the same pace as in 2012. As for the civil service, employment grew by 1.7% year-on-year in December 2013, and by 1.3% for 2013 as a whole.

## **Vacancies**

5.11 Job vacancies in private sector establishments increased visibly further across most economic sectors in December 2013 (up 11.2% year-on-year for all selected sectors taken together), signifying a buoyant labour demand. For 2013 as a whole, job vacancies sustained a double-digit increase of 12.1% to 77 180, the highest annual level since 1990.

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

	<u>2012</u>					<u>2013</u>				
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>
Import/export trade and wholesale	556 400 (-1.1)	557 200 (-1.4)	558 300 (-0.4)	555 400 (-1.6)	554 600 (-0.9)	554 200 (-0.4)	558 000 (0.1)	554 400 (-0.7)	551 600 (-0.7)	552 800 (-0.3)
Retail	259 100 (2.5)	256 800 (2.2)	259 400 (2.9)	259 700 (2.7)	260 200 (2.1)	265 000 (2.3)	262 700 (2.3)	264 800 (2.1)	264 800 (1.9)	267 700 (2.9)
Accommodation <sup>(a)</sup> and food services	272 300 (2.6)	269 000 (2.3)	272 300 (2.3)	273 700 (2.8)	274 200 (3.0)	276 400 (1.5)	275 600 (2.4)	276 200 (1.4)	275 900 (0.8)	277 800 (1.3)
Transportation, storage, postal and courier services	166 600 (1.8)	165 600 (2.2)	166 700 (2.2)	166 900 (1.9)	167 200 (1.1)	170 000 (2.0)	168 100 (1.5)	169 300 (1.6)	171 000 (2.5)	171 600 (2.6)
Information and communications	96 400 (5.6)	95 200 (6.6)	95 900 (5.3)	97 500 (6.3)	97 200 (4.2)	101 300 (5.1)	98 400 (3.3)	101 100 (5.4)	102 600 (5.2)	103 200 (6.2)
Financing, insurance, real estate, professional and business services	666 500 (3.1)	662 200 (4.6)	664 700 (3.5)	668 200 (2.4)	671 000 (1.9)	683 400 (2.5)	676 100 (2.1)	678 300 (2.1)	685 200 (2.6)	693 800 (3.4)
Social and personal services	450 000 (2.4)	444 600 (1.9)	450 600 (2.7)	450 800 (2.3)	454 200 (2.8)	462 400 (2.7)	458 600 (3.2)	461 000 (2.3)	463 800 (2.9)	466 100 (2.6)
Manufacturing	106 900 (-5.1)	108 000 (-6.2)	107 600 (-5.4)	106 800 (-4.3)	105 300 (-4.6)	103 700 (-3.0)	104 000 (-3.7)	103 400 (-4.0)	103 900 (-2.7)	103 700 (-1.5)
Construction sites (manual workers only)	71 300 (13.8)	70 600 (20.1)	71 700 (22.4)	72 200 (13.4)	70 600 (1.7)	79 300 (11.2)	77 800 (10.1)	82 500 (15.1)	76 800 (6.3)	80 100 (13.4)
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>2 656 000 (1.9)</i>	<i>2 639 700 (2.1)</i>	<i>2 657 700 (2.3)</i>	<i>2 661 500 (1.6)</i>	<i>2 665 000 (1.3)</i>	<i>2 706 400 (1.9)</i>	<i>2 689 700 (1.9)</i>	<i>2 701 600 (1.7)</i>	<i>2 706 500 (1.7)</i>	<i>2 727 900 (2.4)</i>
		<i>&lt;0.4&gt;</i>	<i>&lt;0.7&gt;</i>	<i>&lt;0.2&gt;</i>	<i>&lt;§&gt;</i>		<i>&lt;0.9&gt;</i>	<i>&lt;0.5&gt;</i>	<i>&lt;0.3&gt;</i>	<i>&lt;0.7&gt;</i>
<i>Civil service<sup>(c)</sup></i>	<i>159 300 (1.1)</i>	<i>159 200 (1.5)</i>	<i>159 200 (1.2)</i>	<i>159 100 (0.9)</i>	<i>159 700 (0.7)</i>	<i>161 400 (1.3)</i>	<i>160 700 (0.9)</i>	<i>160 900 (1.1)</i>	<i>161 500 (1.5)</i>	<i>162 400 (1.7)</i>

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

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

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

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

( ) % change over a year earlier.

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

§ Increase less than 0.05%.

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

5.12 Analysed by economic sector, more notable vacancy growth was found in construction sites (covering manual workers only) (up 67.9% year-on-year), accommodation and food services (up 26.1%), and transportation, storage, postal and courier services (up 20.4%) in December 2013, thanks to the sustained high level of public infrastructure works and a resilient domestic sector. In terms of occupational category, the lower-skilled segment continued to register robust vacancy growth at 15.6% year-on-year, mainly driven by the increased job openings for elementary occupations (up 25.0%), and plant and machine operators and assemblers (up 21.4%). In contrast, job vacancies in the higher-skilled segment declined marginally by 0.7%, further to a 1.9% decrease in September, mainly reflecting the soft demand for managers and administrators, and professionals. For 2013 as a whole, lower-skilled vacancies surged by 18.0%, while higher-skilled vacancies went down slightly by 0.5%. In terms of establishment size, job vacancies offered by SMEs sustained a double-digit increase of 15.4% in December 2013 over a year earlier, surpassing the already notable growth at 7.6% among large enterprises. As regards the civil service, the number of job openings went up by 2.7% for 2013 as a whole, despite a year-on-year decline of 5.5% in December 2013.

5.13 Analysing the number of job openings in private sector establishments relative to that of job-seekers, the ratio of job vacancies per 100 unemployed persons was 61 in December 2013, up from 58 in September and 56 recorded a year earlier. The ratios for higher-skilled and lower-skilled jobs were 75 and 70 respectively, both up from their respective year-ago levels and pointing to a further tightening up of the labour market. The increase in vacancy-to-unemployed ratio for higher-skilled jobs was mainly driven by the strong demand for associate professionals, while such increase was most notable among workers engaged in the elementary occupations in the lower-skilled segment. Analysed by economic sector, rises in the ratio were seen in most industries, reflecting an increasingly tight manpower situation almost across-the-board. Persistent shortages were particularly apparent in the social and personal services, accommodation and food services, financing, insurance, real estate, and professional and business services sectors, with their respective ratios staying at considerably high levels throughout 2013.

**Table 5.7 : Vacancies by major economic sector**

	<u>Number of vacancies</u>										Vacancy rate in Dec 2013 (%)	
	<u>Annual average</u>	<u>2012</u>					<u>2013</u>					
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>		
Import/export trade and wholesale	8 510 (8.5)	8 950 (7.8)	9 140 (10.6)	8 240 (6.4)	7 710 (9.0)	9 810 (15.3)	10 440 (16.7)	10 120 (10.7)	10 140 (23.1)	8 540 (10.9)	1.5	
Retail	7 900 (33.6)	8 180 (35.7)	6 900 (32.7)	8 950 (45.9)	7 560 (20.4)	8 760 (10.9)	9 400 (15.0)	8 120 (17.8)	9 190 (2.6)	8 310 (9.9)	3.0	
Accommodation <sup>(a)</sup> and food services	12 030 (46.5)	11 040 (42.7)	12 270 (51.1)	12 940 (62.0)	11 860 (31.9)	14 460 (20.2)	15 550 (40.9)	12 970 (5.7)	14 360 (11.0)	14 960 (26.1)	5.1	
Transportation, storage, postal and courier services	3 290 (25.5)	3 200 (26.1)	3 410 (13.2)	3 540 (45.7)	3 010 (20.2)	3 750 (13.9)	3 620 (13.1)	4 100 (20.3)	3 640 (2.8)	3 630 (20.4)	2.1	
Information and communications	2 370 (1.7)	2 480 (-7.4)	2 380 (8.6)	2 150 (-4.0)	2 480 (11.6)	2 690 (13.3)	2 680 (8.2)	3 050 (28.3)	3 020 (40.2)	2 000 (-19.6)	1.9	
Financing, insurance, real estate, professional and business services	16 090 (14.5)	16 180 (14.8)	16 610 (14.0)	15 820 (10.6)	15 750 (18.9)	17 710 (10.0)	17 510 (8.2)	17 950 (8.1)	18 450 (16.6)	16 910 (7.3)	2.4	
Social and personal services	15 170 (16.0)	16 310 (23.1)	16 490 (29.5)	14 820 (6.6)	13 070 (5.0)	16 190 (6.7)	17 330 (6.2)	17 690 (7.3)	15 620 (5.4)	14 130 (8.2)	2.9	
Manufacturing	2 740 (25.0)	2 860 (21.1)	2 970 (37.2)	2 370 (2.6)	2 770 (42.5)	2 590 (-5.5)	2 600 (-9.1)	2 680 (-9.8)	2 700 (14.1)	2 390 (-13.9)	2.3	
Construction sites (manual workers only)	640 (95.1)	670 (347.0)	590 (94.7)	510 (-4.3)	800 (142.7)	1 050 (63.1)	930 (39.6)	1 030 (74.3)	890 (73.2)	1 350 (67.9)	1.7	
<i>All establishments surveyed in the private sector<sup>(b)</sup></i>	<i>68 840 (21.5)</i>	<i>69 970 (22.3)</i>	<i>70 840 (25.1)</i>	<i>69 460 (20.4)</i>	<i>65 100 (18.0)</i>	<i>77 180 (12.1)</i>	<i>80 170 (14.6)</i>	<i>77 860 (9.9)</i>	<i>78 300 (12.7)</i>	<i>72 380 (11.2)</i>	<i>2.6</i>	
		<8.4>	<5.2>	<-1.8>	<5.1>		<5.4>	<0.8>	<1.5>	<2.9>		
<i>Civil service<sup>(c)</sup></i>	<i>6 340 (0.9)</i>	<i>5 880 (-2.5)</i>	<i>6 350 (1.8)</i>	<i>6 600 (-0.5)</i>	<i>6 550 (5.0)</i>	<i>6 520 (2.7)</i>	<i>6 220 (5.8)</i>	<i>6 980 (10.0)</i>	<i>6 670 (1.1)</i>	<i>6 190 (-5.5)</i>	<i>3.7</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.

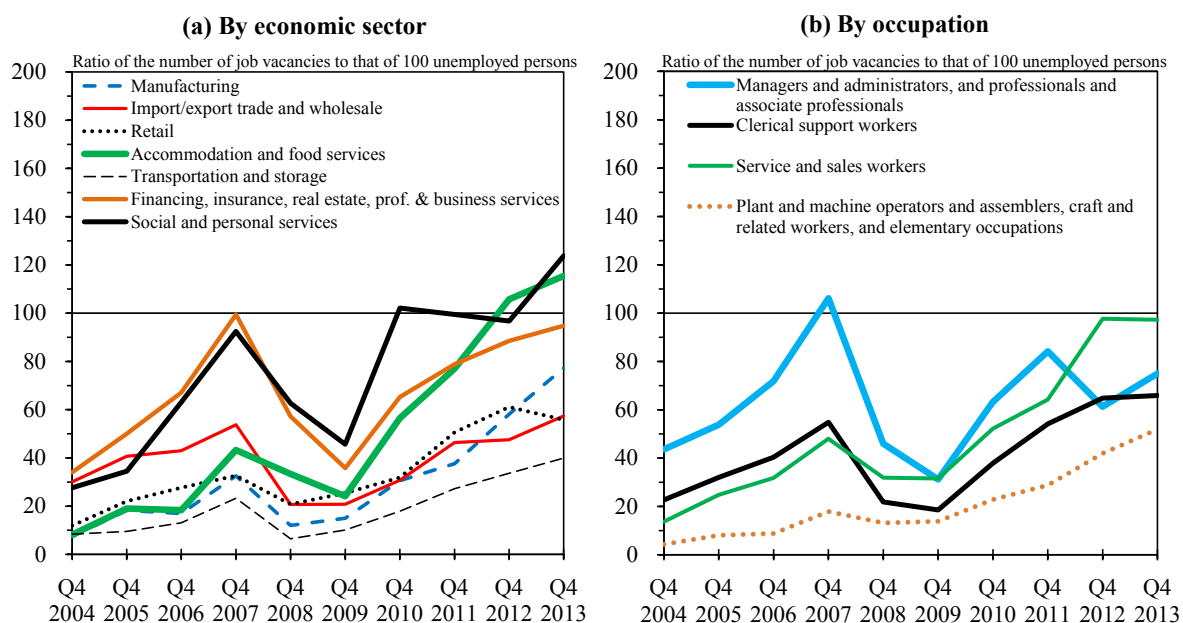
( ) % change over a year earlier.

<> 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 5.5 : Manpower resource balance tightened up in most sectors and occupations**



5.14 The vacancy rate for private sector establishments, expressed as the percentage of job vacancies to total employment opportunities, edged up by 0.2 percentage point from a year ago to 2.6% in December 2013. More noticeable increases in vacancy rates were observed in accommodation and food services, real estate, and education. For 2013 a whole, the private sector vacancy rate increased by 0.3 percentage point to 2.8%, the highest annual level since 1994.

5.15 The vacancy figures compiled by the Labour Department (LD), notwithstanding its smaller sample size, may offer some hints on the latest developments in the labour market. In the first quarter of 2014, the average number of private sector vacancies posted by the LD increased mildly by 0.7% year-on-year to 94 800 per month, indicating a generally steady hiring sentiment in the private sector.

## Wages and earnings

5.16 Wages and earnings stayed on the rise in 2013, reflecting the persistently tight manpower situation throughout the year. *Nominal wage index*, which measures the regular payment to employees at the supervisory level or below, rose further by 4.1% year-on-year in December 2013. For 2013 as a whole, labour wages posted a solid increase of 4.7% in nominal terms. After adjusting for inflation<sup>(8)</sup>, there was a modest gain of 0.1% in real terms.

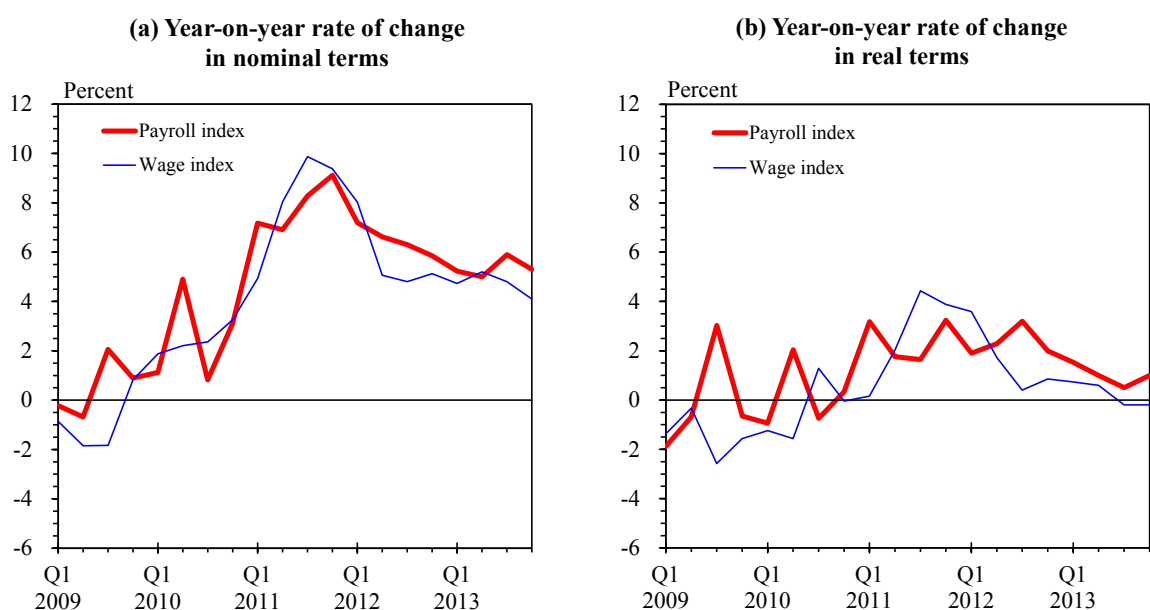
5.17 Nominal wages increased across all economic sectors and occupations in December 2013. More notable gains were observed in real estate leasing and maintenance management (up 9.7% year-on-year), and professional and business services (up 8.1%). Meanwhile, thanks in part to the upward adjustment of the SMW rate in May 2013, the lower-paid workers continued to see a more visible wage growth, at 7.1% and 5.8%, for those engaged as miscellaneous non-production workers and service workers respectively.

5.18 *Labour earnings*<sup>(9)</sup>, as measured by payroll per person engaged in the private sector, including overtime pay, discretionary bonuses and other irregular payments, sustained a faster increase than wages in the fourth quarter of 2013. The nominal payroll rose notably by 5.3% over a year earlier, translating into a real improvement of 1.0% after discounting inflation. For 2013 as a whole, labour earnings recorded a respectable growth at 5.4% in nominal terms and 1.1% in real terms.

5.19 Nominal payroll increased further across all major sectors in the fourth quarter of 2013, with more visible rises observed in professional and business services (up 7.6% year-on-year), accommodation and food service activities (up 6.9%), and retail trade (up 6.8%) on the back of steady growth in domestic demand.



**Diagram 5.6 : Labour earnings and wages sustained real improvements for 2013 as a whole**



5.20 Latest statistics compiled from the General Household Survey, though not strictly comparable to those from the business establishment surveys, showed that on the back of the tight manpower situation in the lower-skilled segment, the average monthly employment earnings<sup>(10)</sup> for full-time employees (excluding foreign domestic helpers) engaged in elementary occupations sustained an appreciable nominal growth of 6.4% in the first quarter of 2014 over a year earlier, translating into a real increase of 2.0% after discounting inflation.

### Highlights of recent labour-related measures and policy developments

5.21 In 2014, LD will continue to organise large-scale job fairs in different locations, canvassing vacancies from various industries for application by job-seekers on the spot. During January to March 2014, LD organised three large-scale job fairs in North District and Mong Kok. 143 participating organisations offered some 10 100 vacancies from the retail, catering, property management and other industries. There were also seven training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, district-based job fairs are organised at LD's Job Centres from time to time to assist job-seekers in finding employment. 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.

5.22 As pointed out by the Chief Executive in his 2014 Policy Address, the Government helps nurture young people through employment. Hence, LD will enhance its collaboration with employers and various organisations to launch pilot projects under the Youth Employment and Training Programme to provide young people with appropriate pre-employment training, workplace attachment, on-the-job training and employment support services. Moreover, to strengthen employment services to residents living in remote areas, LD will set up a job centre in Tung Chung in 2014 to facilitate job-seekers in the region in obtaining employment services and save their travelling expenses.

5.23 The Work Incentive Transport Subsidy Scheme seeks to help relieve the burden of work-related travelling expenses on low-income earners so as to promote sustained employment. The income and asset limits for the subsidy have been raised again from the claim month of February 2014 onwards under the annual adjustment mechanism.

5.24 The Standard Working Hours Committee (SWHC) was appointed in April 2013 for a term of three years to foster informed and in-depth discussions in the community with a view to building consensus and identifying the way forward for a working hours policy. Up to end-March 2014, SWHC has held six meetings. The two working groups (WGs) on “Working Hours Consultation” and “Working Hours Study” have also been carrying out their work in full swing. SWHC commenced its large-scale public consultation on 28 January 2014, while a dedicated working hours survey will be launched in the second quarter of this year. The two WGs strive to submit their reports to SWHC by end-2014 for deliberation and formulation of its ensuing work.

## Notes :

- (1) 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) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).

- (6) The low paying sectors as identified by the 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 industrial 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

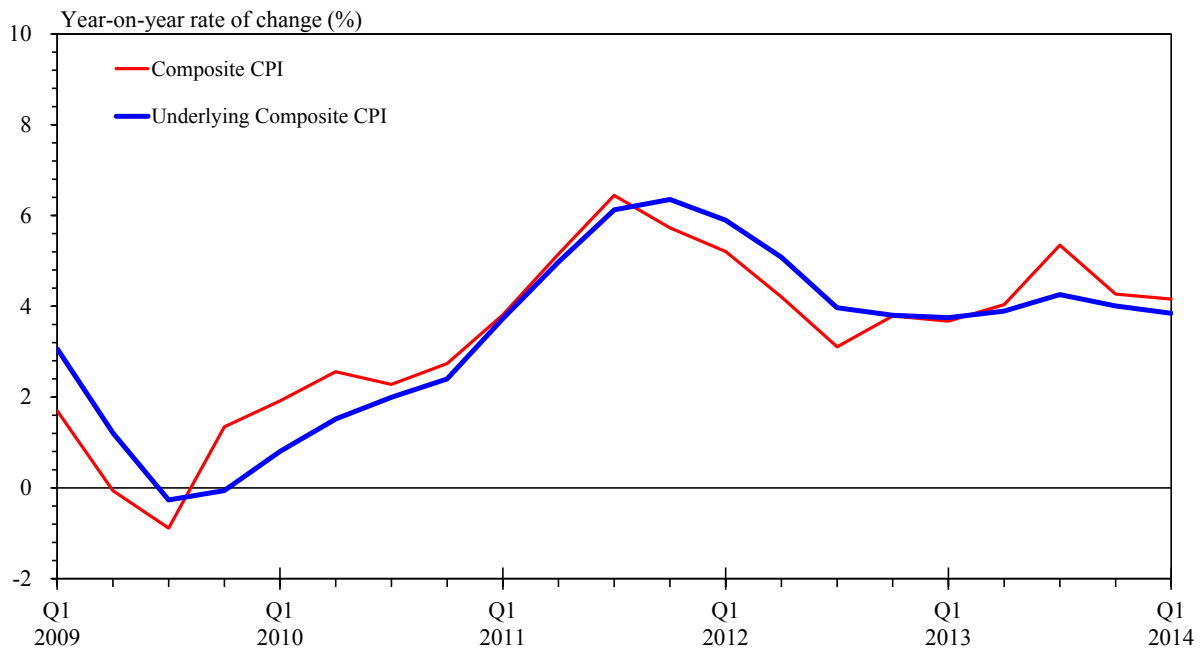
### *Summary*

- *Inflation eased slightly in the first quarter of 2014, as domestic cost pressures tapered and imported inflation stayed low. The increase in the underlying Composite Consumer Price Index (Composite CPI)<sup>(1)</sup>, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, went down to 3.8% in the first quarter of 2014 from 4.0% in the preceding quarter.*
- *Domestically, rental cost pressures saw further abatement. Fresh-letting residential rentals fell during the first quarter of 2014, and its moderating trend continued to feed through to the Composite CPI. The uptrend in shop rentals and office rentals also slowed visibly. Meanwhile, labour costs maintained steady rise, though also with signs of deceleration in recent period.*
- *Externally, international food and commodity prices were broadly stable while inflation in Hong Kong's major supply source remained moderate in the first quarter of 2014. These, together with the weaker Asian currencies, helped keep Hong Kong's imported inflation at a modest level.*
- *Looking ahead, the feed-through of the slower increases in fresh-letting residential rentals and the relatively low imported inflation should help contain the upside risks to inflation in the near term.*

### **Consumer prices**

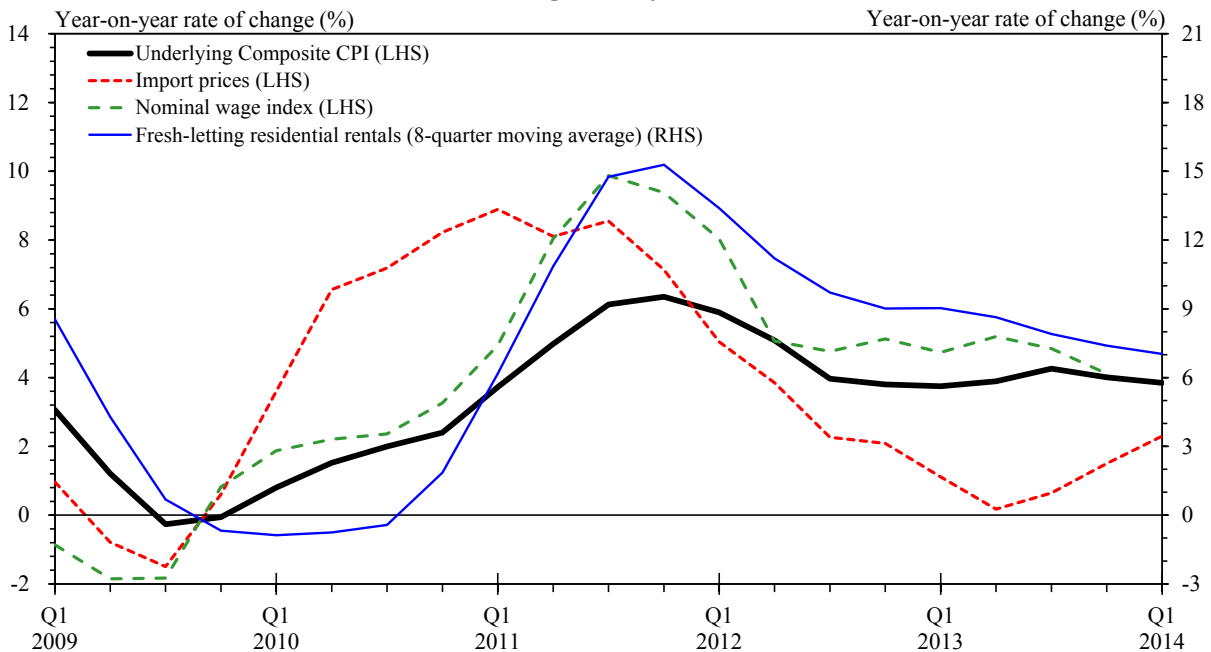
6.1 Inflationary pressures stayed on its gradual softening trend in the first quarter of 2014, thanks mainly to the slightly reduced cost pressures on the domestic front. Residential rentals fell off during the first quarter while commercial rentals only recorded a mild year-on-year rise, and the former's continued moderation translated into a more visible slowdown in the rental increase in the private housing component of the CPI. Food inflation also eased slightly in the first quarter. Meanwhile, labour costs maintained a steady, albeit slightly slower, rise. As to external price pressures, imported inflation remained generally soft, reflecting the relatively stable international commodity prices, modest inflation in many of Hong Kong's major import sources<sup>(2)</sup> and, to a lesser extent, the weakening of many Asian currencies.

**Diagram 6.1 : Underlying inflation receded in the first quarter of 2014**



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.

**Diagram 6.2 : Domestic price pressures eased further, while imported inflation remained generally subdued**



6.2 Underlying consumer price inflation, which nets out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, averaged 4.0% in the first two months of 2014 and then receded to 3.6% in March. For the first quarter as a whole, underlying inflation averaged 3.8%, down from 4.0% in the preceding quarter. Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, likewise eased, by 0.1 percentage point from 4.3% in the fourth quarter of 2013 to 4.2% in the first quarter of 2014.

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

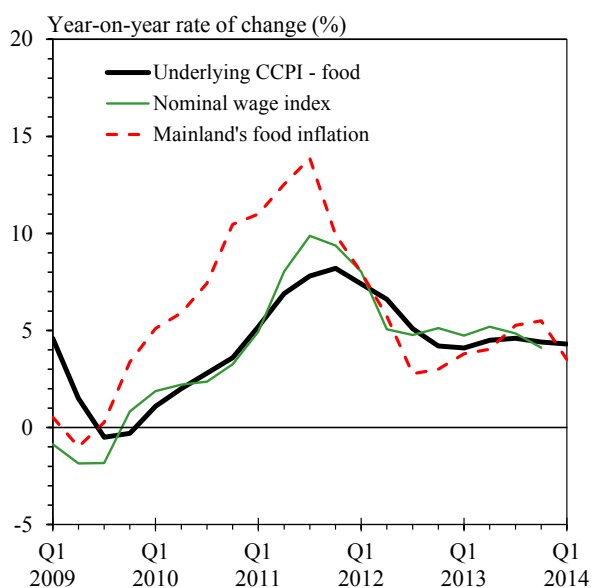
		<u>Composite CPI</u>		<u>CPI(A)</u>	<u>CPI(B)</u>	<u>CPI(C)</u>
		<u>Underlying<sup>(a)</sup></u>	<u>Headline</u>			
2013	Annual	4.0	4.3	5.1	4.1	3.8
	H1	3.8	3.9	4.4	3.6	3.5
	H2	4.1	4.8	5.8	4.5	4.1
	Q1	3.8	3.7	4.2	3.5	3.3
	Q2	3.9	4.0	4.6	3.8	3.6
	Q3	4.3	5.3	7.3	4.6	4.2
	Q4	4.0	4.3	4.4	4.4	4.1
2014	Q1	3.8	4.2	4.3	4.3	3.9
<b>(seasonally adjusted quarter-to-quarter rate of change (%))</b>						
2013	Q1	1.1	1.1	1.2	1.1	1.0
	Q2	1.1	1.3	1.3	1.2	1.2
	Q3	0.8	-0.8	-3.4	0.3	0.8
	Q4	1.0	2.7	5.5	1.7	1.0
2014	Q1	0.9	1.0	1.1	1.0	0.8

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.

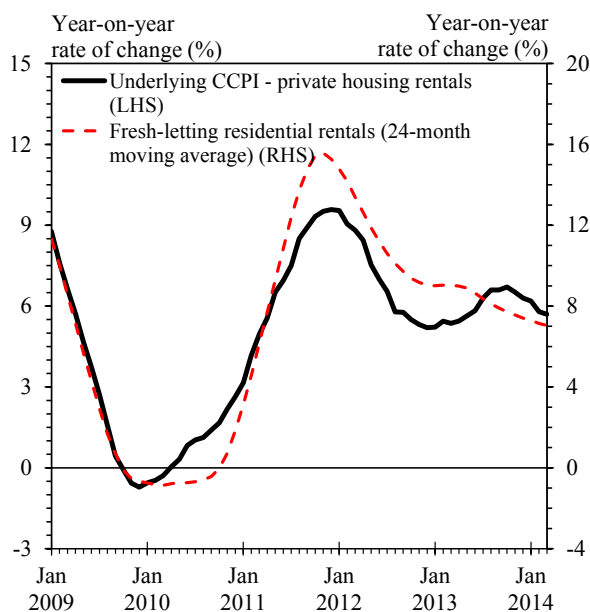
6.3 Analysed by major component of the underlying composite CPI, the year-on-year increases in food prices and housing rentals, the two largest components by weight, both narrowed in the first quarter of 2014. Local food inflation (including costs of dining out) receded slightly from 4.4% in the fourth quarter of 2013 to 4.3% in the first quarter of 2014. Reflecting the continued feed-through of the decelerated rise in residential rentals since 2013, the price increase in the private housing rental component narrowed from 6.5% to 5.9% over the same period. The prices of many other components increased only moderately in the first quarter of 2014, while that of durable goods stayed on their secular downtrend. Yet the prices of alcoholic drinks and tobacco saw a faster rise, reflecting the increase in cigarette prices in March after the announcement of tobacco duty hike in the Budget. On the other hand, as the Easter holidays fell in late March last year but in mid-April this year, the costs of packaged tours declined year-on-year in March against a higher base, which also helped bring down the underlying inflation rate.

**Diagram 6.3 : Food and private housing rental components of the underlying CCPI**

**(a) Food inflation stayed contained in the first quarter of 2014**

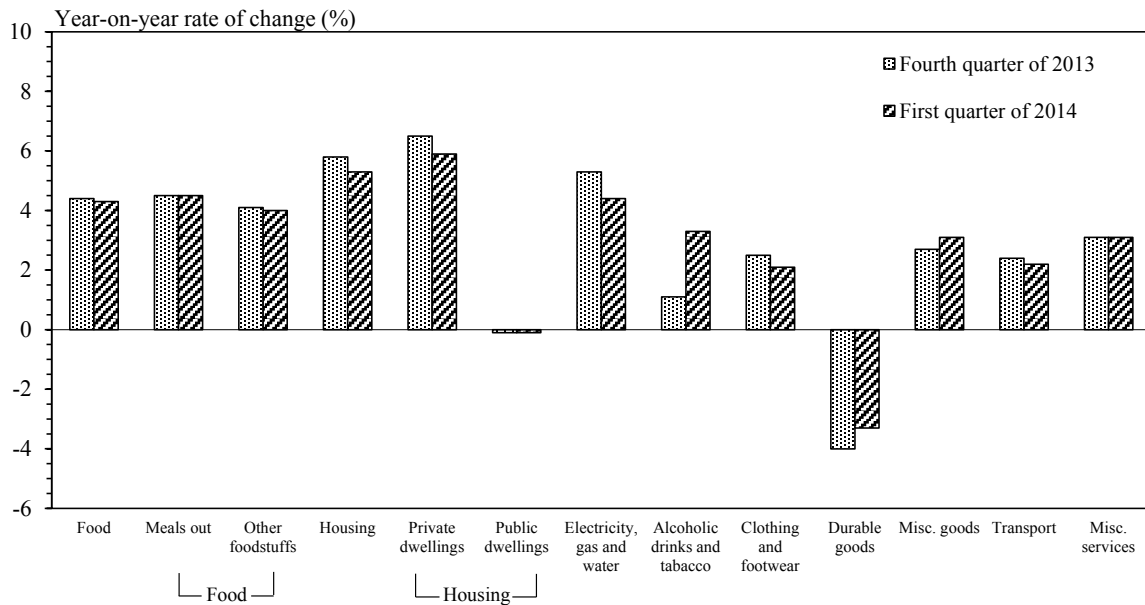


**(b) The recent milder increases in fresh-letting rentals continued to feed through**

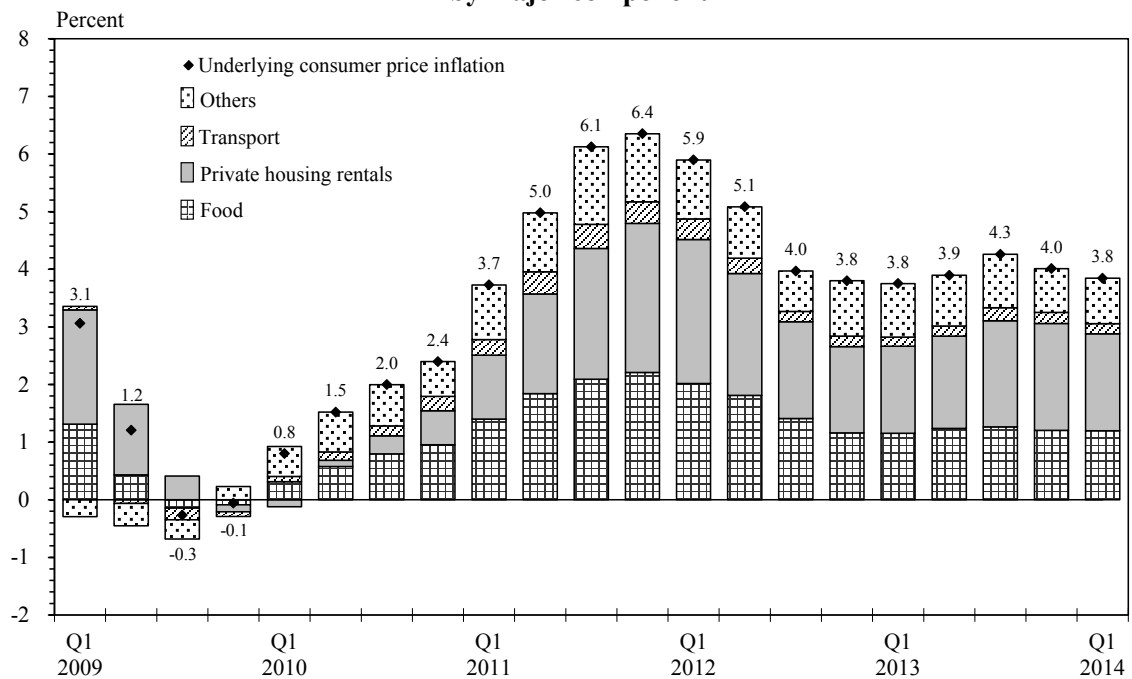




**Diagram 6.4 (a) : The price increases in many major components in the underlying Composite CPI remained moderate**



**Diagram 6.4 (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>2012</u>	<u>2013</u>	<u>Q1</u>	<u>2013</u>			<u>2014</u>
					<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Food	27.45	5.8	4.4	4.1	4.5	4.6	4.4	4.3
<i>Meals bought away from home</i>	17.07	5.4	4.4	4.4	4.3	4.3	4.5	4.5
<i>Other foodstuffs</i>	10.38	6.5	4.4	3.6	4.8	4.9	4.1	4.0
Housing <sup>(a)</sup>	31.66	5.6 (6.4)	6.7 (5.8)	5.2 (5.5)	6.1 (5.8)	9.4 (6.3)	6.1 (5.8)	5.6 (5.3)
<i>Private dwellings</i>	27.14	6.8 (7.0)	6.3 (6.0)	5.0 (5.4)	6.1 (5.7)	7.0 (6.5)	7.0 (6.5)	6.4 (5.9)
<i>Public dwellings</i>	2.05	-7.1 (3.2)	16.0 (6.0)	9.7 (9.5)	8.9 (9.2)	777.6 (5.9)	-1.8 (-0.1)	-1.8 (-0.1)
Electricity, gas and water	3.10	-8.2 (3.6)	6.9 (5.1)	4.9 (3.6)	5.9 (4.4)	9.6 (7.2)	7.1 (5.3)	5.5 (4.4)
Alcoholic drinks and tobacco	0.59	3.0	1.5	1.6	1.9	1.4	1.1	3.3
Clothing and footwear	3.45	3.1	1.7	1.5	1.0	1.7	2.5	2.1
Durable goods	5.27	-1.4	-4.3	-3.5	-5.0	-4.7	-4.0	-3.3
Miscellaneous goods	4.17	2.2	2.2	1.4	2.2	2.5	2.7	3.1
Transport	8.44	3.0	2.3	2.0	2.2	2.8	2.4	2.2
Miscellaneous services	15.87	2.8 (2.8)	3.7 (3.2)	3.5 (3.5)	3.1 (3.1)	3.9 (3.1)	4.3 (3.1)	4.4 (3.1)
All items	100.00	4.1 (4.7)	4.3 (4.0)	3.7 (3.8)	4.0 (3.9)	5.3 (4.3)	4.3 (4.0)	4.2 (3.8)

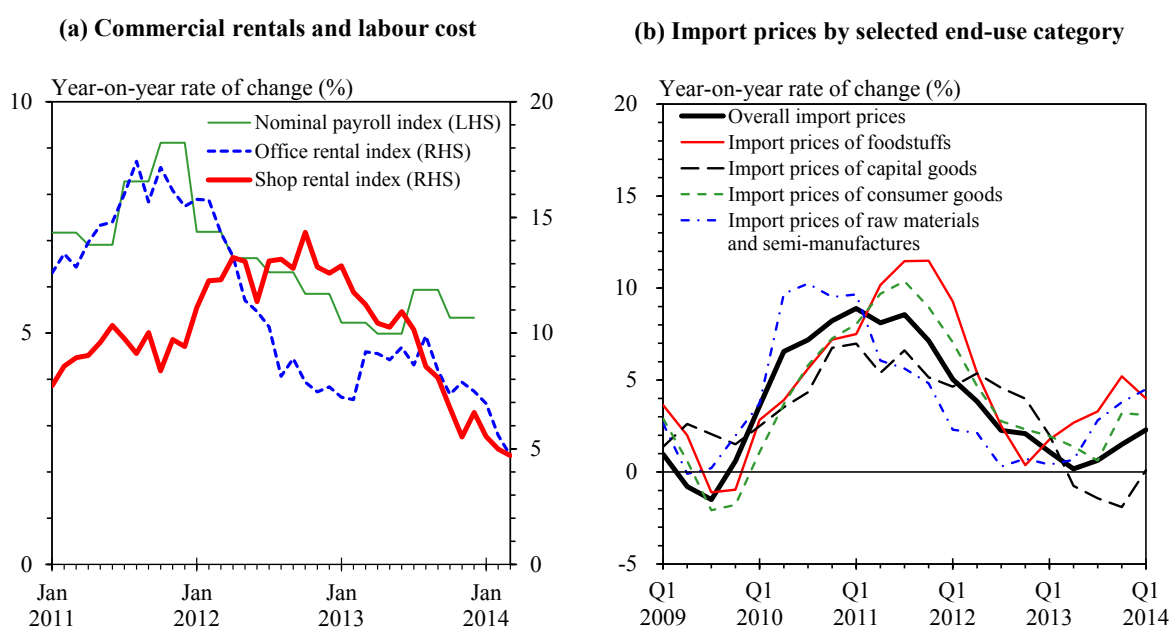
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings 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 Domestic cost pressures softened in the first quarter of 2014, having risen strongly in recent years. Most notably, the year-on-year increases in commercial rentals eased visibly in the first quarter of 2014. At the same time, labour costs, while still maintaining a steady rise in overall terms, also seemed to have tapered somewhat in growth in recent period. Wages of the lower-skilled workers continued to benefit from the upward adjustment of the Statutory Minimum Wage rate since May 2013.

**Diagram 6.5 : Domestic cost pressures saw further abatement while imported inflation remained tame on the whole**



6.5 Externally, import price pressures remained broadly modest in the first quarter of 2014. Overall import prices increased by only 2.1% in the first quarter over a year earlier, after posting a 1.5% rise in the preceding quarter, thanks to the relatively stable international food and commodity prices, tame inflation in major import sources and the weaker Asian currencies. Analysed by end-use category, on a year-on-year comparison, import prices of foodstuffs and consumer goods rose by 4.0% and 3.1% respectively, both slightly smaller than the rise in the preceding quarter. Over the same period, the import prices of raw materials and semi-manufactures increased by 4.0%, and those of capital goods were almost flat. Import prices of fuels fell further, by 3.1%, mirroring the soft international oil prices.

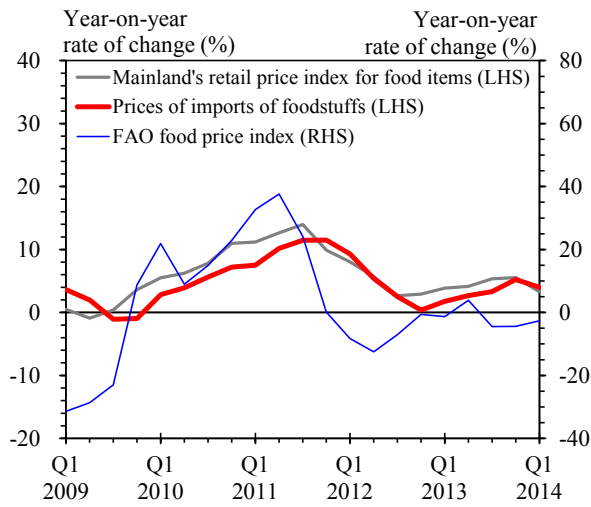
**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2013	Annual	3.3	1.8	2.0	-3.6	-0.6	0.9
	H1	2.2	1.7	0.5	-5.4	0.6	0.6
	H2	4.4	1.9	3.3	-1.8	-1.6	1.1
	Q1	1.8	2.0	0.4	-5.5	2.0	1.1
	Q2	2.7	1.4	0.7	-5.4	-0.8	0.2
	Q3	3.3	0.6	2.8	-1.9	-1.4	0.6
	Q4	5.2	3.2	3.8	-1.8	-1.9	1.5
2014	Q1	4.0	3.1	4.0	-3.1	*	2.1

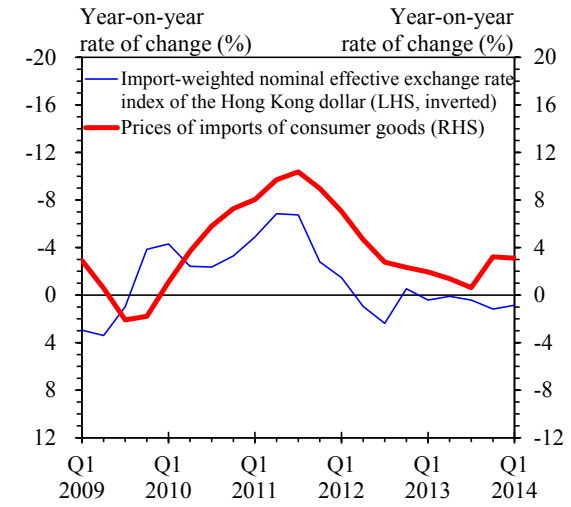
Note : (\*) Change within  $\pm 0.05\%$ .

**Diagram 6.6 : Import prices by end-use category**

**(a) Imported food inflation held steady**

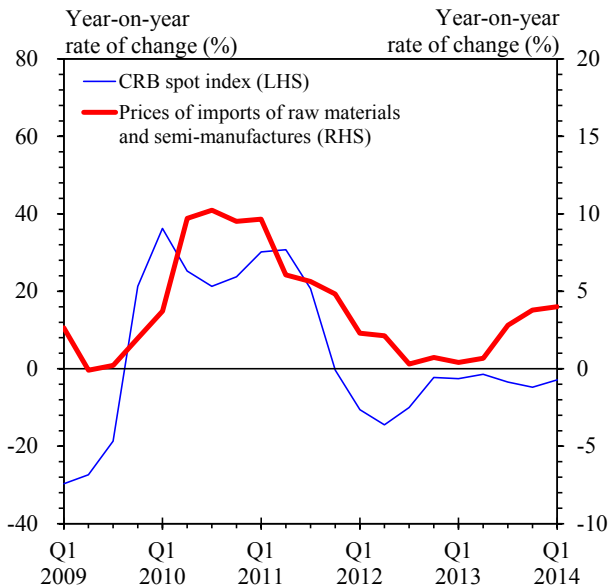


**(b) Import prices of consumer goods only saw a moderate rise**

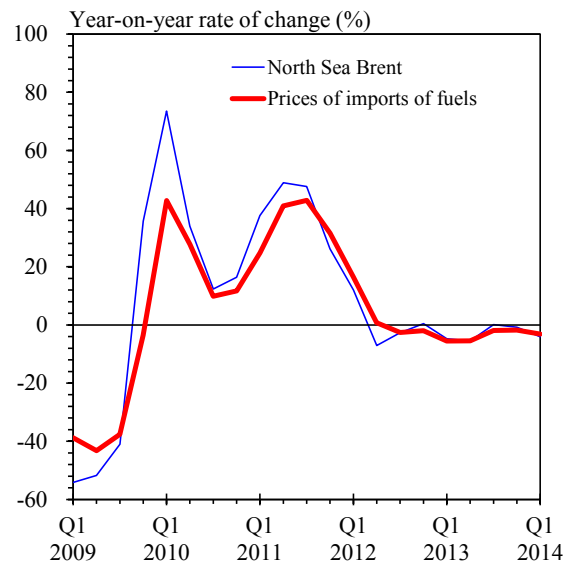


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

**(c) Import prices of raw materials picked up somewhat**



**(d) Import prices of fuels dropped in tandem with the soft international oil prices**



## Output prices

6.6 Output prices, as measured by the *Producer Price Indices*<sup>(3)</sup>, exhibited diverse trends across sectors in 2013. Output prices for the manufacturing sector reverted to a moderate decline in 2013, due mainly to the double-digit fall in prices for the industry grouping of metal, computer, electronic and optical products, machinery and equipment in the latter half of the year. Among the services sectors, output prices for accommodation services increased moderately throughout the year amid the further expansion in inbound tourism. Yet the subdued trade flows kept transport-related output prices in check. Output prices for land and air transport increased mildly in 2013 while those for water transport fell back after the visible jump in the year before. The increase in output prices for courier services was also rather moderate. Separately, output prices for telecommunications services stayed on a downtrend amid the continued adoption of cost-saving technologies and intense competition.

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

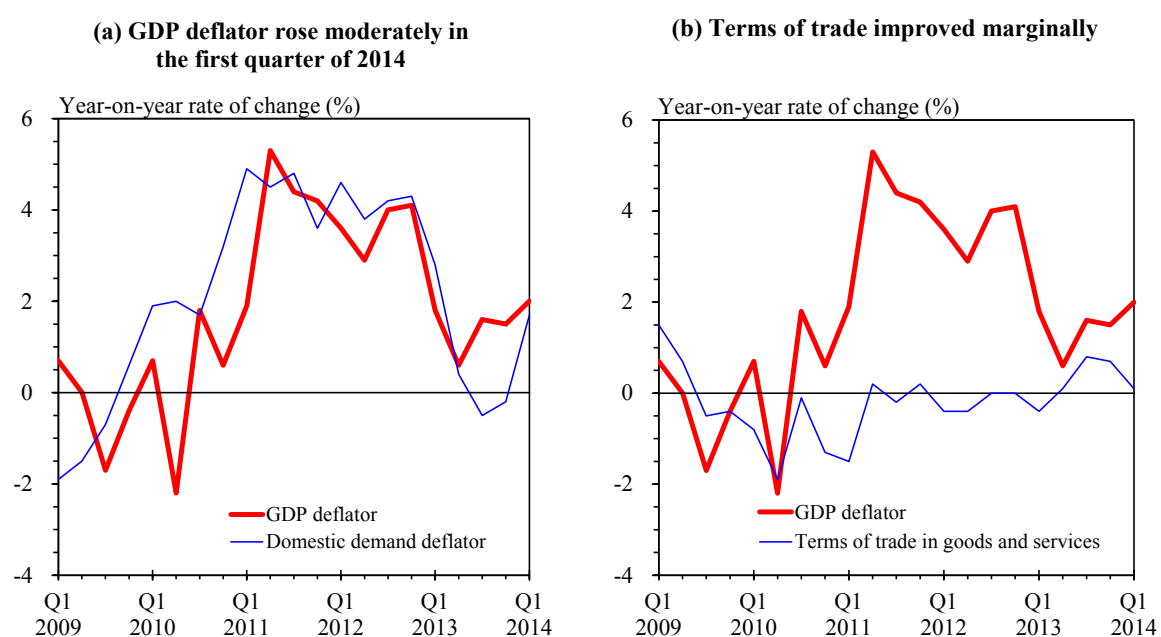
<u>Industry group</u>	<u>Annual</u>	<u>2012</u>					<u>2013</u>				
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	
Manufacturing	0.1	3.6	-0.6	-1.4	-1.0	-3.1	0.6	-2.4	-5.2	-5.5	
Selected services sectors <sup>(a)</sup>											
Accommodation services	7.9	12.1	8.2	8.3	3.5	2.4	2.5	2.8	1.7	2.6	
Land transport	1.5	2.1	1.8	1.3	0.7	1.7	0.6	1.0	2.4	2.7	
Water transport	6.4	-4.3	18.5	6.3	5.3	-2.5	7.3	-14.8	1.8	-1.9	
Air transport	0.6	-3.3	1.2	1.0	3.5	1.0	4.0	-2.4	0.1	2.5	
Telecommunications	-2.4	-4.4	-1.6	-1.6	-1.9	-1.9	-1.6	-1.8	-1.7	-2.6	
Courier services	2.1	3.1	2.0	1.2	2.3	2.7	2.7	3.1	3.3	1.8	

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 2.0% in the first quarter of 2014 over a year earlier, somewhat faster than the 1.5% increase in the fourth quarter of 2013. Within the GDP deflator, the *terms of trade*<sup>(5)</sup> saw a marginal improvement of 0.1% in the first quarter of 2014 over a year earlier. Taking out the external components, the domestic demand deflator rose by 1.7% year-on-year in the first quarter of 2014, reversing the 0.2% decline in the preceding quarter.

**Diagram 6.7 : GDP deflator**



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

	<u>2012</u>		<u>2013</u>				<u>2014</u>
	<u>Annual</u>	<u>Annual<sup>#</sup></u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>#</sup></u>	<u>Q3<sup>#</sup></u>	<u>Q4<sup>#</sup></u>	<u>Q1<sup>+</sup></u>
Private consumption expenditure	3.2	2.4	2.1	2.1	3.0	2.4	2.2
Government consumption expenditure	6.2	4.4	6.1	4.1	3.7	3.7	4.0
Gross domestic fixed capital formation	6.4	-5.1	3.1	-4.7	-9.4	-7.7	-1.7
Total exports of goods	3.1	-0.3	-0.5	-0.4	-0.3	-0.1	-0.6
Imports of goods	3.8	-0.6	0.2	-0.5	-1.1	-0.8	-0.8
Exports of services	4.3	0.5	1.2	-0.2	0.7	0.3	*
Imports of services	1.9	0.5	0.9	0.4	0.2	0.4	1.0
<b>Gross Domestic Product</b>	<b>3.7</b>	<b>1.4</b>	<b>1.8</b>	<b>0.6</b>	<b>1.6</b>	<b>1.5</b>	<b>2.0</b>
			<-0.7>	<*>	<1.7>	<0.5>	<-0.1>
Total final demand	3.6	0.1	0.8	-0.1	-0.2	*	0.2
Domestic demand	4.2	0.6	2.8	0.4	-0.5	-0.2	1.7
Terms of trade in goods and services	-0.2	0.3	-0.4	0.1	0.8	0.7	0.1

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>2012</u>					<u>2013</u>					<u>2014</u>
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
<b>Selected developed economies</b>											
US	2.1	2.8	1.9	1.7	1.9	1.5	1.7	1.4	1.6	1.2	1.4
Canada	1.5	2.3	1.6	1.2	0.9	0.9	0.9	0.8	1.1	0.9	1.4
EU	2.6	2.9	2.6	2.7	2.5	1.5	2.0	1.6	1.5	1.0	0.8
Japan	*	0.3	0.2	-0.4	-0.2	0.4	-0.6	-0.3	0.9	1.4	1.5
<b>Major emerging economies</b>											
Mainland China	2.6	3.8	2.9	1.9	2.1	2.6	2.4	2.4	2.8	2.9	2.3
Russia	5.1	3.9	3.8	6.0	6.5	6.8	7.1	7.2	6.4	6.4	6.4
India	9.7	8.6	10.2	9.9	10.1	10.1	10.7	9.5	9.7	10.4	8.4
Brazil	5.4	5.8	5.0	5.2	5.6	6.2	6.4	6.6	6.1	5.8	5.8
<b>Selected Asian economies</b>											
Hong Kong	4.1	5.2	4.2	3.1	3.8	4.3	3.7	4.0	5.3	4.3	4.2
Singapore	4.6	4.9	5.3	4.2	4.0	2.4	4.0	1.6	1.8	2.0	1.0
Taiwan	1.9	1.3	1.6	2.9	1.8	0.8	1.8	0.8	*	0.6	0.8
Korea	2.2	3.0	2.4	1.6	1.7	1.3	1.6	1.2	1.4	1.1	1.1
Malaysia	1.7	2.3	1.7	1.4	1.3	2.1	1.5	1.8	2.2	3.0	3.5
Thailand	3.0	3.4	2.5	2.9	3.2	2.2	3.1	2.3	1.7	1.7	2.0
Indonesia	4.0	3.7	4.4	4.0	3.9	6.4	4.5	5.1	8.0	8.0	7.8
Philippines	3.2	3.1	3.0	3.6	3.0	3.0	3.2	2.6	2.4	3.5	4.1
Vietnam	9.2	15.9	8.6	5.6	7.0	6.6	6.9	6.6	7.0	5.9	4.8
Macao	6.1	6.3	6.6	6.0	5.6	5.5	5.4	5.1	5.6	5.9	6.1

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

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

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
	(\$Mn)					
Private consumption expenditure	771,443	811,654	868,691	982,368	1,026,482	1,013,615
Government consumption expenditure	136,354	130,566	131,837	138,967	148,017	152,512
Gross domestic fixed capital formation	287,360	302,152	337,153	340,356	350,796	339,552
<i>of which:</i>						
Building and construction	107,692	105,993	106,268	111,776	127,312	123,746
Machinery, equipment and intellectual property products	162,871	176,269	214,093	204,083	198,633	191,568
Changes in inventories	7,076	-4,761	-2,129	12,841	8,480	22,941
Total exports of goods <sup>&amp;</sup>	2,027,031	2,251,744	2,467,357	2,698,850	2,843,998	2,500,143
Imports of goods <sup>&amp;</sup>	2,099,545	2,311,091	2,576,340	2,852,522	3,024,089	2,702,966
Exports of services <sup>&amp;</sup>	431,090	496,985	566,416	664,100	720,837	672,794
Imports of services <sup>&amp;</sup>	243,860	265,124	289,634	334,204	367,034	339,346
<b>GDP</b>	<b>1,316,949</b>	<b>1,412,125</b>	<b>1,503,351</b>	<b>1,650,756</b>	<b>1,707,487</b>	<b>1,659,245</b>
<b>Per capita GDP (\$)</b>	<b>194,140</b>	<b>207,263</b>	<b>219,240</b>	<b>238,676</b>	<b>245,406</b>	<b>237,960</b>
<b>GNI</b>	<b>1,344,927</b>	<b>1,419,589</b>	<b>1,538,864</b>	<b>1,703,567</b>	<b>1,807,994</b>	<b>1,709,007</b>
<b>Per capita GNI (\$)</b>	<b>198,264</b>	<b>208,359</b>	<b>224,419</b>	<b>246,312</b>	<b>259,851</b>	<b>245,096</b>
Total final demand	3,660,354	3,988,340	4,369,325	4,837,482	5,098,610	4,701,557
Total final demand excluding re-exports <sup>(a)</sup>	2,088,521	2,243,119	2,436,589	2,697,292	2,836,222	2,687,437
Domestic demand	1,202,233	1,239,611	1,335,552	1,474,532	1,533,775	1,528,620
Private	1,012,565	1,062,587	1,163,262	1,297,607	1,342,889	1,327,688
Public	189,668	177,024	172,290	176,925	190,886	200,932
External demand	2,458,121	2,748,729	3,033,773	3,362,950	3,564,835	3,172,937

Definition of Terms :

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

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

	(\$Mn)							
	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	Q2 <sup>#</sup>	<u>2013</u> Q3 <sup>#</sup>	Q4 <sup>#</sup>	<u>2014</u> Q1 <sup>#</sup>
Private consumption expenditure	1,090,234	1,224,402	1,314,996	1,404,527	353,588	338,025	369,017	358,586
Government consumption expenditure	157,371	168,517	185,310	197,951	47,366	49,595	50,104	54,212
Gross domestic fixed capital formation	386,852	455,294	517,389	507,106	126,998	125,637	138,522	117,423
<i>of which:</i>								
Building and construction	139,249	179,341	204,858	218,449	51,487	54,765	58,003	62,512
Machinery, equipment and intellectual property products	209,568	239,854	278,457	259,178	68,680	64,393	73,685	48,864
Changes in inventories	37,522	11,742	-3,662	-2,296	-8,082	-1,652	1,721	8,416
Total exports of goods <sup>&amp;</sup>	3,068,444	3,420,076	3,591,776	3,816,390	929,088	1,000,343	1,015,104	870,588
Imports of goods <sup>&amp;</sup>	3,395,057	3,848,200	4,116,410	4,394,928	1,100,267	1,117,381	1,153,163	1,028,681
Exports of services <sup>&amp;</sup>	829,044	941,178	1,003,047	1,063,231	249,252	271,465	286,109	264,289
Imports of services <sup>&amp;</sup>	398,078	438,576	455,382	466,628	107,116	118,351	127,284	114,851
<b>GDP</b>	<b>1,776,332</b>	<b>1,934,433</b>	<b>2,037,064</b>	<b>2,125,353</b>	<b>490,827</b>	<b>547,681</b>	<b>580,130</b>	<b>529,982</b>
<i>Per capita GDP (\$)</i>	<i>252,887</i>	<i>273,550</i>	<i>284,721</i>	<i>295,701</i>	--	--	--	--
<b>GNI</b>	<b>1,813,928</b>	<b>1,987,259</b>	<b>2,066,519</b>	<b>2,167,523</b>	<b>519,055</b>	<b>548,049</b>	<b>581,127</b>	<b>N.A.</b>
<i>Per capita GNI (\$)</i>	<i>258,240</i>	<i>281,020</i>	<i>288,838</i>	<i>301,568</i>	--	--	--	--
Total final demand	5,569,467	6,221,209	6,608,856	6,986,909	1,698,210	1,783,413	1,860,577	1,673,514
Total final demand excluding re-exports <sup>(a)</sup>	3,058,027	3,433,562	3,655,330	3,836,430	930,261	956,424	1,021,600	953,454
Domestic demand	1,671,979	1,859,955	2,014,033	2,107,288	519,870	511,605	559,364	538,637
Private	1,449,592	1,614,013	1,737,299	1,809,995	451,809	438,276	482,413	450,480
Public	222,387	245,942	276,734	297,293	68,061	73,329	76,951	88,157
External demand	3,897,488	4,361,254	4,594,823	4,879,621	1,178,340	1,271,808	1,301,213	1,134,877

- 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 the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.  
 (--) 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>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Private consumption expenditure	7.1	3.5	6.1	8.6	1.9	0.2
Government consumption expenditure	1.4	-2.6	0.9	3.2	2.0	2.3
Gross domestic fixed capital formation	3.4	4.0	7.1	3.2	1.4	-3.5
<i>of which:</i>						
Building and construction	-10.7	-7.6	-7.1	-0.3	6.8	-5.5
Machinery, equipment and intellectual property products	11.4	12.1	18.2	2.5	*	-2.2
Total exports of goods <sup>&amp;</sup>	14.9	10.4	9.3	7.0	1.9	-12.5
Imports of goods <sup>&amp;</sup>	13.7	8.0	9.2	8.8	1.8	-9.5
Exports of services <sup>&amp;</sup>	17.9	11.6	10.0	14.3	5.0	0.4
Imports of services <sup>&amp;</sup>	14.6	7.6	8.4	12.1	5.8	-5.0
<b>GDP</b>	<b>8.7</b>	<b>7.4</b>	<b>7.0</b>	<b>6.5</b>	<b>2.1</b>	<b>-2.5</b>
<b>Per capita GDP</b>	<b>7.9</b>	<b>6.9</b>	<b>6.3</b>	<b>5.6</b>	<b>1.5</b>	<b>-2.7</b>
<b>RGNI</b>	<b>4.1</b>	<b>4.3</b>	<b>6.7</b>	<b>8.2</b>	<b>3.3</b>	<b>-4.6</b>
<b>Per capita RGNI</b>	<b>3.3</b>	<b>3.9</b>	<b>6.0</b>	<b>7.3</b>	<b>2.7</b>	<b>-4.8</b>
Total final demand	11.9	7.8	8.4	8.2	2.2	-6.8
Total final demand excluding re-exports <sup>(a)</sup>	9.1	5.6	7.4	7.9	1.7	-2.6
Domestic demand	5.3	2.0	6.1	7.8	1.4	0.5
Private	6.5	3.4	7.6	8.9	1.2	-0.1
Public	-0.4	-5.7	-2.8	0.6	3.2	4.5
External demand	15.4	10.6	9.4	8.4	2.5	-9.9

- 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 the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.
  - (--) Not applicable.
  - (\*) Change within  $\pm 0.05\%$ .
  - 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>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>			<u>2014</u>	Average annual rate of change:	
					Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	10 years 2003 to 2013 <sup>#</sup>	5 years 2008 to 2013 <sup>#</sup>
Private consumption expenditure	6.1	8.4	4.1	4.3	4.7	2.7	3.6	2.0	5.0	4.6
Government consumption expenditure	3.4	2.5	3.6	2.3	3.1	2.3	2.0	2.4	1.9	2.8
Gross domestic fixed capital formation	7.7	10.2	6.8	3.3	7.6	2.7	5.3	3.0	4.3	4.8
<i>of which:</i>										
Building and construction	5.7	15.7	7.2	-0.9	-0.7	3.1	-3.8	10.2	*	4.2
Machinery, equipment and intellectual property products	6.5	12.3	10.1	10.8	19.8	7.6	17.5	1.4	8.0	7.4
Total exports of goods <sup>&amp;</sup>	17.3	3.4	1.8	6.6	6.1	6.1	5.7	0.5	5.7	2.9
Imports of goods <sup>&amp;</sup>	18.1	4.7	3.0	7.4	7.6	6.6	6.1	1.2	6.3	4.4
Exports of services <sup>&amp;</sup>	14.7	5.5	2.2	5.5	7.7	5.0	4.7	3.1	8.6	5.5
Imports of services <sup>&amp;</sup>	11.1	3.5	1.9	2.0	-0.7	2.6	5.5	-0.2	6.0	2.6
<b>GDP</b>	<b>6.8</b>	<b>4.8</b>	<b>1.5</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</b>	<b>2.5</b>	<b>4.5</b>	<b>2.7</b>
<b>Per capita GDP</b>	<b>6.0</b>	<b>4.1</b>	<b>0.4</b>	<b>2.5</b>	--	--	--	--	<b>3.8</b>	<b>2.0</b>
<b>RGNI</b>	<b>3.6</b>	<b>4.8</b>	<b>-0.2</b>	<b>4.3</b>	<b>4.3</b>	<b>5.0</b>	<b>4.6</b>	<b>N.A.</b>	<b>3.4</b>	<b>1.5</b>
<b>Per capita RGNI</b>	<b>2.9</b>	<b>4.1</b>	<b>-1.3</b>	<b>3.8</b>	--	--	--	--	<b>2.7</b>	<b>0.9</b>
Total final demand	13.6	4.7	2.5	5.6	5.6	5.2	5.0	1.5	5.7	3.7
Total final demand excluding re-exports <sup>(a)</sup>	10.4	5.6	3.2	4.7	4.6	4.0	4.4	1.8	5.2	4.2
Domestic demand	7.1	6.5	3.9	4.0	3.8	3.8	4.1	2.6	4.4	4.4
Private	6.6	6.7	3.6	4.1	3.7	3.2	4.8	1.7	4.8	4.1
Public	10.2	5.5	5.8	3.5	4.8	8.1	-0.2	7.6	2.3	5.9
External demand	16.8	3.9	1.9	6.4	6.5	5.8	5.5	1.0	6.3	3.4

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

	<u>2008</u>		<u>2009</u>		<u>2010</u>		<u>2011</u>		<u>2012<sup>#</sup></u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture, fishing, mining and quarrying	925	0.1	1,090	0.1	948	0.1	944	*	1,114	0.1
Manufacturing	31,506	1.9	28,714	1.8	30,410	1.8	30,578	1.6	30,600	1.5
Electricity, gas and water supply, and waste management	39,651	2.4	35,032	2.2	34,486	2.0	33,877	1.8	35,382	1.8
Construction	48,403	3.0	50,264	3.2	56,531	3.3	65,484	3.4	73,445	3.6
Services	1,499,529	92.6	1,466,724	92.7	1,614,922	93.0	1,770,166	93.1	1,872,498	93.0
<i>Import/export, wholesale and retail trades</i>	399,200	24.6	370,226	23.4	413,308	23.8	492,900	25.9	511,537	25.4
<i>Accommodation<sup>(a)</sup> and food services</i>	53,600	3.3	48,789	3.1	56,418	3.2	66,421	3.5	72,044	3.6
<i>Transportation, storage, postal and courier services</i>	98,390	6.1	99,208	6.3	137,941	7.9	120,034	6.3	120,609	6.0
<i>Information and communications</i>	49,127	3.0	47,893	3.0	55,024	3.2	62,952	3.3	70,866	3.5
<i>Financing and insurance</i>	277,112	17.1	255,900	16.2	283,752	16.3	305,282	16.1	319,312	15.9
<i>Real estate, professional and business services</i>	166,086	10.3	173,903	11.0	188,476	10.8	213,987	11.3	232,416	11.5
<i>Public administration, social and personal services</i>	278,100	17.2	288,109	18.2	295,257	17.0	313,585	16.5	337,678	16.8
<i>Ownership of premises</i>	177,915	11.0	182,696	11.5	184,745	10.6	195,005	10.3	208,036	10.3
<b>GDP at basic prices</b>	<b>1,620,013</b>	<b>100.0</b>	<b>1,581,824</b>	<b>100.0</b>	<b>1,737,298</b>	<b>100.0</b>	<b>1,901,049</b>	<b>100.0</b>	<b>2,013,038</b>	<b>100.0</b>
Taxes on products	58,233	--	54,689	--	68,707	--	69,401	--	63,575	--
Statistical discrepancy (%)	1.7	--	1.4	--	-1.7	--	-1.9	--	-1.9	--
<b>GDP at current market prices</b>	<b>1,707,487</b>	<b>--</b>	<b>1,659,245</b>	<b>--</b>	<b>1,776,332</b>	<b>--</b>	<b>1,934,433</b>	<b>--</b>	<b>2,037,064</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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>			
							Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Agriculture, fishing, mining and quarrying	-17.0	-4.6	3.9	0.8	-3.2	1.3	1.6	4.6	-2.0	0.9
Manufacturing	-7.0	-8.2	3.3	0.7	-0.8	0.1	0.5	0.3	-0.9	0.5
Electricity, gas and water supply, and waste management	0.7	1.5	-0.2	0.6	1.4	-0.7	-1.4	-2.4	-0.2	1.3
Construction	8.9	-7.5	15.6	18.3	8.3	1.1	-0.8	2.8	8.5	-4.3
Services	2.4	-1.7	6.9	5.2	1.8	2.9	2.8	3.8	2.5	2.8
<i>Import/export, wholesale and retail trades</i>	6.8	-9.5	16.7	9.1	1.9	3.6	5.4	5.1	1.8	2.8
<i>Accommodation<sup>(a)</sup> and food services</i>	1.7	-11.3	9.5	8.3	1.8	3.7	4.3	4.2	3.4	2.9
<i>Transportation, storage, postal and courier services</i>	2.5	-5.5	6.0	7.2	0.9	2.5	-0.5	2.9	2.4	5.4
<i>Information and communications</i>	-1.2	1.3	1.5	2.8	2.8	4.2	6.5	3.0	4.3	2.9
<i>Financing and insurance</i>	-0.5	4.1	6.3	6.5	0.8	5.6	3.3	7.5	7.2	4.6
<i>Real estate, professional and business services</i>	1.4	1.6	2.5	2.6	3.1	0.1	-0.1	-0.8	-0.7	2.0
<i>Public administration, social and personal services</i>	1.4	3.0	2.2	1.8	2.1	2.6	2.1	3.8	2.2	2.1
<i>Ownership of premises</i>	2.0	0.3	0.8	0.7	1.1	0.4	0.2	0.2	0.5	0.7
Taxes on products	-1.7	-4.8	6.3	-6.8	-10.4	-9.0	-2.0	-13.4	-10.3	-10.4
<b>GDP in chained (2012) dollars</b>	<b>2.1</b>	<b>-2.5</b>	<b>6.8</b>	<b>4.8</b>	<b>1.5</b>	<b>2.9</b>	<b>2.9</b>	<b>3.0</b>	<b>3.0</b>	<b>2.9</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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>			
						Q1 <sup>#</sup>	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>
Current account <sup>(a)</sup>	164,001	124,369	107,513	32,151	39,517	-1,855	-6,187	31,121	16,439
Goods	103,008	25,564	-58,203	-146,729	-203,302	-67,602	-90,627	-17,777	-27,296
Services	27,617	78,789	132,681	169,760	221,367	57,868	61,584	53,853	48,062
Primary income	49,762	37,596	52,826	29,455	42,170	12,577	28,228	368	997
Secondary income	-16,386	-17,580	-19,791	-20,336	-20,718	-4,698	-5,372	-5,323	-5,324
Capital and financial account <sup>(a)</sup>	-144,532	-88,838	-113,242	-67,664	-40,452	-12,528	25,953	-8,589	-45,288
Capital account	-3,021	-4,436	-2,021	-1,433	-1,594	-123	-123	-1,280	-67
Financial account	-141,511	-84,402	-111,220	-66,231	-38,858	-12,405	26,076	-7,309	-45,221
Financial non-reserve assets	470,987	-25,257	-24,437	122,658	19,032	3,999	51,508	-36,030	-446
<i>Direct investment</i>	-28,421	-122,026	1,868	-102,623	-115,542	-91,761	-81,059	11,563	45,716
<i>Portfolio investment</i>	-310,083	-442,460	-10,979	-31,592	-333,625	33,735	-31,658	-123,286	-212,416
<i>Financial derivatives</i>	24,560	18,677	20,884	15,208	8,066	3,914	-7,487	10,598	1,041
<i>Other investment</i>	784,930	520,552	-36,210	241,665	460,132	58,111	171,712	65,095	165,214
Reserve assets	-612,498	-59,145	-86,783	-188,889	-57,890	-16,404	-25,432	28,722	-44,775
Net errors and omissions	-19,470	-35,530	5,729	35,513	935	14,383	-19,766	-22,531	28,849
<b>Overall Balance of Payments</b>	<b>612,498</b>	<b>59,145</b>	<b>86,783</b>	<b>188,889</b>	<b>57,890</b>	<b>16,404</b>	<b>25,432</b>	<b>-28,722</b>	<b>44,775</b>

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

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

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

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

	(\$Mn)								
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>		<u>2013</u>		<u>2014</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Total exports of goods	2,500,143	3,068,444	3,420,076	3,591,776	3,816,390	929,088	1,000,343	1,015,104	870,588
Imports of goods	2,702,966	3,395,057	3,848,200	4,116,410	4,394,928	1,100,267	1,117,381	1,153,163	1,028,681
<b>Visible trade balance</b>	<b>-202,823</b>	<b>-326,613</b>	<b>-428,124</b>	<b>-524,634</b>	<b>-578,538</b>	<b>-171,179</b>	<b>-117,038</b>	<b>-138,059</b>	<b>-158,093</b>
	<b>(-7.5)</b>	<b>(-9.6)</b>	<b>(-11.1)</b>	<b>(-12.7)</b>	<b>(-13.2)</b>	<b>(-15.6)</b>	<b>(-10.5)</b>	<b>(-12.0)</b>	<b>(-15.4)</b>
Exports of services	672,794	829,044	941,178	1,003,047	1,063,231	249,252	271,465	286,109	264,289
Imports of services	339,346	398,078	438,576	455,382	466,628	107,116	118,351	127,284	114,851
<b>Invisible trade balance</b>	<b>333,448</b>	<b>430,966</b>	<b>502,602</b>	<b>547,665</b>	<b>596,603</b>	<b>142,136</b>	<b>153,114</b>	<b>158,825</b>	<b>149,438</b>
	<b>(98.3)</b>	<b>(108.3)</b>	<b>(114.6)</b>	<b>(120.3)</b>	<b>(127.9)</b>	<b>(132.7)</b>	<b>(129.4)</b>	<b>(124.8)</b>	<b>(130.1)</b>
Exports of goods and services	3,172,937	3,897,488	4,361,254	4,594,823	4,879,621	1,178,340	1,271,808	1,301,213	1,134,877
Imports of goods and services	3,042,312	3,793,135	4,286,776	4,571,792	4,861,556	1,207,383	1,235,732	1,280,447	1,143,532
<b>Visible and invisible trade balance</b>	<b>130,625</b>	<b>104,353</b>	<b>74,478</b>	<b>23,031</b>	<b>18,065</b>	<b>-29,043</b>	<b>36,076</b>	<b>20,766</b>	<b>-8,655</b>
	<b>&lt;4.3&gt;</b>	<b>&lt;2.8&gt;</b>	<b>&lt;1.7&gt;</b>	<b>&lt;0.5&gt;</b>	<b>&lt;0.4&gt;</b>	<b>&lt;-2.4&gt;</b>	<b>&lt;2.9&gt;</b>	<b>&lt;1.6&gt;</b>	<b>&lt;-0.8&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 the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

- (#) 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>		<u>2013</u>		<u>2014</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
<b><u>At current market prices (\$Mn)</u></b>									
Total exports of goods	2,454,394	3,021,492	3,406,765	3,632,957	3,945,256	944,366	1,043,344	1,068,467	906,403
Imports of goods	2,351,386	2,995,928	3,464,968	3,779,686	4,148,558	1,034,993	1,061,121	1,095,763	981,290
<b>Visible trade balance</b>	<b>103,008</b> <b>(4.4)</b>	<b>25,564</b> <b>(0.9)</b>	<b>-58,203</b> <b>(-1.7)</b>	<b>-146,729</b> <b>(-3.9)</b>	<b>-203,302</b> <b>(-4.9)</b>	<b>-90,627</b> <b>(-8.8)</b>	<b>-17,777</b> <b>(-1.7)</b>	<b>-27,296</b> <b>(-2.5)</b>	<b>-74,887</b> <b>(-7.6)</b>
Exports of services	501,303	625,719	710,716	764,026	817,948	198,394	205,498	211,684	209,446
Imports of services	473,686	546,930	578,035	594,266	596,581	136,810	151,645	163,622	143,214
<b>Invisible trade balance</b>	<b>27,617</b> <b>(5.8)</b>	<b>78,789</b> <b>(14.4)</b>	<b>132,681</b> <b>(23.0)</b>	<b>169,760</b> <b>(28.6)</b>	<b>221,367</b> <b>(37.1)</b>	<b>61,584</b> <b>(45.0)</b>	<b>53,853</b> <b>(35.5)</b>	<b>48,062</b> <b>(29.4)</b>	<b>66,232</b> <b>(46.2)</b>
Exports of goods and services	2,955,697	3,647,211	4,117,481	4,396,983	4,763,204	1,142,760	1,248,842	1,280,151	1,115,849
Imports of goods and services	2,825,072	3,542,858	4,043,003	4,373,952	4,745,139	1,171,803	1,212,766	1,259,385	1,124,504
<b>Visible and invisible trade balance</b>	<b>130,625</b> <b>&lt;4.6&gt;</b>	<b>104,353</b> <b>&lt;2.9&gt;</b>	<b>74,478</b> <b>&lt;1.8&gt;</b>	<b>23,031</b> <b>&lt;0.5&gt;</b>	<b>18,065</b> <b>&lt;0.4&gt;</b>	<b>-29,043</b> <b>&lt;-2.5&gt;</b>	<b>36,076</b> <b>&lt;3.0&gt;</b>	<b>20,766</b> <b>&lt;1.6&gt;</b>	<b>-8,655</b> <b>&lt;-0.8&gt;</b>
<b><u>Rates of change in real terms (%)</u></b>									
Total exports of goods	-11.2	18.0	4.6	3.2	8.8	8.2	8.7	8.6	2.6
Imports of goods	-7.0	19.9	6.7	4.6	10.3	10.1	10.2	9.7	3.5
Exports of services	1.7	15.3	5.7	2.7	6.8	9.3	6.6	6.3	3.9
Imports of services	-12.9	10.0	-0.2	2.2	0.6	-0.8	0.4	3.0	-1.2

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 the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

(#) 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>			<u>2014</u>
		(% change)		(% change)		(\$Mn)	Q2 (% change over a year earlier)	Q3	Q4	Q1
<b>All markets</b>	<b>-12.6</b>	<b>22.8</b>	<b>10.1</b>	<b>2.9</b>	<b>3.6</b>	<b>3,559,686</b>	<b>2.4</b>	<b>3.3</b>	<b>4.8</b>	<b>0.7</b>
Mainland of China	-7.8	26.5	9.3	6.3	4.9	1,949,247	5.1	3.7	4.8	-1.7
United States	-20.6	16.4	-0.4	2.3	-2.1	331,303	-4.8	0.2	-2.6	2.2
Japan	-10.0	17.2	5.9	6.5	-6.1	135,229	-7.5	-8.8	-4.7	-0.7
India	0.2	42.4	25.6	-17.5	7.9	83,301	7.1	7.6	13.9	5.2
Taiwan	-0.4	25.4	24.3	-5.2	-4.3	77,359	-13.3	-2.1	-14.1	-5.6
Germany	-15.5	1.6	10.7	-12.8	-5.1	73,827	-5.7	-0.5	-7.8	-1.4
Republic of Korea	-13.0	24.4	14.2	-4.0	9.0	64,128	5.8	7.9	19.5	0.3
Vietnam	16.6	33.9	37.3	9.9	15.5	58,580	14.7	25.3	21.4	9.9
Singapore	-23.6	20.7	10.3	-0.5	4.7	58,580	3.0	1.3	6.7	4.2
United Kingdom	-20.8	1.9	-3.4	-6.0	-2.0	54,045	-8.9	5.3	3.9	-4.2
Rest of the world	-20.2	20.9	15.1	0.6	5.7	674,087	3.3	5.4	11.5	6.6

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>			<u>2014</u>
		(% change)			(% change)		(\$Mn)	Q2	Q3	Q4
							(% change over a year earlier)			
<b>All sources</b>	<b>-11.0</b>	<b>25.0</b>	<b>11.9</b>	<b>3.9</b>	<b>3.8</b>	<b>4,060,717</b>	<b>3.5</b>	<b>2.6</b>	<b>4.3</b>	<b>2.1</b>
Mainland of China	-11.4	22.4	10.9	8.5	5.5	1,942,131	5.9	4.0	3.2	-2.4
Japan	-20.6	30.4	3.4	-2.2	-8.1	286,343	-10.7	-7.3	-2.3	2.3
Taiwan	-8.5	28.0	7.2	1.6	6.9	261,895	8.9	1.2	8.2	11.3
Singapore	-10.4	35.9	7.2	-3.2	*	246,441	-1.7	-5.0	0.8	0.2
United States	-5.7	26.0	18.0	-3.3	7.4	219,678	3.6	5.5	23.2	4.2
Republic of Korea	-12.7	29.8	12.2	2.4	3.4	158,709	6.2	0.9	-1.3	7.8
Malaysia	2.8	24.5	5.1	-6.0	4.7	87,601	-13.9	16.8	21.9	25.7
India	-9.3	36.5	20.6	-5.5	6.7	87,321	-0.2	13.4	3.6	1.0
Thailand	-9.7	32.5	0.3	-4.8	6.4	77,544	2.5	3.3	7.7	19.2
Switzerland	-11.5	26.3	51.7	-0.7	-1.7	77,195	-10.7	6.4	2.0	2.6
Rest of the world	-8.2	19.2	20.2	5.8	3.8	615,861	8.6	2.9	4.0	5.4

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

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

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>			<u>2014</u>
		(% change)			(% change)		(\$Mn)	Q2	Q3	Q4
							(% change over a year earlier)			
<b>Overall</b>	<b>-10.8</b>	<b>27.3</b>	<b>17.3</b>	<b>3.0</b>	<b>3.7</b>	<b>1,095,355</b>	<b>5.8</b>	<b>-0.1</b>	<b>2.5</b>	<b>5.9</b>
Foodstuffs	9.9	17.0	18.8	5.1	13.9	130,787	5.1	16.0	19.9	5.0
Consumer goods	-14.0	33.8	36.0	5.9	3.6	274,797	2.1	7.0	1.8	4.1
Raw materials and semi-manufactures	-6.4	32.3	0.2	-6.5	8.1	330,993	12.7	3.3	-4.6	21.4
Fuels	-18.4	33.8	21.9	-4.2	-2.8	131,892	-11.4	-6.4	5.3	-10.0
Capital goods	-18.7	12.9	27.3	19.0	-5.3	222,122	10.1	-15.7	-0.3	-6.9

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>		<u>2013</u>	<u>2014</u>		
	(% change)				(% change)	(\$Mn)	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>-6.7</b>	<b>23.2</b>	<b>13.5</b>	<b>6.6</b>	<b>6.0</b>	<b>1,063,231</b>	<b>7.5</b>	<b>5.7</b>	<b>5.0</b>	<b>3.1</b>
Transportation	-18.6	26.3	7.8	-0.6	-2.2	242,995	-7.5	0.9	2.1	0.3
Travel	6.7	35.6	28.4	15.8	17.7	301,969	28.4	15.5	9.4	7.0
Trade-related	-4.3	18.0	11.0	3.9	2.6	288,559	2.2	2.0	2.9	1.5
Other services	-3.1	16.4	10.1	9.0	5.9	229,708	9.8	5.1	5.1	2.8
<b>Imports of services</b>	<b>-7.5</b>	<b>17.3</b>	<b>10.2</b>	<b>3.8</b>	<b>2.5</b>	<b>466,628</b>	<b>-0.3</b>	<b>2.8</b>	<b>5.9</b>	<b>0.9</b>
Transportation	-21.6	20.7	14.3	2.3	-0.4	142,068	-3.2	1.5	4.6	-0.3
Travel	-3.8	11.9	9.8	5.2	5.7	164,545	0.7	4.2	11.6	-1.5
Trade-related	0.5	21.6	1.1	1.7	-0.2	33,679	-1.0	-1.8	-0.7	1.4
Other services	5.7	19.5	8.7	4.6	2.4	126,336	2.5	3.8	2.7	4.7
<b>Net exports of services</b>	<b>-5.8</b>	<b>29.2</b>	<b>16.6</b>	<b>9.0</b>	<b>8.9</b>	<b>596,603</b>	<b>14.3</b>	<b>8.1</b>	<b>4.3</b>	<b>4.8</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 the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

(#) 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>		<u>2013</u>	<u>2014</u>		
	(% change)				(% change)	(\$Mn)	Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>-7.9</b>	<b>24.8</b>	<b>13.6</b>	<b>7.5</b>	<b>7.1</b>	<b>817,948</b>	<b>9.0</b>	<b>7.0</b>	<b>5.7</b>	<b>3.5</b>
Transportation	-18.6	26.3	7.8	-0.6	-2.2	242,995	-7.5	0.9	2.1	0.3
Travel	6.7	35.6	28.4	15.8	17.7	301,969	28.4	15.5	9.4	7.0
Other services	-4.6	16.2	8.1	8.3	5.4	272,984	8.6	4.5	4.7	2.6
<b>Imports of services</b>	<b>-16.2</b>	<b>15.5</b>	<b>5.7</b>	<b>2.8</b>	<b>0.4</b>	<b>596,581</b>	<b>-1.4</b>	<b>0.1</b>	<b>2.9</b>	<b>-0.9</b>
Transportation	-21.6	20.7	14.3	2.3	-0.4	142,068	-3.2	1.5	4.6	-0.3
Travel	-3.8	11.9	9.8	5.2	5.7	164,545	0.7	4.2	11.6	-1.5
Other services	-19.0	15.1	0.1	1.9	-2.0	289,968	-1.5	-2.8	-1.8	-0.9

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 the *Special Report on Gross Domestic Product* published by the Census and Statistics Department in September 2012.

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



**Table 11 : Incoming visitors by source**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>
						Q2	Q3	Q4	Q1
<u>('000)</u>									
<b>All sources</b>	<b>29 590.7</b>	<b>36 030.3</b>	<b>41 921.3</b>	<b>48 615.1</b>	<b>54 298.8</b>	<b>12 623.5</b>	<b>14 498.9</b>	<b>14 434.0</b>	<b>14 698.0</b>
Mainland of China	17 956.7	22 684.4	28 100.1	34 911.4	40 745.3	9 314.6	11 286.0	10 644.1	11 406.7
South and Southeast Asia	2 885.2	3 500.9	3 751.1	3 651.8	3 718.0	972.2	810.7	1 116.4	846.6
Taiwan	2 009.6	2 164.8	2 148.7	2 088.7	2 100.1	488.7	566.5	529.8	491.1
Europe	1 610.5	1 757.8	1 801.3	1 867.7	1 893.7	461.0	406.0	543.6	481.5
United States	1 070.1	1 171.4	1 212.3	1 184.8	1 109.8	285.0	245.8	308.8	264.4
Japan	1 204.5	1 316.6	1 283.7	1 254.6	1 057.0	237.2	271.1	281.5	274.4
Others	2 854.0	3 434.5	3 623.9	3 656.1	3 674.9	864.8	912.9	1 009.9	933.4
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>0.3</b>	<b>21.8</b>	<b>16.4</b>	<b>16.0</b>	<b>11.7</b>	<b>13.7</b>	<b>11.1</b>	<b>9.0</b>	<b>15.3</b>
Mainland of China	6.5	26.3	23.9	24.2	16.7	21.2	15.8	11.1	20.1
South and Southeast Asia	-1.7	21.3	7.1	-2.6	1.8	-1.3	0.8	6.7	3.4
Taiwan	-10.3	7.7	-0.7	-2.8	0.5	-1.8	-0.6	0.9	-4.7
Europe	-5.9	9.1	2.5	3.7	1.4	4.0	-0.2	1.7	-0.3
United States	-6.7	9.5	3.5	-2.3	-6.3	-9.6	-9.1	-1.9	-2.2
Japan	-9.1	9.3	-2.5	-2.3	-15.7	-22.2	-21.8	8.6	2.6
Others	-13.1	20.3	5.5	0.9	0.5	-0.2	0.1	3.7	5.2

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

**Table 12 : Property market**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	26 036	17 321	16 579	10 471	8 776	7 157	13 405
Commercial property	371	145	291	368	390	235	189
<i>of which :</i>							
Office space	279	34	108	320	341	151	124
Other commercial premises <sup>(b)</sup>	91	111	183	48	49	84	65
Industrial property <sup>(c)</sup>	1	17	27	16	78	3	21
<i>of which :</i>							
Industrial-cum-office premises	0	4	0	0	4	0	0
Conventional flatted factory space	1	0	0	16	70	3	21
Storage premises <sup>(d)</sup>	0	13	27	0	4	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	20 614	24 691	4 430	4 795	22 759	19 021	6 385
Subsidised sales flats <sup>(e)</sup>	0	0	0	2 010	2 200	370	1 110
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	530.0	550.7	706.7	900.0	530.0	546.8	570.5
Commercial property	161.3	481.9	468.4	327.5	147.7	178.3	158.4
Industrial property <sup>(f)</sup>	16.4	35.1	23.9	103.5	106.6	97.1	34.3
Other properties	407.1	408.0	199.2	207.7	212.8	253.2	459.2
Total	1 114.8	1 475.8	1 398.2	1 538.6	997.1	1 075.4	1 222.4
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	100 630	103 362	82 472	123 575	95 931	115 092	135 778
Primary market	25 694	15 994	13 986	20 123	11 046	16 161	13 646
Secondary market	74 936	87 368	68 486	103 452	84 885	98 931	122 132
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 213	3 431	2 874	4 129	2 845	2 521	3 591
Other commercial premises	7 833	7 143	4 402	5 490	4 149	5 359	7 639
Flatted factory space	5 889	6 560	7 409	9 072	5 741	5 554	8 206

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>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>
				Q2	Q3	Q4	Q1
<b>Completion of new property by the private sector</b>							
('000 m <sup>2</sup> of internal floor area)							
Residential property <sup>(a)</sup> (in units)	9 449	10 149	8 254	1 249	2 951	3 818	2 879
Commercial property	197	226	161	28	66	62	75
<i>of which :</i>							
Office space	155	136	123	19	56	47	57
Other commercial premises <sup>(b)</sup>	42	90	39	9	11	16	18
Industrial property <sup>(c)</sup>	105	170	85	0	81	4	16
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	32	46	85	0	81	4	16
Storage premises <sup>(d)</sup>	73	123	0	0	0	0	0
<b>Production of public housing</b>							
(in units)							
Rental housing flats <sup>(e)</sup>	17 787	9 778	20 898	0	7 942	2 549	N.A.
Subsidised sales flats <sup>(e)</sup>	0	0	0	0	0	0	N.A.
<b>Building plans with consent to commence work in the private sector</b>							
('000 m <sup>2</sup> of usable floor area)							
Residential property	580.6	796.4	816.0	214.5	154.1	297.7	N.A.
Commercial property	133.6	210.2	309.5	56.8	90.5	114.0	N.A.
Industrial property <sup>(f)</sup>	109.3	70.7	138.1	5.1	17.6	25.0	N.A.
Other properties	232.7	428.9	136.4	12.1	7.2	105.7	N.A.
Total	1 056.2	1 506.1	1 400.1	288.4	269.4	542.3	N.A.
<b>Agreements for sale and purchase of property</b>							
(Number)							
Residential property <sup>(g)</sup>	84 462	81 333	50 676	11 443	11 079	11 883	10 788
Primary market	10 880	12 968	11 046	2 508	1 628	3 986	3 595
Secondary market	73 582	68 365	39 630	8 935	9 451	7 897	7 193
Selected types of non-residential properties <sup>(h)</sup>							
Office space	3 071	3 269	1 682	280	273	260	206
Other commercial premises	5 980	7 282	4 305	693	596	808	519
Flatted factory space	7 619	9 731	4 267	690	697	615	540

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

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

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

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

N.A. Not yet available.

**Table 13 : Property prices and rentals**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	78.0	92.0	92.7	103.5	120.5	121.3	150.9
Office space	99.3	133.0	139.3	165.5	199.0	179.8	230.4
Shopping space	119.3	149.3	153.5	172.5	192.2	193.1	257.2
Flatted factory space	88.6	125.0	158.5	199.5	235.9	216.3	284.4
Property rental indices <sup>(b)</sup> :							
Residential flats	77.7	86.5	91.6	101.8	115.7	100.4	119.7
Office space	78.1	96.4	117.4	131.9	155.5	135.7	147.6
Shopping space	92.8	100.5	104.3	111.8	116.2	110.9	122.9
Flatted factory space	77.3	82.6	91.0	100.5	109.3	99.4	108.9
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	26.6	17.9	0.8	11.7	16.4	0.7	24.4
Office space	58.9	33.9	4.7	18.8	20.2	-9.6	28.1
Shopping space	39.5	25.1	2.8	12.4	11.4	0.5	33.2
Flatted factory space	23.6	41.1	26.8	25.9	18.2	-8.3	31.5
Property rental indices <sup>(b)</sup> :							
Residential flats	5.6	11.3	5.9	11.1	13.7	-13.2	19.2
Office space	4.7	23.4	21.8	12.4	17.9	-12.7	8.8
Shopping space	7.4	8.3	3.8	7.2	3.9	-4.6	10.8
Flatted factory space	3.2	6.9	10.2	10.4	8.8	-9.1	9.6

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

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

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

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

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

(+) Provisional figures.

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

	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>
				Q2	Q3	Q4 <sup>#</sup>	Q1 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	182.1	206.2	242.4	241.2	245.6	245.2	244.2
Office space	297.9	334.7	409.8	409.6	415.4	414.1	414.8
Shopping space	327.4	420.5	506.4	509.0	510.8	504.5	501.5
Flatted factory space	385.0	489.8	655.5	657.8	671.0	656.7	651.5
Property rental indices <sup>(b)</sup> :							
Residential flats	134.0	142.6	154.5	153.5	155.8	156.8	155.0
Office space	169.9	188.3	204.0	203.5	207.9	207.8	208.2
Shopping space	134.3	151.3	165.5	165.7	168.1	167.6	168.5
Flatted factory space	118.6	131.9	147.3	146.1	150.8	151.7	153.0
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	20.7	13.2	17.6	19.2	16.1	8.6	2.8
Office space	29.3	12.4	22.4	26.9	21.5	11.4	3.6
Shopping space	27.3	28.4	20.4	26.6	16.3	5.7	*
Flatted factory space	35.4	27.2	33.8	42.6	31.8	15.2	2.3
Property rental indices <sup>(b)</sup> :							
Residential flats	11.9	6.4	8.3	9.9	6.6	4.0	2.2
Office space	15.1	10.8	8.3	9.1	9.0	7.6	5.7
Shopping space	9.3	12.7	9.4	10.5	8.9	6.3	5.0
Flatted factory space	8.9	11.2	11.7	11.1	12.6	10.6	8.9

**Table 14 : Monetary aggregates**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	412,629	348,248	387,909	454,342	491,115	671,241	730,093
M2 <sup>(a)</sup>	2,208,591	2,329,669	2,777,679	3,281,017	3,239,857	3,587,717	3,866,788
M3 <sup>(a)</sup>	2,219,557	2,345,838	2,795,545	3,300,500	3,261,306	3,604,843	3,878,193
Total money supply (\$Mn)							
M1	484,494	434,684	491,648	616,709	645,833	901,819	1,017,227
M2	4,166,706	4,379,057	5,054,332	6,106,348	6,268,058	6,602,310	7,136,271
M3	4,189,544	4,407,188	5,089,741	6,139,758	6,300,751	6,626,843	7,156,260
Deposit (\$Mn)							
HK\$	2,017,911	2,131,579	2,568,283	3,075,042	3,033,980	3,373,595	3,617,183
Foreign currency	1,848,145	1,936,322	2,188,993	2,793,856	3,024,004	3,007,445	3,245,081
Total	3,866,056	4,067,901	4,757,275	5,868,898	6,057,984	6,381,040	6,862,265
Loans and advances (\$Mn)							
HK\$	1,666,740	1,797,350	1,917,437	2,184,705	2,354,755	2,401,323	2,824,445
Foreign currency	488,964	514,637	550,392	776,971	930,883	887,160	1,403,281
Total	2,155,704	2,311,987	2,467,828	2,961,676	3,285,638	3,288,483	4,227,726
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	113.6	112.6	111.1	106.3	100.7	101.9	99.5
Import-weighted	115.4	114.1	112.6	107.6	101.3	102.2	99.2
Export-weighted	111.7	110.9	109.6	104.8	100.1	101.6	99.8
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	16.3	-15.6	11.4	17.1	8.1	36.7	8.8
M2 <sup>(a)</sup>	4.8	5.5	19.2	18.1	-1.3	10.7	7.8
M3 <sup>(a)</sup>	4.6	5.7	19.2	18.1	-1.2	10.5	7.6
Total money supply							
M1	17.2	-10.3	13.1	25.4	4.7	39.6	12.8
M2	9.3	5.1	15.4	20.8	2.6	5.3	8.1
M3	8.6	5.2	15.5	20.6	2.6	5.2	8.0
Deposit							
HK\$	4.5	5.6	20.5	19.7	-1.3	11.2	7.2
Foreign currency	13.0	4.8	13.0	27.6	8.2	-0.5	7.9
Total	8.4	5.2	16.9	23.4	3.2	5.3	7.5
Loans and advances							
HK\$	6.0	7.8	6.7	13.9	7.8	2.0	17.6
Foreign currency	5.8	5.3	6.9	41.2	19.8	-4.7	58.2
Total	5.9	7.2	6.7	20.0	10.9	0.1	28.6
Nominal Effective Exchange Rate Indices (Jan 2010 =100) <sup>(b)</sup>							
Trade-weighted	-2.4	-0.9	-1.3	-4.3	-5.3	1.2	-2.4
Import-weighted	-2.4	-1.1	-1.3	-4.4	-5.9	0.9	-2.9
Export-weighted	-2.4	-0.7	-1.2	-4.4	-4.5	1.5	-1.8

**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>2011</u>	<u>2012</u>	<u>2013</u>	Q2	<u>2013</u> Q3	Q4	<u>2014</u> Q1
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	794,726	920,920	1,000,344	956,250	987,295	1,000,344	1,014,042
M2 <sup>(a)</sup>	4,046,216	4,537,384	4,795,130	4,543,194	4,751,371	4,795,130	4,861,544
M3 <sup>(a)</sup>	4,055,404	4,545,590	4,806,012	4,553,568	4,761,232	4,806,012	4,873,038
Total money supply (\$Mn)							
M1	1,127,320	1,377,359	1,510,895	1,428,400	1,483,998	1,510,895	1,522,509
M2	8,057,530	8,950,005	10,056,437	9,219,621	9,726,413	10,056,437	10,145,621
M3	8,081,079	8,970,396	10,085,243	9,242,688	9,750,025	10,085,243	10,177,899
Deposit (\$Mn)							
HK\$	3,740,240	4,176,200	4,390,953	4,166,773	4,354,568	4,390,953	4,445,310
Foreign currency	3,851,020	4,120,234	4,789,109	4,314,027	4,551,307	4,789,109	4,743,682
Total	7,591,260	8,296,434	9,180,062	8,480,800	8,905,875	9,180,062	9,188,992
Loans and advances (\$Mn)							
HK\$	3,160,002	3,333,059	3,606,028	3,489,631	3,595,502	3,606,028	3,746,501
Foreign currency	1,920,659	2,233,751	2,850,808	2,606,608	2,803,966	2,850,808	3,078,485
Total	5,080,661	5,566,810	6,456,836	6,096,239	6,399,468	6,456,836	6,824,986
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	94.6	94.9	94.9	95.0	95.3	94.6	95.1
Import-weighted	93.9	94.2	94.7	94.8	95.2	94.6	95.1
Export-weighted	95.4	95.6	95.1	95.2	95.4	94.7	95.0
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	8.9	15.9	8.6	18.1	14.5	8.6	7.3
M2 <sup>(a)</sup>	4.6	12.1	5.7	9.6	9.6	5.7	7.1
M3 <sup>(a)</sup>	4.6	12.1	5.7	9.7	9.6	5.7	7.1
Total money supply							
M1	10.8	22.2	9.7	17.4	14.6	9.7	9.5
M2	12.9	11.1	12.4	10.8	13.3	12.4	12.1
M3	12.9	11.0	12.4	10.9	13.4	12.4	12.2
Deposit							
HK\$	3.4	11.7	5.1	9.3	9.3	5.1	6.7
Foreign currency	18.7	7.0	16.2	10.8	15.1	16.2	13.3
Total	10.6	9.3	10.7	10.1	12.2	10.7	10.0
Loans and advances							
HK\$	11.9	5.5	8.2	8.9	10.9	8.2	11.5
Foreign currency	36.9	16.3	27.6	23.3	28.9	27.6	29.5
Total	20.2	9.6	16.0	14.6	18.1	16.0	19.0
Nominal Effective Exchange Rate Indices							
<u>(Jan 2010 =100)<sup>(b)</sup></u>							
Trade-weighted	-4.9	0.3	0.0	-0.3	-0.2	0.4	0.4
Import-weighted	-5.3	0.3	0.5	0.1	0.4	1.2	0.8
Export-weighted	-4.4	0.2	-0.5	-0.8	-1.0	-0.2	-0.2

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

(b) Period average.

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

(%)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>			
					Q1	Q2	Q3	Q4
<b>Services Industry</b>								
Import and export trade	19.7	8.9	-1.3	-0.3	0.6	*	0.2	-1.8
Wholesale	25.0	12.7	3.2	4.3	6.3	2.3	3.4	5.1
Retail	18.3	24.9	9.8	11.0	13.9	16.1	7.5	6.8
Transportation	24.5	4.4	0.9	1.4	1.2	0.1	-0.3	4.3
<i>within which :</i>								
Land transport	6.0	7.0	11.9	8.0	7.6	6.3	6.6	11.4
Water transport	20.5	0.6	-2.4	-2.9	2.3	-3.9	-7.1	-2.0
Air transport	33.7	6.7	0.3	2.4	-1.2	1.2	2.7	6.5
Warehousing and storage	9.5	9.4	25.2	8.2	1.4	0.9	14.4	16.6
Courier	28.3	17.3	16.1	26.1	16.4	14.7	53.0	19.8
Accommodation services <sup>(a)</sup>	25.3	19.6	13.8	5.6	11.3	6.8	2.6	2.9
Food services	5.1	6.4	5.0	3.5	3.7	4.6	3.8	2.0
Information and communications	4.9	8.8	9.3	6.0	7.0	8.2	6.7	2.4
<i>within which :</i>								
Telecommunications	3.0	8.1	14.7	8.0	9.6	8.3	11.1	3.8
Film entertainment	-6.4	-5.6	1.9	-4.3	-8.1	4.2	-5.2	-7.9
Banking	8.8	10.8	9.4	16.8	17.8	14.2	16.8	18.6
Financing (except banking)	16.7	-2.4	1.6	2.6	0.2	7.1	10.5	-5.4
<i>within which :</i>								
Financial markets and asset management	15.3	-3.2	1.7	1.0	-2.0	6.7	9.9	-8.2
<i>within which : Asset management</i>	28.4	10.6	-5.4	14.9	6.8	20.1	13.1	19.5
Insurance	8.3	9.4	13.6	15.1	13.6	12.1	16.0	18.6
Real estate	11.4	-0.9	11.8	0.1	5.7	-2.3	-10.6	8.4
Professional, scientific and technical services	13.9	7.3	-0.5	7.2	4.1	10.8	6.7	7.3
Administrative and support services	12.3	10.2	8.2	9.5	7.1	11.2	10.8	8.6
<b>Services Domain</b>								
Tourism, convention and exhibition services	30.6	20.6	14.8	17.0 <sup>+</sup>	15.2 <sup>+</sup>	28.2 <sup>+</sup>	15.1 <sup>+</sup>	11.1 <sup>+</sup>
Computer and information technology services	32.5	10.4	15.1	2.1	4.6	2.7	0.4	0.8

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.

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

(+) Provisional figures.



**Table 16 : Labour force characteristics**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		<u>2014</u>
						Q2	Q3	Q4	Q1
<u>(%)</u>									
Labour force participation rate	60.8	59.6	60.1	60.5	61.2	61.5	61.5	61.2	60.6
Seasonally adjusted unemployment rate	5.3	4.3	3.4	3.3	3.4	3.3	3.3	3.2	3.1
Underemployment rate	2.3	2.0	1.7	1.5	1.5	1.6	1.5	1.4	1.2
<u>('000)</u>									
Population of working age	6 022.9	6 093.8	6 164.4	6 253.4	6 304.6	6 305.1	6 314.7	6 333.8	6 334.9
Labour force	3 660.3	3 631.3	3 703.1	3 785.2	3 858.8	3 877.2	3 884.3	3 878.8	3 840.1
Persons employed	3 467.6	3 474.1	3 576.4	3 660.7	3 728.0	3 745.1	3 750.1	3 760.4	3 721.0
Persons unemployed	192.6	157.2	126.7	124.5	130.8	132.1	134.2	118.4	119.1
Persons underemployed	83.8	72.5	63.3	57.6	58.2	61.4	57.0	55.5	47.7
<u>(% change over a year earlier)</u>									
Population of working age	0.8	1.2	1.2	1.4	0.8	0.9	0.8	0.8	0.6
Labour force	0.6	-0.8	2.0	2.2	1.9	2.5	2.7	2.2	-0.3
Persons employed	-1.2	0.2	2.9	2.4	1.8	2.4	2.7	2.2	*
Persons unemployed	50.4	-18.4	-19.4	-1.8	5.1	4.5	1.9	1.4	-10.1
Persons underemployed	23.4	-13.5	-12.7	-9.0	1.1	12.7	-3.9	-0.7	-21.9

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

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

Selected major industries	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>				(No.)
	(% change)					Mar	Jun	Sep	Dec	
Manufacturing	-5.7	-4.5	-5.6	-5.1	-3.0	-3.7	-4.0	-2.7	-1.5	103 683
Construction sites (manual workers only)	2.2	9.6	13.2	13.8	11.2	10.1	15.1	6.3	13.4	80 061
Import and export trade	-4.4	0.9	-0.3	-1.1	-0.2	0.4	-0.4	-0.4	-0.2	490 308
Wholesale	-2.0	1.2	*	-0.6	-2.0	-1.5	-2.8	-2.5	-1.3	62 515
Retail	-0.3	3.3	4.0	2.5	2.3	2.3	2.1	1.9	2.9	267 703
Food and beverage services	*	3.7	6.6	1.6	0.9	2.1	1.0	0.2	0.5	237 209
Accommodation services <sup>(a)</sup>	-1.0	1.5	5.8	9.2	5.0	4.6	4.5	4.4	6.3	40 585
Transportation, storage, postal and courier services	1.1	1.5	2.0	1.8	2.0	1.5	1.6	2.5	2.6	171 620
Information and communications	-1.6	1.3	3.4	5.6	5.1	3.3	5.4	5.2	6.2	103 248
Financing and insurance	-0.5	4.8	6.3	1.9	1.0	-1.1	0.2	2.1	2.8	213 490
Real estate	0.5	4.1	8.0	4.2	1.6	4.0	1.7	0.3	0.5	126 523
Professional and business services (excluding cleaning and similar services)	0.9	2.2	4.2	3.4	4.5	3.6	4.0	4.6	5.9	274 253
Cleaning and similar services	6.7	13.7	9.5	3.3	1.6	2.9	1.2	0.7	1.6	79 564
Education	5.3	3.4	1.5	2.4	2.8	3.1	2.7	3.0	2.4	177 734
Human health services	3.8	3.0	4.1	4.9	5.2	5.1	5.4	5.4	4.9	108 469
Residential care and social work services	1.5	1.8	1.3	2.0	0.5	2.0	0.4	*	-0.5	58 474
Arts, entertainment, recreation and other services	0.8	5.0	2.8	0.6	1.6	2.2	0.1	1.9	2.5	121 411
Civil Service <sup>(b)</sup>	1.1	0.5	0.7	1.1	1.3	0.9	1.1	1.5	1.7	162 413
Others <sup>(c)</sup>	-1.0	3.1	-0.6	-5.1	3.5	-0.4	2.5	5.3	6.6	11 034

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 cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

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

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

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

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

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		
						Mar	Jun	Sep	Dec
<u>(Number)</u>									
Building sites									
Private sector	28 776	28 620	31 780	37 687	41 308	39 845	43 217	39 450	42 719
Public sector <sup>(a)</sup>	10 277	11 463	12 335	10 578	9 860	11 744	10 701	8 508	8 487
Sub-total	39 053	40 083	44 115	48 265	51 168	51 589	53 918	47 958	51 206
Civil engineering sites									
Private sector	1 618	1 544	1 250	1 410	1 322	1 055	1 149	1 504	1 578
Public sector <sup>(a)</sup>	9 831	13 714	17 270	21 621	26 813	25 159	27 475	27 342	27 277
Sub-total	11 449	15 258	18 520	23 030	28 135	26 214	28 624	28 846	28 855
<b>Total</b>	<b>50 501</b>	<b>55 341</b>	<b>62 635</b>	<b>71 295</b>	<b>79 303</b>	<b>77 803</b>	<b>82 542</b>	<b>76 804</b>	<b>80 061</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-0.4	-0.5	11.0	18.6	9.6	5.8	10.1	5.6	17.2
Public sector <sup>(a)</sup>	26.3	11.5	7.6	-14.2	-6.8	8.6	11.3	-24.8	-19.8
Sub-total	5.5	2.6	10.1	9.4	6.0	6.5	10.3	-1.5	8.9
Civil engineering sites									
Private sector	-4.0	-4.6	-19.0	12.8	-6.2	-23.1	-19.9	2.1	16.1
Public sector <sup>(a)</sup>	-8.1	39.5	25.9	25.2	24.0	20.9	28.3	23.8	23.0
Sub-total	-7.6	33.3	21.4	24.4	22.2	18.2	25.3	22.5	22.6
<b>Total</b>	<b>2.2</b>	<b>9.6</b>	<b>13.2</b>	<b>13.8</b>	<b>11.2</b>	<b>10.1</b>	<b>15.1</b>	<b>6.3</b>	<b>13.4</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.

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

	(%)								
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>			
Selected industry section						Q1	Q2	Q3	Q4
<b>(in nominal terms)</b>									
Manufacturing	-3.5	2.3	7.7	8.2	3.3	2.1	3.1	3.1	2.8
Import/export and wholesale trade	-1.8	2.0	12.8	4.6	3.3	3.2	0.4	5.8	3.1
Retail trade	-1.4	3.9	12.0	10.1	6.7	4.9	8.0	6.9	6.8
Transportation, storage, postal and courier services	-0.7	4.0	4.1	1.2	5.4	4.6	5.7	4.9	5.0
Accommodation <sup>(a)</sup> and food service activities	-0.9	3.4	9.5	6.2	6.7	4.7	7.6	7.7	6.9
Information and communications	0.2	2.5	7.5	8.2	5.4	4.4	5.0	5.6	6.3
Financial and insurance activities	-3.5	6.5	12.4	4.7	4.6	6.4	3.4	3.0	3.8
Real estate activities	-2.1	1.8	10.8	7.7	5.9	4.5	6.4	7.5	4.8
Professional and business services	0.7	2.2	2.1	4.7	7.1	4.8	7.4	8.0	7.6
Social and personal services	1.7	-2.4	3.2	7.6	3.6	5.8	4.1	2.0	3.7
<b>All selected industry sections surveyed</b>	<b>0.7</b>	<b>2.1</b>	<b>7.8</b>	<b>6.5</b>	<b>5.4</b>	<b>5.2</b>	<b>5.0</b>	<b>5.9</b>	<b>5.3</b>
<b>(in real terms)</b>									
Manufacturing	-4.1	0.1	2.1	3.9	-0.8	-1.4	-0.8	-2.1	-1.4
Import/export and wholesale trade	-2.5	-0.3	7.2	0.4	-1.0	-0.4	-3.5	0.4	-1.1
Retail trade	-2.1	1.5	6.3	5.7	2.3	1.3	3.8	1.5	2.4
Transportation, storage, postal and courier services	-1.3	1.6	-1.2	-2.7	1.0	0.9	1.7	-0.5	0.7
Accommodation <sup>(a)</sup> and food service activities	-1.6	1.0	4.1	2.0	2.3	1.0	3.5	2.2	2.5
Information and communications	-0.4	0.1	2.2	4.0	1.0	0.8	1.0	0.2	1.9
Financial and insurance activities	-4.2	4.1	7.0	0.5	0.4	2.7	-0.6	-2.3	-0.4
Real estate activities	-2.6	-0.4	5.2	3.6	1.4	0.9	2.4	2.0	0.5
Professional and business services	0.1	*	-3.1	0.7	2.6	1.1	3.3	2.4	3.2
Social and personal services	1.2	-4.6	-2.1	3.6	-0.8	2.1	0.1	-3.2	-0.5
<b>All selected industry sections surveyed</b>	<b>*</b>	<b>-0.2</b>	<b>2.4</b>	<b>2.3</b>	<b>1.1</b>	<b>1.5</b>	<b>1.0</b>	<b>0.5</b>	<b>1.0</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.

In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, payroll also covers overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in industrial and occupational coverage, the movements in payroll per person engaged, do not necessarily match closely with those in wage rates.

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

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

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

	(%)								
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>		<u>2013</u>		
Selected industry section						Mar	Jun	Sep	Dec
<b>(in nominal terms)</b>									
Manufacturing	-1.0	-1.0	6.7	4.3	4.7	2.4	6.5	5.1	4.7
Import/export, wholesale and retail trades	-1.1	2.7	7.7	4.5	2.9	3.6	3.0	3.4	1.9
Transportation	*	1.1	4.1	3.3	3.9	3.6	3.7	3.9	4.1
Accommodation <sup>(a)</sup> and food service activities	-2.2	2.5	9.4	7.9	5.7	6.9	7.2	5.5	3.7
Financial and insurance activities <sup>(b)</sup>	-0.4	2.9	6.7	4.2	4.4	5.3	5.1	4.0	2.8
Real estate leasing and maintenance management	-0.3	2.6	8.7	7.6	9.3	5.8	9.2	9.4	9.7
Professional and business services	0.8	3.4	12.9	6.5	5.9	3.3	5.8	6.1	8.1
Personal services	-0.5	3.6	10.0	9.2	6.2	7.3	6.9	5.4	5.4
<b>All industries surveyed</b>	<b>-0.9</b>	<b>2.5</b>	<b>8.1</b>	<b>5.6</b>	<b>4.7</b>	<b>4.7</b>	<b>5.2</b>	<b>4.8</b>	<b>4.1</b>
<b>(in real terms)</b>									
Manufacturing	-1.4	-3.6	0.9	0.6	-0.2	-1.5	1.8	*	0.4
Import/export, wholesale and retail trades	-1.5	-0.2	2.4	0.6	-1.7	-0.4	-1.6	-1.6	-2.3
Transportation	-0.6	-1.6	-1.2	-0.7	-0.6	-0.4	-0.8	-1.2	-0.2
Accommodation <sup>(a)</sup> and food service activities	-2.6	-0.4	3.9	3.8	1.1	2.8	2.5	0.4	-0.5
Financial and insurance activities <sup>(b)</sup>	-0.9	0.3	1.4	0.1	*	1.3	0.5	-1.0	-1.4
Real estate leasing and maintenance management	-0.7	-0.4	3.5	3.4	4.5	1.8	4.4	4.1	5.2
Professional and business services	0.5	0.6	7.0	2.2	1.4	-0.7	1.1	1.0	3.6
Personal services	-0.8	0.7	4.2	5.3	1.5	3.2	2.2	0.3	1.1
<b>All industries surveyed</b>	<b>-1.3</b>	<b>-0.4</b>	<b>2.7</b>	<b>1.6</b>	<b>0.1</b>	<b>0.7</b>	<b>0.6</b>	<b>-0.2</b>	<b>-0.2</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).

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

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

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

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

(HK\$)

Industry Section	May – Jun 2012			May – Jun 2013		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	9,500	12,500	18,000	10,800	13,300	20,000
Electricity and gas supply; sewerage, waste management and remediation activities	15,000	23,000	36,800	16,200	23,500	37,000
Construction	12,100	16,100	21,000	13,800	17,600	22,300
Import and export trade	10,400	15,000	22,000	11,200	15,500	24,000
Wholesale	9,000	11,600	15,500	10,000	12,200	17,300
Retail trade	7,800	10,300	14,100	8,100	10,900	14,900
<i>within which:</i>						
Supermarkets and convenience stores	5,600	9,100	11,500	5,600	9,500	11,900
Other retail stores	8,000	10,600	14,800	8,400	11,100	15,500
Land transport	11,000	14,000	22,000	11,700	15,000	22,500
Other transportation, storage, postal and courier services <sup>(b)</sup>	10,000	13,500	19,400	11,400	14,800	20,700
Restaurants	7,500	9,400	12,700	7,800	10,000	13,100
<i>within which:</i>						
Hong Kong style tea cafes	7,500	9,100	12,200	8,400	9,800	13,000
Chinese restaurants	8,400	10,600	14,800	9,100	11,100	15,100
Restaurants, other than Chinese	8,100	9,800	12,500	8,700	10,400	13,600
Fast food cafes <sup>(c)</sup>	3,500	7,500	9,800	3,800	7,800	9,900
Accommodation <sup>(d)</sup> and other food service activities	10,000	12,500	16,200	10,400	13,000	16,700
Information and communications	12,600	17,000	27,000	13,000	18,200	29,000
Financing and insurance	14,900	22,000	39,000	15,000	22,600	39,600
Real estate activities <sup>(e)</sup>	11,700	17,500	25,400	12,000	18,000	27,000
Estate management, security and cleaning services	7,300	9,100	10,800	7,700	9,700	11,800
<i>within which:</i>						
Real estate maintenance management	8,800	10,000	12,000	9,400	10,800	13,700
Security services <sup>(f)</sup>	8,400	9,500	10,500	8,700	10,000	11,600
Cleaning services	6,000	7,300	7,800	6,200	7,400	8,400
Membership organisations <sup>(g)</sup>	7,000	9,300	15,000	7,100	10,100	16,100
Professional, scientific and technical services	11,500	18,500	28,100	12,000	19,200	29,700
Administrative and support services activities	9,200	12,800	19,500	10,200	14,000	22,000
Travel agency, reservation service and related activities	9,000	11,400	16,000	10,000	12,000	17,000
Education and public administration (excluding the Government)	11,400	23,500	42,000	12,000	24,200	42,300
Human health activities; and beauty and body prettifying treatment	10,700	15,500	40,000	11,400	15,800	40,000
Miscellaneous activities	7,700	9,200	12,400	8,300	9,800	13,000
<i>within which:</i>						
Elderly homes	8,700	9,800	11,700	9,400	10,600	13,100
Laundry and dry cleaning services	6,200	8,100	10,400	6,900	8,900	11,300
Hairdressing and other personal services	7,600	8,600	12,500	8,600	9,400	12,600
Local courier services	6,900	7,500	9,700	7,000	8,100	11,000
Food processing and production	7,600	9,300	13,700	7,900	10,200	14,400
Other activities not classified above	9,000	12,500	17,700	9,400	12,700	20,000
<b>All industry sections above</b>	<b>9,500</b>	<b>13,400</b>	<b>20,900</b>	<b>10,000</b>	<b>14,100</b>	<b>22,000</b>

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

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

(HK\$)

Industry Section	May – Jun 2012			May – Jun 2013		
	25th percentile	50th percentile	75th percentile	25th percentile	50th percentile	75th percentile
Manufacturing <sup>(a)</sup>	39.0	52.2	76.1	42.7	54.9	84.4
Electricity and gas supply; sewerage, waste management and remediation activities	57.4	85.2	129.6	63.5	89.2	130.0
Construction	49.9	66.7	87.5	58.1	72.5	92.4
Import and export trade	45.0	63.7	92.6	46.4	64.5	101.3
Wholesale	37.3	46.6	66.2	41.1	51.2	69.0
Retail trade	32.0	38.5	53.8	34.7	40.9	54.4
<i>within which:</i>						
Supermarkets and convenience stores	30.0	32.3	38.5	32.5	35.4	41.6
Other retail stores	32.6	40.3	56.9	35.0	42.1	58.0
Land transport	44.0	62.9	88.4	46.0	65.0	103.1
Other transportation, storage, postal and courier services <sup>(b)</sup>	38.4	51.7	71.9	43.4	56.8	81.7
Restaurants	30.5	35.2	45.8	33.1	37.2	48.2
<i>within which:</i>						
Hong Kong style tea cafes	31.1	35.0	43.3	34.0	37.6	46.9
Chinese restaurants	31.8	38.6	50.9	34.0	40.2	53.0
Restaurants, other than Chinese	32.2	37.3	49.0	35.2	40.0	50.0
Fast food cafes <sup>(c)</sup>	29.3	31.0	36.1	31.0	33.2	37.8
Accommodation <sup>(d)</sup> and other food service activities	37.0	46.2	61.7	37.9	46.8	62.0
Information and communications	49.7	68.5	114.8	51.7	74.1	115.0
Financing and insurance	58.8	87.1	157.3	60.5	89.8	166.7
Real estate activities <sup>(e)</sup>	48.8	69.8	110.0	52.3	72.6	116.4
Estate management, security and cleaning services	28.9	31.1	40.4	30.5	33.3	44.2
<i>within which:</i>						
Real estate maintenance management	28.8	31.5	44.4	31.0	33.9	50.2
Security services <sup>(f)</sup>	28.7	31.3	35.0	30.0	32.9	40.3
Cleaning services	28.9	30.2	34.9	30.0	32.4	38.4
Membership organisations <sup>(g)</sup>	30.5	40.7	74.5	30.6	41.7	74.7
Professional, scientific and technical services	48.4	71.7	116.5	50.3	72.9	122.2
Administrative and support services activities	37.0	52.0	75.5	42.0	56.9	88.6
Travel agency, reservation service and related activities	37.8	50.4	71.7	39.1	51.9	72.6
Education and public administration (excluding the Government)	60.0	108.9	180.6	60.0	114.0	189.4
Human health activities; and beauty and body prettifying treatment	46.7	68.9	166.7	50.5	71.6	170.9
Miscellaneous activities	31.7	37.5	50.9	34.1	40.0	55.0
<i>within which:</i>						
Elderly homes	29.2	36.4	49.4	32.0	38.6	53.2
Laundry and dry cleaning services	30.0	34.2	41.3	32.3	37.5	47.0
Hairdressing and other personal services	32.0	38.5	51.9	35.8	40.3	55.3
Local courier services	32.0	36.8	44.4	32.5	40.4	48.2
Food processing and production	32.1	37.5	50.9	34.0	39.3	56.5
Other activities not classified above	37.3	50.4	75.0	40.8	53.5	83.5
<b>All industry sections above</b>	<b>37.7</b>	<b>54.8</b>	<b>86.9</b>	<b>40.0</b>	<b>57.5</b>	<b>91.9</b>

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

(a) Excluding food processing and production.

(b) Excluding local courier services.

(c) Including takeaway shops.

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

(e) Excluding real estate maintenance management.

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

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

**Table 23 : Rates of change in prices**

(%)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
GDP deflator	-3.6	-0.2	-0.5	3.1	1.3	-0.4	0.3	3.9
Domestic demand deflator	-0.1	1.1	1.6	2.4	2.6	-0.8	2.2	4.5
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	-0.4	1.0	2.0	2.0	4.3	0.5	2.4	5.3
CPI(A)	*	1.1	1.7	1.3	3.6	0.4	2.7	5.6
CPI(B)	-0.5	1.0	2.1	2.2	4.6	0.5	2.3	5.2
CPI(C)	-0.9	0.8	2.2	2.7	4.7	0.6	2.1	5.1
Unit Value Indices :								
Domestic exports	1.5	2.2	-2.1	0.8	5.1	-0.2	5.5	6.4
Re-exports	1.1	1.2	1.1	2.4	3.8	1.2	4.6	8.0
Total exports of goods	1.2	1.3	1.0	2.3	3.8	1.1	4.7	8.0
Imports of goods	2.9	2.7	2.1	2.3	4.4	-0.1	6.4	8.1
Terms of Trade Index	-1.7	-1.4	-1.1	0.1	-0.5	1.3	-1.7	-0.1
Producer Price Index for all manufacturing industries <sup>(b)</sup>	2.2	0.8	2.2	3.0	5.6	-1.7	6.0	8.3
Tender Price Indices :								
Public sector								
building projects	-1.5	1.4	5.0	20.1	41.9	-15.9	12.5	11.6
Public housing projects	3.5	7.7	11.2	19.7	30.8	-6.8	6.7	10.1

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

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

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

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

(--) Not applicable.

N.A. Not yet available.



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

(%)

	<u>2012</u>	<u>2013</u>	<u>2013</u>			<u>2014</u>	Average annual rate of change:	
			Q2	Q3	Q4		10 years	5 years
							2003 to 2013	2008 to 2013
GDP deflator <sup>#</sup>	3.7	1.4	0.6	1.6	1.5	2.0	0.9	1.8
Domestic demand deflator <sup>#</sup>	4.2	0.6	0.4	-0.5	-0.2	1.7	1.8	2.1
Consumer Price Indices <sup>(a)</sup> :								
Composite CPI	4.1	4.3	4.0	5.3	4.3	4.2	2.5	3.3
CPI(A)	3.6	5.1	4.6	7.3	4.4	4.3	2.5	3.5
CPI(B)	4.3	4.1	3.8	4.6	4.4	4.3	2.6	3.3
CPI(C)	4.1	3.8	3.6	4.2	4.1	3.9	2.5	3.1
Unit Value Indices :								
Domestic exports	2.5	2.2	2.3	1.8	0.6	-1.1	2.4	3.3
Re-exports	3.4	1.3	0.4	1.7	2.4	0.7	2.8	3.7
Total exports of goods	3.4	1.3	0.4	1.7	2.4	0.7	2.8	3.7
Imports of goods	3.3	0.9	0.2	0.6	1.5	2.1	3.3	3.7
Terms of Trade Index	0.1	0.4	0.2	1.0	0.8	-0.4	-0.5	*
Producer Price Index for all manufacturing industries <sup>(b)</sup>	0.1	-3.1	-2.4	-5.2	-5.5	N.A.	--	1.8
Tender Price Indices :								
Public sector								
building projects	8.3	6.6	6.5	6.3	6.3	N.A.	8.1	4.0
Public housing projects	6.4	N.A.	9.6	10.1	N.A.	N.A.	N.A.	N.A.

**Table 24 : Rates of change in Composite Consumer Price Index**

(%)

	Weight	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>All items</b>	<b>100.0</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>	<b>0.5</b> <b>(1.0)</b>	<b>2.4</b> <b>(1.7)</b>
Food	27.45	1.0	1.8	1.7	4.3	10.1	1.3	2.4
<i>Meals bought away from home</i>	17.07	0.2	0.9	1.3	2.5	5.9	1.6	1.7
<i>Food, excluding meals bought away from home</i>	10.38	2.5	3.2	2.5	7.1	16.8	0.9	3.5
Housing <sup>(a)</sup>	31.66	-5.2	0.1	4.7	2.0	4.1	3.7	0.4
<i>Private housing rent</i>	27.14	-6.6	-0.1	5.6	4.0	6.8	3.6	0.9
<i>Public housing rent</i>	2.05	2.5	0.2	0.1	-17.7	-27.2	9.5	-7.8
Electricity, gas and water	3.10	11.4	4.1	2.1	-0.7	-6.5	-25.3	43.3
Alcoholic drinks and tobacco	0.59	*	0.4	-3.7	-1.2	0.1	18.7	3.4
Clothing and footwear	3.45	6.4	2.0	1.0	4.1	0.8	2.7	1.8
Durable goods	5.27	-2.2	-3.2	-6.4	-4.7	-2.0	-3.0	-2.7
Miscellaneous goods	4.17	3.6	1.5	1.7	2.5	5.0	2.3	2.4
Transport	8.44	0.4	1.4	0.7	-0.1	2.5	-0.9	2.0
Miscellaneous services	15.87	-0.2	1.0	1.9	1.7	0.8	-2.1	2.0

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

(%)										
	Weight	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>			<u>2014</u>	Average annual rate of change:	
					Q2	Q3	Q4	Q1	10 years 2003 to 2013	5 years 2008 to 2013
<b>All items</b>	<b>100.0</b>	<b>5.3</b>	<b>4.1</b>	<b>4.3</b>	<b>4.0</b>	<b>5.3</b>	<b>4.3</b>	<b>4.2</b>	<b>2.5</b>	<b>3.3</b>
		<b>(5.3)</b>	<b>(4.7)</b>	<b>(4.0)</b>	<b>(3.9)</b>	<b>(4.3)</b>	<b>(4.0)</b>	<b>(3.8)</b>	<b>(-)</b>	<b>(3.4)</b>
Food	27.45	7.0	5.8	4.4	4.5	4.6	4.4	4.3	3.9	4.2
<i>Meals bought away from home</i>	17.07	5.2	5.4	4.4	4.3	4.3	4.5	4.5	2.9	3.6
<i>Food, excluding meals bought away from home</i>	10.38	9.9	6.5	4.4	4.8	4.9	4.1	4.0	5.6	5.0
Housing <sup>(a)</sup>	31.66	7.2	5.6	6.7	6.1	9.4	6.1	5.6	2.9	4.7
<i>Private housing rent</i>	27.14	7.2	6.8	6.3	6.1	7.0	7.0	6.4	3.4	4.9
<i>Public housing rent</i>	2.05	11.9	-7.1	16.0	8.9	777.6	-1.8	-1.8	-2.8	4.0
Electricity, gas and water	3.10	-4.2	-8.2	6.9	5.9	9.6	7.1	5.5	1.0	0.1
Alcoholic drinks and tobacco	0.59	17.1	3.0	1.5	1.9	1.4	1.1	3.3	3.7	8.5
Clothing and footwear	3.45	6.8	3.1	1.7	1.0	1.7	2.5	2.1	3.0	3.2
Durable goods	5.27	-3.8	-1.4	-4.3	-5.0	-4.7	-4.0	-3.3	-3.4	-3.0
Miscellaneous goods	4.17	3.8	2.2	2.2	2.2	2.5	2.7	3.1	2.7	2.6
Transport	8.44	4.4	3.0	2.3	2.2	2.8	2.4	2.2	1.6	2.2
Miscellaneous services	15.87	3.5	2.8	3.7	3.1	3.9	4.3	4.4	1.5	2.0

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

(%)

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Private consumption expenditure	-0.4	1.6	0.9	4.1	2.5	-1.4	1.4
Government consumption expenditure	-2.6	-1.7	0.1	2.2	4.4	0.7	-0.2
Gross domestic fixed capital formation	2.2	1.1	4.2	-2.1	1.7	0.3	5.8
Total exports of goods	0.9	0.6	0.3	2.2	3.4	0.5	4.6
Imports of goods	2.9	1.9	2.1	1.7	4.1	-1.3	6.3
Exports of services	0.5	3.3	3.6	2.5	3.4	-7.0	7.4
Imports of services	4.1	1.0	0.8	3.0	3.8	-2.7	5.6
<b>Gross Domestic Product</b>	<b>-3.6</b>	<b>-0.2</b>	<b>-0.5</b>	<b>3.1</b>	<b>1.3</b>	<b>-0.4</b>	<b>0.3</b>
Total final demand	0.5	1.1	1.1	2.3	3.1	-1.1	4.3
Domestic demand	-0.1	1.1	1.6	2.4	2.6	-0.8	2.2

Notes: (#) Figures are subject to revision later on as more data become available.  
(\* ) Change within  $\pm 0.05\%$ .

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

(%)

	<u>2011</u>	<u>2012<sup>#</sup></u>	<u>2013<sup>#</sup></u>	<u>2013</u>			<u>2014</u>	Average annual rate of change:	
				Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>		Q1 <sup>#</sup>	10 years 2003 to 2013 <sup>#</sup>
Private consumption expenditure	3.6	3.2	2.4	2.1	3.0	2.4	2.2	1.8	1.8
Government consumption expenditure	4.5	6.2	4.4	4.1	3.7	3.7	4.0	1.8	3.1
Gross domestic fixed capital formation	6.8	6.4	-5.1	-4.7	-9.4	-7.7	-1.7	2.0	2.7
Total exports of goods	7.7	3.1	-0.3	-0.4	-0.3	-0.1	-0.6	2.3	3.1
Imports of goods	8.2	3.8	-0.6	-0.5	-1.1	-0.8	-0.8	2.9	3.2
Exports of services	7.6	4.3	0.5	-0.2	0.7	0.3	*	2.5	2.4
Imports of services	6.4	1.9	0.5	0.4	0.2	0.4	1.0	2.4	2.3
<b>Gross Domestic Product</b>	<b>3.9</b>	<b>3.7</b>	<b>1.4</b>	<b>0.6</b>	<b>1.6</b>	<b>1.5</b>	<b>2.0</b>	<b>0.9</b>	<b>1.8</b>
Total final demand	6.7	3.6	0.1	-0.1	-0.2	*	0.2	2.2	2.7
Domestic demand	4.5	4.2	0.6	0.4	-0.5	-0.2	1.7	1.8	2.1

