

Press Release

(embargoed until 4:30 p.m. on 15 November 2013)

Economic Situation in the Third Quarter of 2013 and Latest GDP and Price Forecasts for 2013

The Government released today (Friday) the Third Quarter Economic Report 2013, together with the preliminary figures on Gross Domestic Product for the third quarter of 2013.

The Acting Government Economist, Mr Andrew Au, described the economic situation in the third quarter of 2013 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy expanded moderately further in the third quarter of 2013, by 2.9% in real terms over a year earlier, slightly slower than the 3.2% growth in the second quarter. The external sector, with the notable exception of inbound tourism, was still constrained by the weak global economic conditions. Meanwhile, domestic demand held firm and the labour market remained in a state of full employment. On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 0.5% in the third quarter, compared to 0.7% in the preceding quarter.
- * Total exports of goods grew by 6.2% in real terms in the third quarter over a year earlier. However, export performance after excluding the surge in exports of non-monetary gold actually remained rather modest. Merchandise exports to major advanced economies stayed weak, while the performance of major Asian markets was mixed. Over the same period, exports of services showed a solid growth of 4.9% in real terms thanks to expansions of inbound tourism and cross-border financial activity.
- * As for domestic demand, private consumption expenditure rose moderately by 2.8% in the third quarter over a year earlier amid favourable job and income conditions. Investment expenditure also grew further, by 2.2%, though at a slower pace after a strong pick-up in the preceding quarter. Machinery and equipment investment expanded at a solid albeit slower pace, while infrastructure works accelerated, driving the growth of construction activity.
- * The labour market remained in a state of full employment, with the seasonally adjusted unemployment rate staying at 3.3% and total employment hitting another record high in the third quarter. Given the relatively tight labour market conditions, wages and earnings sustained solid and broad-based improvement. Nominal wages rose by 5.2% in the second quarter over a year earlier. Average employment earnings for full-time employees in the lowest decile group also rose further by 5.4% in nominal terms in the third quarter over a year earlier.

- * Local stock prices rebounded during the third quarter as the Mainland's economic indicators displayed resilience and the prospective Fed tapering did not start in September. The property market remained quiet with the increase in flat prices decelerating further amid thin trading during the quarter.
- * In the near term, there are still old and new challenges preventing the global economy from switching to a higher gear. The US economic performance in the fourth quarter may be weakened by the partial government shutdown in October. The uncertainties arising from the Fed's monetary policy and the unresolved fiscal issues would also put a drag on the US growth pace. The eurozone's recovery is likely to remain fragile, given the elevated unemployment rate and structural problems. The growth slowdown in some major emerging markets is also a source of concern. Yet, the Mainland economy has stayed resilient, which should lend some support to trade and production activity in Asia going forward. Against this backdrop, Hong Kong's merchandise trade performance may continue to see some fluctuations in the near term.
- * Locally, consumer sentiment should still be broadly supported by the favourable job and income conditions. The further expansion of inbound tourism should also be conducive to the consumption market. Moreover, the latest Quarterly Business Tendency Survey showed that large enterprises remained largely positive about the near-term business outlook. This, coupled with the intensive infrastructure works and the boost from the package of measures in the 2013-14 Budget, would also render a solid support to the domestic economy.
- * Given the actual outturn of the 3.0% year-on-year real GDP growth in the first three quarters of 2013, and that a further moderate growth is likely attainable in the fourth quarter, the real GDP growth for 2013 is now forecast at 3%, the mid-point of the range forecast of 2.5-3.5% announced in the August round.
- * Underlying consumer price inflation went up modestly to 4.3% in the third quarter, mainly driven by the continued feed-through of the private housing rental increases during 2012. Nevertheless, with the favourable effect on inflation arising from the milder increases in fresh-letting private residential rentals since the beginning of the year gradually being felt, and with external price pressures staying rather modest, the upside risks to inflation should be limited in the near term. Given that the inflation trend has so far been largely in line with earlier expectations, the forecast rates of headline and underlying consumer price inflation for 2013 as a whole are kept unchanged at 4.3% and 4% respectively.

DETAILS

GDP

According to preliminary data on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew moderately by 2.9% in real terms in the third quarter of 2013 over a year earlier, after a 3.2% growth in the second quarter (revised downward from the earlier estimate of 3.3%). On a seasonally adjusted quarter-to-quarter comparison, real GDP expanded by 0.5% in the third quarter of 2013, after a 0.7% growth in the preceding quarter (also revised downward from the earlier estimate of 0.8%) (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the third quarter of 2013 are presented in *Table 1*. Developments in different segments of the economy in the third quarter of 2013 are described below.

External trade

3. *Total exports of goods* rose by 6.2% year-on-year in real terms in the third quarter, same as the gain in the second quarter. Excluding the substantial increase in exports of non-monetary gold in the quarter, export performance actually remained modest. Merchandise exports to major advanced economies stayed weak, with those to the US and Japan registering further year-on-year declines. Exports to the EU saw a mild year-on-year growth, helped by the nascent recovery of the eurozone economy after a six-quarter contraction. Meanwhile, exports to the Mainland recorded a modest growth while the performance of major Asian markets was rather mixed. On a seasonally adjusted basis, total exports of goods rebounded by 3.1% in real terms in the third quarter over the preceding quarter.

4. *Exports of services* increased solidly by 4.9% year-on-year in real terms in the third quarter, following a notable 8.4% growth in the second quarter. Exports of travel services remained the key driving force, thanks largely to the further growth in inbound tourism. Exports of financial and other business services saw a solid growth amid further expansion of cross-border financial activity, while exports of trade-related services and those of transportation services both stayed slack, being dragged by sluggish trade flows. On a seasonally adjusted quarter-to-quarter comparison, exports of services fell by 4.6% in real terms in the third quarter.

Domestic sector

5. Domestic demand expanded further. *Private consumption expenditure (PCE)*, supported by broadly positive job and income conditions, rose by 2.8% year-on-year in real terms in the third quarter, albeit slower than the 4.2% growth in the second quarter. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure fell by 0.8% in the third quarter. *Government consumption expenditure* also grew steadily by 2.7% in the third quarter over a year

earlier.

6. Overall investment spending in terms of *gross domestic fixed capital formation* increased by 2.2% year-on-year in real terms in the third quarter, after a notable 6.9% growth in the second quarter. Within this, the machinery and equipment acquisition still recorded a solid albeit slower growth. Meanwhile, overall building and construction expenditure showed a modest year-on-year rebound in real terms in the third quarter, as the pick-up in growth of large-scale public sector infrastructure works offset the decline in private sector construction activity.

The labour sector

7. The labour market stayed in a state of full employment, with the *seasonally adjusted unemployment rate* standing at 3.3% in the third quarter and the *underemployment rate* inching lower to 1.5%. Labour demand remained strong relative to supply, thanks to the largely stable domestic economy and further growth in inbound tourism, with private sector vacancies in June close to the 19-year high recorded in March. Total employment hit another record high in the third quarter. Given the relatively tight labour market conditions, wages and earnings sustained solid and broad-based improvement. Nominal wages rose by 5.2% in the second quarter over a year earlier. Average employment earnings for full-time employees in the lowest decile group also rose further by 5.4% in nominal terms in the third quarter over a year earlier, helped partly by the upward adjustment of the Statutory Minimum Wage rate in May 2013.

The asset markets

8. The *local stock market* rebounded during the third quarter, fuelled by the resilient Mainland economic indicators and the US Fed's decision to hold off tapering asset purchases in September. The Hang Seng Index recovered ground and finished the quarter 10% higher than end-June 2013, or 1% above end-2012.

9. The *residential property market* remained quiet in the third quarter. Residential property prices decelerated further, with a 1% gain during the third quarter, which was slightly slower than the increase during the second quarter and significantly lower than the 5% surge during the first quarter. Yet, overall flat prices in September exceeded the 1997 peak by 42%. Flat rentals increased slightly by about 1% during the quarter. As for non-residential property market, the upward pressures on office and shop rentals also turned milder, both posting increases of 1% during the third quarter.

Prices

10. Consumer price inflation went up modestly in the third quarter, mainly reflecting the pressure from the continued feed-through of the private housing rental increases in 2012. Yet, the favourable effect of the milder increases in fresh-letting

private residential rentals since the beginning of this year began to set in towards the end of the third quarter, helping to contain inflation. Overall labour costs rose steadily alongside a relatively tight labour market, but external price pressures remained subdued as international commodity prices were largely stable. *Headline consumer price inflation* rose to 5.3% in the third quarter from 4.0% in the second quarter, but this more visible increase was mainly because of a lower base of comparison resulting from the Government's payment of public housing rentals in July 2012. Netting out the effects of the Government's relief measures to reflect more accurately the underlying inflation situation, *underlying consumer price inflation* went up modestly from 3.9% in the second quarter to 4.3% in the third quarter.

Latest GDP and price forecasts for 2013

11. In the near term, there are still old and new challenges preventing the global economy from switching to a higher gear. The US economic performance in the fourth quarter may be weakened by the partial government shutdown in October. The uncertainties arising from the Fed's monetary policy and the unresolved fiscal issues would also put a drag on the US growth pace. The eurozone's recovery is likely to remain fragile, given the elevated unemployment rate and structural problems. The growth slowdown in some major emerging markets is also a source of concern. Yet, the Mainland economy has stayed resilient, which should lend some support to trade and production activity in Asia going forward. Against this backdrop, Hong Kong's merchandise trade performance may continue to see some fluctuations in the near term.

12. Locally, consumer sentiment should still be broadly supported by the favourable job and income conditions. The further expansion of inbound tourism should also be conducive to the consumption market. Moreover, the latest Quarterly Business Tendency Survey showed that large enterprises remained largely positive about the near-term business outlook. This, coupled with the intensive infrastructure works and the boost from the package of measures in the 2013-14 Budget, would also render a solid support to the domestic economy.

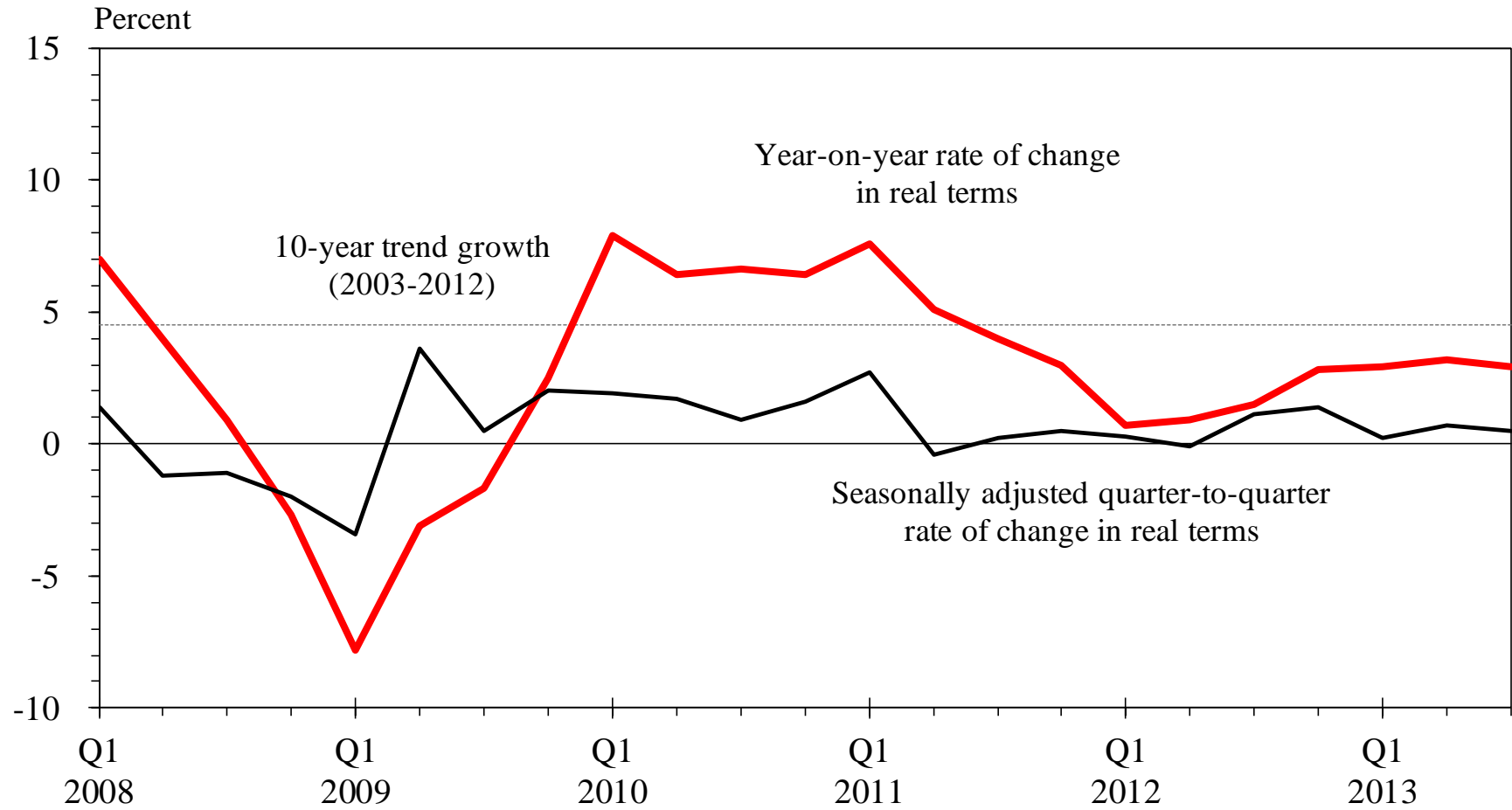
13. Given the actual outturn of the 3.0% year-on-year real GDP growth in the first three quarters of 2013, and that a further moderate growth is likely attainable in the fourth quarter, the real GDP growth for 2013 is now forecast at 3%, the mid-point of the range forecast of 2.5-3.5% announced in the August round of review (**Table 2**). For reference, the latest forecasts by private sector analysts mostly range from 2.7-3.5%, averaging around 3.1%.

14. On inflation outlook, the rather modest external price pressures and the milder increases in fresh-letting residential rentals since the beginning of the year should help contain the upside risks to inflation in the near term. Given that the inflation trend has so far been largely in line with earlier expectations, the forecast rates of headline and underlying consumer price inflation for 2013 as a whole are

kept unchanged at 4.3% and 4% respectively (*Table 2*).

(The Third Quarter Economic Report 2013 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 \$144 per issue, plus postage charge. Users can purchase the print version online at the Government Bookstore at <http://www.bookstore.gov.hk>, or by calling the Publications Sales Unit of the Information Services Department at 2537 1910. The Report of the Gross Domestic Product, Third Quarter 2013, which contains the GDP figures up to the third quarter of 2013, is also available for online download, free of charge at the homepage of the Census and Statistics Department, <http://www.censtatd.gov.hk>.)

Hong Kong's Gross Domestic Product



Note : Figures for the third quarter of 2013 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>2011</u>	<u>2012</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>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	8.4	3.0	5.5 (1.0)	2.3 (-0.1)	1.5 (0.6)	2.7 (1.2)	6.3 (4.4)	4.2 (-2.0)	2.8 (-0.8)
Government consumption expenditure	2.5	3.7	3.2 (1.2)	4.2 (1.0)	4.0 (0.7)	3.3 (0.6)	2.1 (-0.2)	3.2 (2.2)	2.7 (0.1)
Gross domestic fixed capital formation	10.2	9.4	12.5	5.8	8.2	11.4	-3.3	6.9	2.2
<i>of which :</i>									
Building and construction	15.5	13.2	14.6	14.7	8.8	14.6	-2.6	-2.2	2.0
Machinery, equipment and intellectual property products	12.2	10.7	21.1	5.2	10.1	9.2	-4.0	19.3	7.0
Total exports of goods	3.4	1.8	-4.7 (1.3)	0.3 (-1.7)	4.6 (3.1)	6.7 (4.8)	8.8 (1.8)	6.2 (-3.1)	6.2 (3.1)
Imports of goods	4.7	3.0	-1.8 (2.7)	1.2 (-1.0)	4.7 (1.6)	7.6 (5.2)	9.6 (3.1)	7.6 (-2.2)	6.8 (1.0)
Exports of services	5.6	2.0	2.3 (0.4)	2.6 (1.3)	0.2 (-1.5)	3.0 (2.9)	5.3 (2.7)	8.4 (4.2)	4.9 (-4.6)
Imports of services	3.5	0.4	3.0 (0.8)	0.9 (-1.3)	-1.5 (-2.0)	-0.7 (1.9)	0.5 (1.9)	-0.8 (-2.4)	2.4 (1.2)
Gross Domestic Product	4.9	1.5	0.7 (0.3)	0.9 (-0.1)	1.5 (1.1)	2.8 (1.4)	2.9 (0.2)	3.2 (0.7)	2.9 (0.5)
<i>Change in the main price indicators (%)</i>									
GDP deflator	3.9	3.9	3.9 (1.1)	3.0 (0.5)	4.3 (2.0)	4.3 (0.7)	1.4 (-1.8)	0.8 (*)	1.8 (3.0)
Composite CPI									
Headline	5.3	4.1	5.2 (1.2)	4.2 (0.8)	3.1 (-1.9)	3.8 (3.7)	3.7 (1.2)	4.0 (1.1)	5.3 (-0.7)
Underlying[^]	5.3	4.7	5.9 (1.2)	5.1 (0.9)	4.0 (0.6)	3.8 (1.1)	3.8 (1.2)	3.9 (1.0)	4.3 (0.9)
<i>Change in nominal GDP (%)</i>	9.0	5.5	4.6	3.9	5.8	7.3	4.3	4.0	4.7

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. Figures of private consumption expenditure, exports of goods, and imports and exports of services were revised back to 2009 as a result of a technical revision exercise conducted by the Census and Statistics Department in mid-2013.

(#) Revised figures.

(+) Preliminary figures.

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

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

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

Table 2**Economic forecasts for 2013
(rate of change (%))**

	Forecasts for 2013 as released <u>on 16.8.2013</u> (%)	Latest forecasts for 2013 <u>on 15.11.2013</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	2.5 to 3.5	3
<i>Nominal GDP</i>	4.5 to 5.5	4.5
Composite Consumer Price Index (CCPI)		
<i>Headline CCPI</i>	4.3	4.3
<i>Underlying CCPI</i>	4	4



Third Quarter Economic Report 2013

Government of the Hong Kong
Special Administrative Region

THIRD QUARTER ECONOMIC REPORT 2013

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

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CONTENTS

Paragraphs

CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Overall situation	1.1 - 1.2
The external sector	1.3 - 1.4
The domestic sector	1.5 - 1.6
The labour sector	1.7
The asset markets	1.8 - 1.9
Inflation	1.10 - 1.11
GDP by major economic sector	1.12
Other economic developments	1.13 - 1.16
Box 1.1 Diffusion indices on small and medium-sized enterprises (an update)	

CHAPTER 2 : THE EXTERNAL SECTOR

Visible trade	
Total exports of goods	2.1 - 2.6
Imports of goods	2.7
Invisible trade	
Exports of services	2.8
Imports of services	2.9
Visible and invisible trade balance	2.10
Other developments	2.11 - 2.13
Box 2.1 Recent economic policy in Japan and its impacts on the Hong Kong economy	

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

Property	3.1 - 3.13
Land	3.14
Tourism	3.15 - 3.16
Logistics	3.17 - 3.18
Transport	3.19
Environment	3.20
Creativity and Innovation	3.21

CHAPTER 4 : THE FINANCIAL SECTOR

Interest rates and exchange rates	4.1 - 4.5
Money supply and banking sector	4.6 - 4.15
The debt market	4.16 - 4.17
The stock and derivatives markets	4.18 - 4.22
Fund management and investment funds	4.23
Insurance sector	4.24
Highlights of policy and market developments	4.25 - 4.27
Box 4.1 Renminbi (RMB) bond market in Hong Kong	

CHAPTER 5 : THE LABOUR SECTOR

Overall labour market situation	5.1
Total employment and labour force	5.2 - 5.4
Profile of unemployment	5.5 - 5.9
Profile of underemployment	5.10
Profile of employment in establishments	5.11 - 5.12
Vacancies	5.13 - 5.16
Wages and earnings	5.17 - 5.22
Recent labour-related measures	5.23 - 5.24
Box 5.1 Population ageing in Hong Kong: challenges and opportunities	

CHAPTER 6 : PRICES

Consumer prices	6.1 - 6.3
Costs of factor inputs and import prices	6.4 - 6.5
Output prices	6.6
GDP deflator	6.7

STATISTICAL APPENDIX

CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

- *The Hong Kong economy expanded moderately further in the third quarter of 2013, by 2.9% in real terms over a year earlier, slightly slower than the 3.2% growth in the second quarter. The external sector, with the notable exception of inbound tourism, was still constrained by the weak global economic conditions. Meanwhile, domestic demand held firm and the labour market remained in a state of full employment.*
- *Growth in the advanced economies remained subdued in the third quarter, providing meager impetus to revive their import demand. The US economy was hampered by the fiscal retrenchment while the nascent recovery of the eurozone was still fragile. Meanwhile, the uncertainties arising from US monetary and fiscal issues along with slower growth in emerging markets also afflicted the external environment. However, the Mainland economy continued to outpace other major economies. Against this backdrop, Hong Kong's total exports of goods, after excluding non-monetary gold, expanded modestly in the third quarter, while exports of services notched a solid growth thanks to expansions of inbound tourism and cross-border financial activity.*
- *As for domestic demand, private consumption expenditure rose moderately in the third quarter amid favourable job and income conditions. Investment expenditure also grew further, though at a slower pace after a strong pick-up in the preceding quarter. Machinery and equipment investment expanded at a solid albeit slower pace, while infrastructure works accelerated, driving the growth of construction activity.*
- *The labour market remained in a state of full employment, with the seasonally adjusted unemployment rate staying low at 3.3% in the third quarter. Reflecting the relatively tight labour market, wages and earnings rose further. The number of job vacancies in June lingered at a level close to the 19-year high recorded in March.*
- *Local stock prices rebounded during the third quarter as the Mainland's economic indicators displayed resilience and the prospective Fed tapering did not start in September. The property market remained quiet with the increase in flat prices decelerating further amid thin trading during the quarter.*
- *Underlying consumer price inflation moved up modestly to 4.3% in the third quarter, mainly driven by the continued feed-through of the private housing rental increases during 2012. Nevertheless, the stabilising effect on inflation arising from the milder increases in fresh-letting private*

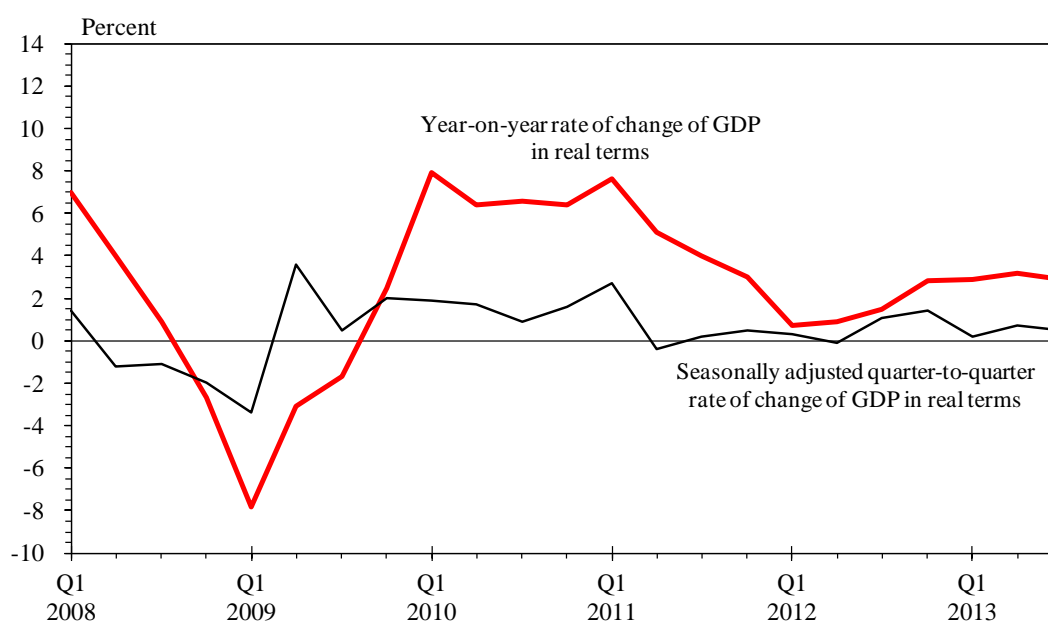
residential rentals since the beginning of the year began to set in towards the end of the quarter. Along with the rather subdued external price pressures, the upside risks to inflation should be limited in the near term.

Overall situation

1.1 The Hong Kong economy continued to expand at a moderate pace in the third quarter of 2013, notwithstanding the notable external headwinds. Import demand from major advanced markets remained generally sluggish, held back by an uneven recovery in the US and the still weak EU economy. Growth in major emerging markets also lost some steam. Besides, the Fed's earlier signal to scale back asset purchases and the controversy over the US debt ceiling heightened global financial volatility and added to the uncertainty surrounding global economic prospects. Nevertheless, the Mainland economy stayed comparatively resilient and provided some cushion. As a result, Hong Kong's merchandise exports attained a modest growth in the third quarter. Yet exports of services grew solidly further, thanks to expansions of inbound tourism and cross-border financial activity. Domestically, private consumption showed further, albeit somewhat slower, growth amid supportive labour market conditions, while investment activity expanded modestly further with the hectic infrastructure works being an important driving force. Underlying consumer price inflation went up slightly in the third quarter, but it began to stabilise towards the end of the quarter as the dampening effect of the slower private rental increases this year began to take hold.

1.2 In the third quarter of 2013, *Gross Domestic Product* (GDP)⁽¹⁾ grew by 2.9% in real terms over a year earlier, slightly slower than the 3.2% growth in the second quarter (revised from the earlier estimate of 3.3%). Taking the first three quarters of 2013 together, real GDP expanded by 3.0% over a year earlier. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, real GDP grew by 0.5% in the third quarter, compared to 0.7% in the preceding quarter (revised from the earlier estimate of 0.8%).

Diagram 1.1 : The economy grew moderately in the third quarter of 2013



The external sector

1.3 *Total exports of goods* compiled under the GDP accounting framework rose by 6.2% year-on-year in real terms in the third quarter, same as the gain in the second quarter. Excluding the substantial increase in exports of non-monetary gold in the quarter, export performance remained modest. Exports to major advanced economies stayed weak, with those to the US and Japan registering further year-on-year declines. Exports to the EU saw a mild year-on-year growth, helped by the nascent recovery of the eurozone economy after a six-quarter contraction. Meanwhile, exports to the Mainland recorded a modest growth while the performance of major Asian markets was rather mixed.

1.4 *Exports of services* increased solidly by 4.9% year-on-year in real terms in the third quarter, following the notable 8.4% growth in the second quarter. Exports of travel services remained the key driving force, thanks largely to the vibrant inbound tourism. Exports of financial and other business services saw a solid growth while exports of trade-related services and those of transportation services both stayed slack, being dragged by sluggish trade flows.

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

	<u>2011</u>	<u>2012</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>
<i>Change in real terms of GDP and its main expenditure components (%)</i>									
Private consumption expenditure	8.4	3.0	5.5 (1.0)	2.3 (-0.1)	1.5 (0.6)	2.7 (1.2)	6.3 (4.4)	4.2 (-2.0)	2.8 (-0.8)
Government consumption expenditure	2.5	3.7	3.2 (1.2)	4.2 (1.0)	4.0 (0.7)	3.3 (0.6)	2.1 (-0.2)	3.2 (2.2)	2.7 (0.1)
Gross domestic fixed capital formation	10.2	9.4	12.5	5.8	8.2	11.4	-3.3	6.9	2.2
<i>of which :</i>									
Building and construction	15.5	13.2	14.6	14.7	8.8	14.6	-2.6	-2.2	2.0
Machinery, equipment and intellectual property products	12.2	10.7	21.1	5.2	10.1	9.2	-4.0	19.3	7.0
Total exports of goods	3.4	1.8	-4.7 (1.3)	0.3 (-1.7)	4.6 (3.1)	6.7 (4.8)	8.8 (1.8)	6.2 (-3.1)	6.2 (3.1)
Imports of goods	4.7	3.0	-1.8 (2.7)	1.2 (-1.0)	4.7 (1.6)	7.6 (5.2)	9.6 (3.1)	7.6 (-2.2)	6.8 (1.0)
Exports of services	5.6	2.0	2.3 (0.4)	2.6 (1.3)	0.2 (-1.5)	3.0 (2.9)	5.3 (2.7)	8.4 (4.2)	4.9 (-4.6)
Imports of services	3.5	0.4	3.0 (0.8)	0.9 (-1.3)	-1.5 (-2.0)	-0.7 (1.9)	0.5 (1.9)	-0.8 (-2.4)	2.4 (1.2)
Gross Domestic Product	4.9	1.5	0.7 (0.3)	0.9 (-0.1)	1.5 (1.1)	2.8 (1.4)	2.9 (0.2)	3.2 (0.7)	2.9 (0.5)
<i>Change in the main price indicators (%)</i>									
GDP deflator	3.9	3.9	3.9 (1.1)	3.0 (0.5)	4.3 (2.0)	4.3 (0.7)	1.4 (-1.8)	0.8 (*)	1.8 (3.0)
Composite CPI									
Headline	5.3	4.1	5.2 (1.2)	4.2 (0.8)	3.1 (-1.9)	3.8 (3.7)	3.7 (1.2)	4.0 (1.1)	5.3 (-0.7)
Underlying[^]	5.3	4.7	5.9 (1.2)	5.1 (0.9)	4.0 (0.6)	3.8 (1.1)	3.8 (1.2)	3.9 (1.0)	4.3 (0.9)
Change in nominal GDP (%)	9.0	5.5	4.6	3.9	5.8	7.3	4.3	4.0	4.7

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. Figures of private consumption expenditure, exports of goods, and imports and exports of services were revised back to 2009 as a result of a technical revision exercise conducted by the Census and Statistics Department in mid-2013. For details, please see Note (3) to this chapter.

(#) Revised figures.

(+) Preliminary figures.

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

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

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

The domestic sector

1.5 Domestic demand expanded further. *Private consumption expenditure* (PCE),⁽³⁾ supported by broadly positive job and income conditions, rose by 2.8% year-on-year in real terms in the third quarter, albeit slower than the 4.2% growth in the second quarter. *Government consumption expenditure* also grew steadily by 2.7% in the third quarter.

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

		<i>Of which :</i>							
		Total consumer spending in the domestic market ^(a)					Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
			Food	Durables	Non- durables	Services			
2012	Annual	4.1	0.4	19.3	3.9	2.0	4.6	10.8	3.0
	H1	4.7	-0.7	26.8	5.0	1.6	6.4	10.9	3.8
	H2	3.7	1.6	13.5	2.8	2.4	2.9	10.8	2.2
	Q1	5.9	-1.8	32.3	7.4	2.1	6.9	8.7	5.5
	Q2	3.5	0.2	21.4	2.8	1.0	6.0	13.1	2.3
	Q3	2.5	1.8	9.9	1.3	1.6	4.7	8.5	1.5
	Q4	4.7	1.3	16.5	4.1	3.1	1.0	12.8	2.7
2013	H1	8.6	2.7	16.0	18.2	4.3	2.6	23.6	5.2
	Q1	8.5	2.9	31.3	9.2	3.9	5.5	18.6	6.3
	Q2	8.6	2.5	-0.4	27.1	4.7	-0.2	28.7	4.2
	Q3	4.5	3.5	-0.8	13.6	2.2	4.9	12.9	2.8

Notes : (a) Consumer spending in the domestic market comprises both local consumer and visitor spending. Figures of private consumption expenditure, exports of goods, and imports and exports of services were revised back to 2009 as a result of a technical revision exercise conducted by the Census and Statistics Department in mid-2013. For details, please see Note (3) to this chapter.

(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 at a somewhat slower year-on-year pace

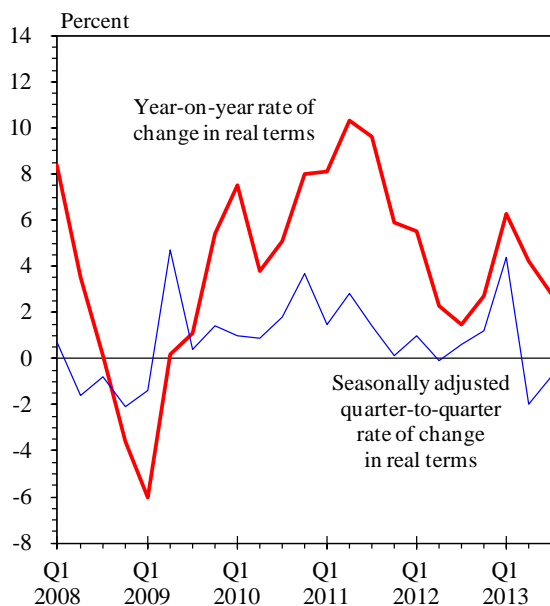
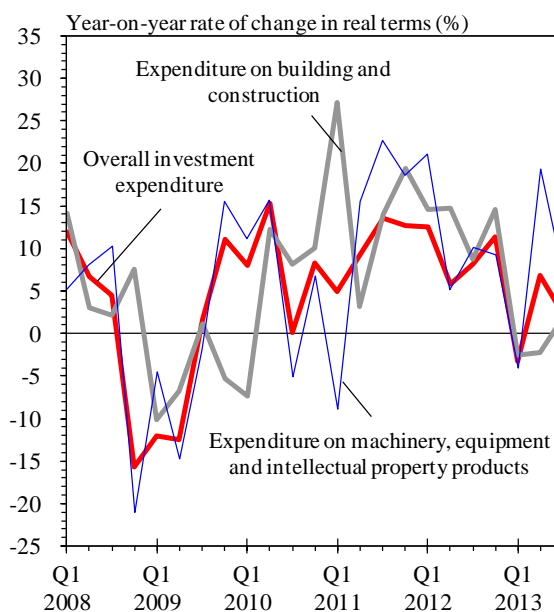


Diagram 1.3 : Investment spending recorded modest growth



1.6 Overall investment spending in terms of *gross domestic fixed capital formation* increased by 2.2% year-on-year in real terms in the third quarter, after the notable 6.9% growth in the second quarter. Within this, the machinery and equipment acquisition still recorded a solid albeit slower growth, largely in line with the latest results of the Quarterly Business Tendency Survey, which indicated a positive business sentiment among large enterprises. But the sentiment among small and medium-sized enterprises (SMEs) was still rather cautious (see **Box 1.1** for details of the consultation on SMEs). Meanwhile, overall building and construction expenditure showed a modest year-on-year rebound in real terms in the third quarter, as the pick-up in growth of large-scale public sector infrastructure works offset the decline in private sector construction activity.

Box 1.1

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)⁽¹⁾, an ad-hoc consultation exercise has been conducted by the Census and Statistics Department on behalf of the Economic Analysis and Business Facilitation Unit since late November 2008 on a sample panel of around 500 SMEs to solicit their feedback. This note provides a further update of the results reported in *Box 1.2* in the *Half-yearly Economic Report 2013*.

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

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

Business receipts of the SMEs surveyed, as depicted by the set of diffusion indices, showed that the overall situation remained weak in recent months (*Table 1*). In October 2013, the readings for most of the surveyed sectors stayed in the contractionary zone, reflecting a sluggish business situation. The diffusion index for the real estate sector came in at a still depressed level of 41.2, as trading in the property market declined visibly after the government's rolling out of further demand-side management measures earlier this year. The reading for the retail sector weakened slightly, those for the wholesale trade and business services reverted to 50. As regards the external segment, SMEs in the import/export trades and logistics trade still faced a rather challenging trading environment, with the diffusion indices of these sectors staying below 50. 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 came in at 49.5 in October, marking the seventh consecutive month of below-50 reading, signifying that the sluggish external demand conditions could continue amid the tepid recovery of the advanced economies, the uncertainty arising from US monetary and fiscal policies as well as the mixed performance across the major emerging market economies.

(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 1.1 (Cont'd)

The proportion of SMEs reporting tight credit access held low, at 0.7% in October 2013, thanks to the generally accommodative monetary conditions and the Government's continued efforts to support SMEs through various loan guarantee schemes.

Table 1 : Diffusion indices[^] on business receipts

	<u>2012</u>		<u>2013</u>									
	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>												
Restaurants	48.0	48.4	49.2	48.4	48.3	45.8	46.7	45.8	48.2	48.2	47.4	47.4
Real estate	39.7	50.0	51.5	39.7	39.7	38.2	42.6	44.1	44.1	35.3	35.3	41.2
Retail trade	48.6	48.1	46.3	47.7	48.1	47.6	47.6	47.1	49.0	50.0	49.0	47.5
Wholesale trade	47.2	47.2	47.2	47.2	47.2	44.4	50.0	47.1	41.2	44.1	47.1	50.0
Business services	45.5	47.0	50.0	53.0	47.0	43.9	48.5	48.5	45.5	43.9	45.5	50.0
<i>External segments</i>												
Import/export trade	50.5	50.0	50.0	49.0	51.0	49.0	50.0	50.0	48.1	47.6	48.5	49.0
Logistics	43.8	45.0	50.0	44.7	47.4	47.4	44.7	50.0	47.4	44.7	44.7	44.7
All the above sectors*	48.2	48.7	48.9	48.2	48.6	47.0	48.4	48.3	47.3	46.8	47.3	48.1

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

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

Table 2 : Diffusion indices on employment situation

	<u>2012</u>		<u>2013</u>									
	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
<i>Local segments</i>												
Restaurants	48.0	48.4	49.2	49.2	49.2	49.2	50.0	48.3	50.0	50.0	49.1	49.1
Real estate	47.1	51.5	50.0	50.0	50.0	50.0	50.0	48.5	50.0	45.6	48.5	47.1
Retail trade	50.0	49.5	50.5	50.0	50.0	50.0	50.0	50.0	50.0	50.0	49.5	50.0
Wholesale trade	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.1	50.0	50.0
Business services	51.5	48.5	50.0	54.5	53.0	51.5	50.0	50.0	48.5	51.5	48.5	50.0
<i>External segments</i>												
Import/export trade	49.1	50.0	49.1	50.0	50.5	50.0	50.5	51.0	49.0	49.5	49.5	50.0
Logistics	50.0	50.0	50.0	50.0	50.0	50.0	50.0	47.4	47.4	50.0	47.4	47.4
All the above sectors*	49.5	49.7	49.7	50.4	50.5	50.1	50.2	50.1	49.3	49.5	49.3	49.7

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

Table 3 : Diffusion index on current new export orders

	<u>2012</u>		<u>2013</u>									
	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
Import/export trade	49.1	50.0	49.1	50.0	50.5	49.0	49.5	49.5	48.5	48.5	48.1	49.5

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

	<u>2012</u>		<u>2013</u>									
	<u>Nov</u>	<u>Dec</u>	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>	<u>Jun</u>	<u>Jul</u>	<u>Aug</u>	<u>Sep</u>	<u>Oct</u>
All selected sectors*	0.9	1.3	1.3	1.2	0.7	0.9	0.6	0.6	0.6	0.7	0.7	0.7

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

The labour sector

1.7 The labour market stayed in a state of full employment, with the *seasonally adjusted unemployment rate* standing at 3.3% in the third quarter and the *underemployment rate* inching lower to 1.5%. Labour demand remained strong relative to supply, thanks to the largely stable domestic economy and vibrant inbound tourism, with private sector vacancies in June close to the 19-year high recorded in March. Total employment hit another record high during the third quarter. Given the generally tight labour market conditions, wages and earnings sustained solid and broad-based improvement in the second quarter. Average employment earnings for full-time employees in the lowest decile group rose further by 5.4% in nominal terms in the third quarter over a year earlier.

The asset markets

1.8 The *local stock market* rebounded during the third quarter, fuelled by the resilient Mainland economic indicators and the US Fed's decision to hold off tapering asset purchases in September. The Hang Seng Index recovered ground and finished the quarter 10% higher than end-June 2013, or 1% above end-2012. Average daily turnover, however, shrank further to \$55.2 billion.

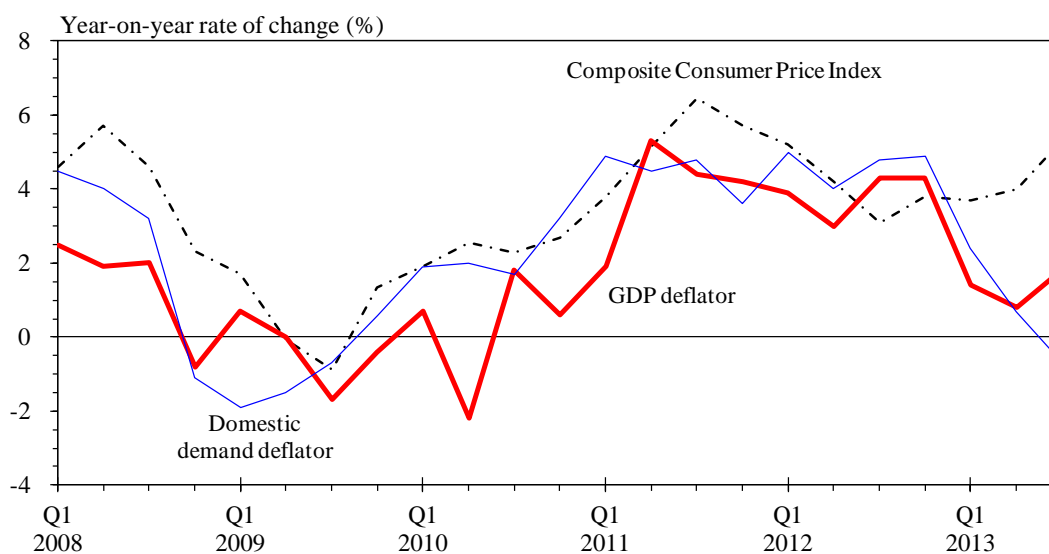
1.9 The *residential property market* remained quiet in the third quarter. Trading volume fell by 47% from a year earlier and was slightly lower than that in the second quarter. Residential property prices decelerated further, with a 1% gain during the third quarter, which was slightly slower than the increase during the second quarter and significantly lower than the 5% surge during the first quarter. Overall flat prices in September exceeded the 1997 peak by 42%, with the housing affordability ratio staying elevated at around 54% in the third quarter. Flat rentals increased slightly by about 1% during the quarter. As for non-residential property market, the upward pressures on office and shop rentals also turned milder, both posting increases of 1% during the third quarter.

Inflation

1.10 Consumer price inflation went up modestly in the third quarter. *Headline consumer price inflation* rose to 5.3% in the third quarter from 4.0% in the second quarter, but this more visible increase was mainly because of a lower base of comparison resulting from the Government's payment of public housing rentals in July 2012. Netting out the effects of the Government's relief measures to reflect more accurately the underlying inflation situation, *underlying consumer price inflation* went up modestly from 3.9% in the second quarter to 4.3% in the third quarter. The rise in the underlying rate mainly reflected the pressure from the continued feed-through of the private housing rental increases in 2012. Yet, the favourable effect of the milder increases in fresh-letting private residential rentals since the beginning of this year began to set in towards the end of the third quarter, helping to contain inflation. Overall labour costs rose steadily alongside a relatively tight labour market, but external price pressures remained subdued as international commodity prices were largely stable.

1.11 The *GDP deflator* rose modestly by 1.8% in the third quarter, amid a moderate increase in prices for consumption expenditure, a slightly better terms of trade, and a decline in prices for machinery and equipment.

Diagram 1.4 : Consumer price inflation went up modestly in the third quarter



GDP by major economic sector

1.12 Broadly consistent with the modest pick-up in economic growth in the second quarter of 2013, net output of the services sector as a whole rose by 3.8% in real terms over a year earlier, slightly faster than the 2.8% growth in the first quarter. Wholesale and retail, financing and insurance, accommodation and food services, and professional and business services posted further solid growth, reflecting the relatively buoyant consumption market and inbound tourism as well as improving financial activities. Growth in the externally-oriented service sectors, including import and export trade and transportation and storage was modest. Meanwhile, net output of the real estate sector, mainly reflecting the activity of private sector developers and property agencies, went visibly lower amid a quiet property market. As for the secondary sector, manufacturing output edged up while construction output rebounded largely on the back of hectic public infrastructure works.

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

	<u>2012</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>
Manufacturing	-0.8	-1.6	-2.9	-0.1	1.3	0.5	0.3
Construction	11.3	13.1	10.1	5.2	16.1	-1.5	1.2
Services ^(b)	1.8	1.4	1.2	1.9	2.7	2.8	3.8
Import/export, wholesale and retail trades	1.5	-0.4	0.3	1.6	3.8	5.8	5.1
Import and export trade	0.5	-2.6	-0.9	1.3	3.3	4.1	3.2
Wholesale and retail trades	5.8	9.1	5.8	3.0	5.9	12.6	12.6
Accommodation ^(c) and food services	2.2	-0.6	1.6	3.2	4.6	3.8	3.7
Transportation, storage, postal and courier services	3.0	4.7	0.5	2.7	3.9	-0.5	3.0
Transportation and storage	2.8	4.7	0.4	2.5	3.3	-0.9	2.8
Postal and courier services	8.1	4.6	3.3	9.2	14.2	7.6	6.4
Information and communications	2.8	0.8	1.4	4.1	4.6	6.0	2.5
Financing and insurance	1.1	2.3	0.2	0.8	1.1	4.1	7.5
Real estate, professional and business services	3.6	3.6	5.1	3.8	2.2	-0.3	-0.3
Real estate	5.9	4.5	8.2	6.6	4.5	-2.6	-5.9
Professional and business services	1.4	2.2	2.1	1.3	0.2	2.2	5.4
Public administration, social and personal services	2.0	2.2	2.1	2.0	1.6	1.8	3.6

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 services sectors include ownership of premises as well, which is analytically a service activity.
- (c) Accommodation services cover hotels, guesthouses, boarding houses and other establishments providing short term accommodation.

Other major developments

1.13 The Government continues to promote the economic integration of Hong Kong with the Mainland. Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in late August, introducing 73 services liberalisation and trade and investment facilitation measures. In September, the “Guizhou Accord” was signed during the Ninth Pan-Pearl River Delta (PPRD) Regional Co-operation and Development Forum, which sets out the directions of deeper co-operation in future PPRD Forum. Also in September, at the 16th Plenary of the Hong Kong / Guangdong Co-operation Joint Conference, eight letters of intent and co-operation agreements were signed.

1.14 As for overseas linkages, the Investment Promotion and Protection Agreement (IPPA) between Hong Kong and Kuwait signed earlier took effect from mid-September, which should help facilitate investment and trade flows between the two places. Also, an agreement between Hong Kong and Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income came into force in late October.

1.15 On financial developments, the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Bill 2013 came into operation in July. By providing a taxation framework for some common types of Islamic bonds (sukuk) comparable with conventional bonds, the Amendment Ordinance would help establish a platform for the development of Islamic finance facilitating the issuance of sukuk products. As for the offshore RMB market development, in July the Hong Kong Monetary Authority (HKMA) introduced two enhancements in the provision of RMB liquidity to Authorized Institutions participating in RMB business in Hong Kong, which should be supportive to the development of Hong Kong as an offshore RMB business hub.

1.16 On housing issues, the Long Term Housing Strategy Steering Committee launched a consultation on Hong Kong’s long-term housing strategy in September. With a view to providing adequate and affordable housing, the consultation document proposed that the Government adopts a more proactive role and a “supply-led” strategy. After collecting the views and comments from the public and stakeholders, the Steering Committee will submit a report to the Government for deliberation.

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.
- (3) In mid-2013, Census and Statistics Department conducted a technical revision exercise to review the estimation method of cross-boundary movements of goods and services in the GDP compilation framework. As a result of the exercise, estimates of private consumption expenditure, exports of goods, and imports and exports of services were revised back to 2009. The levels and growth rates pertaining to the entire series of overall GDP were however not affected by this non-routine revision, as the exercise involved only re-classification of consumption expenditure on goods and services between residents and non-residents.

CHAPTER 2 : THE EXTERNAL SECTOR

Summary

- *The trading environment remained unsteady in the third quarter of 2013. The US economy expanded only at a modest pace, constrained by the labour market slack and ongoing fiscal consolidation. The eurozone, while ending a six-quarter recession, still lacked growth momentum amid fiscal and structural reforms. Some emerging market economies, limited by individual country circumstances and more volatile financial conditions under the spectre of Fed tapering, also saw slower growth in the past few quarters. The Mainland economy, comparatively, stayed resilient.*
- *Merchandise exports of Hong Kong grew modestly in real terms year-on-year in the third quarter, but performance fluctuated in individual months. Exports to the US and Japan stayed weak, while those to the EU returned to a mild year-on-year growth and those to the Mainland expanded modestly. Meanwhile, the performance of other Asian markets was mixed.*
- *Exports of services notched a solid growth in the third quarter. The growth in exports of travel services, though slowed somewhat, was still notable and rendered a key impetus to the consumption market. Exports of financial and other business services maintained solid growth. On the other hand, amid the sluggish merchandise trade performance, exports of trade-related services remained weak, which in turn also dampened those of transportation services.*
- *Further progress has been made in strengthening Hong Kong's economic relationship with its trading partners, particularly the Mainland. Specifically, Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in August. Hong Kong also participated in the Ninth Pan-Pearl River Delta (PPRD) Regional Co-operation and Development Forum, and the 16th Plenary of the Hong Kong / Guangdong Co-operation Joint Conference in September to deepen economic collaboration with other provinces.*

Visible trade

Total exports of goods

2.1 Hong Kong's external trade performance remained lacklustre in the third quarter of 2013. *Merchandise exports* (comprising re-exports and domestic exports) expanded only modestly by 2.0% in real terms⁽¹⁾ in the third quarter over a year earlier, similar to the 2.4% growth in the second quarter. After registering a notable year-on-year growth in real terms in July, merchandise exports reversed to decline slightly in August and September. On a seasonally adjusted quarter-to-quarter comparison, merchandise exports rose by 2.1% in the third quarter after two consecutive quarters of contraction.

2.2 The global economy continued to face significant headwinds in the third quarter. The US economic expansion was hobbled by the fiscal retrenchment and the modest pace of job creation. The uncertainties arising from the Fed's tapering signals and the confrontations between the two US political parties over fiscal issues also emerged as new challenges. The eurozone economy ended a six-quarter contraction in the second quarter, with activity indicators pointing to some mild improvement in recent months. Yet the forward momentum in the eurozone was held back by the elevated unemployment rate and the policy efforts to restore the economic fundamentals. The growth pace of some emerging markets, being impeded by domestic capacity constraints and weaker capital flows, slackened in recent quarters.

2.3 Given sluggish demand conditions of the advanced economies and the slower growth momentum of some emerging markets, Asia's exports and production activity remained subdued in the third quarter. Reflecting the subpar performance of the world economy, the International Monetary Fund (IMF) in October nudged down its global growth projection for 2013 to 2.9%, even lower than the outturn of 3.2% in 2012.

2.4 *Re-exports*⁽²⁾, the mainstay of overall merchandise exports and accounting for 98.5% of total exports by value, grew by 2.2% year-on-year in real terms in the third quarter, similar to the 2.6% rise in the second quarter. *Domestic exports*, which constitute the remaining 1.5% of total exports, fell by 12.9% in real terms in the third quarter over a year earlier, further to the 10.1% decline in the preceding quarter.

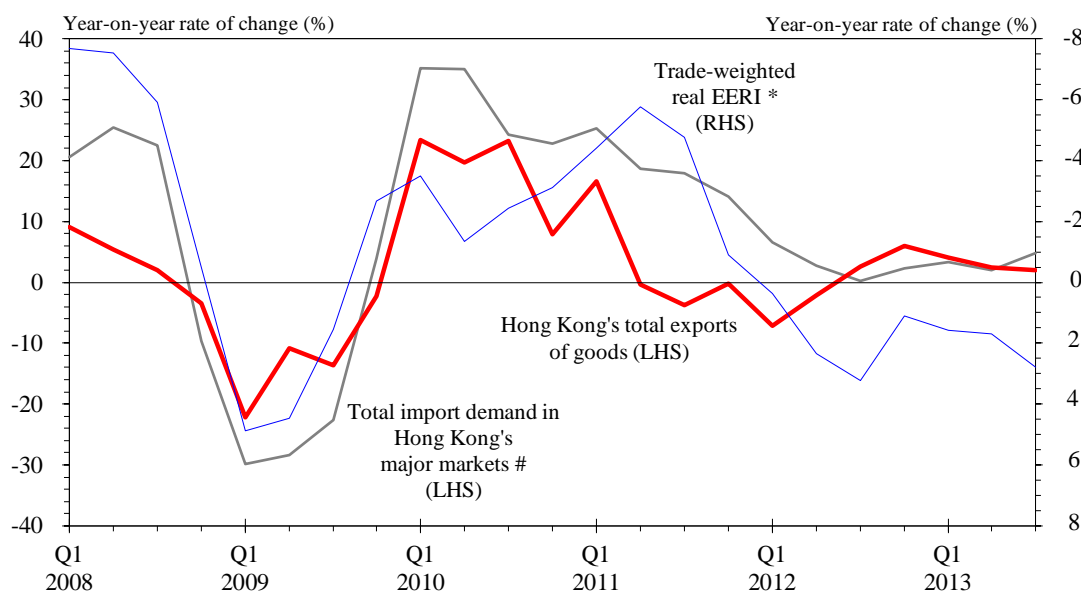
**Table 2.1 : Total exports of goods, re-exports and domestic exports
(year-on-year rate of change (%))**

	<u>Total exports of goods</u>			<u>Re-exports</u>			<u>Domestic exports</u>					
	In value terms	In real terms ^(a)	Change in prices	In value terms	In real terms ^(a)	Change in prices	In value terms	In real terms ^(a)	Change in prices			
2012 Annual	2.9	-0.1	3.4	3.2	0.1	3.4	-10.4	-13.0	2.5			
H1	0.3	-4.6	5.3	0.7	-4.3	5.3	-19.4	-22.2	2.8			
H2	5.4	4.2	1.6	5.5	4.4	1.6	-0.3	-2.5	2.0			
Q1	-1.5	-7.1	(1.9)	6.2	-1.0	-6.7	(1.9)	6.2	-24.1	-26.9	(-0.4)	3.0
Q2	1.9	-2.2	(-2.3)	4.4	2.3	-1.9	(-2.4)	4.4	-14.8	-17.6	(1.2)	2.6
Q3	3.8	2.5	(2.6)	1.8	3.9	2.6	(2.6)	1.8	0.5	-1.2	(2.9)	1.4
Q4	7.0	6.0	(4.9)	1.4	7.1	6.2	(5.1)	1.3	-1.2	-3.8	(-6.0)	2.7
2013 H1	3.2	3.2	0.5	3.3	3.4	0.4	-4.6	-7.5	3.2			
Q1	4.0	4.0	(-1.5)	0.6	4.0	4.2	(-1.5)	0.5	-0.9	-4.5	(-3.0)	4.2
Q2	2.4	2.4	(-2.9)	0.4	2.6	2.6	(-2.9)	0.4	-7.9	-10.1	(-4.2)	2.3
Q3	3.3	2.0	(2.1)	1.7	3.6	2.2	(2.2)	1.7	-11.9	-12.9	(-0.4)	1.8

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.

Diagram 2.1 : Merchandise exports grew modestly in the third quarter of 2013



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

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

(#) Import demand figure for the third quarter of 2013 is based on statistics for July and August 2013.

Diagram 2.2 : On a seasonally adjusted quarter-to-quarter comparison, exports in the third quarter of 2013 rebounded

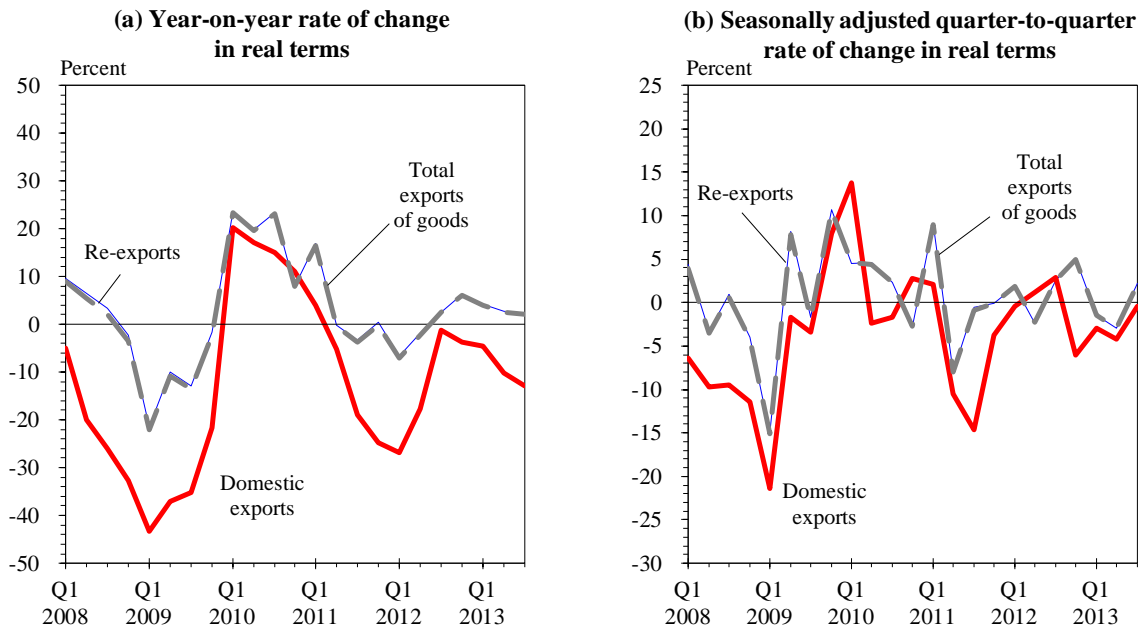
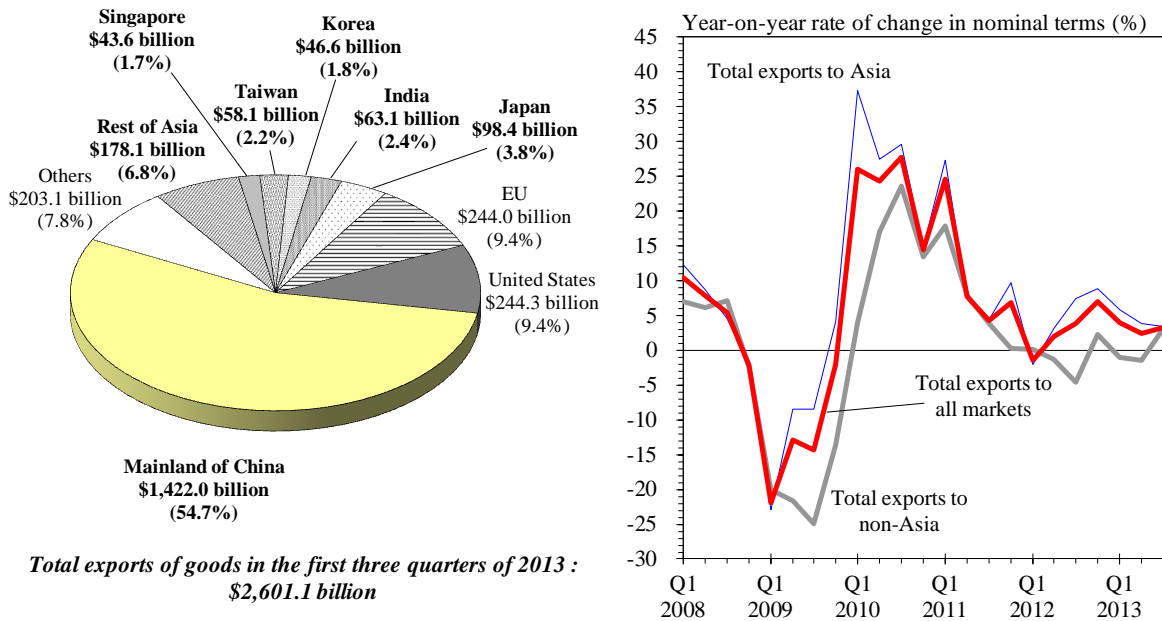


Diagram 2.3 : Asian markets continued to feature prominently in Hong Kong's exports



**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>2012</u> <u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>2013</u> <u>Q2</u>	<u>Q3</u>
Mainland of China	3.4	-7.8	-0.6	9.7	12.1	8.5	6.3	2.8
United States	-1.3	-7.1	0.1	-0.1	1.4	-5.0	-8.0	-1.0
European Union	-10.4	-9.7	-12.5	-14.1	-4.8	-5.4	-2.5	2.7
Japan	0.9	-1.5	1.5	3.3	0.4	-4.9	-5.5	-8.3
India*	-22.5	-23.8	-23.7	-22.3	-20.0	0.3	8.0	6.7
Taiwan	-7.9	-21.4	-2.1	-10.7	2.4	14.2	-12.1	-7.6
Korea	-4.0	-5.2	-5.7	-2.2	-2.8	0.5	2.0	4.5
Singapore	-3.3	-14.1	2.1	-0.3	-0.8	5.2	0.2	-0.9

Note : (*) A unit value index specifically compiled for exports to India is available since January 2012. The volume figures for growth in exports to India prior to 2013 are crude estimates.

2.5 Analysed by major market, merchandise exports to the Mainland expanded by 2.8% year-on-year in real terms in the third quarter. Exports to Japan sustained the slide in the third quarter, conceivably reflecting the discouraged import demand because of the much weakened yen. The performance of other higher-income Asian markets varied in the third quarter, with exports to Taiwan and Singapore registering declines while those to Korea growing moderately on a year-on-year comparison. Meanwhile, exports to India, supported by base effects, rebounded further in the third quarter.

2.6 Exports to the other major advanced markets were mixed in the third quarter. Exports to the US fell slightly year-on-year in the third quarter, indicating that the sluggish labour market and the restrictive fiscal measures still impeded the revival of import demand there. On the other hand, exports to the EU returned to a mild year-on-year growth in the third quarter, thanks to stabilising activity and improving sentiment in the EU economy, but the rise should have also been amplified by a low base.

Diagram 2.4 : Exports to the Mainland showed further growth

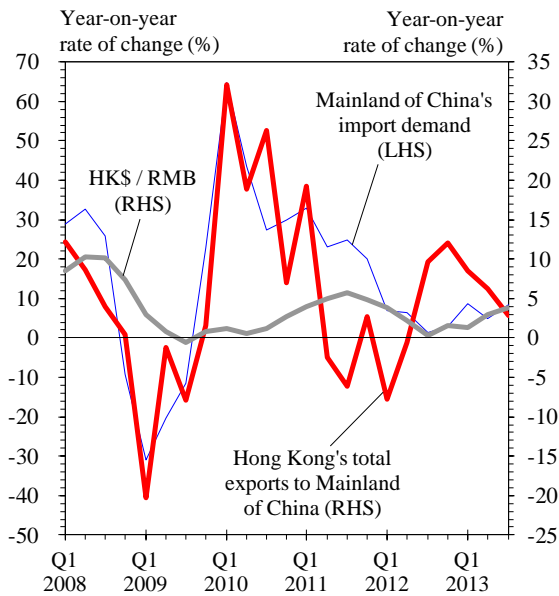
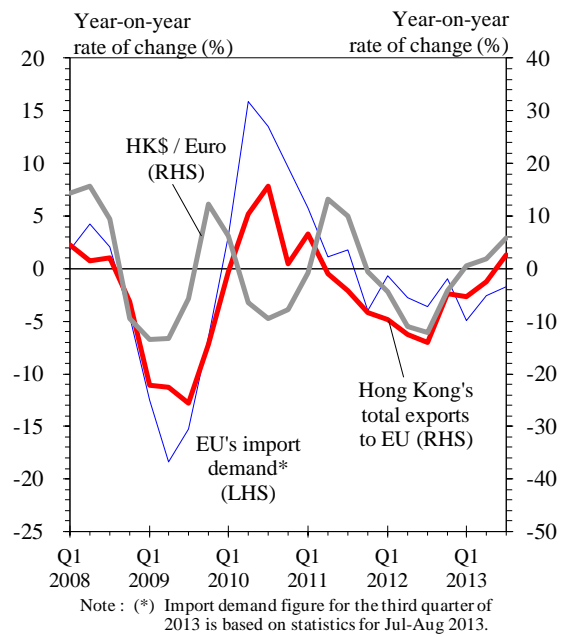


Diagram 2.5 : Exports to the EU saw some improvement



Note : (*) Import demand figure for the third quarter of 2013 is based on statistics for Jul-Aug 2013.

Diagram 2.6 : Exports to the US showed a smaller decline

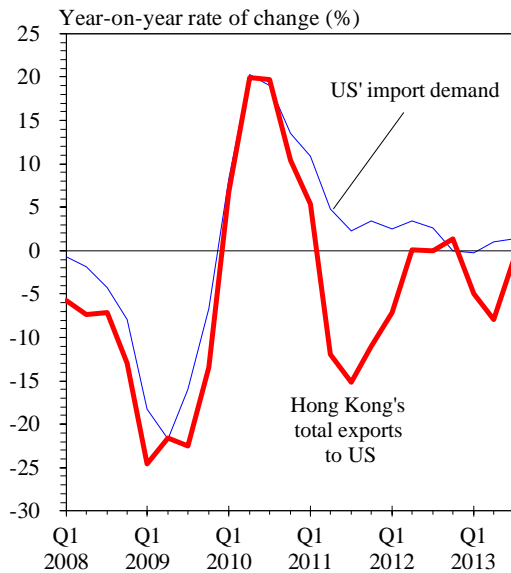


Diagram 2.7 : Exports to Japan stayed weak following the significant yen depreciation

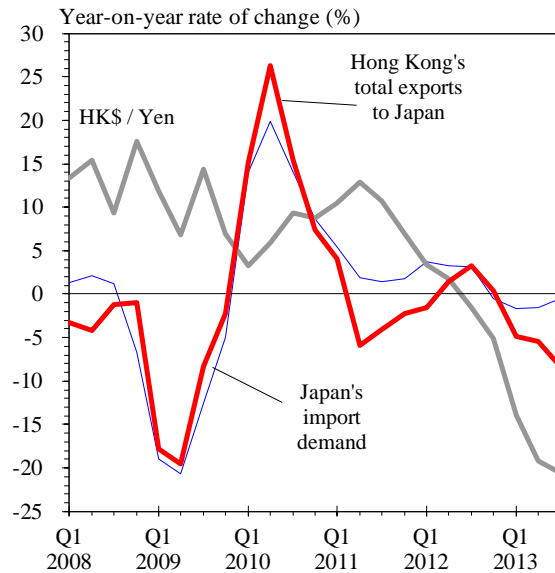


Diagram 2.8 : Exports to India rebounded further

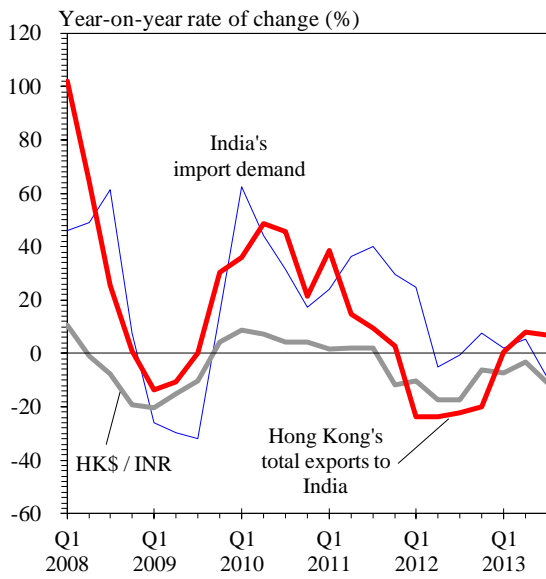


Diagram 2.9 : Exports to Taiwan remained weak in the third quarter

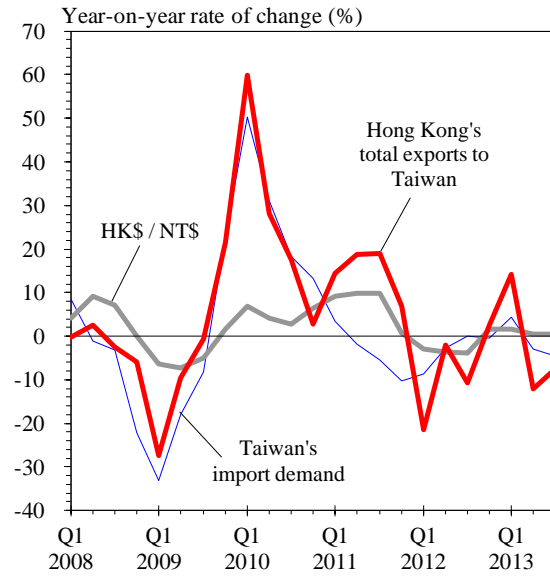


Diagram 2.10 : Exports to Korea grew moderately further

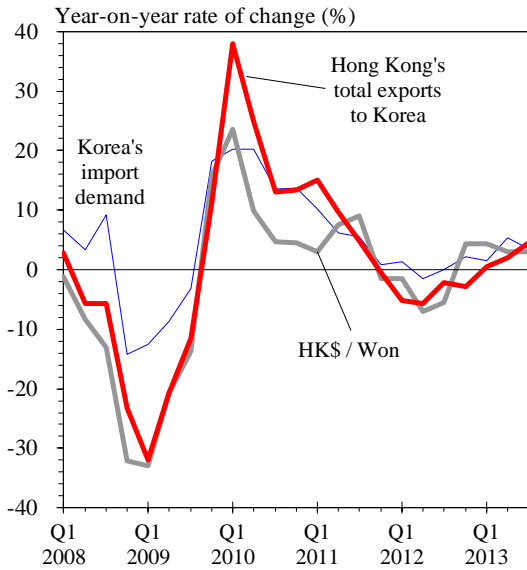
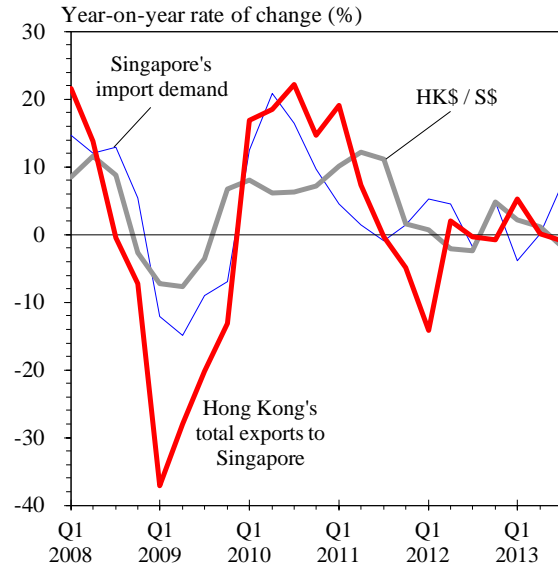


Diagram 2.11 : Exports to Singapore fell slightly in the third quarter



Box 2.1

Recent economic policy in Japan and its impacts on the Hong Kong economy

Japan has experienced slow economic growth and persistent deflation for a prolonged period. To revitalise the economy, the Japanese authorities under the leadership of Prime Minister Shinzo Abe put forward an ambitious policy approach, popularly known as the “three arrows” of “Abenomics”, comprising bold monetary easing, a flexible fiscal policy and a growth strategy.

1. Bold monetary easing

The Bank of Japan (BoJ) overhauled its monetary policy framework this year, introducing an “open-ended asset purchasing method” with a view to achieving an inflation target of 2% in two years. Under the new framework, the BoJ set out a sizeable asset purchase programme in April, aimed to double the monetary base by 2014 and expand the purchases to cover longer-dated government bonds and other risk assets.

2. Flexible fiscal policy

The Diet approved a JPY 13 trillion supplementary budget in February, amounting to 2.7% of GDP, so as to complement monetary easing and bring an end to deflation. However, Japan’s government is already running a high fiscal deficit, with gross public debt at about 230% of GDP, the highest among OECD countries. To arrest the swelling public debt, the government decided in October to raise the sales tax rate, from the current level of 5% to 8% in April 2014 and further to 10% in October 2015, accompanied by a JPY 5 trillion stimulus package to alleviate the adverse impacts.

3. Growth strategy

To bolster Japan’s competitiveness, the government in June proposed a growth strategy outline, laying out such goals as entering the Trans-Pacific Partnership (TPP) negotiations, raising the female labour participation rate, reviving private investment through tax incentives and establishing National Strategic Special Zones. However, specific measures in many areas remain to be formulated.

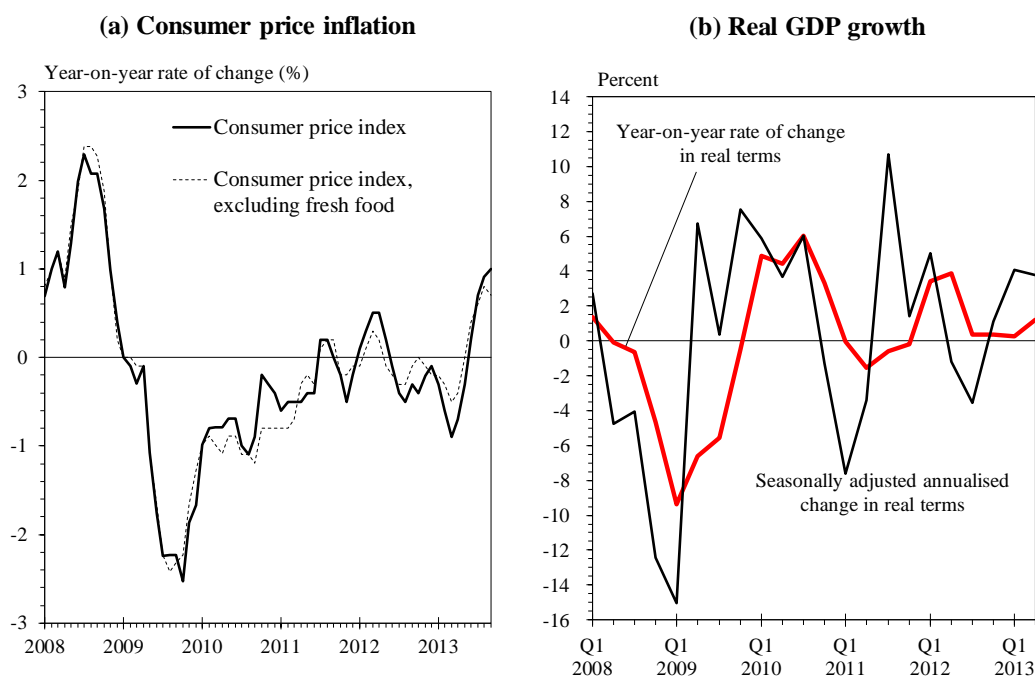
The first two arrows of “Abenomics” were shot in the first half of the year and received positively by the market. Japanese stocks rose, while long-dated government bond yield fell. Yet the most prominent effect was a sharp depreciation of the yen spurred by aggressive monetary easing. While the yen regained some ground after the US Federal Reserve’s signal at mid-year to taper in due course, it still slid by 16% against the US dollar during the first nine months of the year, or by around 15% on a real effective exchange rate basis.

Japan’s economy, buoyed by the reflationary policies, also showed some improvement. Real GDP exited contraction and posted visible sequential growth in the first half of the year, driven mainly by stronger consumer spending on wealth effects. Consumer price inflation, notched up by higher imported energy prices following a weaker yen and stabilising trends in other major components, has also turned positive since June 2013 (*Chart 1*).

However, the longer-term growth sustainability is still an open question. The improvements brought by monetary easing and fiscal stimulus could only be extended by the follow-through of structural reforms, whose details have yet to be formulated and debated. Besides, the planned sales tax increases and possibly further fiscal adjustments to fix its public finance could restrain the growth pace of the economy. The task of raising growth potential will further be complicated by the acute energy and demographic challenges.

Box 2.1 (Cont'd)

Chart 1 : The Japanese economy showed some improvement in 2013



The impacts of Japan's new policy on the Hong Kong economy have been more discernible through its effects on external trade and travel services emanating from a weaker yen. Specifically, in the first nine months of the year, Hong Kong's exports of goods to Japan declined by 6.3% in volume terms over a year earlier, while the number of Japanese visitors to Hong Kong fell visibly by 22.1%. It appeared that the large depreciation of the yen following the launch of "Abenomics" had dampened Japanese demand for goods imports and travel services. However, Hong Kong's import volume of Japanese goods stayed on a downtrend over the same the period, falling by 7.2%, possibly reflecting sluggish re-export trade involving Japan. In contrast, the number of Hong Kong visitors to Japan surged by 49.5% over the period, though this was partly distorted by the low base in 2012. On the price front, prices of imports from Japan posted a 2.0% year-on-year decrease in the first nine months of the year, partly contributing to Hong Kong's subdued imported inflation.

As for capital flows, Japan's new round of monetary easing has not yet ignited a new wave of hot money pouring into Asia. In fact, the improved economic prospects have led to more capital flows into rather than out of the Japanese economy. According to statistics from Japan's Ministry of Finance, in the first eight months of the year, portfolio investment in Japan recorded a net inflow of JPY 21.5 trillion, reversed from a JPY 6.1 trillion net outflow in 2012.

In sum, despite some positive outcomes from Japan's recent policy efforts, the longer-term effectiveness is still unknown, depending on the success of planned structural reforms. As the second largest Asian economy, a stronger Japan emerging from comprehensive reforms could certainly render benefits to the region, including Hong Kong. But before that happens, the uncertainty arising from its monetary easing and the uneven progress of its structural reforms could heighten the volatility of the yen and the regional financial markets, with possible spill-over to Hong Kong. The Government will monitor the situation closely.

Imports of goods

2.7 *Imports of goods* rose by 2.8% in real terms in the third quarter over a year earlier, lower than the 4.2% growth in the second quarter, reflecting slower increases in retained imports during the period after a notable bounce in the prior period. *Retained imports*, which accounted for over one-quarter of total imports, decelerated to a moderate 4.4% year-on-year growth in real terms in the third quarter, down from a notable 8.1% growth in the preceding quarter. Analysed by end-use category, retained imports of foodstuffs and consumer goods expanded visibly in the third quarter, helped by a low base a year ago, while those of capital goods also registered further appreciable year-on-year growth. On the other hand, retained imports of fuels dropped moderately further, and those of raw materials and semi-manufactures fell notably in the third quarter.

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

		<u>Imports of goods</u>			<u>Retained imports</u> ^(a)				
		<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>		
2012	Annual	3.9	1.0	3.3	3.0	3.5	0.2		
	H1	1.4	-2.7	4.4	0.4	1.6	-0.7		
	H2	6.3	4.6	2.2	5.3	5.3	0.9		
	Q1	0.7	-4.1	(1.6)	5.0	2.4	3.5	(0.6)	-1.2
	Q2	2.1	-1.3	(-0.9)	3.9	-1.2	*	(3.0)	-0.3
	Q3	4.5	2.7	(2.2)	2.3	3.1	2.9	(1.1)	0.6
	Q4	8.1	6.6	(4.7)	2.1	7.6	7.7	(4.0)	1.3
2013	H1	4.1	4.5	0.6	6.4	7.6	1.1		
	Q1	4.9	5.0	(-1.4)	1.1	7.1	7.1	(-1.3)	2.9
	Q2	3.5	4.2	(-1.1)	0.2	5.8	8.1	(3.6)	-0.4
	Q3	2.6	2.8	(1.0)	0.6	-0.1	4.4	(-1.8)	-2.1

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

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

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

Diagram 2.12 : Import growth slowed somewhat, reflecting moderated increase in retained imports

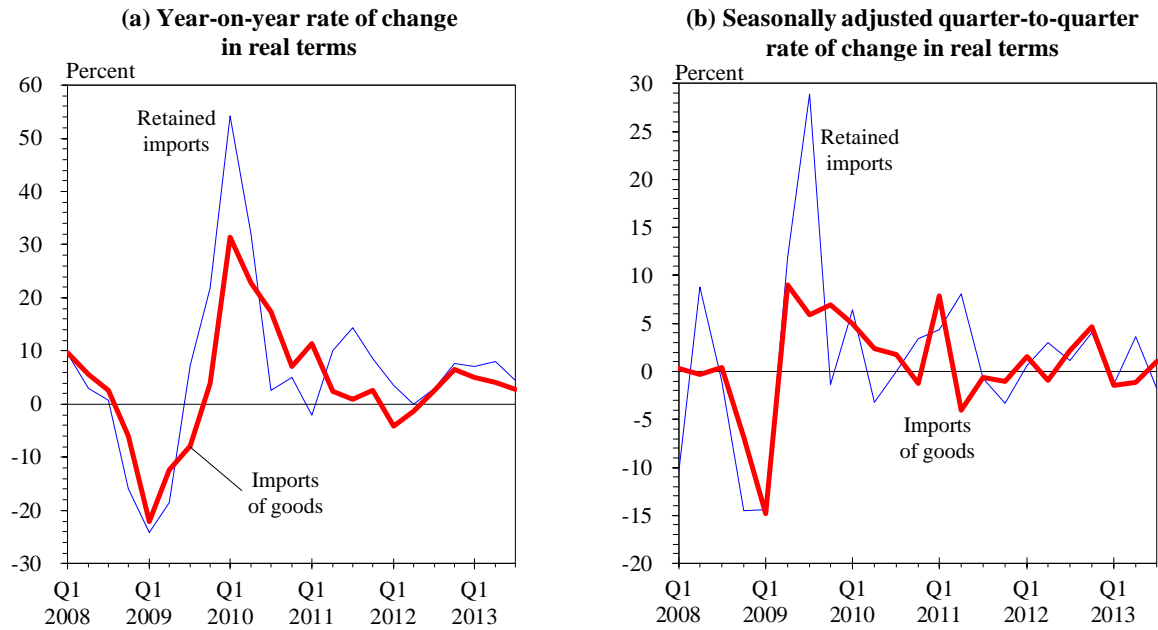


Table 2.4 : Retained imports by end-use category (year-on-year rate of change in real terms (%))

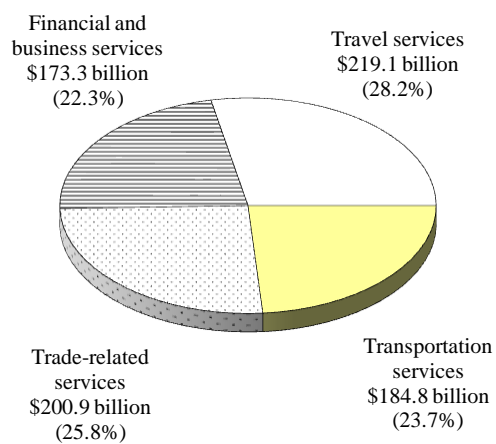
		Consumer goods	Foodstuffs	Capital goods	Raw materials and semi-manufactures	Fuels
2012	Annual	6.4	1.6	21.7	-6.4	-6.6
	H1	7.4	3.6	23.9	-12.2	-5.4
	H2	5.4	-0.1	20.0	-0.3	-7.8
	Q1	16.1	4.8	50.7	-19.8	-6.9
	Q2	0.5	2.5	6.6	-5.1	-4.0
	Q3	-5.4	-5.6	20.0	1.6	-4.3
	Q4	17.1	4.8	19.9	-2.3	-11.2
	2013	H1	2.9	6.6	18.7	5.0
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

Invisible trade

Exports of services

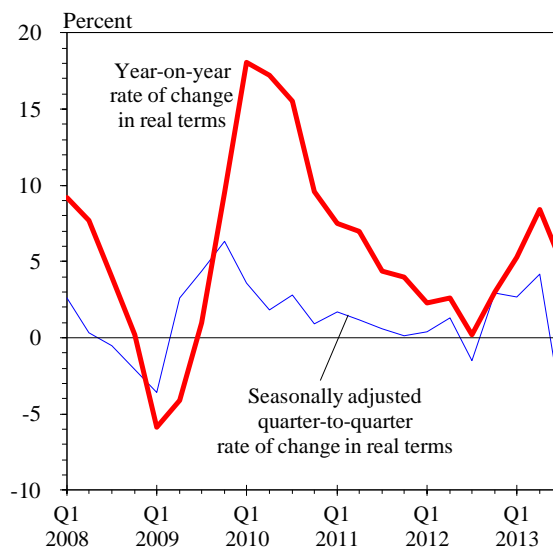
2.8 *Exports of services* rose solidly by 4.9% year-on-year in real terms in the third quarter of 2013, after an 8.4% growth in the preceding quarter. Exports of travel services remained an important growth driver, up by 13.6% from a year earlier in the third quarter, although the growth pace was slower than in the second quarter. Exports of financial and other business services sustained solid growth over the same period. However, exports of trade-related services, comprising mainly offshore trade activities, remained subdued in the third quarter, while those of transportation services only recorded a marginal increase, both under the drag of sluggish trade flows.

Diagram 2.13 : Each major service group accounted for a similar share of Hong Kong's service exports, reflecting our diversified and competitive services sector



Exports of services in the first three quarters of 2013 : \$778.1 billion

Diagram 2.14 : Exports of services grew further in the third quarter



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

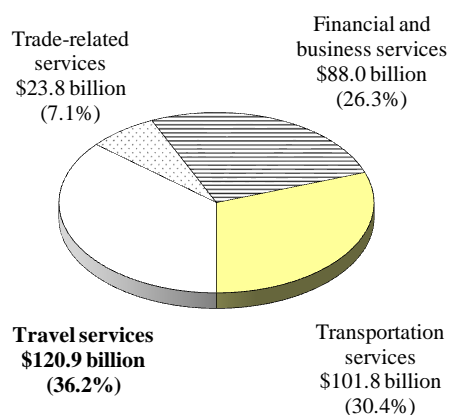
		<i>Of which :</i>				
		<u>Exports of services</u>	<u>Trade-related services^(a)</u>	<u>Transportation services</u>	<u>Travel services^(b)</u>	<u>Financial and business services</u>
2012	Annual	2.0	0.6	-3.0	11.1	-0.2
	H1	2.4	-0.5	-0.7	11.3	1.1
	H2	1.6	1.5	-5.1	11.1	-1.5
	Q1	2.3 (0.4)	-1.6	3.0	9.1	*
	Q2	2.6 (1.3)	0.7	-3.9	13.6	2.6
	Q3	0.2 (-1.5)	1.2	-5.8	8.9	-3.3
	Q4	3.0 (2.9)	1.8	-4.3	13.0	0.4
2013	H1	6.8	2.3	-1.9	24.6	2.8
	Q1	5.3 (2.7)	2.8	-2.3	19.5	1.5
	Q2	8.4 (4.2)	1.8	-1.6	29.8	4.4
	Q3	4.9 (-4.6)	0.3	0.8	13.6	5.9

- Notes :
- (a) Comprising mainly offshore trade.
 - (b) Comprising mainly inbound tourism receipts.
 - () Seasonally adjusted quarter-to-quarter rate of change.
 - (*) Change within $\pm 0.05\%$.

Imports of services

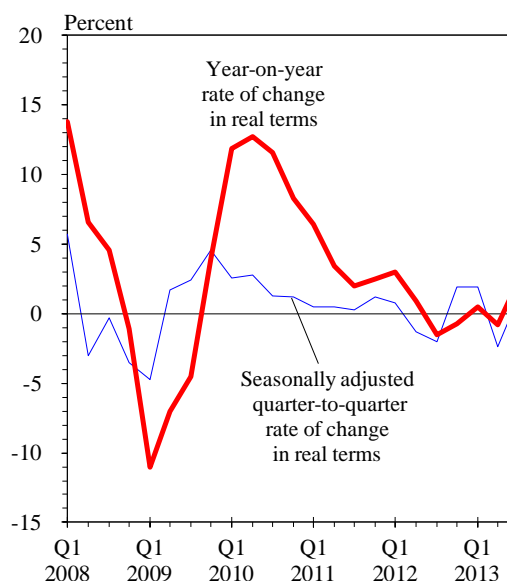
2.9 *Imports of services* grew modestly by 2.4% in real terms in the third quarter over a year earlier, reversing a marginal decline of 0.8% in the preceding quarter. Imports of travel services grew by 4.6% in the third quarter. Of particular note was the surge in the number of trips by local residents to Japan amid the earlier notable depreciation of the yen and a low base of comparison in 2012. Imports of transportation services and trade-related services, however, remained constrained by the weak regional trade flows and stayed weak in the third quarter. Meanwhile, imports of financial and other business services grew moderately further in the third quarter.

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



*Imports of services in the first three quarters of 2013 :
\$334.4 billion*

Diagram 2.16 : Imports of services rose 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 ⁽⁺⁾	Transportation services	Trade-related services	Financial and business services
2012	Annual	0.4	3.8	-2.4	-0.1	-0.6
	H1	2.0	5.2	0.4	-0.7	0.4
	H2	-1.1	2.5	-5.1	0.3	-1.4
	Q1	3.0 (0.8)	5.7	4.0	*	-0.3
	Q2	0.9 (-1.3)	4.7	-2.8	-1.3	1.3
	Q3	-1.5 (-2.0)	2.9	-4.6	-0.8	-3.7
	Q4	-0.7 (1.9)	2.0	-5.7	1.3	0.6
	2013	H1	-0.1	3.0	-4.6	0.6
	Q1	0.5 (1.9)	6.0	-5.3	2.3	-0.1
	Q2	-0.8 (-2.4)	*	-4.0	-1.2	2.4
	Q3	2.4 (1.2)	4.6	0.7	-2.4	3.2

Notes : (+) Comprising mainly outbound travel spending.

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

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

Visible and invisible trade balance

2.10 With the invisible trade account surplus more than making up for the merchandise trade account deficit, the combined visible and invisible trade account recorded a surplus of \$39 billion (equivalent to 3.1% of the total value of imports of goods and services) in the third quarter of 2013, larger than that of \$29 billion in the same quarter of 2012 (or 2.5% of the total value of imports of goods and services).

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>			As % of <u>imports</u>
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>	
2012	Annual	3,592	998	4,116	448	-525	550	25	0.5
	H1	1,685	471	1,961	216	-277	255	-22	-1.0
	H2	1,907	526	2,155	232	-248	295	47	2.0
	Q1	806	240	933	111	-128	129	2	0.2
	Q2	879	231	1,028	106	-149	126	-23	-2.1
	Q3	946	256	1,059	113	-113	143	29	2.5
	Q4	961	270	1,096	118	-135	152	17	1.4
2013	H1	1,801	506	2,124	218	-323	288	-35	-1.5
	Q1	872	256	1,024	113	-152	143	-9	-0.8
	Q2	929	251	1,100	105	-171	145	-26	-2.2
	Q3	1,000	272	1,117	116	-117	156	39	3.1

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

Other developments

2.11 Hong Kong continued to strengthen its economic ties with its major trading partners in the third quarter, particularly with the Mainland. Supplement X to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) was signed in August, providing for 73 services liberalisation and trade and investment facilitation measures.

2.12 Hong Kong's economic cooperation with some major Mainland provinces and cities was also stepped up. Specifically, the "Guizhou Accord" was signed during the Ninth Pan-Pearl River Delta (PPRD) Regional Co-operation and Development Forum in September, which set out the future directions to enhance the economic relationships among the PPRD provinces

and cities. In the same month, the Hong Kong and Guangdong Government in their 16th Plenary Co-operation Joint Conference signed eight letters of intent and co-operation agreements on a wide range of issues.

2.13 Separately, the Investment Promotion and Protection Agreement (IPPA) between Hong Kong and Kuwait, which was signed in May 2010, took effect from mid-September. By offering assurance such as equal treatment of investors, compensation for expropriation of investments, free transfer abroad of investments and returns, and settlement of investment disputes in accordance with internationally accepted rules, the IPPA helps facilitate investment and trade flows between Hong Kong and Kuwait. Also, an agreement between Hong Kong and Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income came into force in late October.

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 remained quiet in the third quarter of 2013. While the Government's various counter-cyclical measures introduced over the past few years have helped manage demand, the US Federal Reserve's indication in late June of its intention to reduce asset purchases later this year also affected market sentiment. Trading activities remained subdued. Overall flat prices recorded a decelerated increase during the quarter, and there was in fact a marginal decline in September.*
- *Raising flat supply through increasing land supply remains the Government's top policy priority in ensuring a healthy and stable development of the property market. Reflecting the Government's sustained efforts, total flat supply in the coming few years rose to 72 000 units, the highest level since September 2006.*
- *The Long Term Housing Strategy Steering Committee recommended that the Government strengthen its role in the provision of housing, and that the total housing supply target for the next ten years be set at 470 000 units, with a "60:40" split between public and private housing.*
- *The commercial and industrial property markets also slowed down further in the third quarter under the effect of the demand-side management measures. Trading activities shrank further while sale prices and rentals generally recorded moderated increases.*
- *Inbound tourism maintained solid performance in the third quarter, with total visitor arrivals up by 11.1% over a year earlier to 14.5 million. The Mainland market remained the major growth driver.*
- *The logistics sector continued to be dented by the lacklustre trade performance amid an unsteady external environment. Container throughput declined further, while air freight throughput saw modest growth.*

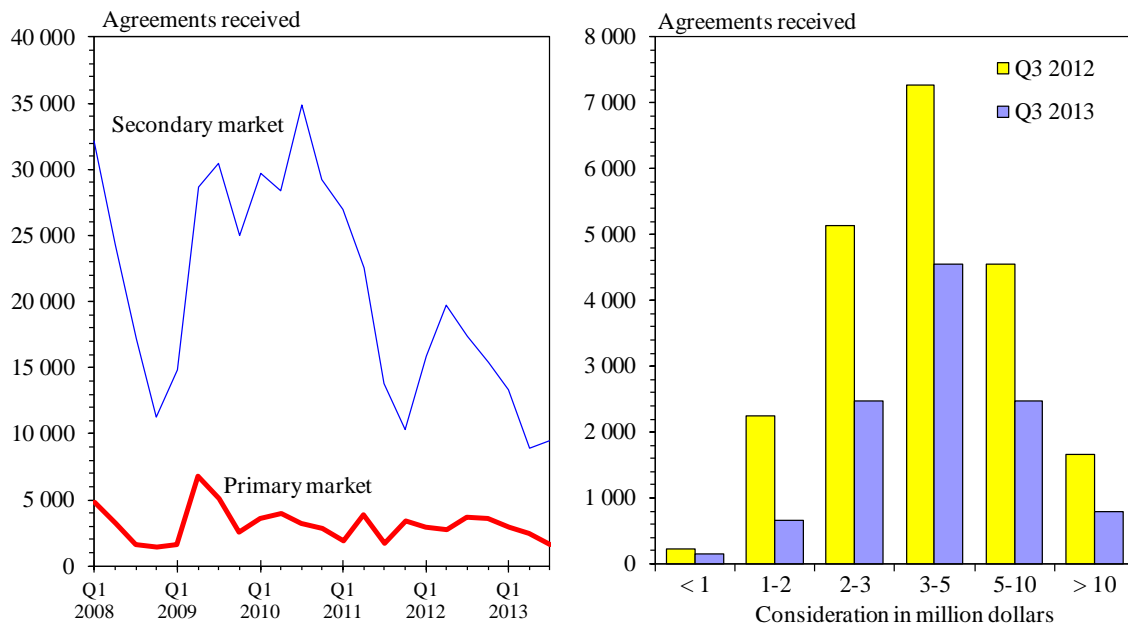
Property

3.1 The *residential property market* remained quiet in the third quarter of 2013. While the Government's various counter-cyclical measures introduced over the past few years have helped manage demand, the US Federal Reserve's indication in late June of its intention to reduce asset purchases later this year also affected market sentiment. With most buyers staying on the sideline, trading activities remained subdued. Overall flat prices recorded a decelerated increase during the quarter, and there was in fact a marginal decline of 0.3% in September. Some developers also took a more conservative pricing strategy in launching primary projects, offering price discounts, flexible payment arrangements and other concessions.

3.2 Reflecting the subdued trading, the total number of sale and purchase agreements for residential property received by the Land Registry shrank further by 3% from the preceding quarter or a sharp 47% from a year earlier to 11 079 in the third quarter, the lowest level on record. Both primary and secondary market transactions hovered at very low levels. Similarly, total consideration fell by 3% from the preceding quarter or 47% from a year earlier to \$59.5 billion.

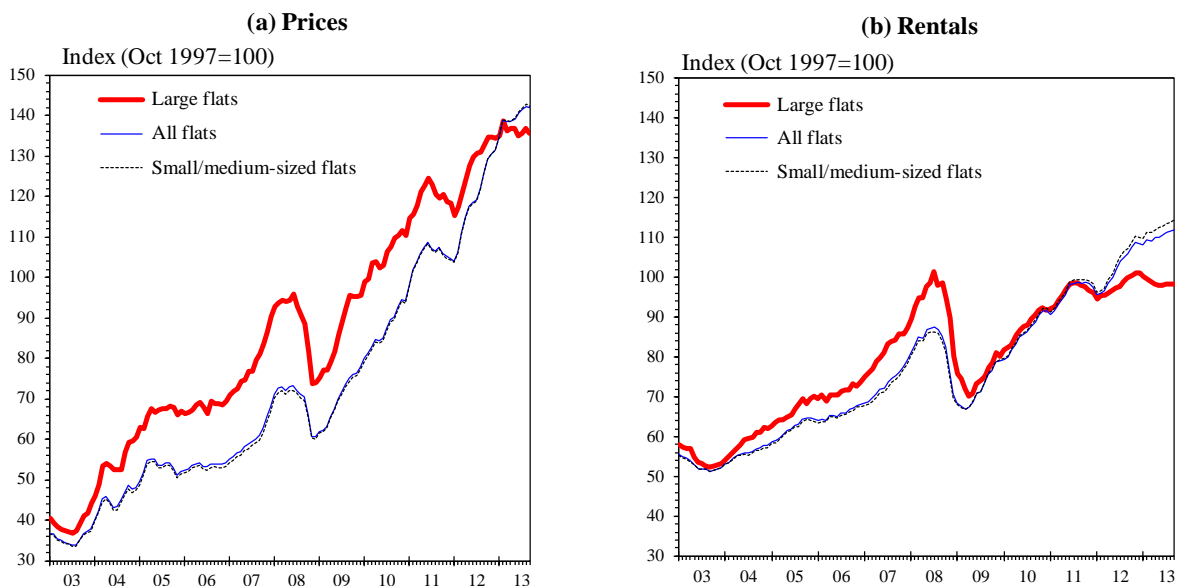
3.3 Overall flat prices edged up by 1% between June and September. Analysed by size, prices of small/medium-sized flats and luxury flats rose by 1% and 0.5% respectively. While there was an 8% cumulative increase during the first nine months of the year, the uptrend in overall flat prices tapered significantly after the launch of the latest round of demand-side management measures in late February, from an average monthly increase of 2.7% in January and February to a monthly average of only 0.3% between February and September. Following the almost uninterrupted uptrend in the past few years, overall flat prices in September 2013 were higher than the 1997 peak by 42%.

Diagram 3.1 : Trading activities stayed subdued in the third quarter of 2013



3.4 By comparison, the leasing market was relatively steady. Overall flat rentals rose by 1% between June and September, similar to the increase during the preceding two quarters. Analysed by size, rentals of small/medium-sized flats gained by 1% while those of luxury flats showed virtually no change. Compared with December 2012, overall flat rentals in September 2013 had risen moderately by 3%. The average rental yield for residential property was 2.8% in September, same as in June.

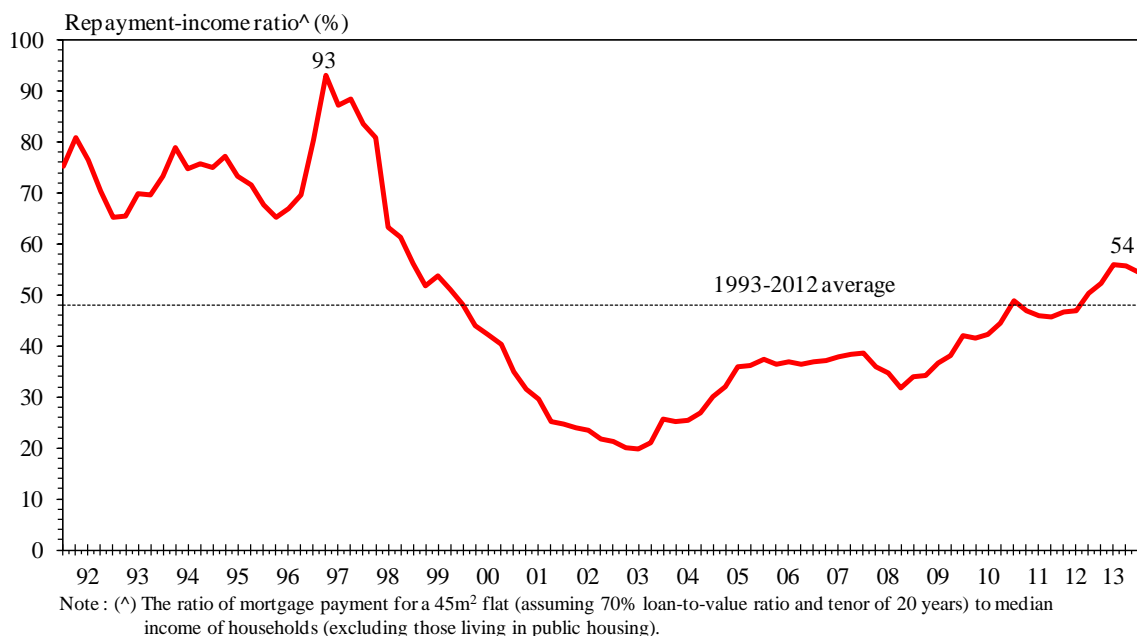
Diagram 3.2 : Flat prices and rentals recorded modest gains during the third quarter



Note: Residential property price index pertains to secondary market transactions only. Large flats refer to those with a saleable area of at least 100 m², and small/medium-sized flats with a saleable area of less than 100 m².

3.5 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 elevated at around 54% in the third quarter, far exceeding the long-term average of 47.9% over 1993-2012. Should interest rates rise by three percentage points to a more normal level, the ratio would soar to 71%.

Diagram 3.3 : The mortgage payment to income ratio stayed elevated in the third quarter



3.6 Raising flat supply through increasing land supply remains the Government’s top policy priority in ensuring a healthy and stable development of the property market. To demonstrate the Government’s firm resolve to increase land supply and to ensure a steady flat supply, the Government announced in September that a total of eight residential sites, which could provide for about 3 300 units, would be sold by tender in the fourth quarter of 2013. Taking the first three quarters of financial year 2013/14 together, residential sites put up by the Government for sale could provide for a total of about 8 200 units, reaching the figure for the whole preceding financial year. A railway property development project tendered out in June 2013 could also provide about 720 flats.

3.7 As a result of the Government's sustained efforts in increasing land supply, the *total supply of flats* in the coming few years (comprising unsold completed flats, flats already under construction but not yet sold and flats on disposed sites where construction has yet to commence) increased further from 70 000 units as estimated at end-June to 72 000 units as estimated at end-September, the highest since September 2006. In addition, another 12 600 units could be added to the supply through the conversion of a number of residential sites into "disposed sites" and completions of tendering of some sites in the months ahead. Nonetheless, short-term supply remains tight. There were only 4 400 private domestic units completed and 7 400 domestic units with notification of commencement of general building and superstructure work in the first three quarters of 2013, representing declines of 28% and 45% respectively from a year earlier.

3.8 As it takes time to raise 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⁽¹⁾. 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) declined further to an average of 128 cases per month or 3.1% of total transactions in the third quarter of 2013, markedly below the monthly average of 2 661 cases or 20.0% in January to November 2010 (i.e. the period before the introduction of the Special Stamp Duty). Reflecting the effects of the Buyer's Stamp Duty, *purchases by non-local individuals and non-local companies* averaged at a low level of 89 cases per month or 2.2% of total transactions in the third 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 was 55% in the third quarter, also 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 3.4 : Speculative activities stayed subdued

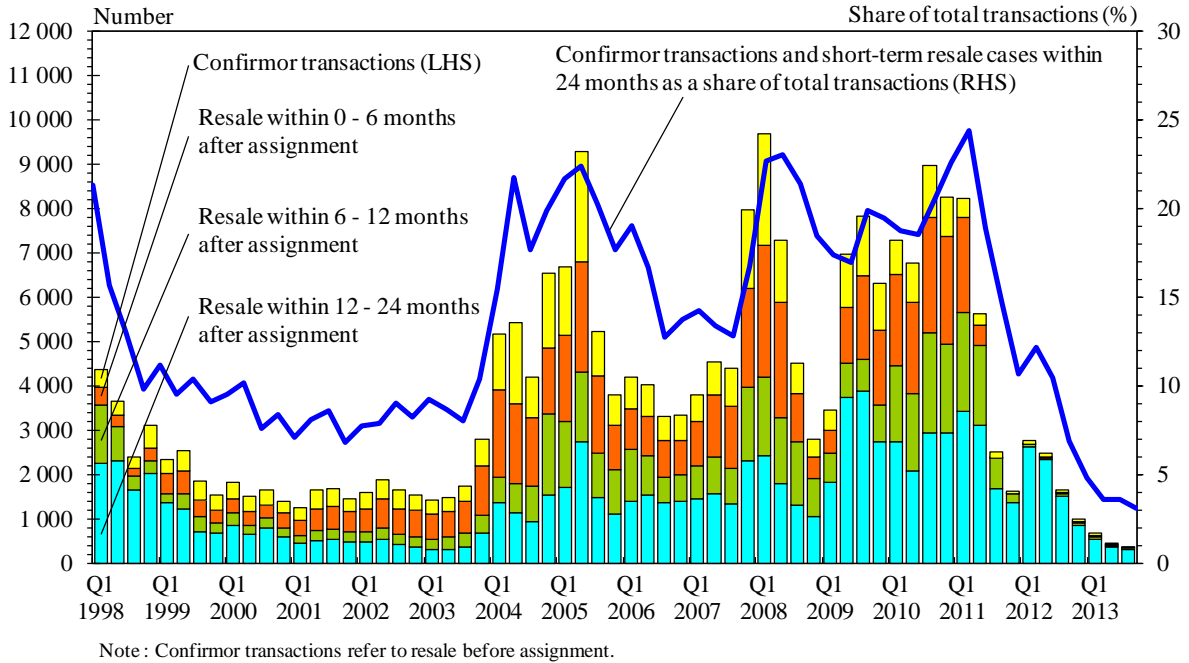
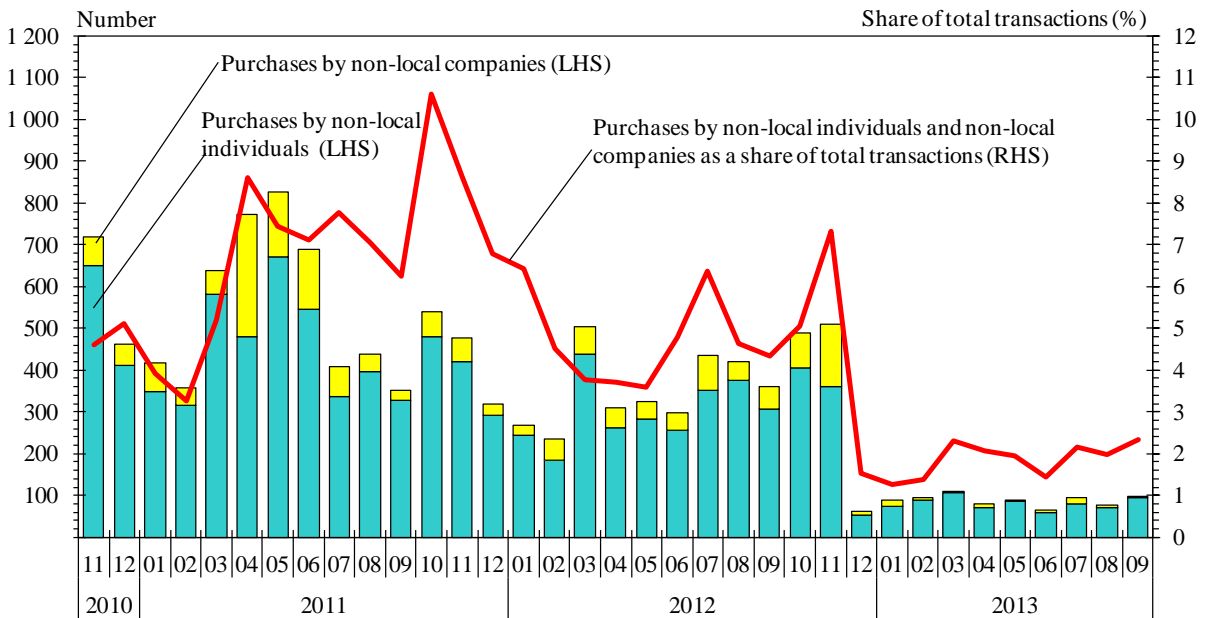


Diagram 3.5 : Purchases by non-local buyers remained low



3.9 In June the US Federal Reserve announced that it might reduce its asset purchases later this year depending on the prevailing economic situation. While it maintained the pace of asset purchases at its September and October meetings, the uncertainties surrounding the US monetary policy might lead to possible fluctuations in international capital flows and market expectation in the period ahead, with ramifications on asset prices including flat prices in Hong Kong. The Government will continue to monitor the situation closely, and may introduce measures to ensure a stable and healthy development of the property market as appropriate.

3.10 The Long Term Housing Strategy Steering Committee launched a three-month consultation on Hong Kong's long-term housing strategy in September. With a view to providing adequate and affordable housing for each and every family in Hong Kong, the Steering Committee recommended that the Government adopt a more proactive role in the housing market and a "supply-led" strategy, and that the total housing supply target for the next ten years be set at 470 000 units, with a "60:40" split between public and private housing. After collecting the views and comments from the public and stakeholders, the Steering Committee will submit a report to the Government for deliberation.

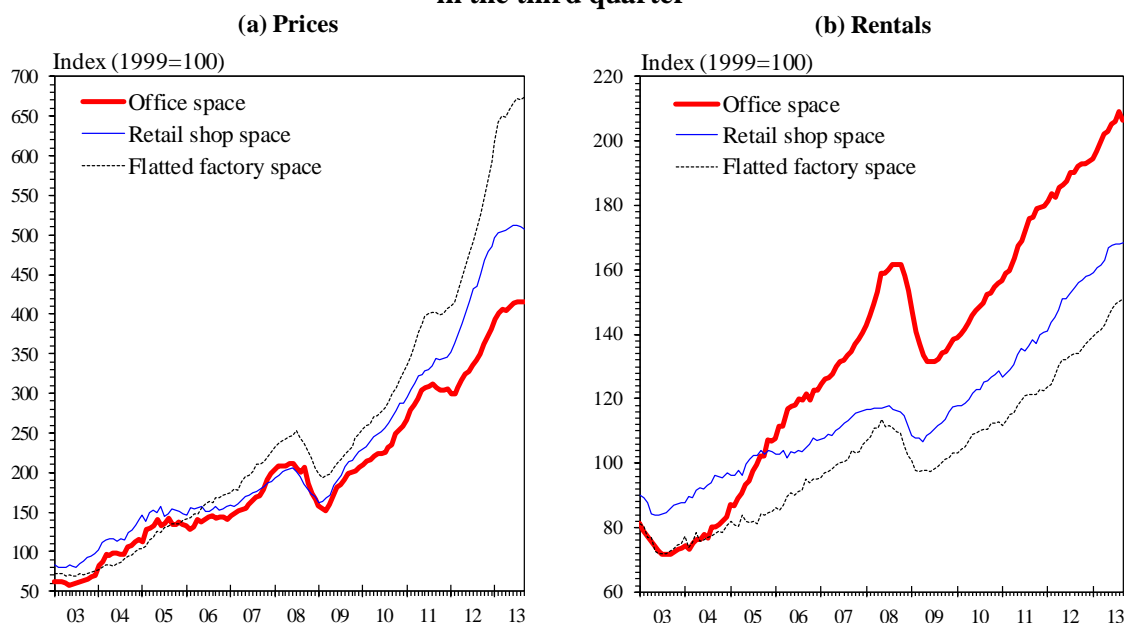
3.11 The *commercial and industrial property markets* slowed down further in the third quarter under the effect of the latest demand-side management measures. Trading activities continued to shrink while sale prices and rentals generally recorded moderated increases. Analysed by market segment, transactions for *retail shop space* dropped by another 22% from the preceding quarter or 68% from a year earlier to a low level of 540 cases⁽²⁾. Sale prices of retail shop space retreated by 1% between June and September, while rentals edged up by 1%. Compared with December 2012, sale prices and rentals in September 2013 went up by 5% and 7% respectively. The average rental yield for retail shop space was at a low level of 2.4% in September, same as in June.

3.12 For *office space*, the number of transactions likewise declined, by 4% from the preceding quarter or a visible 67% from a year earlier to 270 cases. While overall sale prices showed little change between June and September, there was indeed a slight monthly decline in September. Analysed by grade, prices of Grade A office space retreated by 4%, while prices of Grade B and C office space rose by 1% and 5% respectively. Meanwhile, rentals rose by 1% during the quarter. Among the total, rentals of Grade A office space edged down by 1%, while rentals of Grade B and C office space registered gains of 2% and 3% respectively. During the first nine months of 2013, sale prices and rentals rose by 9% and 7% cumulatively. The average rental yields for Grade A and B office space both edged up from 2.8% in June to 2.9% in September, while that of Grade C office space remained unchanged at 2.8%.

3.13 Transactions for *flatted factory space* dwindled by 16% from the preceding quarter or a sharper 76% from a year earlier to a low level of 580 cases in the third quarter. The increases in sale prices and rentals also decelerated, to 1% and 2% respectively between June and September. Compared with December 2012, sale prices in September soared by a rampant 14%, mainly due to the surge in the first two months of 2013, while rentals rose by 9%. The average rental yield stayed at the historic low of 2.7% in

September, same as in June.

Diagram 3.6 : The non-residential property market slowed down further in the third quarter



Land

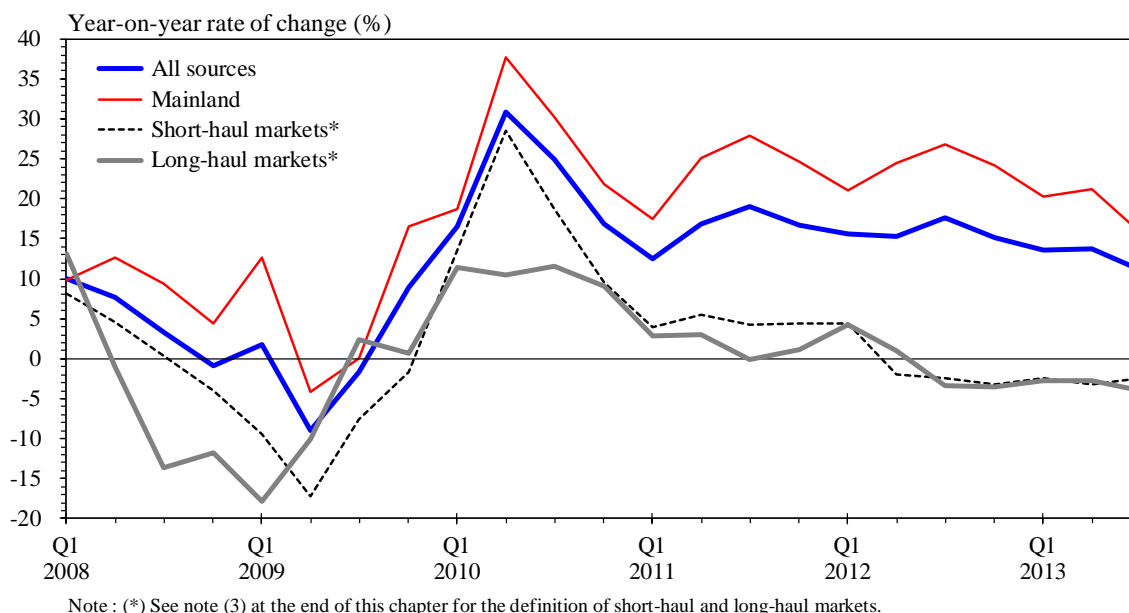
3.14 Reflecting the Government's ongoing efforts to increase land supply, eight residential sites with a total area of about 10.1 hectares were sold by public tender in the third quarter, fetching a land premium of \$11.5 billion. The tender exercises for three residential sites in Sai Kung, Tsuen Wan and Sheung Shui and one commercial site in Kowloon Bay also commenced in September. Meanwhile, seven sites were approved for lease modifications in the third quarter.

Tourism

3.15 Inbound tourism maintained solid performance in the third quarter. Overall *visitor arrivals* recorded a notable growth of 11.1% over a year earlier to 14.5 million. Visitors from the Mainland remained the major growth driver, surging by 15.8% to 11.3 million. In contrast, other markets were generally weak, with visitors from the short-haul and long-haul markets declining by 2.4% and 4.0% respectively⁽³⁾. Analysed by the length of stay, same-day visitors and overnight visitors increased by 12.5% and 9.6% respectively. As a result, the share of same-day visitors rose from 50.8% a year earlier to 51.5%, while that of overnight visitors fell from 49.2% to 48.5%.

3.16 Meanwhile, the average hotel room occupancy rate stood at a high level of 90% in the third quarter. Yet after rising visibly over the past three years, the average achieved hotel room rate reverted to a decline since early 2013, and fell further by 3.8% in the third quarter from a year earlier to \$1,360⁽⁴⁾.

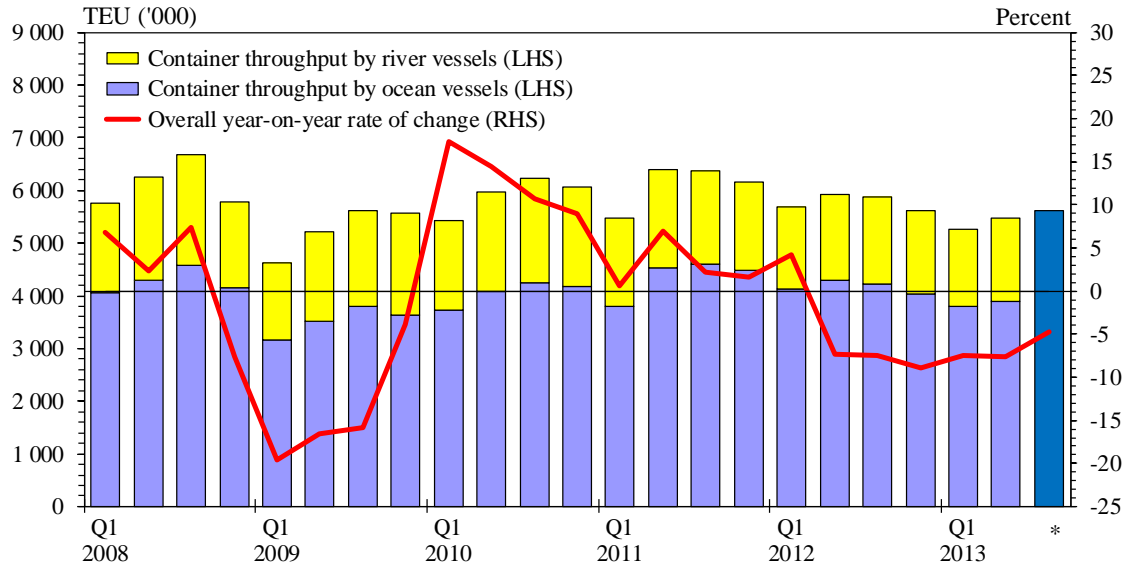
Diagram 3.7 : Inbound tourism maintained solid growth, mainly driven by Mainland visitors



Logistics

3.17 The logistics sector continued to be dented by the lacklustre trade performance amid an unsteady external environment. Total *container throughput* fell further by 4.8% from a year earlier to 5.6 million TEUs in the third quarter. In tandem, the value of trade handled at the Hong Kong Port decreased by 2.2%, and its share in overall trade value shrank from 24.4% a year earlier to 23.2%.

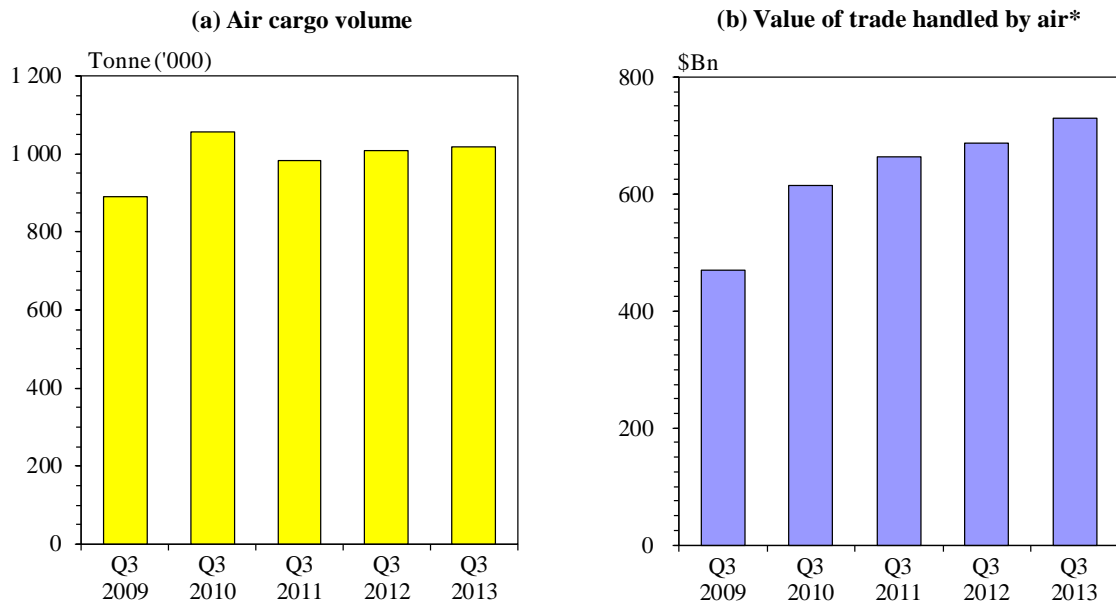
Diagram 3.8 : Container throughput fell further



Note : (*) The container throughput figure for the latest quarter is the preliminary estimate by the Hong Kong Port Development Council, for which a breakdown by ocean and river vessels is not yet available.

3.18 By comparison, *air freight throughput* fared better, recording a modest gain of 1.2% over a year earlier to 1.02 million tonnes in the third quarter. Meanwhile, the total value of trade by air increased by 8.2%, and its share in overall trade value rose from 35.8% a year earlier to 37.6%.

Diagram 3.9 : Air cargo throughput and value of trade handled by air registered modest growth



Note : (*) Not including transshipment.

Transport

3.19 Traffic flows for most major modes of transport grew further in the third quarter. Air passenger traffic rose by a notable 8.4% over a year earlier to 15.8 million, partly underpinned by the surge in visitor arrivals. Meanwhile, water-borne passenger traffic increased by 1.7% to 7.3 million and land-based cross-boundary passenger trips by 1.2% to a daily average of 576 000. After five consecutive quarters of decline, average daily movement of cross-boundary land-based vehicles edged up by 0.3% to 43 700.

Environment

3.20 In September the Council for Sustainable Development launched a four-month public engagement process on municipal solid waste charging. This process aims to encourage stakeholders and the public to participate in the development of feasible mechanisms to implement municipal solid waste charging, including the charging mechanism, the coverage, the charging level and waste recycling, and to consider the difficulties involved, with a view to reducing community waste at source and promoting the sustainable development of Hong Kong.

Creativity and Innovation

3.21 In September the Government launched a public consultation on the proposed 2014 Digital 21 Strategy. The Strategy is the blueprint for Hong Kong's overall development in information and communications technology (ICT). It was first promulgated in 1998 and was updated thrice in 2001, 2004 and 2008. Entitled "Smarter Hong Kong, Smarter Living", the new Strategy sets out the framework for Hong Kong to leverage on new technologies to propel continuous economic and social development on various fronts. The Strategy contains an array of initiatives under four strategic thrusts *viz.* empowering everyone, igniting business innovation, supporting a thriving ICT industry, and transforming and integrating public services. The public views received during the consultation exercise would enable the Government to refine the Strategy and shape the way forward.

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, 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.
- (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 third quarter of 2013, visitor arrivals from the Mainland, short-haul and long-haul markets accounted for respective shares of 78%, 15% and 7% of total visitors.
- (4) The figures on hotel room occupancy and achieved room rate do not include tourist guesthouses.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The low interest rate environment in Hong Kong continued in the third quarter of 2013 amid the ongoing accommodative monetary policy in the United States.*
- *The Hong Kong dollar exchange rate remained stable against the US dollar during the quarter. The trade-weighted Hong Kong dollar Nominal Effective Exchange Rate Index edged up alongside the US dollar.*
- *Total loans and advances grew further in the third quarter. Within the total, both loans for use in Hong Kong and loans for use outside Hong Kong continued to expand.*
- *The local stock market staged a notable rebound in the third quarter. Market sentiment gradually improved, driven first by the revival in the Mainland's economic growth and then by the US Federal Reserve's decision not to taper asset purchases in mid-September. The Hang Seng Index rose by 9.9% over end-June to 22 860 at end-September. Yet trading activities quietened further while fund raising activities remained subdued.*

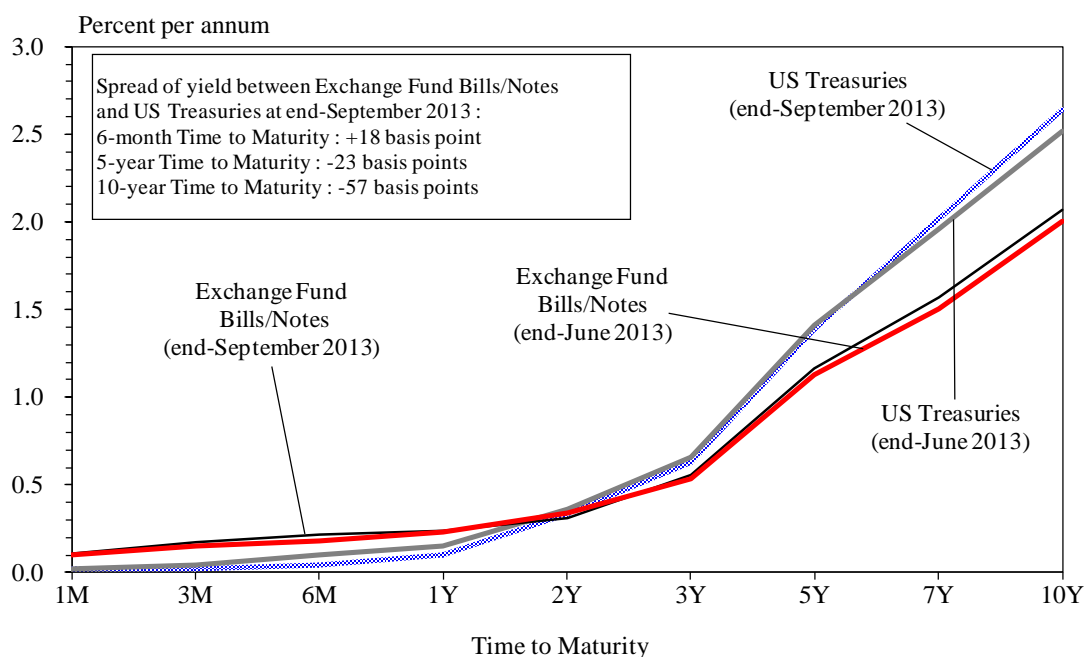
(#) *This chapter is jointly prepared by the Hong Kong Monetary Authority (HKMA) and the Economic Analysis Division.*

Interest rates and exchange rates

4.1 The low interest rate environment in Hong Kong continued in the third quarter of 2013 amid the ongoing accommodative monetary policy in the United States. With the Federal Funds Target Rate unchanged at 0-0.25%, the *Base Rate* under the Discount Window operated by the HKMA stayed at 0.5%⁽¹⁾. The *Hong Kong dollar interbank interest rates* continued to hover at low levels. The overnight and the three-month HIBOR both edged up by one basis point from end-June to 0.10% and 0.39% respectively at end-September.

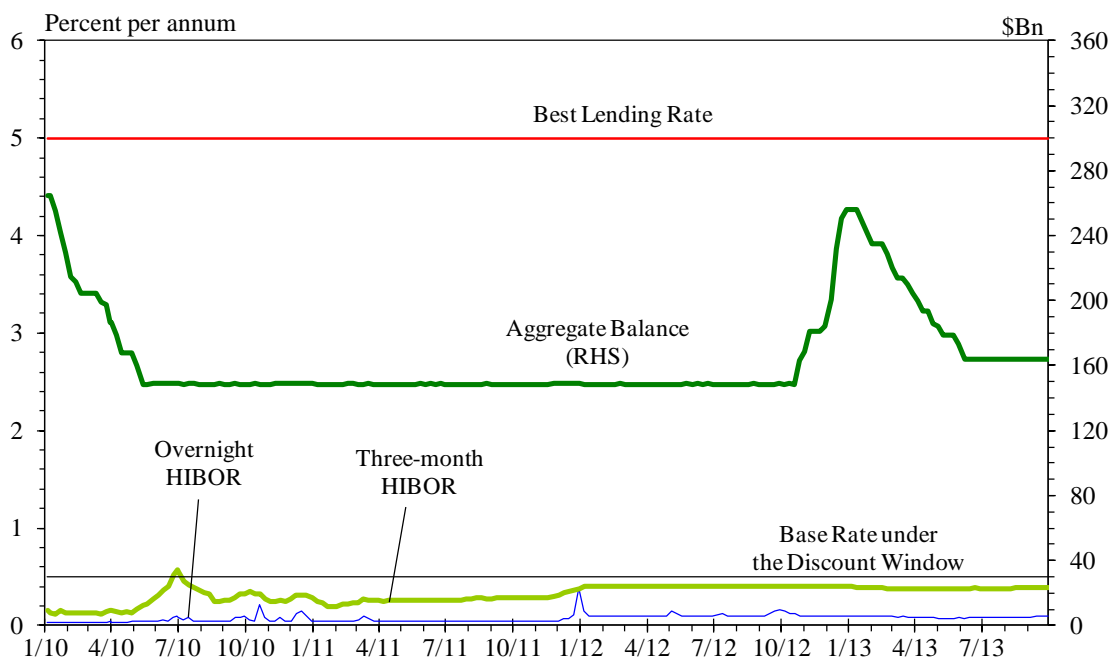
4.2 The *US dollar yields* and *Hong Kong dollar yields* shifted up in July and August amid market expectation that the US Federal Reserve would taper its asset purchases soon, but retreated in September when the expectation was eventually not realised. As a result, both US dollar yields and Hong Kong dollar yields showed little change between end-June and end-September. The negative yield spread between the 10-year Exchange Fund Notes and the 10-year US Treasury Notes widened slightly from 52 basis points at end-June to 57 basis points at end-September, while the positive yield spread between 6-month Exchange Fund Notes and 6-month US Treasury Bills widened from eight basis points to 18 basis points.

Diagram 4.1 : The US dollar and Hong Kong dollar yield curves showed little change in the third quarter



4.3 Interest rates at the retail level remained low. The *Best Lending Rates* stayed unchanged at 5.00% or 5.25% through the third quarter. The *average savings deposit rate* and the *one-year time deposit rate* quoted by the major banks for deposits of less than \$100,000 remained at low levels of 0.01% and 0.16% respectively. The *composite interest rate*⁽²⁾, which indicates the average cost of funds for retail banks, also stayed unchanged at 0.32%.

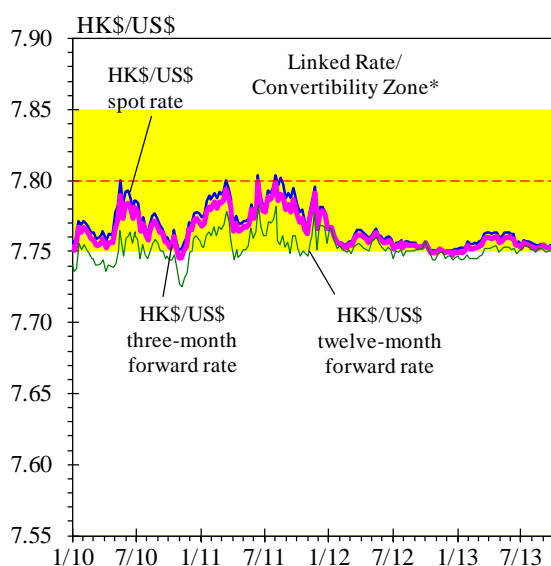
**Diagram 4.2 : Hong Kong dollar interest rates remained low
(end for the week)**



4.4 The *Hong Kong dollar spot exchange rate* remained generally stable against the US dollar in the third quarter, moving within a narrow range of 7.753 to 7.758. It was traded at 7.754 at end-September, not much different from the 7.757 at end-June. Meanwhile, the discounts of the *3-month* and *12-month Hong Kong dollar forward rates* to the spot rate narrowed further from 27 and 70 pips (each pip equivalent to HK\$0.0001) to 16 and 40 pips respectively.

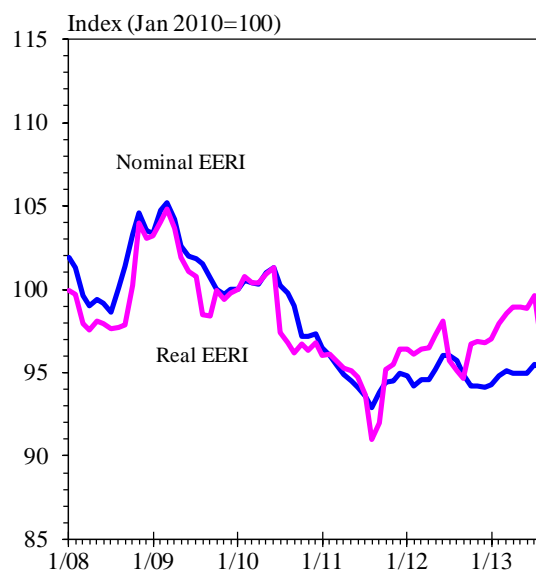
4.5 Under the Linked Exchange Rate system, movements in the Hong Kong dollar exchange rate against other currencies closely followed those of the US dollar. As the US dollar strengthened against most Asian currencies but weakened against the euro, British sterling and Japanese yen, the *trade-weighted Nominal Exchange Rate Index*⁽³⁾ for the Hong Kong dollar only edged up by 0.2% during the third quarter. Yet the *Real Effective Exchange Rate Index* declined by 1.9%, due to the decline in headline Composite Consumer Price Index resulting from the Government's one-off relief measures.

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



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

Diagram 4.4 : Trade-weighted nominal EERI edged up while real EERI declined (average for the month)



Money supply and banking sector

4.6 The monetary aggregates continued to expand in the third quarter of 2013. The seasonally adjusted Hong Kong dollar narrow *money supply* (HK\$M1) edged up by 0.2% over end-June to \$984 billion at end-September, while the broad money supply (HK\$M3) increased by 4.6% to \$4,761 billion⁽⁴⁾. *Total deposits* with authorised institutions (AIs)⁽⁵⁾ rose by 5.0% to \$8,906 billion, within which Hong Kong dollar deposits and foreign currency deposits expanded by 4.5% and 5.5% respectively.

Diagram 4.5 : The monetary aggregates continued to expand in the third quarter

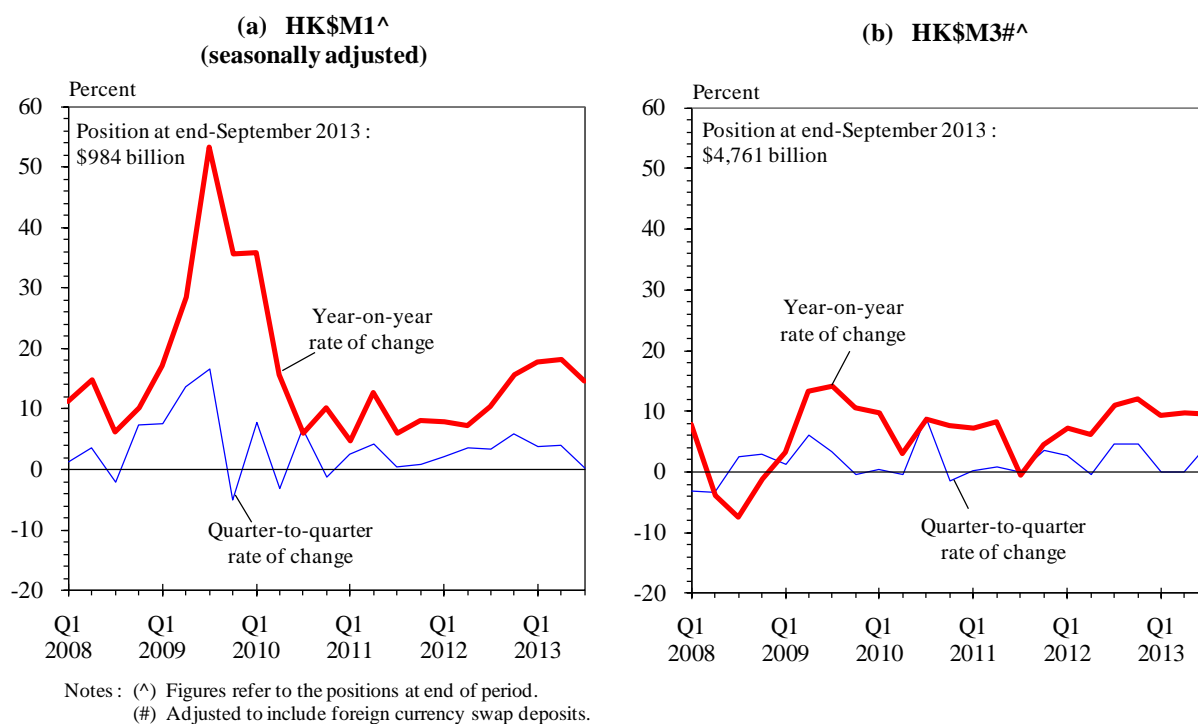


Table 4.1 : Hong Kong dollar money supply and total money supply

% change during the quarter		<u>M1</u>		<u>M2</u>		<u>M3</u>	
		<u>HK\$[^]</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>	<u>HK\$^(a)</u>	<u>Total</u>
2012	Q1	2.1	4.6	2.8	2.5	2.7	2.4
	Q2	3.6	3.2	-0.3	0.7	-0.3	0.7
	Q3	3.4	6.4	4.6	3.2	4.6	3.2
	Q4	5.8	6.4	4.6	4.3	4.7	4.3
2013	Q1	3.8	1.0	0.1	1.1	0.1	1.1
	Q2	4.1	2.7	0.0	1.9	0.1	1.9
	Q3	0.2	3.9	4.6	5.5	4.6	5.5
Total amount at end-September 2013 (\$Bn)		984	1,484	4,751	9,726	4,761	9,750
% change over a year earlier		14.5	14.6	9.6	13.3	9.6	13.4

Notes : (^) Seasonally adjusted.

(a) Adjusted to include foreign currency swap deposits.

4.7 Total loans and advances rose by another 5.0% over end-June to \$6,399 billion at end-September. Among the total, Hong Kong dollar loans increased by 3.0% to \$3,596 billion, while foreign currency loans jumped by 7.6% to \$2,804 billion. Reflecting the relative movements in loans and deposits, the Hong Kong dollar loan-to-deposit ratio retreated from 83.7% to

82.6%, while the foreign currency loan-to-deposit ratio climbed further from 60.4% to 61.6%, the highest since mid-2000.

4.8 Loans for use in Hong Kong expanded by a moderate 3.6% over end-June to \$4,543 billion at end-September, while loans for use outside Hong Kong leapt by 8.5% to \$1,856 billion. Within the former, loans to most economic sectors recorded increases. Loans to stockbrokers surged by 125.7% along with the increase in fund raising activities in late September. Trade financing and loans to wholesale and retail trade registered decent though decelerated growth of 7.8% and 5.5% respectively. Meanwhile, loans for purchase of residential property only edged up by 0.5% amid the quiet property market.

Table 4.2 : Loans and advances

All loans and advances for use in Hong Kong											
		Loans to :							All loans and advances for use outside Hong Kong ^(c)		Total loans and advances
% change during the quarter		Trade finance	Manu- facturing	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	Total ^(b)	Hong Kong ^(c)	advances
2012	Q1	7.3	-0.1	2.9	-1.5	0.1	3.1	-14.6	1.4	4.5	2.3
	Q2	5.0	-2.8	3.0	-0.9	2.3	-3.4	-1.4	1.6	4.4	2.3
	Q3	5.6	-1.7	4.4	1.9	2.0	-2.5	-16.1	1.6	2.6	1.9
	Q4	-8.2	-0.3	2.0	1.7	2.9	6.5	36.7	2.4	3.6	2.8
2013	Q1	19.3	2.6	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	6.8	5.5	4.3	0.5	3.9	125.7	3.6	8.5	5.0
Total amount at end-September 2013 (\$Bn)		609	216	411	1,001	947	303	66	4,543	1,856	6,399
% change over a year earlier		46.2	19.5	18.5	9.7	6.5	18.0	356.5	16.9	21.2	18.1

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.

4.9 The Hong Kong banking sector remains resilient, with the capital positions of the Hong Kong incorporated AIs staying strong. The capital adequacy ratio of these AIs stayed high at an average of 15.9% at end-June 2013. As all AIs are well capitalised, so far they have had no difficulties in complying with the statutory minimum ratios required by the HKMA under the Basel III framework⁽⁶⁾.

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 since 1 January 2013, and targets to have the standards fully phased in on 1 January 2019. The HKMA is currently preparing for the introduction of the Basel III capital buffers in Hong Kong, particularly in relation to operationalising the countercyclical capital buffer. To this end, the HKMA is assessing appropriate indicators which, in addition to the Basel Committee's baseline credit-to-GDP ratio gap, may serve as a signal for excessive credit growth with potential undesirable systemic implications (the condition for triggering buffer build-up) or for an impending downturn of the credit cycle (the condition for triggering buffer release).

4.11 On liquidity standards, in July the HKMA launched the industry consultation on the revised proposals for the local implementation of the Liquidity Coverage Ratio (LCR). The HKMA plans to finalise its policy proposals for LCR implementation within this year, and to complete the rule-making and legislative processes in 2014 for implementation of a set of Banking (Liquidity) Rules from 1 January 2015.

4.12 The HKMA continued 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. As the Basel III capital standards have taken effect in Hong Kong since 1 January 2013, the scope of the local IMP is confined to monitoring implementation of the liquidity standards. Based on the local IMP results, AIs in Hong Kong are generally not expected to encounter major difficulties in complying with the liquidity standards, though some AIs may need to adjust their liquidity profiles or liquid asset composition to satisfy the requirements.

4.13 Asset quality of the local banking sector remained sound. The ratio of classified loans to total loans edged down from 0.46% at end-March to a record low of 0.45% at end-June. While the delinquency ratio for credit card lending edged up from 0.23% to 0.25%, it was still low by historical standards. The delinquency ratio for residential mortgage loans stayed unchanged at a very low level of 0.02% at end-September.

Table 4.3 : Asset quality of retail banks*
(as % of total loans)

<u>As at end of period</u>		<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans (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	98.44	1.11	0.45

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 renminbi (RMB) business showed a mixed performance in the third quarter of 2013. The outstanding *RMB deposits* and *certificates of deposit* amounted to RMB908 billion at end-September, 5.4% higher than at end-June or 37.3% higher than a year earlier. *RMB trade settlement handled by banks in Hong Kong* also rose, by 6.6% over the preceding quarter or 28.5% over a year earlier to RMB921 billion in the third quarter. Yet RMB financing activities turned quieter, with the *outstanding amount of RMB loans* retreating slightly from RMB110 billion at end-June to RMB107 billion at end-September. *RMB bond issuance (Box 4.1)* also slowed, with RMB7 billion worth of bonds issued in the quarter, lower than the RMB32 billion in the preceding quarter (after netting the bond issuance by the Ministry of Finance).

Box 4.1

Renminbi (RMB) bond market in Hong Kong

Since its introduction in 2004, RMB business in Hong Kong has reached various milestones over the years, one of which was the issuance of RMB bonds in 2007. In January 2007 the People's Bank of China (PBoC) announced that qualified Mainland financial institutions could issue RMB bonds in Hong Kong, and the first batch of RMB bonds was issued subsequently in July. This marked Hong Kong as the first place outside the Mainland that has an RMB bond market.

A series of policy breakthroughs and supportive measures announced in 2011 have helped the development of RMB bond market in Hong Kong. These included the expansion of class of bond issuers (including financial institutions and enterprises in the Mainland), and the promulgation of the administrative rules under which enterprises are allowed to finance foreign direct investments in the Mainland by RMB raised in Hong Kong.

Separately, in June 2013 the Ministry of Finance announced to issue two batches of RMB sovereign bonds in Hong Kong this year, to regularise the issuance programme. This demonstrates the Central Government's determination to make the issuance of RMB sovereign bonds in Hong Kong a long-term and institutional arrangement.

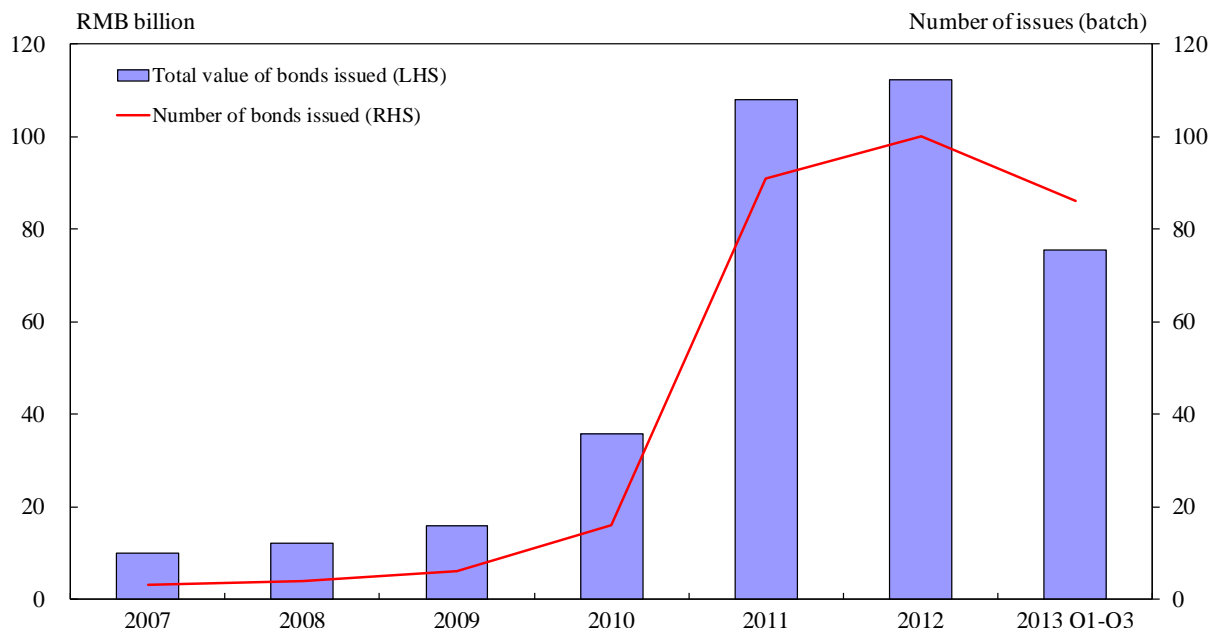
Important milestones in the development of RMB bond market in Hong Kong

January 2007	The PBoC announced that qualified Mainland financial institutions can issue RMB bonds in Hong Kong
July 2007	The first issuance of RMB bonds in Hong Kong
September 2009	The first issuance of RMB sovereign bonds in Hong Kong by the Ministry of Finance
July 2010	The first issuance of RMB bonds by a Hong Kong enterprise
September 2010	The first issuance of RMB bonds by a foreign enterprise
August 2011	Then Vice Premier Li Keqiang announced, among others, the expansion of class of issuers (i.e. financial institutions and enterprises in the Mainland)
October 2011	The PBoC and the Ministry of Commerce promulgated the administrative rules under which enterprises are allowed to finance foreign direct investments in the Mainland by RMB raised in Hong Kong
December 2011	The first issuance of RMB bonds by a Mainland enterprise
May 2012	The National Development and Reform Commission issued the Circular on Matters Relating to the Issuance of RMB bonds in the Hong Kong Special Administrative Region by Domestic Non-financial Institutions
June 2013	The Ministry of Finance announced to issue two batches of RMB sovereign bonds in 2013

As a result, the amount of RMB bond issuance has soared since 2011. From 2011 to the third quarter of 2013, there were a total of 277 RMB bonds issued in Hong Kong, raising a total of RMB295 billion. This is equivalent to an average of RMB26.9 billion per quarter, around five times the average of RMB5.3 billion per quarter from the third quarter of 2007 (when RMB bonds were first issued in Hong Kong) to 2010 (*Chart 1*).

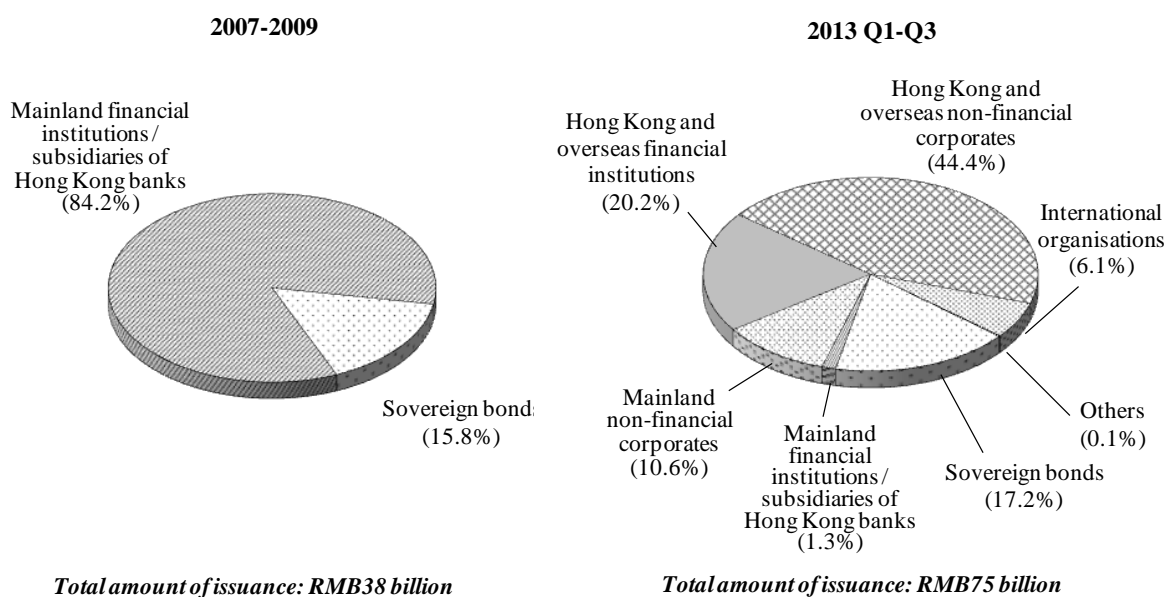
Box 4.1 (Cont'd)

**Chart 1 : Issuance of RMB bonds in Hong Kong
(2007 - 2013 Q3)**



The class of RMB bond issuers also became more diverse over time. In 2007 and 2008, all RMB bonds were issued by Mainland financial institutions. In September 2009, RMB sovereign bonds were first issued by the Ministry of Finance in Hong Kong. Subsequently, various types of issuers, including Hong Kong enterprises, foreign enterprises and international financial institutions also issued RMB bonds. In the first three quarters of 2013, the majority of RMB bonds were issued by Hong Kong and overseas enterprises from a wide mix of economies (e.g. Europe, the United States, Australia, India and Brazil) (*Chart 2*).

Chart 2 : Amount of RMB bond issuance in Hong Kong by different types of issuers



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

4.15 The HKMA introduced two enhancements in the provision of RMB liquidity to AIs participating in RMB business in Hong Kong on 26 July 2013. On top of the original one-week RMB funds that are provided on the next day basis, the HKMA will also provide one-day funds on the next day basis and overnight funds on the same day basis to help banks meet their liquidity needs. These enhancements will help strengthen liquidity management of these AIs and support further development of Hong Kong as the hub for offshore RMB business.

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

<u>As at end of period</u>		Demand and savings <u>deposits</u> (RMB Mn)	Time <u>deposits</u> (RMB Mn)	Total <u>deposits</u> (RMB Mn)	<u>Interest rates on</u> ^(a)		Number of AIs engaged in RMB <u>business</u>	Amount of cross-border RMB <u>trade settlement</u> ^(c) (RMB Mn)
					Savings <u>deposits</u> ^(b) (%)	Three-month <u>time deposits</u> ^(b) (%)		
2012	Q1	156,788	397,528	554,317	0.25	0.52	135	571,176
	Q2	136,616	421,094	557,710	0.25	0.52	133	641,907
	Q3	118,997	426,703	545,701	0.25	0.52	136	716,946
	Q4	123,542	479,453	602,996	0.25	0.52	139	702,474
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
% change in 2013 Q3 over 2012 Q3		13.6	39.4	33.8	N.A.	N.A.	N.A.	33.2
% change in 2013 Q3 over 2013 Q2		6.0	4.3	4.6	N.A.	N.A.	N.A.	3.3

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

4.16 The Hong Kong dollar debt market continued to expand, albeit only marginally. While total gross issuance of Hong Kong dollar debts edged down by 1.9% from the preceding quarter to \$593.2 billion in the third quarter of 2013, it was still 11.6% higher than a year earlier. Among the total, public sector debt issuance decreased by 2.8% from the preceding quarter to \$540.1 billion, with the issuance of Exchange Fund papers, new debts issued by the Government and those issued by statutory bodies/government-owned corporations all registering declines. By contrast, private sector debt⁽⁷⁾ issuance rose by 6.2% to \$52.2 billion, as the jump in new debts issued by AIs and local corporations more than offset the decline in those by non-MDBs overseas borrowers. As at end-September, the total outstanding amount of Hong Kong dollar debt edged up by 0.3% over end-June to a record-high of \$1,408.7 billion. This was equivalent to 29.6% of HK\$M3 or 24.4% of Hong Kong dollar-denominated assets of the entire banking sector⁽⁸⁾.

4.17 As to the Government Bond (“GB”) Programme, a total of \$7.0 billion institutional GBs, with tenors ranging from two to ten years, were issued in the third quarter. In addition, tentative issuance schedule of institutional GBs for the six-month period from September 2013 to February 2014 was announced in July. A total of \$10.5 billion institutional bonds, with tenors ranging from two to ten years, are scheduled for issuances in the period. As at end-September, the outstanding size of bonds issued under the GB Programme amounted to \$87.0 billion, including ten institutional issues for a total of \$57.0 billion, and three retail issues (iBonds) for a total of \$30.0 billion.

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

		Exchange Fund under paper	Statutory bodies/govern ment-owned c orporations	Government	Public sector total	AIs	Local corpor ations	Non-MDBs overseas bor rowers ^(a)	Private sector total	MDBs ^(a)	Total
New Issuance											
2012	Annual	1,851.6	12.0	26.0	1,889.6	190.1	27.7	22.2	240.0	0.8	2,130.4
	Q1	455.6	3.4	5.0	464.0	66.9	10.0	5.4	82.2	0.4	546.6
	Q2	462.3	2.9	14.5	479.7	40.8	4.1	8.3	53.1	0.4	533.2
	Q3	464.6	3.7	3.5	471.9	48.4	8.8	2.7	59.9	-	531.7
	Q4	469.0	2.0	3.0	474.0	34.0	4.8	5.9	44.7	-	518.8
2013	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
	% change in 2013 Q3 over 2012 Q3	14.5	-70.4	100.0	14.5	-10.8	-24.6	-9.9	-12.7	-	11.6
	% change in 2013 Q3 over 2013 Q2	-1.0	-77.8	-46.2	-2.8	9.2	204.8	-67.4	6.2	-	-1.9
Outstanding (as at end of period)											
2012	Q1	655.9	50.6	51.0	757.5	250.7	102.3	157.8	510.8	12.4	1,280.7
	Q2	656.4	46.8	65.5	768.8	245.4	104.8	151.4	501.5	10.6	1,280.9
	Q3	656.8	45.8	65.5	768.1	258.4	112.1	150.7	521.2	10.6	1,299.8
	Q4	657.4	45.2	68.5	771.0	263.4	116.2	147.7	527.3	10.3	1,308.6
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
	% change in 2013 Q3 over 2012 Q3	14.3	-12.4	35.1	14.5	-4.0	9.7	-1.7	-0.4	-2.1	8.4
	% change in 2013 Q3 over 2013 Q2	0.1	-7.1	4.1	0.1	-1.1	5.1	-0.5	0.5	5.0	0.3

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

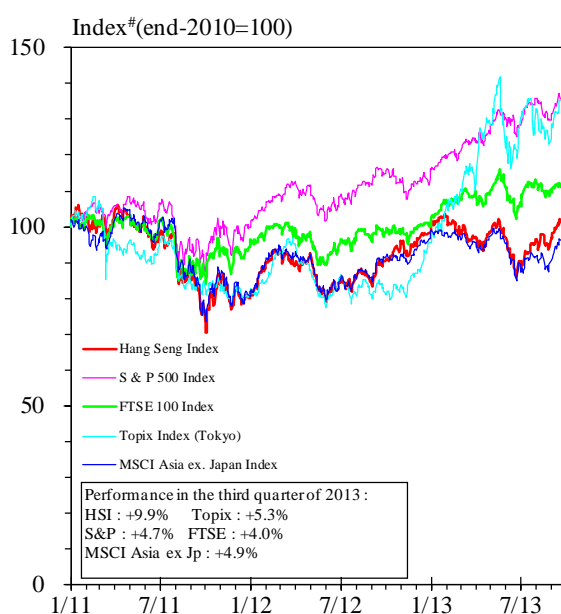
(a) MDBs : Multilateral Development Banks.

The stock and derivatives markets

4.18 The *local stock market* staged a notable rebound in the third quarter of 2013. Market sentiment gradually improved, driven first by the revival in the Mainland's economic growth and then by the US Federal Reserve's decision not to taper asset purchases in mid-September. The Hang Seng Index rose by 9.9% over end-June to 22 860 at end-September, outperforming most major overseas markets. In parallel, the *market capitalisation* of the Hong Kong stock market jumped by 10.2% to \$22.8 trillion. It remained the sixth largest stock exchange in the world and second largest in Asia according to the World Federation of Exchanges⁽⁹⁾.

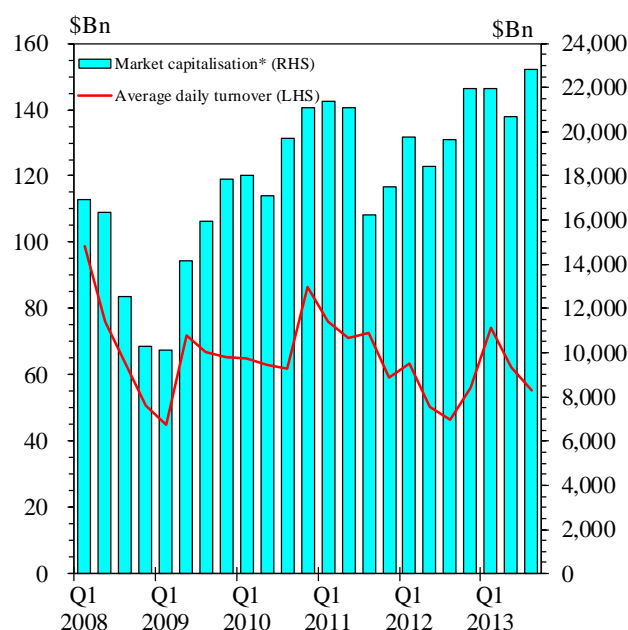
4.19 Yet trading activities quietened further. *Average daily turnover* in the securities market shrank by another 11.4% from the preceding quarter to \$55.2 billion in the third quarter, though rising by 19.1% over the low base a year earlier. Trading of *derivatives products* also turned less active, with the average daily trading volume of futures and options⁽¹⁰⁾ dwindling by 10.7% from the preceding quarter. Within the total, trading of HSI options, stock options and HSI futures plunged by 28.2%, 15.2% and 14.2% respectively, while that of H-shares Index futures edged up by 0.2%. As to securitised derivatives products, average daily trading value dropped by 9.1%, with trading of derivative warrants and callable bull/bear contracts falling by 13.4% and 3.4% respectively.

Diagram 4.6 : The Hang Seng Index rebounded notably in the third quarter



Notes : (#) Position at end of month.

Diagram 4.7 : Trading activities quietened further while market capitalisation expanded in the third quarter



Note : (*) Position at end of quarter.

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

		Hang Seng Index <u>fu</u> <u>es</u>	Hang Seng Index <u>optio</u> <u>ns</u>	H-shares Index <u>fu</u> <u>es</u>	Stock <u>options</u>	Total futures and options <u>tra</u> <u>ded</u> *	Derivative warrants (\$Mn)	Callable bull/bear contracts (<u>\$Mn</u>)	Total securitised derivatives traded (<u>\$Mn</u>) [^]
2012	Annual	82 905	37 597	64 863	228 438	487 994	6,666	6,207	12,873
	Q1	84 278	35 475	63 286	238 445	493 555	8,621	7,612	16,234
	Q2	88 614	43 634	65 131	225 266	501 374	6,274	6,317	12,590
	Q3	77 549	36 050	60 055	211 479	454 782	5,558	5,748	11,307
	Q4	81 372	35 255	71 281	239 438	503 888	6,264	5,174	11,438
2013	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
% change in 2013 Q3 over 2012 Q3		0.8	-13.7	46.3	2.7	10.7	11.4	-8.7	1.2
% change in 2013 Q3 over 2013 Q2		-14.2	-28.2	0.2	-15.2	-10.7	-13.4	-3.4	-9.1

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 Fund raising activities remained subdued. *Total equity capital raised*, comprising new share floatations and post-listing arrangements on the Main Board and the Growth Enterprise Market (GEM)⁽¹¹⁾ slumped by 26.2% from the preceding quarter or 19.9% from a year earlier to \$54.0 billion in the third quarter, the lowest level since early 2009 when the market was hard hit by the Global Financial Tsunami. Within the total, the amount of funds raised through Initial Public Offerings plummeted by 35.9% from the preceding quarter, though leaping by 46.3% over the low base a year earlier.

4.21 Mainland enterprises continued to play a dominant role in the local stock market. At end-September, a total of 753 Mainland enterprises (including 176 H-share companies, 122 “Red Chips” companies and 455 private enterprises) were listed on the Main Board and GEM, accounting for 48% of the total number of listed companies and 56% of total market capitalisation. Mainland-related stocks also accounted for 72% of equity turnover and 75% of total equity fund raised in the Hong Kong stock exchange in the third quarter.

4.22 The Securities and Futures (Amendment) Bill 2013, which provides for a regulatory framework for the over-the-counter (OTC) derivative market in Hong Kong and incorporates technical improvements to the regulation of the financial market, was gazetted in late June and introduced into the Legislative Council in July. Key aspects of the Bill included the introduction of mandatory reporting, clearing and trading obligations in line with the Group of Twenty (G20) commitments as appropriate, provision of the establishment and regulation of the necessary infrastructure through which the mandatory obligations must be fulfilled, and provision of the regulation and oversight of key players in the OTC derivative market. These arrangements would enable Hong Kong to put in place an appropriate and effective regime that meets the requirements of the G20 and is in line with developments in other international financial centres.

Fund management and investment funds

4.23 The fund management industry had a generally solid performance in the third quarter. In line with the rebound in the stock market, aggregate net asset value of the approved constituent funds under the *Mandatory Provident Fund (MPF) schemes*⁽¹²⁾ rose by 8.0% over end-June to \$488 billion at end-September. Gross retail sales of *mutual funds* also increased by 1.7% over a year earlier to US\$16.3 billion in the third quarter, though falling by 19.4% from the high base in the preceding quarter⁽¹³⁾. Yet the amount of net assets managed by *retail hedge funds* continued to decline⁽¹⁴⁾.

Insurance sector

4.24 The *insurance sector*⁽¹⁵⁾ grew further in the second quarter of 2013. Gross premium income from long-term business rose by a solid 24.4% over a year earlier. Within the total, premium income from non-investment linked plans increased by 19.5% while that from investment-linked plans surged by 42.6%. Gross and net premium income from general business also grew, by 11.8% and 12.9% respectively.

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

	General business			Premium for long-term business [^]					Gross premium from long-term business and general business
	Gross premium	Net premium	Underwriting profit	Individual life and annuity (non-linked)	Individual life and annuity (linked)	Other individual business	Non-retirement scheme group business	All long-term business	
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 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
% change in 2013 Q2 over 2012 Q2	11.8	12.9	17.6	19.5	42.6	42.9	22.0	24.4	20.2

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

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

Highlights of policy and market developments

4.25 The Trust Law (Amendment) Ordinance 2013 was enacted in July, and will take effect on 1 December 2013. The Ordinance would facilitate effective administration of trusts through enhancing trustees' powers, whilst providing for appropriate checks and balances to ensure that trustees will exercise the new powers properly. This new institutional framework will help bolster the competitiveness of Hong Kong's trust services industry and attract settlors to set up trusts in Hong Kong, thereby enhancing Hong Kong's status as an international asset management centre. The Government will continue to keep in view pertinent developments abroad and consider further improvement to the trust law regime.

4.26 The Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013 came into operation on 19 July 2013, providing a comparable taxation framework for some common types of Islamic bonds (sukuk) vis-à-vis conventional bonds. This would help establish a platform for the development of Islamic finance, thereby diversifying the types of products and services available in the bond market and strengthening Hong Kong's status as an asset management and international financial centre.

4.27 In August the Hong Kong Special Administrative Region Government and the Central People's Government signed Supplement X to Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The supplement includes 73 services liberalisation and trade and investment facilitation measures that further relax market access conditions in sectors already partly liberalised under CEPA and previous supplements, including the banking and securities sectors. On financial co-operation, the Mainland also agreed to study mutual recognition of fund products between the Mainland and Hong Kong, and to support qualified Hong Kong insurers to participate in compulsory traffic accident liability insurance business on the Mainland. These measures would facilitate Hong Kong's financial services sector to develop the Mainland market, and further promote financial and economic co-operation between the two places.

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-September 2013, there were 156 licensed banks, 21 restricted licence banks and 24 deposit-taking companies in Hong Kong. Altogether, 201 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% 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 to promote short term liquidity resilience and the Net Stable Funding Ratio to encourage more stable funding structures.

- (7) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (8) Assets of the banking sector include notes and coins, amount due from AIs in Hong Kong as well as from banks abroad, loans and advances to customers, 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.
- (9) The ranking is made by the World Federation of Exchanges, a global trade association for the securities exchange industry. Its membership comprises 62 securities exchanges, covering almost all globally recognised stock exchanges.
- (10) At end-September 2013, there were 70 classes of stock options contracts and 41 classes of stock futures contracts.
- (11) At end-September 2013, there were 1 399 and 186 companies listed on the Main Board and GEM respectively.
- (12) At end-September 2013, there were 19 approved trustees. On MPF products, 38 master trust schemes, two industry schemes and one employer sponsored scheme, comprising altogether 471 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 263 000 employers, 2.44 million employees and 217 000 self-employed persons have participated in MPF schemes.
- (13) These figures are obtained from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorised funds that have responded to the survey. At end-September 2013, the survey covered a total of 1 202 active authorised funds.
- (14) At end-September 2013, there were three SFC-authorised retail hedge funds with combined net asset size of US\$274 million. The amount of net assets under management represented a 3.2% decrease from the end-June 2013 level, though still represented an increase of more than 1.5 times of that at end-2002, the year when the hedge funds guidelines were first issued.
- (15) At end-September 2013, there were 153 authorised insurers in Hong Kong. Within this total, 43 were engaged in long-term insurance business, 91 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

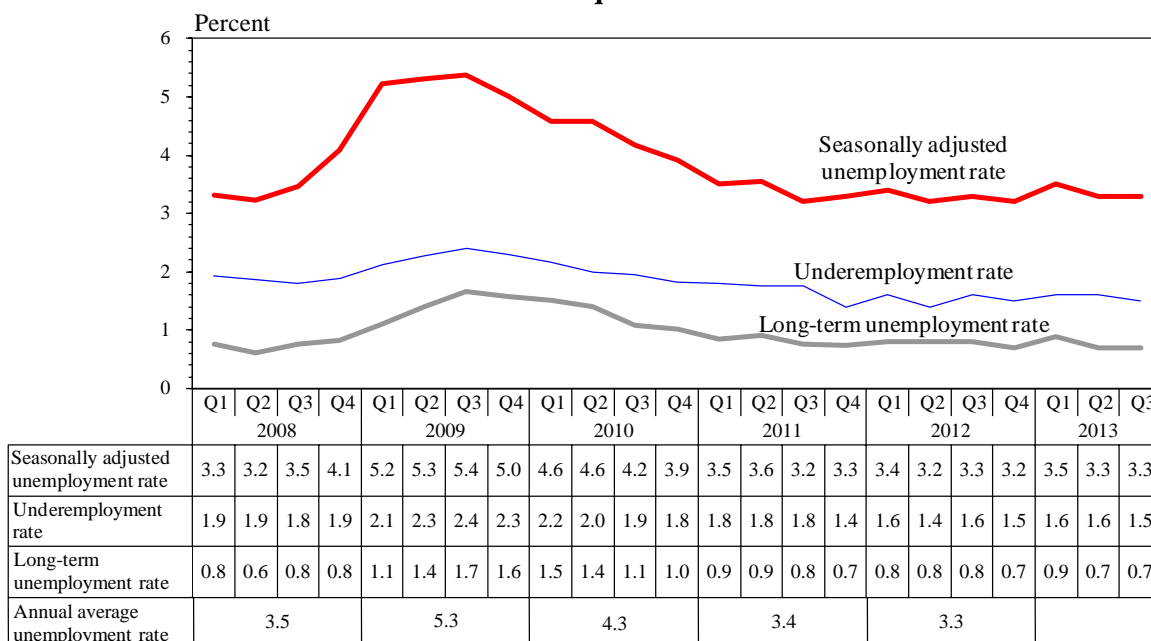
Summary

- *Despite the still moderate growth pace of the overall economy so far in 2013, the labour market stayed tight in the third quarter of 2013, thanks to the staunch labour demand generated by buoyant domestic business activities and inbound tourism.*
- *With job creation continuing apace in many domestically-oriented sectors, total employment expanded further by 5 000 to 3 750 100 in the third quarter. The additional jobs created were able to absorb most of the increase in labour supply, which was driven in part by fresh graduates and school leavers joining the workforce in the summer. Reflecting the vibrancy of the labour market, total employment and the labour force both registered faster year-on-year growth at 2.7% in the third quarter.*
- *Consequently, the overall unemployment situation held broadly stable. After netting out seasonal effects, the seasonally adjusted unemployment rate stayed low at 3.3% in the third quarter, still signifying full employment.*
- *On the back of the prevailing manpower tightness in the lower-skilled segment and the boosting effect from the upward adjustment of the Statutory Minimum Wage (SMW) rate in May 2013, wages and earnings sustained broad-based and solid increases in the second quarter of 2013. More recent indicators painted a similar picture, with grassroots workers enjoying further appreciable earnings growth.*

Overall labour market situation⁽¹⁾

5.1 The labour market continued to display strength in the third quarter of 2013. The vibrant labour demand from a resilient domestic sector and thriving inbound tourism helped absorb over 70% of the increase in labour supply during the quarter, comprising mainly fresh graduates and school leavers entering the labour market in the summer as well as job-seekers lured by generally favourable job and income prospects. After discounting seasonal factors, the seasonally adjusted *unemployment rate*⁽²⁾ held stable at a low level of 3.3% in the third quarter. Meanwhile, the underemployment rate⁽³⁾ edged down by 0.1 percentage point to 1.5%. With the labour market in a state of full employment, wages and earnings rose solidly further across the board, particularly so in the lower-skilled segment which saw a persistently tight manpower situation.

Diagram 5.1 : The labour market remained tight and in a state of full employment in the third quarter of 2013



Total employment and labour force

5.2 Labour demand remained robust in the third quarter of 2013, as manifested by a pick-up in *total employment*⁽⁴⁾ growth to 2.7% year-on-year, representing an addition of 100 000 jobs over the past year to reach 3 750 100. On a quarter-to-quarter basis, the number of employed persons increased by 5 000 or 0.1% (seasonally adjusted) in the third quarter. Of particular note was the distinctive rise in number of full-time employees by 27 200 over the period. This, when viewed in conjunction with the concomitant falls in the numbers of self-employed and part-timers, signalled the generally positive hiring sentiment in the corporate sector on the back of a resilient domestic sector.

5.3 Analysed by economic sector, job gains were more apparent in consumption-related service sectors during the third quarter, such as human health activities (up 8 500), retail (up 7 200), and arts, entertainment and recreation (up 3 900), in tandem with the continuous activity expansion on the domestic front. The construction sector likewise added 3 200 jobs over the quarter, thanks to a sustained high level of infrastructure works and construction activity. Meanwhile, the import/export trade and wholesale sector posted significant job gains of 12 200, yet still failed to recoup the notable decline in employment earlier this year. These more than offset the job losses observed in, among others, food and beverage service activities, professional and business services, and repair, laundry, domestic and other personal service activities (down by 12 000, 10 800 and 7 400 respectively). Data at the occupational level revealed that demand for lower-skilled workers stayed sturdy, with their

employment up by 12 600 during the quarter, led by job gains among clerical support workers, and craft and related workers. These mitigated the job losses of 7 600 in the higher-skilled segment primarily found among professionals. Analysed by age and educational attainment, persons aged 15 – 24 and 50 – 59 as well as those with post-secondary education benefited more from the recent increase in employment opportunities.

5.4 On the supply side, the *labour force*⁽⁵⁾ expanded by 2.7% year-on-year to 3 884 300 in the third quarter of 2013. This likewise represented an increase of 7 100 from the previous quarter, which was largely attributable to the seasonal influx of fresh graduates and school leavers and the entry of older male workers into the labour market, as evidenced by the rises in the labour force participation rates of young people aged 15 – 24 and male aged 50 and above by 2.0 and 0.4 percentage points to 40.4% and 55.6% respectively. On the other hand, the labour force participation rate of middle-aged workers (i.e. persons aged 30 – 49) fell back somewhat over the quarter, but was still higher than a year earlier. On a seasonally adjusted quarter-to-quarter comparison, the labour force grew mildly further by 0.2% in the third quarter.

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

		<u>Labour force</u>	<u>Persons employed</u>	<u>Persons unemployed</u> ^(a)	<u>Persons underempl oyed</u>
2012	Annual	3 785 200 (2.2)	3 660 700 (2.4)	124 500	57 600
	Q1	3 762 800 (2.9)	3 639 700 (3.0)	123 100	58 600
	Q2	3 784 400 (2.2)	3 658 000 (2.6)	126 500	54 400
	Q3	3 781 800 (1.5)	3 650 100 (1.4)	131 700	59 200
	Q4	3 794 900 (1.7)	3 678 100 (1.7)	116 800	55 900
2013	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
Three months ending					
2013	Jul	3 883 500 (2.3)	3 749 500 (2.3)	134 000	58 800
	Aug	3 887 100 (2.5)	3 751 200 (2.4)	135 800	58 400
	Sep	3 884 300 (2.7)	3 750 100 (2.7)	134 200	57 000
		<0.2>	<0.1>		

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

() % change over a year earlier.

< > Seasonally adjusted quarter-to-quarter % change for the third quarter of 2013.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.2 : Both employment and labour force witnessed faster year-on-year growth in the third quarter of 2013

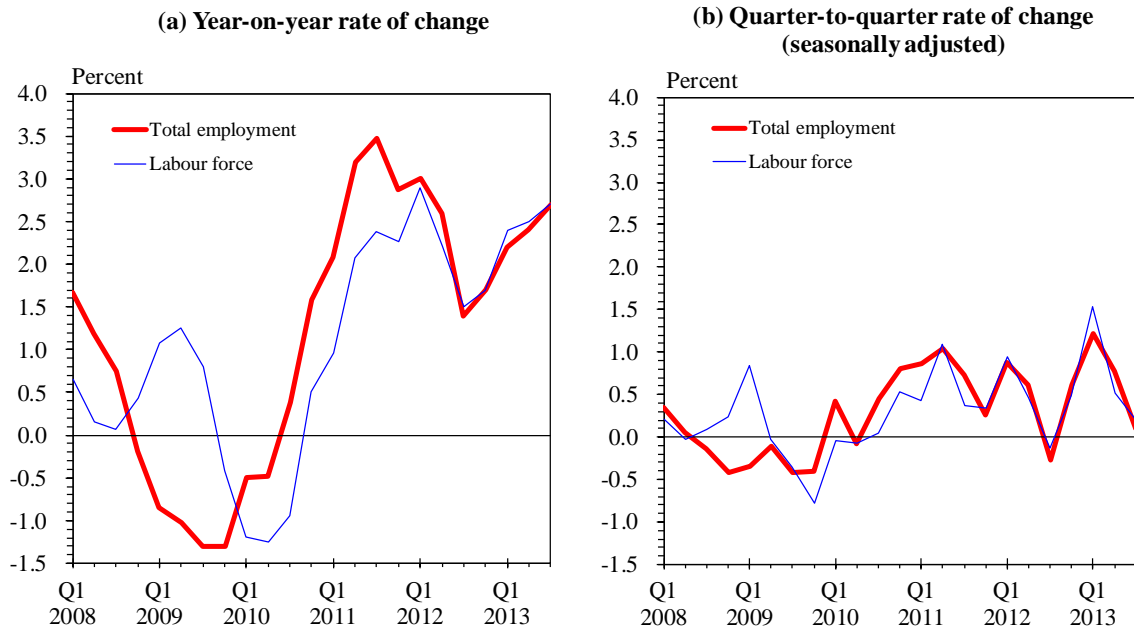
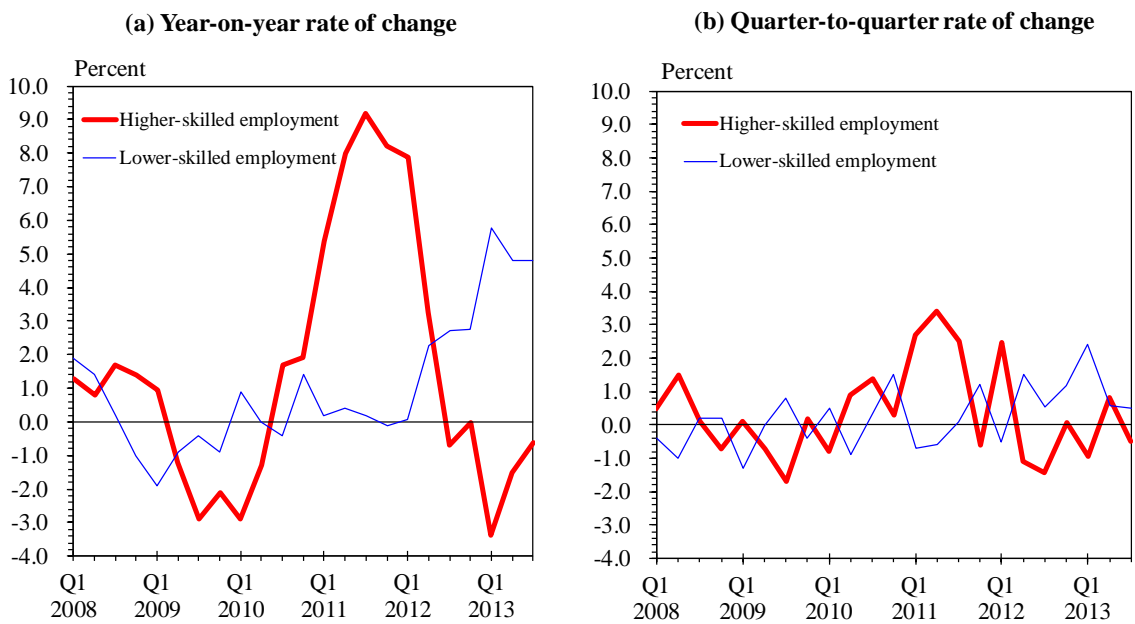


Diagram 5.3 : Job gains were mainly found in the lower-skilled segment, while higher-skilled employment remained sluggish



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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013 Q1</u>	<u>2013 Q2</u>	<u>2013 Q3</u>
<u>Male</u>								
15-24	38.7	38.1	35.4	35.7	36.4	37.4	37.4	39.5
<i>of which:</i>								
15-19	13.0	12.5	10.2	9.9	10.5	10.6	10.9	12.5
20-24	65.5	64.1	60.6	61.1	61.1	63.1	62.0	64.7
25-29	94.2	94.7	94.0	93.9	94.5	94.3	93.7	93.9
30-39	96.6	96.4	96.5	96.5	96.8	96.1	97.1	97.3
40-49	95.2	95.1	95.0	95.1	95.3	95.6	96.3	95.3
50-59	83.9	84.3	84.4	84.9	85.1	86.8	86.9	87.7
≥ 60	19.9	21.3	22.0	23.4	25.6	26.0	27.3	27.5
Overall	69.7	69.4	68.5	68.4	68.7	69.0	69.5	69.8
<u>Female</u>								
15-24	42.4	40.3	36.7	37.0	37.5	39.3	39.5	41.3
<i>of which:</i>								
15-19	12.4	11.3	9.2	9.1	9.7	10.5	11.7	12.8
20-24	69.3	66.0	61.4	62.1	62.0	64.6	63.5	65.8
25-29	87.4	87.0	86.6	87.5	87.2	88.1	85.2	85.7
30-39	77.0	77.3	75.6	76.8	77.5	79.2	79.1	78.0
40-49	66.6	68.8	68.2	69.9	70.8	72.7	72.7	72.2
50-59	48.6	48.9	49.0	51.6	53.8	54.8	57.1	56.7
≥ 60	5.6	6.6	6.8	8.1	8.8	9.4	9.7	9.7
Overall	53.1	53.2	51.9	53.0	53.6	54.6	54.7	54.5
<u>Both genders combined</u>								
15-24	40.6	39.2	36.0	36.4	37.0	38.4	38.4	40.4
<i>of which:</i>								
15-19	12.7	11.9	9.7	9.5	10.1	10.5	11.3	12.6
20-24	67.5	65.1	61.0	61.6	61.6	63.8	62.8	65.3
25-29	90.4	90.3	89.8	90.2	90.3	90.7	88.8	89.2
30-39	85.2	85.3	84.3	84.9	85.4	86.0	86.4	85.8
40-49	79.8	80.8	80.2	81.0	81.4	82.6	82.8	82.1
50-59	66.1	66.5	66.5	68.0	69.2	70.4	71.6	71.7
≥ 60	12.5	13.7	14.1	15.5	16.9	17.4	18.1	18.2
Overall	60.9	60.8	59.6	60.1	60.5	61.2	61.5	61.5

Source : General Household Survey, Census and Statistics Department.

Profile of unemployment

5.5 With the growth in labour demand broadly matching that of the labour supply, the number of unemployed persons rose marginally by 2 000 over the preceding quarter to 134 200 in the third quarter of 2013. Yet this was largely owing to the seasonal increase in younger first-time job-seekers during the summer period. After discounting for seasonal factors, the seasonally adjusted unemployment rate remained unchanged at a low level of 3.3%, still signifying full employment.

5.6 A detailed sectoral breakdown revealed that more noticeable declines in unemployment rates (not seasonally adjusted) were observed in construction, cleaning and similar activities, retail, and accommodation services (down by 1.9, 1.0, 0.7 and 0.7 percentage points respectively) in the third quarter. The latest unemployment rate of the construction sector, at 3.7%, was the lowest since early 1998. On the other hand, there were modest rebounds in the numbers unemployed in arts, entertainment and recreation, insurance, wholesale, and education, thereby pushing the corresponding unemployment rates up by 1.6, 1.5, 1.1 and 1.0 percentage points. For the *low paying sectors*⁽⁶⁾ as a whole, the unemployment rate edged down by 0.1 percentage point to 3.1%, slightly lower than the corresponding rates before the implementation of SMW in May 2011 and the recent upward adjustment in May 2013, reflecting the tight manpower conditions among these industries.

5.7 Analysed by occupation, the unemployment rates for higher-skilled and lower-skilled workers fell by 0.1 and 0.3 percentage point to 1.8% and 3.4% respectively in the third quarter, with particularly visible declines seen among craft and related workers and, to a lesser extent, among elementary occupations, and managers and administrators.

5.8 In terms of other socio-economic attributes, the unemployment situation improved broadly across different age and educational attainment cohorts. While the unemployment rate for persons aged 20 – 29 increased somewhat in the third quarter, this was conceivably the result of seasonal upsurge in young job-seekers entering the job market. Apart from it, the unemployment rates of other age groups generally went down. In a similar vein, only persons with upper secondary and above education registered increases in unemployment rate.

Table 5.3 : Unemployment rate by major economic sector

	<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>
Import/export trade and wholesale	2.5	3.2	2.8	2.8	3.2	3.4	3.1
Retail	4.2	4.2	4.6	3.7	4.4	4.9	4.2
Accommodation and food services	4.5	5.4	4.7	4.1	5.0	5.2	5.3
Transportation, storage, postal and courier services	3.3	2.3	2.6	2.7	3.0	2.4	2.2
Information and communications	3.0	3.2	2.2	2.8	2.8	2.6	3.2
Financing and insurance	2.4	2.4	2.2	2.4	2.7	2.4	2.7
Real estate	2.5	1.9	2.3	2.3	2.3	1.9	2.5
Professional and business services	2.7	3.1	3.1	2.8	2.5	2.6	2.4
Public administration, social and personal services	1.4	1.3	1.5	1.4	1.8	1.3	1.6
Manufacturing	4.4	4.0	4.2	3.5	3.4	3.2	2.9
Construction	6.1	4.8	3.8	4.9	6.0	5.6	3.7
Overall	3.3 (3.4)	3.3 (3.2)	3.5 (3.3)	3.1 (3.2)	3.4 (3.5)	3.4 (3.3)	3.5 (3.3)

Note : () Seasonally adjusted unemployment figures.

Source : General Household Survey, Census and Statistics Department.

Diagram 5.4 : The unemployment rates for both higher-skilled and lower-skilled workers went down in the third quarter of 2013

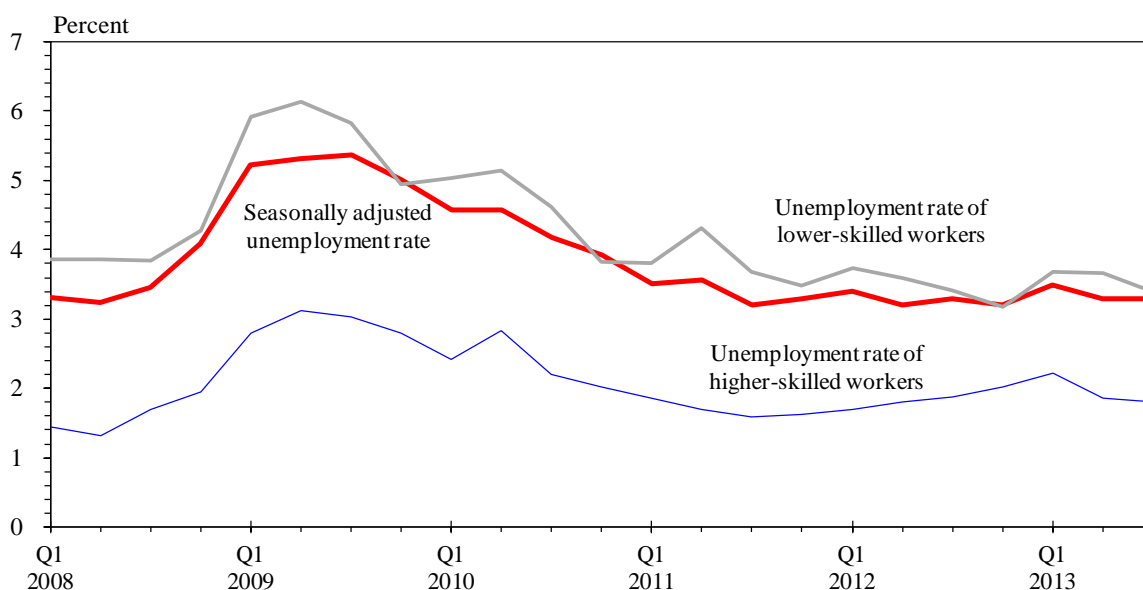


Table 5.4 : Unemployment rates* by skill segment

	<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>Higher-skilled segment</u>	1.7	1.8	1.9	2.0	2.2	1.9	1.8
Managers and administrators	1.1	1.5	1.4	1.8	1.9	1.6	1.3
Professionals	1.7	1.2	1.5	1.5	1.9	1.4	1.3
Associate professionals	2.0	2.2	2.3	2.3	2.5	2.2	2.3
<u>Lower-skilled segment</u>	3.7	3.6	3.4	3.2	3.7	3.7	3.4
Clerical support workers	2.9	3.1	3.5	2.9	3.0	2.9	3.6
Service and sales workers	4.1	4.3	4.4	3.6	4.5	4.4	4.2
Craft and related workers	6.2	5.0	4.0	4.2	5.5	5.3	3.5
Plant and machine operators and assemblers	2.6	1.6	1.6	2.2	1.8	1.8	2.1
Elementary occupations	3.5	3.4	2.8	3.0	3.3	3.4	3.0

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

Source : General Household Survey, Census and Statistics Department.

Table 5.5 : Unemployment rates* by age and educational attainment

	<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>Age</u>							
15-24	8.1	9.7	11.5	7.8	8.1	9.6	11.3
<i>of which:</i>							
15-19	12.2	14.7	15.1	12.3	13.5	17.8	14.9
20-24	7.6	8.9	10.9	7.2	7.3	8.3	10.7
25-29	3.2	3.8	3.2	3.1	3.3	3.5	3.8
30-39	2.4	2.4	2.6	2.1	2.3	2.5	2.3
40-49	2.9	2.9	2.7	2.7	3.3	2.7	2.6
50-59	3.1	2.8	2.9	3.1	3.5	3.1	2.8
≥ 60	2.7	1.8	1.5	1.8	2.4	2.6	2.1
<u>Educational attainment</u>							
Primary education and below	3.8	3.8	3.0	3.2	4.1	4.1	3.2
Lower secondary education	4.2	4.3	3.7	4.1	5.1	4.5	3.5
Upper secondary education [^]	3.4	3.2	3.4	2.7	3.1	3.2	3.4
Post-secondary education	2.5	2.9	3.6	3.0	2.9	3.0	3.6

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.

5.9 Other indicators of the intensity of unemployment were generally on the bright side. Specifically, the number of long-term unemployed persons (i.e. unemployed for six months or longer) decreased further by 1 900 over the quarter to 27 000 in the third quarter of 2013, with the long-term unemployment rate staying low at 0.7%. The share of long-term unemployment in total unemployment likewise fell to 20.1%, the lowest level since August – October 2008. Concurrently, the median duration of unemployment shortened visibly from 68 days to 61 days. Furthermore, the share of dismissal or lay-offs among the unemployed shrank markedly to 44.4% in the third quarter, from 51.1% in the second quarter. These measures taken together pointed to broadly favourable labour market conditions in the latest quarter.

Profile of underemployment

5.10 The underemployment situation improved slightly in the third quarter of 2013. The overall underemployment rate inched down by 0.1 percentage point to 1.5%, as did the number of underemployed persons by 4 400 to 57 000. In terms of economic sectors, cleaning and similar activities, education, and warehousing and support activities for transportation saw more appreciable decreases in underemployment rate between the second and the third quarters, more than offsetting the rises in food and beverage service activities, social work activities, and repair, laundry, domestic and other personal service activities. Breakdown by occupational category showed that except service and sales workers, employed persons along the job hierarchy generally saw lower underemployment rates over the same period.

Box 5.1

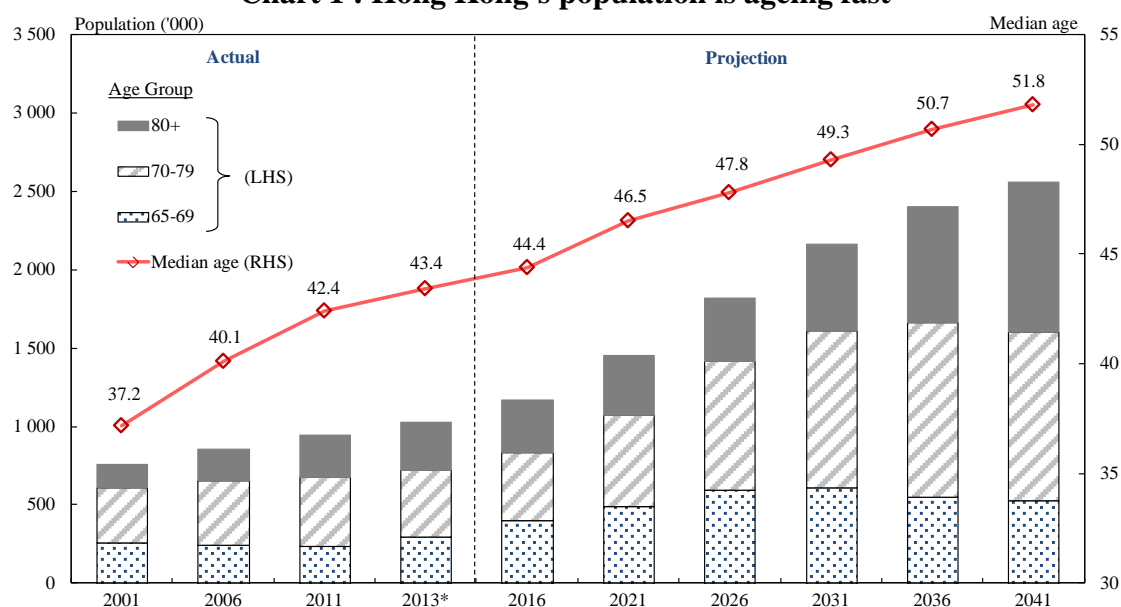
Population ageing in Hong Kong: challenges and opportunities

“Population ageing” is a pervasive, profound and enduring tide sweeping across the globe⁽¹⁾. Hong Kong is no exception. Whereas many people may still perceive population ageing as a long-term and distant subject, the consultation document released on 24 October 2013 by the Steering Committee on Population Policy (SCPP) revealed that our population would age at a faster pace than previously expected. In just a few years’ time, our workforce would embark on a persistent decline. Under a “do-nothing” scenario, population ageing could entail profound implications to our socio-economic development and public finance. This article elaborates on Hong Kong’s demographic challenges and the reasons behind, as well as the potential impacts they would bring to our society.

Population ageing: no longer a long-term matter

The latest projections by the Census and Statistics Department show that our population will continue to grow in the next 20-30 years, but only at a decelerating pace, from 7.2 million today to 8.5 million in 2041. There will be a startling shift in composition: in less than 30 years’ time, the number of elders aged 65 and above would surge from the current 1.0 million to 2.6 million in 2041. The median age would also climb to 52 by then, versus 43 today (*Chart 1*).

Chart 1 : Hong Kong’s population is ageing fast



Notes : (*) Provisional figure.
Mid-year figures, excluding foreign domestic helpers.
Source : Demographic Statistics Section, Census and Statistics Department.

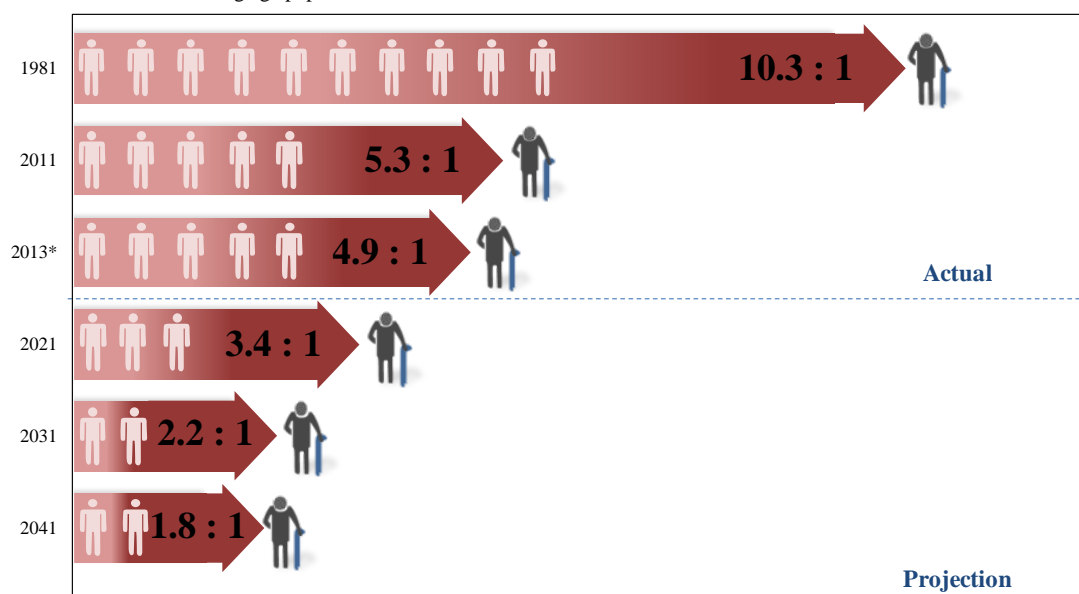
These figures suggest that by 2041, around one in three persons will be elders, up from the current level of one in seven. One in eight persons will be the older-old, i.e. aged 80 and above. Moreover, much of this upsurge is set to take place in the coming 10 years, with the elderly population expected to rise by more than half. As our population ages, the pool of working age people (aged 15-64) would dwindle, and be required to support an increasing number of dependents: while today one elder is supported by around five persons of working age, this figure is projected to fall dramatically to less than two persons by 2041 (*Chart 2*).

(1) The United Nations projected that the share of elderly aged 65 and above in the world’s population would rise notably to 14% in 2040 from 8% in 2010.

Box 5.1 (Cont'd)

Chart 2 : Fewer and fewer working age people to support elders

The ratio of working age population to one elder



Notes : (*) Provisional figure.

Mid-year figures, excluding foreign domestic helpers.

Source : Demographic Statistics Section, Census and Statistics Department.

Why is our population ageing so fast?

In short, two major forces are at play. *First*, our families are having fewer children. Our fertility rate is among the lowest in the world, with the total fertility rate at only 1.3 in 2012, far below the replacement level of 2.1, i.e. the number of births that women need to produce for a population to replace itself. *Second*, thanks to medical advancement and better nutrition, our people live longer. In 2012, men and women born in Hong Kong are expected to live 81 and 86 years respectively, also among the longest in the world. The trends of low fertility and increasing longevity are likely to prevail, thus leading to a drastic shift in age structure of our population in the coming three decades.

Implications of ageing population on our economy and society

1. Lower economic growth with a shrinking labour force

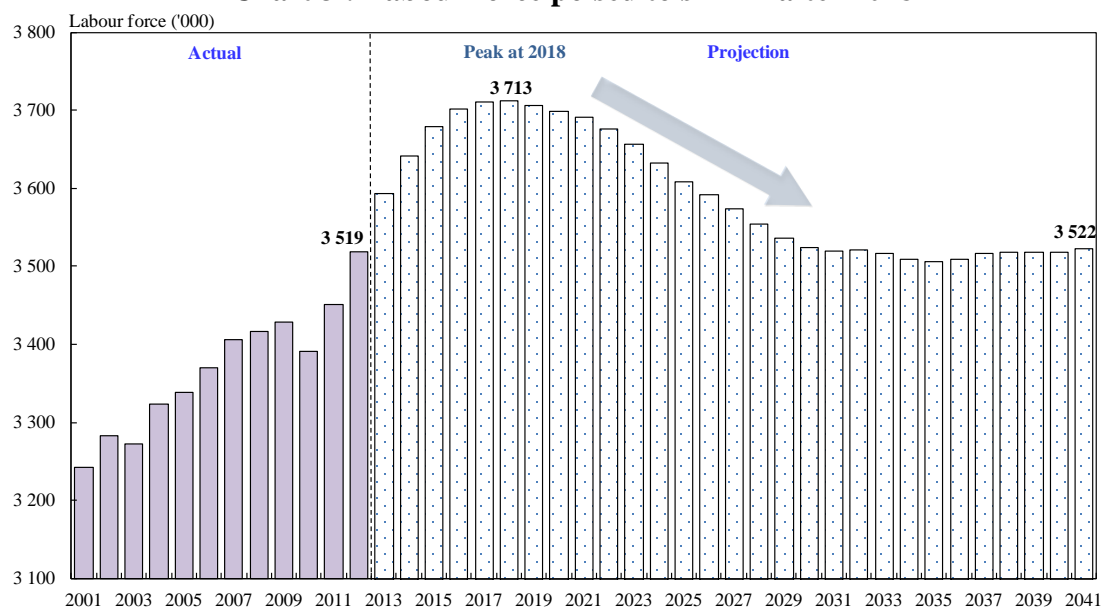
The most immediate and direct consequence of population ageing is the dwindling labour force, as more people retire while fewer younger people enter the labour market. With the post-war baby-boomers approaching retirement age, total labour force is projected to peak in 2018 and then look set to decline persistently until the early 2030s, before stabilising somewhat thereafter (*Chart 3*). This unwelcome development is particularly worrisome, as currently, manpower shortage is already evident in some sectors, including construction, retail, catering, and elderly care services.

From the supply side point of view, our workforce has indeed been instrumental in support of the development and transformation towards a knowledge-based economy. Over the past two decades, Hong Kong's economy has grown by an average of around 4% in real terms per annum. Of this, around 1 percentage point was due to the growth in labour force, while the other 3 percentage points came from productivity growth. With a rapidly shrinking labour force after 2018, it would be difficult to maintain the same rate of economic growth as in the past, unless productivity growth could be significantly enhanced. Meanwhile, the "demographic dividend"⁽²⁾ is disappearing fast and is expected to turn negative in the coming years, thereby posing a drag on our economic growth potential (*Chart 4*).

(2) The growth of per capita GDP contributed by a rising share of the workforce in total population.

Box 5.1 (Cont'd)

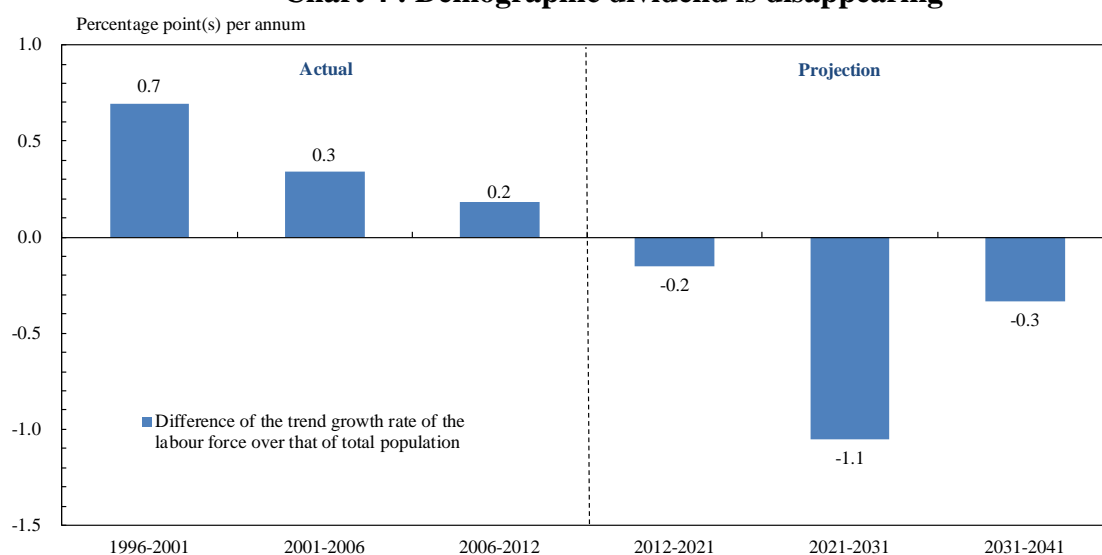
Chart 3 : Labour force poised to shrink after 2018



Note : Excluding foreign domestic helpers.

Source : General Household Survey Section, Census and Statistics Department.

Chart 4 : Demographic dividend is disappearing



Note : Excluding foreign domestic helpers.

Sources : Demographic Statistics Section, and General Household Survey Section, Census and Statistics Department.

From the demand side point of view, overseas experience shows that when more and more people retire, the aggregate savings rate will fall, and the growth in capital accumulation and hence investment will then slow. All these combined could also translate into a visibly slower economic growth and fewer job opportunities, thereby undermining economic vitality and competitiveness over time.

II. Net migration as the main driver for future population growth

Due to a secular decline in birth rates, the contribution of natural increase (number of births minus deaths) to our total population growth has been diminishing. As such, it would not be at all surprising that as our population ages, the number of deaths would eventually outgrow the number of births, and by around 2027, net migration would overtake natural increase as the most important source to replenish our ageing population and workforce.

Box 5.1 (Cont'd)

Hong Kong is a city of immigrants. The movement of people in and out of the territory will continue to affect the size, mix and quality of our population. If our society could build up a more inclusive and cohesive environment whereby these newcomers can realise their full potential, they would contribute significantly to our economic and social developments to the benefit of the whole community.

III. Fiscal sustainability

An ageing population would also have profound implications on public finance. On the revenue side, only some 1.6 million or 45% of our total working population were salaries taxpayers, with the top 12% paying over 80% of the total salaries tax in 2011-12. A dwindling workforce could make the already narrow tax base even narrower. At the same time, on the expenditure side, although our future generation of elders are expected to be generally healthier and probably more financially secured, the surge in elderly population will still add considerable fiscal pressure, particularly in healthcare, social welfare and other elderly services. Government expenditure is set to surge as our elderly population rises.

Population ageing, if not properly addressed, would likely pose a drag on our revenue base, while simultaneously bringing significant pressure to bear on our welfare and healthcare systems. The combined impact could threaten our long-term fiscal sustainability. To this end, the Working Group on Long-Term Fiscal Planning set up under the Treasury Branch of the Financial Services and the Treasury Bureau is now exploring ways to more thoroughly plan for public finances to cope with the challenges.

IV. Opportunities from an ageing population

Notwithstanding the above challenges, it is also important for us to realise that an ageing population might bring new business opportunities for some segments of our community. No doubt many elderly of the next and future generations will be fitter, better-educated, better-informed, and want to stay active in the community. They will be more individualised in lifestyle and inclined to plan ahead for and take care of their own needs. These factors will open up new economic and social opportunities. The so-called “silver hair market” will therefore present plenty of business opportunities in such areas as financial services (for example, health or medical insurance), tourism, care services, medical services, fitness and grooming, and health food products. There is a need to proactively examine how best to explore these burgeoning business opportunities so as to benefit the whole community.

Paving the way forward: we must act now

Sailing Hong Kong through the impending demographic challenges calls for concerted efforts of the Government and the community as a whole. The SCPP’s four-month public engagement exercise aims to deepen public understanding of the population challenges, initiate active discussion and gauge views widely from the community, with a view to mapping out key strategies and specific measures to address those challenges⁽³⁾. The exercise opens a window of opportunities for a fundamental rethink of population policy in need of the society’s full participation.

Population policy touches on a wide array of complex and multi-faceted issues. The Government hopes that more Hong Kong citizens can voice out their views and thoughts on how best our city can embrace the population ageing trend, so as to sustain our development towards a high value-added and knowledge-based economy while maintaining the long-term sustainability of our public services and welfare system. The ultimate goal is to attain higher living standards for all residents and families.

(3) The SCPP has laid out five directions to address the challenges: (i) unleashing the potential of existing population; (ii) enhancing the quality of our home-grown talent; (iii) complementing our existing population and workforce with new sources; (iv) fostering a supportive environment for our people to form and raise families; and (v) embracing opportunities in an ageing society.

Profile of employment in establishments

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

5.12 The most recent establishment-based statistics continued to indicate vibrant job creation in the corporate sector. Specifically, total employment in private sector establishments grew further by 1.7% over a year earlier to a new record high of 2 701 600 in June 2013. While widespread job gains were seen across many economic sectors, construction sites registered further impressive growth (up 15.1% year-on-year), spurred by the intensive public infrastructure works. Many other service sectors also recorded notable employment growth, such as human health services (up 5.4%), information and communications (up 5.4%), and professional and business services (up 4.0%), bolstered by the resilient domestic business activities. On the other hand, manufacturing employment remained on a secular downtrend (down 4.0% year-on-year), while import/export trade and wholesale posted mild job losses (down 0.7%), alongside the lacklustre export performance. Analysed by establishment size, large enterprises expanded their headcounts visibly by 2.6% in June 2013 over a year earlier, contributing to 83% of total job creation, while that in small and medium-sized enterprises (SMEs)⁽⁷⁾ rose only marginally by 0.6%. As for the civil service, employment grew at a modest pace of 1.1% year-on-year.

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>Mar</u>	<u>Jun</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)	558 000 (0.1)	554 400 (-0.7)
Retail	259 100 (2.5)	256 800 (2.2)	259 400 (2.9)	259 700 (2.7)	260 200 (2.1)	262 700 (2.3)	264 800 (2.1)
Accommodation ^(a) and food services	272 300 (2.6)	269 000 (2.3)	272 300 (2.3)	273 700 (2.8)	274 200 (3.0)	275 600 (2.4)	276 200 (1.4)
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)	168 100 (1.5)	169 300 (1.6)
Information and communications	96 400 (5.6)	95 200 (6.6)	95 900 (5.3)	97 500 (6.3)	97 200 (4.2)	98 400 (3.3)	101 100 (5.4)
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)	676 100 (2.1)	678 300 (2.1)
Social and personal services	450 000 (2.4)	444 600 (1.9)	450 600 (2.7)	450 800 (2.3)	454 200 (2.8)	458 600 (3.2)	461 000 (2.3)
Manufacturing	106 900 (-5.1)	108 000 (-6.2)	107 600 (-5.4)	106 800 (-4.3)	105 300 (-4.6)	104 000 (-3.7)	103 400 (-4.0)
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)	77 800 (10.1)	82 500 (15.1)
<i>All establishments surveyed in the private sector^(b)</i>	<i>2 656 000 (1.9)</i>	<i>2 639 700 (2.1) <0.4></i>	<i>2 657 700 (2.3) <0.7></i>	<i>2 661 500 (1.6) <0.2></i>	<i>2 665 000 (1.3) <§></i>	<i>2 689 700 (1.9) <0.9></i>	<i>2 701 600 (1.7) <0.5></i>
<i>Civil service^(c)</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>160 700 (0.9)</i>	<i>160 900 (1.1)</i>

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

(a) 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.

Vacancies

5.13 In June 2013, job vacancies in private sector establishments posted broad-based increases as in the past quarters. The number of private sector vacancies rose by 9.9% over a year earlier to a high level of 77 860. On a seasonally adjusted comparison, the number of vacancies went up further by 1.2% in June over March.

5.14 Analysed by economic sector, more notable vacancy gains in June 2013 were found in construction sites (up 74.3% year-on-year), residential care and social work services (up 32.7%), information and communications (up 28.3%), real estate (up 23.1%), and transportation, storage, postal and courier services (up 20.3%). In terms of skill levels, additional job openings were concentrated in the lower-skilled segment (up 14.5% year-on-year), particularly among craft and related workers (up 37.2%), and service and sales workers (up 33.5%). Meanwhile, job vacancies in the higher-skilled segment reverted to a positive growth of 1.0% over the year-ago level, supported by the increased job openings for associate professionals (up 11.1%), and managers and administrators (up 6.3%). In terms of establishment sizes, SMEs sustained a double-digit vacancy growth at 10.6% in June over a year earlier, whereas large enterprises also posted a similarly solid growth at 9.2%. As for the civil service, the number of vacancies rose by 10.0% to 6 980 over the same period.

5.15 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 59 in June 2013, down slightly from 61 three months ago but still higher than the 56 recorded a year earlier, signifying the persistently tight manpower situation. While the ratio for lower-skilled jobs held broadly stable at around 60 in March and June 2013, that for higher-skilled jobs surged further to 94. Moreover, sectoral analysis indicated that human health services, residential care and social work services, and arts, entertainment and recreation were apparently suffering from manpower shortage, with the respective ratios considerably above 100. When expressed as a percentage of job vacancies to total employment opportunities, the vacancy rate for private sector establishments was 2.8% in June 2013, only slightly lower than the 2.9% in March. Specifically, arts, entertainment and recreation, accommodation and food services, wholesale, and retail were the sectors recording more visible declines in vacancy rates over the same period.

Table 5.7 : Vacancies by major economic sector

	<u>Number of vacancies</u>							Vacancy rate in Jun 2013 (%)	
	<u>Annual Average</u>	<u>2012</u>					<u>2013</u>		
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</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)	10 440 (16.7)	10 120 (10.7)	1.8	
Retail	7 900 (33.6)	8 180 (35.7)	6 900 (32.7)	8 950 (45.9)	7 560 (20.4)	9 400 (15.0)	8 120 (17.8)	3.0	
Accommodation ^(a) and food services	12 030 (46.5)	11 040 (42.7)	12 270 (51.1)	12 940 (62.0)	11 860 (31.9)	15 550 (40.9)	12 970 (5.7)	4.5	
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)	3 620 (13.1)	4 100 (20.3)	2.4	
Information and communications	2 370 (1.7)	2 480 (-7.4)	2 380 (8.6)	2 150 (-4.0)	2 480 (11.6)	2 680 (8.2)	3 050 (28.3)	2.9	
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)	17 510 (8.2)	17 950 (8.1)	2.6	
Social and personal services	15 170 (16.0)	16 310 (23.1)	16 490 (29.5)	14 820 (6.6)	13 070 (5.0)	17 330 (6.2)	17 690 (7.3)	3.7	
Manufacturing	2 740 (25.0)	2 860 (21.1)	2 970 (37.2)	2 370 (2.6)	2 770 (42.5)	2 600 (-9.1)	2 680 (-9.8)	2.5	
Construction sites (manual workers only)	640 (95.1)	670 (347.0)	590 (94.7)	510 (-4.3)	800 (142.7)	930 (39.6)	1 030 (74.3)	1.2	
<i>All establishments surveyed in the private sector^(b)</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>80 170 (14.6)</i>	<i>77 860 (9.9)</i>	<i>2.8</i>	
<i>Civil service^(c)</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>6 220 (5.8)</i>	<i>6 980 (10.0)</i>	<i>4.2</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.

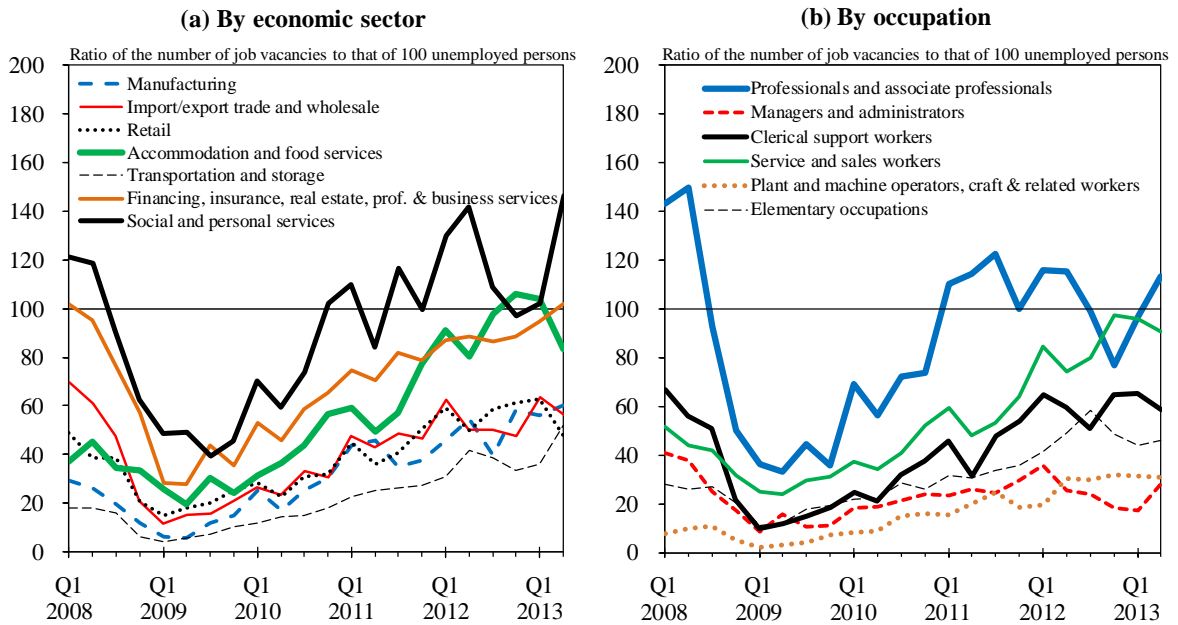
(c) These figures cover only vacancies for those staff to be employed on civil service terms of appointment.

() % 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 situation remained rather tight in some sectors and occupations



5.16 Data on private sector vacancies registered via the Labour Department (LD) may provide a more up-to-date picture on the latest development in the labour market. In September 2013, the number of private sector job vacancies posted by the LD stayed high at around 98 200, though down by 3.2% over a year earlier. On a quarter-to-quarter comparison, the average number of vacancies in the third quarter of 2013 increased by 4.5% over the second quarter, suggesting that employers generally maintained a positive attitude towards staff recruitment of late.

Wages and earnings

5.17 Thanks to the prevailing tightness in the labour market and additional boosting effect from the upward adjustment of the SMW rate in May 2013, wages and earnings continued to improve solidly on a broad front in the second quarter of 2013. *Nominal Wage Index*, covering regular employment income of employees at the supervisory level or below, rose further by 5.2% in June 2013 over a year earlier, which translated into a real increase of 0.6% after adjusting for inflation⁽⁸⁾.

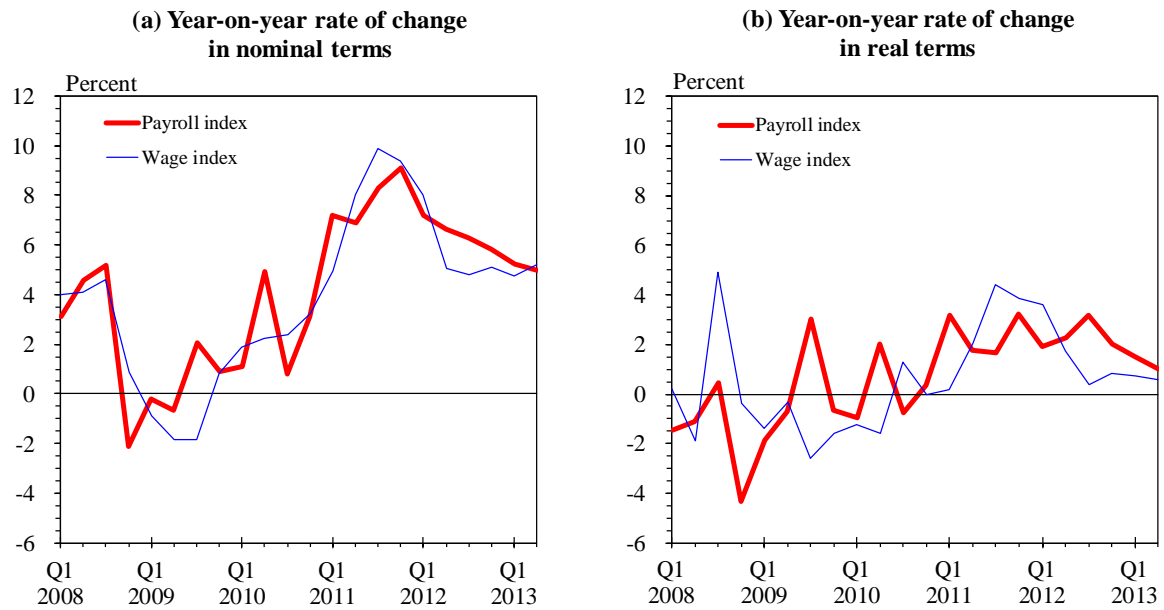
5.18 While nominal wage increments were seen extensively across economic sectors, they were more discernible among real estate leasing and maintenance management (up 9.2% year-on-year), and accommodation and food service activities (up 7.2%), which employed higher proportions of lower-skilled workers who tended to benefit more from the upward adjustment of the SMW rate. In terms of occupational categories, pay rises were likewise across the board, with more pronounced increases seen for service workers (up 7.0% year-on-year) and miscellaneous non-production workers (up 6.4%).

5.19 According to the Salary Indices for Managerial and Professional Employees, compensation among workers at the upper end also recorded visible improvement. Compared with a year earlier, the index rose by 6.0% in nominal terms and by 2.2% in real terms in June 2013, in respect of staff remaining in the same occupation and the same company over the period. Including the newly recruited and promoted employees, the broader-based index registered a moderate nominal increase of 3.8% and was virtually unchanged in real terms.

5.20 *Labour earnings*⁽⁹⁾, as measured by payroll per person engaged in the private sector covering overtime, discretionary bonuses and other irregular payments, went up appreciably by 5.0% year-on-year in the second quarter of 2013. After discounting for inflation, there was a real improvement of 1.0% in labour earnings.

5.21 Similar to wages, the rise in nominal payroll was seen across the board in the second quarter of 2013 on the back of a resilient domestic sector. In particular, workers engaged in retail trade (up 8.0% year-on-year), accommodation and food service activities (up 7.6%), and professional and business services (up 7.4%) enjoyed more notable increases.

Diagram 5.6 : Labour earnings and wages sustained solid and broad-based improvement



5.22 More recent data from the General Household Survey, whilst not strictly comparable to those from the business establishment surveys, indicated that the average monthly employment earnings⁽¹⁰⁾ (excluding foreign domestic helpers) for full-time employees in the lowest decile group saw further appreciable growth at 5.4% in the third quarter of 2013 over a year earlier, following the respectable increase of 7.7% in the second quarter. These showed that grassroots workers continued to enjoy solid earnings growth, as underpinned by the robust labour demand in the lower-skilled segment as well as the recent upward adjustment of the SMW rate.

Recent labour-related measures

5.23 LD has regularly organised large-scale job fairs in different locations and canvassed vacancies from various industries for application by job-seekers on the spot. During January to October 2013, LD organised 12 large-scale job fairs. 352 participating organisations offered some 26 800 vacancies from the retail, catering, property management and other industries. There were also 15 training bodies joining the job fairs to introduce job training courses and receive applications on the spot. Apart from large-scale job fairs, mini job fairs are also regularly organised at LD's Job Centres to assist job-seekers in seeking employment. Moreover, employers stage recruitment activities at the two industry-based recruitment centres specifically for the catering and retail industries almost every working day.

5.24 Starting from the claim months of 2013, the territory-wide Work Incentive Transport Subsidy (WITS) Scheme has been enhanced to the effect that low-income employed persons may apply for the subsidy on an individual basis, as an alternative to household-based application (i.e. the commonly known "dual track" approach). The income and asset limits for WITS have been relaxed in parallel. Applicants who became eligible under the enhanced Scheme might apply in July 2013 at the earliest for subsidy from January to June 2013. Some 20 000 individual-based applications were received as at end-October 2013.

Notes :

- (1) Labour force statistics enumerated from the General Household Survey are statistics which involve the use of the population figures in the compilation process. These statistics of the three-month periods of November 2011 – January 2012 to October – December 2012 have been revised to take into account the final end-2012 population estimates.

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

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

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

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

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

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

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

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

- (5) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (6) The low paying sectors as identified by the Minimum Wage Commission include:
- (i) retail;
 - (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong-style tea cafes. However, beverage serving places, event catering and other food service activities are not included.);
 - (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services and membership organisations);
 - (iv) other low paying sectors, namely
 - elderly homes;
 - laundry and dry cleaning services;
 - hairdressing and other personal services;
 - local courier services; and
 - food processing and production.
- (7) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet, establishments with the same main business registration number (BRN) and engaging in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (8) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the relatively low expenditure group, is taken as the price deflator for wages in respect of employees engaged in occupations up to the supervisory level.
- (9) In addition to wages, which include all regular and guaranteed payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (10) The average (mean) monthly employment earnings are easily affected by extreme values in the survey sample, more so when reckoned for higher-end workers. They should therefore be interpreted with caution, in particular when they are compared over time.

CHAPTER 6 : PRICES

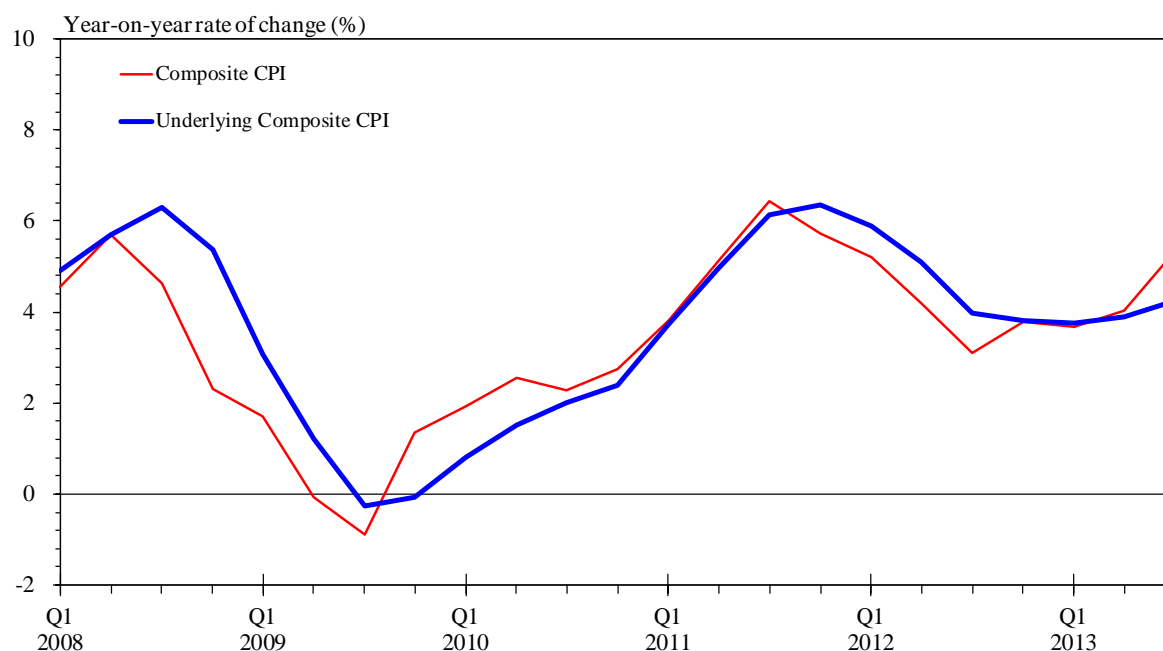
Summary

- *Inflation went up modestly in the third quarter of 2013 amid the still visible domestic price pressures. Imported inflation stayed tame in the quarter. Because of a lower base of comparison resulting from the Government's payment of public housing rentals in July 2012, the Composite Consumer Price Index (Composite CPI)⁽¹⁾ increased by 5.3% in the third quarter of 2013 over a year earlier, up from the 4.0% rise in the second quarter. After netting out the effects of the Government's one-off relief measures to more accurately reflect the underlying inflation trend, the increase in underlying Composite CPI stood at 4.3% in the third quarter, modestly up from 3.9% in the second quarter.*
- *Domestic price pressures, while still rather notable, had shown some stabilising signs in certain segments of late. Following the Government's latest round of demand-side management measures, fresh-letting private residential rentals had seen slower rises, the stabilising effect of which began to feed through to the Composite CPI inflation towards the end of the third quarter. The upward pressures on shop and office rentals also tapered somewhat during the quarter. Meanwhile, labour costs continued to increase steadily amid a relatively tight labour market.*
- *External price pressures stayed subdued in the third quarter. The rise in import prices, in overall terms, was mild amid the broadly stable international energy and raw material prices, the benign inflation trends in major import sources, as well as the yen depreciation.*
- *The upside risks to inflation should be limited in the remainder of this year, as the recent decelerated rise in fresh-letting private residential rentals and the tame imported inflation alongside the broadly steady international commodity prices should bode well for inflation in the near term. The pressures on overall labour costs stemming from the upward adjustment of the Statutory Minimum Wage rate should also be mild.*

Consumer prices

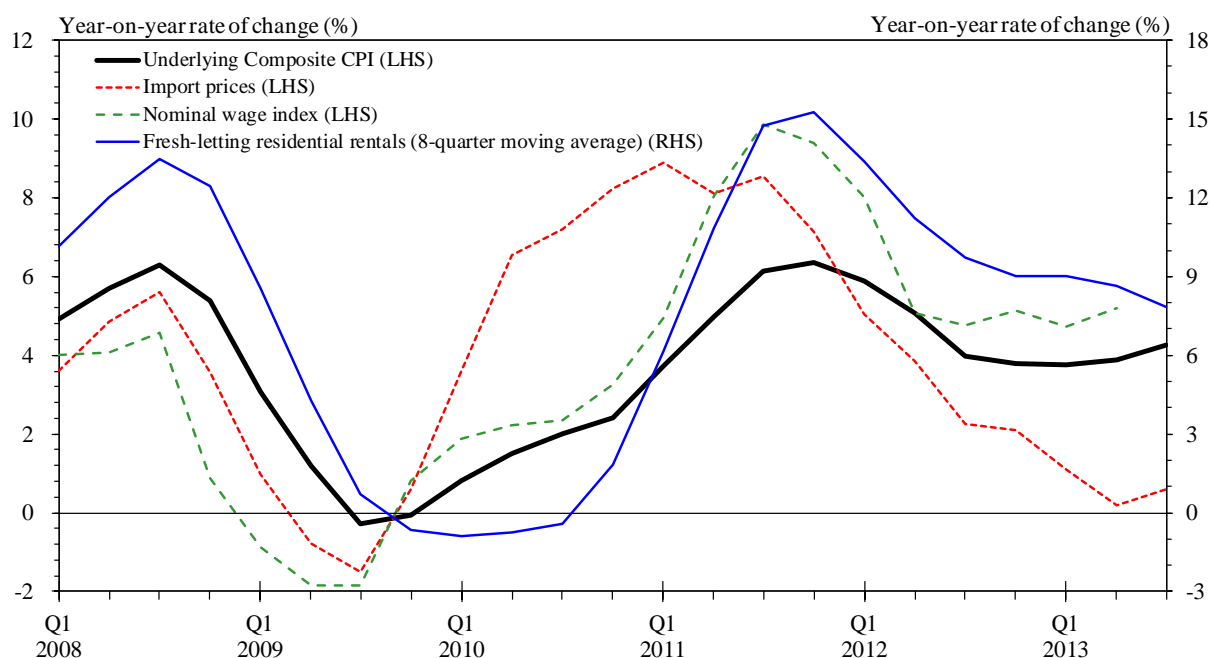
6.1 Inflation quickened somewhat since June, on a year-on-year comparison, before leveling off in September, thereby going up modestly for the third quarter of 2013 as a whole. The major driver for the slightly higher inflation was the continued feed-through of the notable increases in residential rentals during 2012. Nevertheless, there was some stabilisation in the increase of the private housing rental component of the CPI in September, as the effect of the slower rises in fresh-letting rentals since early 2013 began to set in. On other domestic cost fronts, the rise in shop rentals slowed during the third quarter in tandem with some deceleration in the growth of retail sales, while office rentals also saw a milder increase. Overall labour costs continued to rise steadily alongside a relatively tight labour market. Meanwhile, external price pressures remained tame as international commodity prices stayed rather stable and inflation in the major import sources was largely contained⁽²⁾. Overall, despite a modest pick-up in the third quarter, the underlying inflation in the first three quarters of 2013 as a whole, averaging 4.0%, was still visibly lower than those of 5.3% and 4.7% respectively in 2011 and 2012.

Diagram 6.1 : Underlying inflation went up slightly in the third quarter of 2013



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 : Inflationary pressures were more visible on the domestic front



6.2 Headline consumer price inflation, as measured by the year-on-year rate of change in the Composite CPI, was 5.3% in the third quarter of 2013, compared with 4.0% in the preceding quarter, but the faster rise was to a large extent due to a lower base of comparison resulted from the Government’s payment of public housing rentals in July 2012. In fact, after netting out the effects of the Government’s one-off relief measures to more accurately reflect the underlying inflation trend, underlying consumer price inflation increased only modestly, from 3.9% to 4.3% over the same period. For the first three quarters of 2013 as a whole, the headline and underlying consumer price inflation stood at 4.3% and 4.0% respectively.

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^(a)</u>	<u>Headline</u>			
2012	Annual	4.7	4.1	3.6	4.3	4.1
	H1	5.5	4.7	4.2	5.0	4.9
	H2	3.9	3.5	3.1	3.7	3.4
	Q1	5.9	5.2	4.6	5.5	5.4
	Q2	5.1	4.2	3.7	4.5	4.4
	Q3	4.0	3.1	1.9	3.7	3.4
	Q4	3.8	3.8	4.2	3.6	3.3
2013	H1	3.8	3.9	4.4	3.6	3.5
	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

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

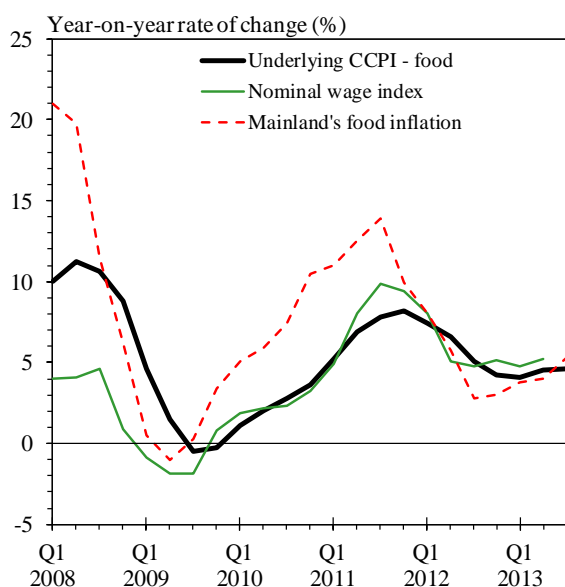
2012	Q1	1.2	1.2	1.3	1.3	1.1
	Q2	0.9	0.8	0.8	0.8	0.7
	Q3	0.6	-1.9	-5.9	-0.3	0.4
	Q4	1.1	3.7	8.5	1.8	1.1
2013	Q1	1.2	1.2	1.3	1.2	1.1
	Q2	1.0	1.1	1.2	1.1	1.0
	Q3	0.9	-0.7	-3.4	0.4	0.9

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 Among the major components of the underlying Composite CPI, food and private housing rentals continued to be the major contributors to inflation in the third quarter of 2013, but the latter was more responsible for the modest rise of inflation in the quarter. Local food inflation (including costs of dining out), despite jumping up visibly in September because of the bad weather conditions, only rose marginally to 4.6% in the third quarter from 4.5% in the preceding quarter. On the other hand, the price increase in the private housing rental component accelerated somewhat in July and August on the back of the surge in fresh-letting residential rentals last year before stabilising in September, giving an average of 6.5% for the third quarter as a whole, up from 5.7% in the second quarter. The prices of electricity, gas and water also saw a faster rise, due mainly to higher fuel cost adjustment for Towngas alongside the price rise in naphtha. For many other components in underlying Composite CPI, their price increases remained moderate in the third quarter. The prices of durable goods stayed on a secular downtrend.

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

(a) Food inflation edged up slightly



(b) Higher fresh-letting rentals last year continued to feed through

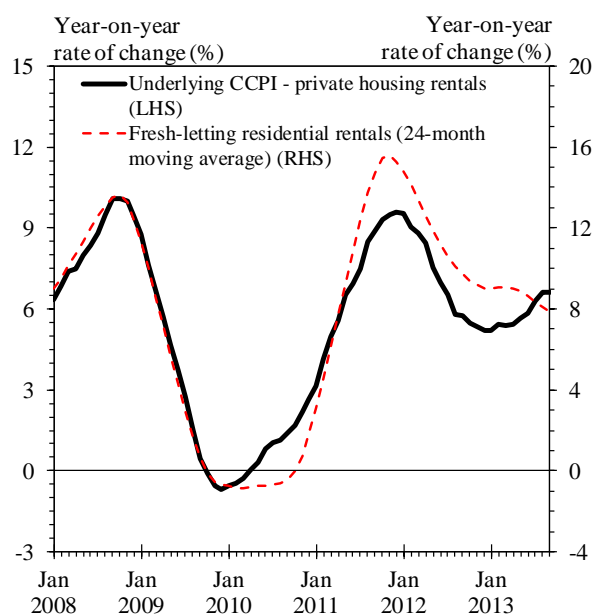


Diagram 6.4 (a) : The price increases in many major components in the underlying Composite CPI remained moderate

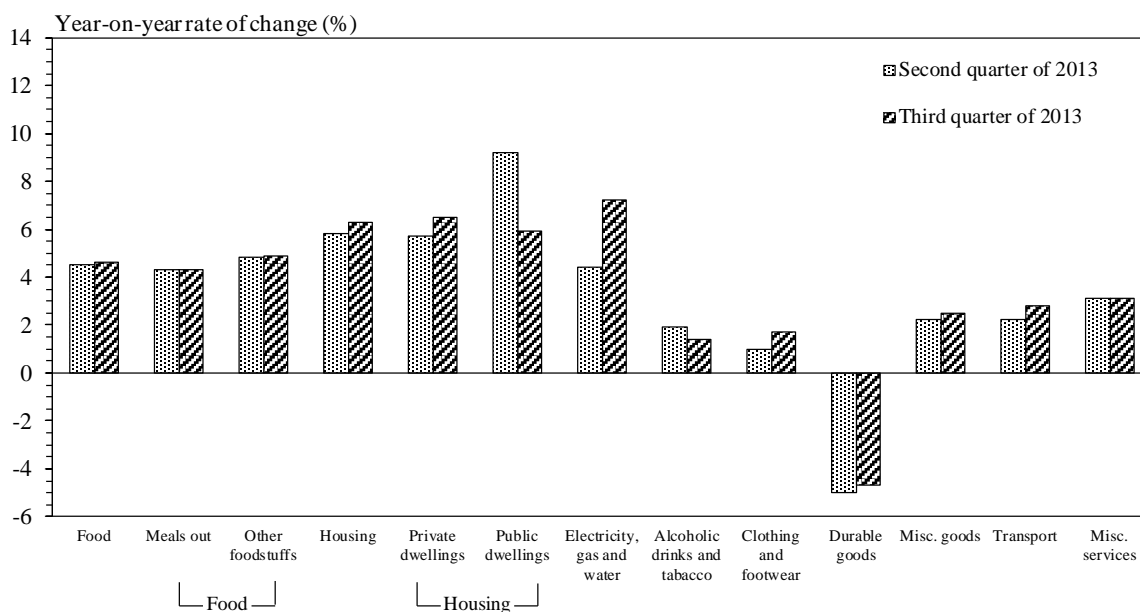
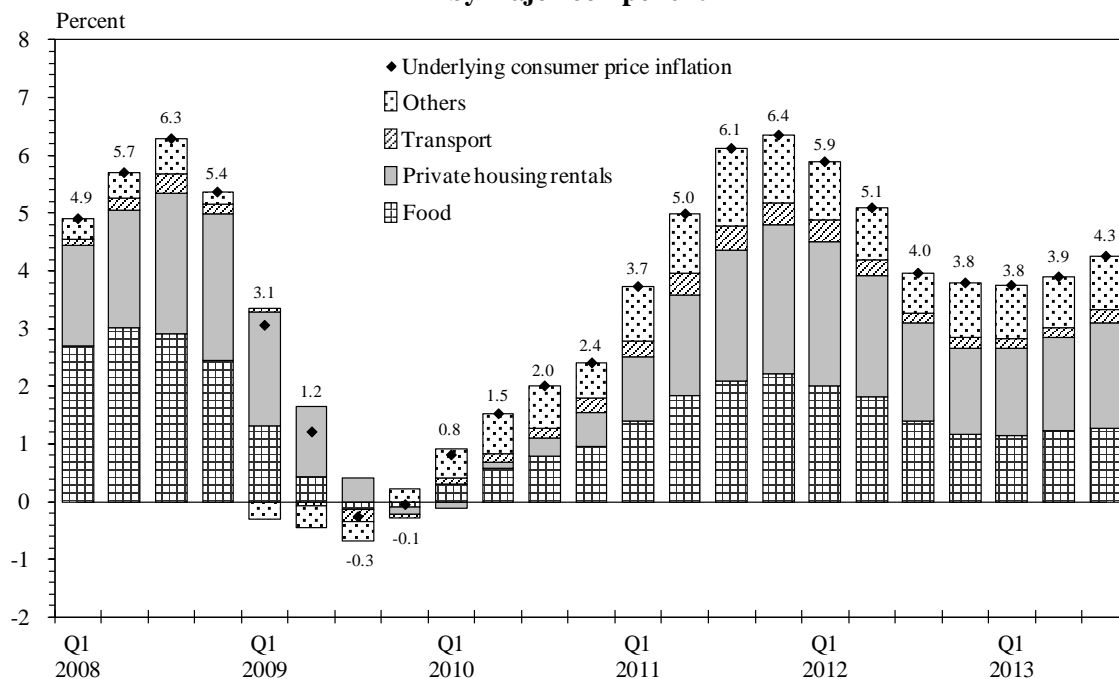


Diagram 6.4 (b) : Contribution to underlying consumer price inflation by major component



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>2012</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Food	27.45	5.8	7.4	6.6	5.1	4.2	4.1	4.5	4.6
<i>Meals bought away from home</i>	17.07	5.4	6.1	5.7	5.3	4.6	4.4	4.3	4.3
<i>Other foodstuffs</i>	10.38	6.5	9.4	8.1	5.0	3.6	3.6	4.8	4.9
Housing ^(a)	31.66	5.6 (6.4)	8.1 (8.1)	6.4 (6.7)	2.8 (5.5)	5.2 (5.4)	5.2 (5.5)	6.1 (5.8)	9.4 (6.3)
<i>Private dwellings</i>	27.14	6.8 (7.0)	9.2 (9.1)	7.3 (7.7)	5.8 (6.0)	5.1 (5.3)	5.0 (5.4)	6.1 (5.7)	7.0 (6.5)
<i>Public dwellings</i>	2.05	-7.1 (3.2)	-1.5 (-0.1)	-1.1 (0.1)	-87.8 (3.2)	9.7 (9.5)	9.7 (9.5)	8.9 (9.2)	777.6 (5.9)
Electricity, gas and water	3.10	-8.2 (3.6)	-17.2 (4.0)	-18.3 (3.9)	3.6 (2.8)	4.6 (3.6)	4.9 (3.6)	5.9 (4.4)	9.6 (7.2)
Alcoholic drinks and tobacco	0.59	3.0	11.6	0.1	0.5	0.6	1.6	1.9	1.4
Clothing and footwear	3.45	3.1	4.9	3.2	2.3	1.9	1.5	1.0	1.7
Durable goods	5.27	-1.4	-1.8	-0.9	-1.2	-1.7	-3.5	-5.0	-4.7
Miscellaneous goods	4.17	2.2	3.4	2.2	1.4	2.0	1.4	2.2	2.5
Transport	8.44	3.0	4.4	3.3	2.2	2.2	2.0	2.2	2.8
Miscellaneous services	15.87	2.8 (2.8)	2.8 (2.8)	3.1 (3.1)	2.3 (2.3)	2.9 (3.0)	3.5 (3.5)	3.1 (3.1)	3.9 (3.1)
All items	100.00	4.1 (4.7)	5.2 (5.9)	4.2 (5.1)	3.1 (4.0)	3.8 (3.8)	3.7 (3.8)	4.0 (3.9)	5.3 (4.3)

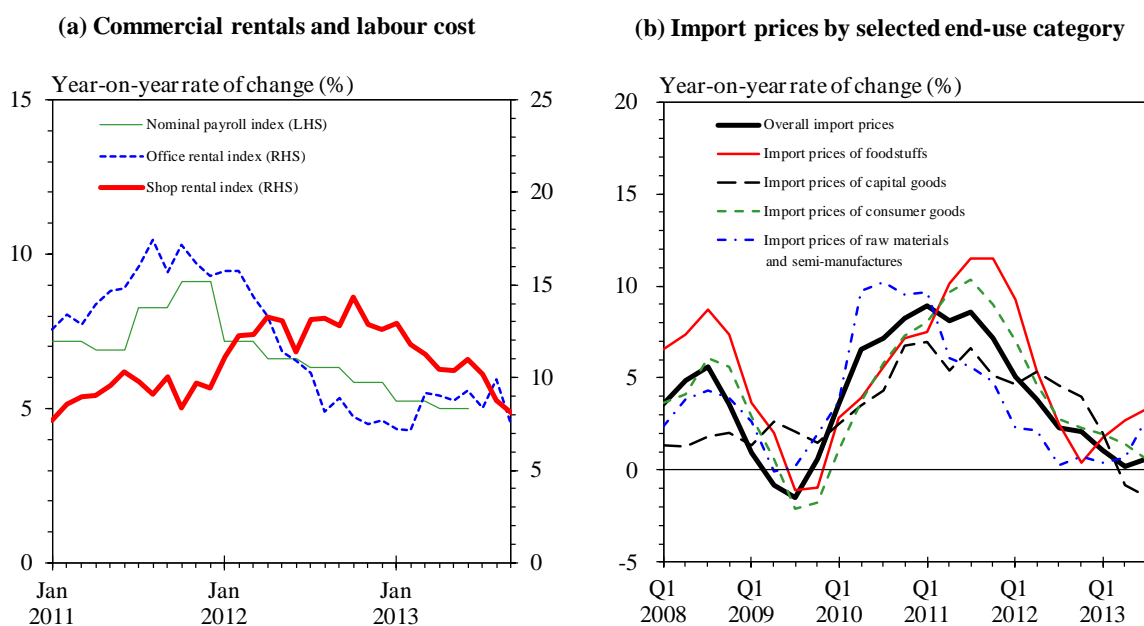
Notes : (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

(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, while still notable, displayed some signs of easing in certain segments in the third quarter. The upward pressure on shop rentals, albeit still high on a year-on-year comparison, tapered somewhat during the third quarter alongside the growth moderation of retail sales. The increase in office rentals, while remaining notable over year-ago levels, also showed some stabilising signs in the more recent months. On the other hand, labour costs continued to rise steadily in overall terms, with pay rises among the lower-income workers being more visible, reflecting both the tight labour market situation as well as an extra boost from the upward adjustment of the Statutory Minimum Wage rate.

Diagram 6.5 : Domestic cost pressures tended to taper off in some segments, while imported inflation remained tame on the whole



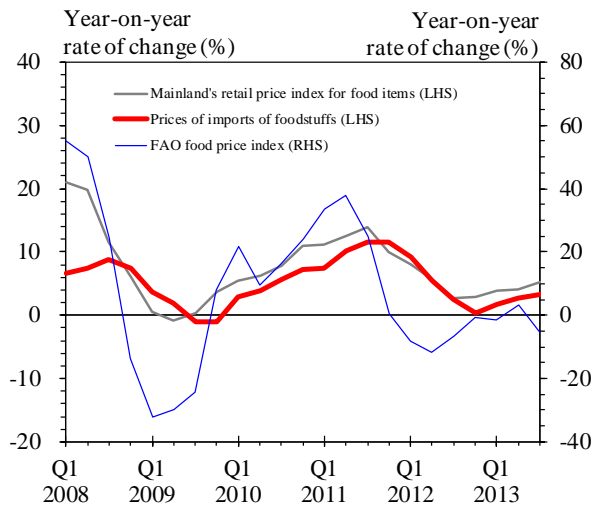
6.5 External price pressures stayed subdued on the whole, as overall import prices increased mildly by 0.6% over a year earlier in the third quarter after rising by 0.2% in the second quarter. In the third quarter, import prices of foodstuffs rose at a slightly faster pace of 3.3% year-on-year, due mainly to the surge in food prices in the Mainland in September amid the bad weather conditions. Import prices of consumer goods and capital goods both eased, conceivably reflecting the yen depreciation as well as the modest inflation in the supply sources. On the other hand, the increase in import prices of raw materials accelerated to 2.8% in the third quarter, due partly to a relatively lower base of comparison. The year-on-year decline in imported fuel prices also narrowed noticeably, amid the rise in international oil prices during the third quarter.

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

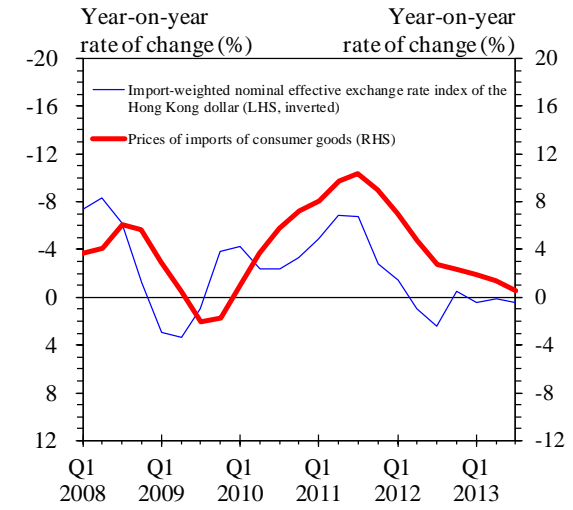
		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2012	Annual	4.1	4.1	1.4	2.6	4.7	3.3
	H1	7.3	5.8	2.2	8.0	5.0	4.4
	H2	1.3	2.6	0.5	-2.3	4.3	2.2
	Q1	9.3	7.1	2.3	16.5	4.6	5.0
	Q2	5.4	4.7	2.1	0.8	5.4	3.9
	Q3	2.5	2.8	0.3	-2.6	4.6	2.3
	Q4	0.4	2.3	0.7	-2.0	4.0	2.1
2013	H1	2.2	1.7	0.5	-5.4	0.6	0.6
	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

Diagram 6.6 : Import prices by end-use category

(a) Import prices of foodstuffs rose modestly

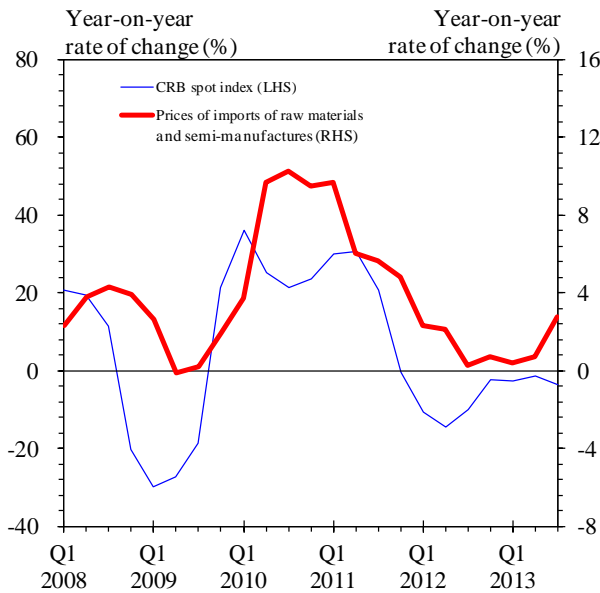


(b) Import prices of consumer goods decelerated further

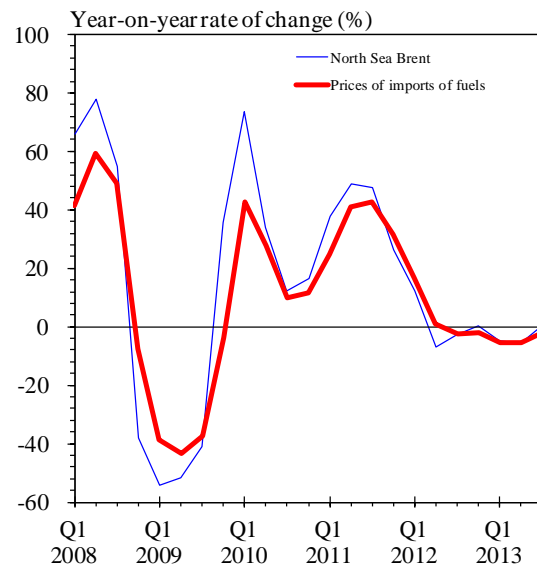


Note : An increase in the nominal EERI indicates strengthening of the Hong Kong dollar. The y-axis of nominal EERI in this graph is inverted for easier comprehension.

(c) Import prices of raw materials picked up somewhat on a lower base



(d) Import prices of fuels saw narrower decline



Output prices

6.6 Output prices, as measured by the *Producer Price Indices*⁽³⁾, showed mixed movements in the second quarter of 2013. Output prices for the manufacturing sector fell modestly over a year earlier even against a relatively low base of comparison, reflecting the small increase in costs of raw materials and conceivably also the weak export demand. Among the service sectors, output prices for accommodation services rose moderately further on the back of continued growth in inbound tourism. Against the backdrop of generally sluggish trade flows, output prices for land transport and courier services increased only modestly in the second quarter, while those for air transport and water transport both fell, with the latter showing a large decline against a high base of comparison. Separately, output prices for telecommunications services stayed on a downtrend amid technological breakthroughs and intense competition.

Table 6.4 : Producer Price Indices for the 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>Q1</u>	<u>Q2</u>
Manufacturing	0.1	3.6	-0.6	-1.4	-1.0	0.6	-2.4
Selected services sectors ^(a)							
Accommodation services	7.9	12.1	8.2	8.3	3.5	2.5	2.8
Land transport	1.5	2.1	1.8	1.3	0.7	0.6	1.0
Water transport	6.4	-4.3	18.5	6.3	5.3	7.3	-14.8
Air transport	0.6	-3.3	1.2	1.0	3.5	4.0	-2.4
Telecommunications	-2.4	-4.4	-1.6	-1.6	-1.9	-1.6	-1.8
Courier services	2.1	3.1	2.0	1.2	2.3	2.7	3.1

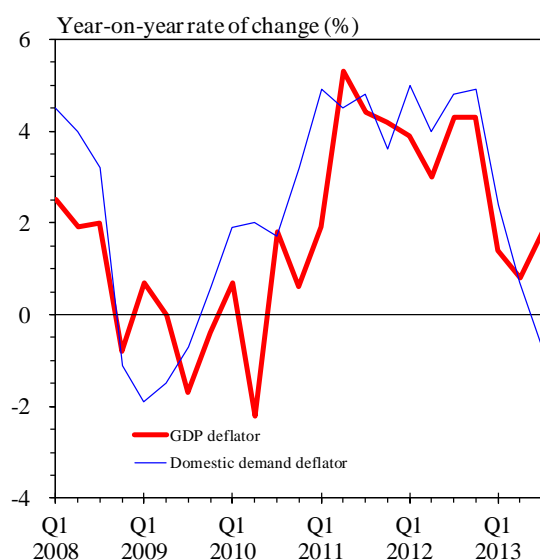
Note : (a) Producer Price Indices for other services sectors are not available, due to the difficulties involved in defining and delineating the various types of services and hence in measuring their respective price changes. This is particularly so for such sectors as banking and insurance, where the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

GDP deflator

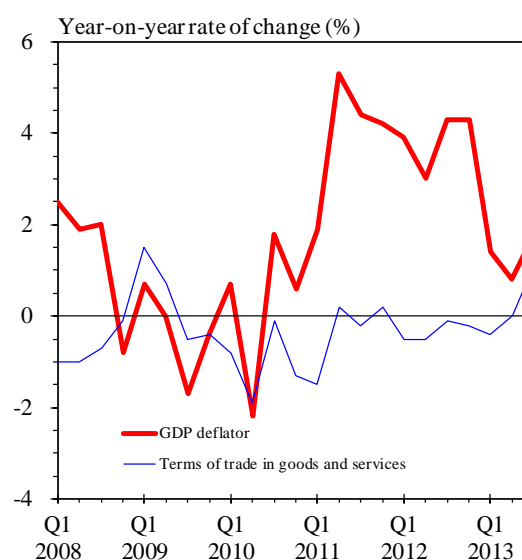
6.7 As a broad measure of the overall change in prices in the economy, the *GDP deflator*⁽⁴⁾ rose by 1.8% in the third quarter of 2013 over a year earlier, after a 0.8% increase in the preceding quarter. Within the GDP deflator, the *terms of trade*⁽⁵⁾ improved further to a mild year-on-year increase of 1.1% in the third quarter. Taking out the external components, the domestic demand deflator fell by 0.7% year-on-year in the third quarter, after a 0.7% increase in the preceding quarter, mainly owing to the notable decline in prices for machinery and equipment.

Diagram 6.7 : GDP deflator

(a) GDP deflator rose modestly over a year earlier in the third quarter



(b) Terms of trade improved further



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

	<u>2011</u>		<u>2012</u>				<u>2013</u>		
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2[#]</u>	<u>Q3⁺</u>
Private consumption expenditure	3.6	3.1	4.3	3.0	2.5	2.7	1.8	2.1	2.8
Government consumption expenditure	4.5	6.1	6.3	5.9	6.1	6.2	6.0	4.2	3.7
Gross domestic fixed capital formation	6.8	8.2	6.3	6.7	9.3	10.2	3.6	-3.7	-8.9
Total exports of goods	7.7	3.1	5.8	4.8	1.3	1.0	-0.5	-0.5	-0.4
Imports of goods	8.2	3.8	6.8	5.9	1.8	1.2	0.1	-0.5	-1.3
Exports of services	7.6	3.8	6.3	5.3	2.4	1.8	1.1	*	1.3
Imports of services	6.4	1.8	3.4	1.0	0.5	2.5	1.1	0.7	0.1
Gross Domestic Product	3.9	3.9	3.9	3.0	4.3	4.3	1.4	0.8	1.8
			<1.1>	<0.5>	<2.0>	<0.7>	<-1.8>	<*>	<3.0>
Total final demand	6.7	3.7	5.7	4.6	2.5	2.3	0.6	*	-0.3
Domestic demand	4.5	4.7	5.0	4.0	4.8	4.9	2.4	0.7	-0.7
Terms of trade in goods and services	-0.3	-0.3	-0.5	-0.5	-0.1	-0.2	-0.4	*	1.1

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>2011</u>		<u>2012</u>				<u>2013</u>		
	<u>Annual</u>	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
Selected developed economies									
US	3.2	2.1	2.8	1.9	1.7	1.9	1.7	1.4	1.6
Canada	2.9	1.5	2.3	1.6	1.2	0.9	0.9	0.8	1.1
EU	3.1	2.6	2.9	2.6	2.7	2.5	2.0	1.6	1.5
Japan	-0.3	*	0.3	0.2	-0.4	-0.2	-0.6	-0.3	0.9
Major emerging economies									
Mainland China	5.4	2.6	3.8	2.9	1.9	2.1	2.4	2.4	2.8
Russia	8.4	5.1	3.9	3.8	6.0	6.5	7.1	7.2	6.4
India	8.9	9.3	7.2	10.1	9.8	10.1	11.7	10.7	10.8
Brazil	6.6	5.4	5.8	5.0	5.2	5.6	6.4	6.6	6.1
Selected Asian economies									
Hong Kong	5.3	4.1	5.2	4.2	3.1	3.8	3.7	4.0	5.3
Singapore	5.2	4.6	4.9	5.3	4.2	4.0	4.0	1.6	1.8
Taiwan	1.4	1.9	1.3	1.6	2.9	1.8	1.8	0.8	*
Korea	4.0	2.2	3.0	2.4	1.6	1.7	1.4	1.1	1.2
Malaysia	3.2	1.7	2.3	1.7	1.4	1.3	1.5	1.8	2.2
Thailand	3.8	3.0	3.4	2.5	2.9	3.2	3.1	2.3	1.7
Indonesia	5.4	4.3	3.7	4.5	4.5	4.4	5.3	5.6	8.6
Philippines	4.6	3.2	3.1	3.0	3.6	3.0	3.2	2.6	2.4
Vietnam	18.7	9.1	15.9	8.6	5.6	7.0	6.9	6.6	7.0
Macao	5.8	6.1	6.3	6.6	6.0	5.6	5.4	5.1	5.6

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.

Statistical Appendix

<u>Table</u>	<u>Page</u>
1. Gross Domestic Product by expenditure component (at current market prices)	104-105
2. Rates of change in chain volume measures of Gross Domestic Product by expenditure component (in real terms)	106-107
3. Gross Domestic Product by economic activity (at current prices)	108
4. Rates of change in chain volume measures of Gross Domestic Product by economic activity (in real terms)	109
5. Balance of Payments by major component (at current prices)	110
6. Visible and invisible trade (at current market prices)	111
6a. Visible and invisible trade based on the change of ownership principle	112
7. Total exports of goods by market (in value terms)	113
8. Imports of goods by source (in value terms)	114
9. Retained imports of goods by end-use category (in value terms)	114
10. Exports and imports of services by component (at current market prices)	115
10a. Exports and imports of services based on the change of ownership principle by component (at current market prices)	116
11. Incoming visitors by source	117
12. Property market	118-119
13. Property prices and rentals	120-121
14. Monetary aggregates	122-123
15. Rates of change in business receipts indices for services industries/domains	124
16. Labour force characteristics	125
17. Employment in selected major industries	126
18. Number of workers engaged at building and construction sites	127
19. Rates of change in indices of payroll per person engaged by selected industry section	128
20. Rates of change in wage indices by selected industry section	129
21. Rates of change in prices	130-131
22. Rates of change in Composite Consumer Price Index	132-133
23. Rates of change in implicit price deflators of GDP and its main expenditure components	134-135

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
	(\$Mn)					
Private consumption expenditure	722,961	771,443	811,654	868,691	982,368	1,026,482
Government consumption expenditure	138,147	136,354	130,566	131,837	138,967	148,017
Gross domestic fixed capital formation	272,127	287,360	302,152	337,153	340,356	350,796
<i>of which:</i>						
Building and construction	116,628	107,692	105,993	106,268	111,776	127,312
Machinery, equipment and intellectual property products	147,088	162,871	176,269	214,093	204,083	198,633
Changes in inventories	9,111	7,076	-4,761	-2,129	12,841	8,480
Total exports of goods ^{&}	1,749,089	2,027,031	2,251,744	2,467,357	2,698,850	2,843,998
Imports of goods ^{&}	1,794,059	2,099,545	2,311,091	2,576,340	2,852,522	3,024,089
Exports of services ^{&}	363,765	431,090	496,985	566,416	664,100	720,837
Imports of services ^{&}	204,472	243,860	265,124	289,634	334,204	367,034
GDP	1,256,669	1,316,949	1,412,125	1,503,351	1,650,756	1,707,487
<i>Per capita GDP (\$)</i>	<i>186,704</i>	<i>194,140</i>	<i>207,263</i>	<i>219,240</i>	<i>238,676</i>	<i>245,406</i>
GNI	1,288,895	1,344,927	1,419,589	1,538,864	1,703,567	1,807,994
<i>Per capita GNI (\$)</i>	<i>191,492</i>	<i>198,264</i>	<i>208,359</i>	<i>224,419</i>	<i>246,312</i>	<i>259,851</i>
Total final demand	3,255,200	3,660,354	3,988,340	4,369,325	4,837,482	5,098,610
Total final demand excluding re-exports ^(a)	1,919,463	2,088,521	2,243,119	2,436,589	2,697,292	2,836,222
Domestic demand	1,142,346	1,202,233	1,239,611	1,335,552	1,474,532	1,533,775
Private	947,804	1,012,565	1,062,587	1,163,262	1,297,607	1,342,889
Public	194,542	189,668	177,024	172,290	176,925	190,886
External demand	2,112,854	2,458,121	2,748,729	3,033,773	3,362,950	3,564,835

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)							
	2009	2010	2011 [#]	2012 [#]	2012 Q4 [#]	Q1 [#]	2013 Q2 [#]	Q3 [#]
Private consumption expenditure	1,013,615	1,090,234	1,224,823	1,300,242	344,768	339,662	346,699	333,482
Government consumption expenditure	152,512	157,371	168,487	185,380	47,459	51,011	47,502	49,645
Gross domestic fixed capital formation	339,552	386,852	455,048	538,951	148,773	121,079	131,918	131,638
<i>of which:</i>								
Building and construction	123,746	139,249	179,110	220,904	61,072	57,699	55,240	58,808
Machinery, equipment and intellectual property products	191,568	209,568	239,839	283,973	77,896	54,893	70,400	66,887
Changes in inventories	22,941	37,522	11,742	-7,728	-1,020	3,200	-6,409	-3,540
Total exports of goods ^{&}	2,500,143	3,068,444	3,420,076	3,591,776	961,124	871,855	929,088	1,000,339
Imports of goods ^{&}	2,702,966	3,395,057	3,848,200	4,116,410	1,096,046	1,024,117	1,100,267	1,117,381
Exports of services ^{&}	672,794	829,495	942,683	997,852	270,497	255,717	250,528	271,832
Imports of services ^{&}	339,346	398,078	438,576	448,118	118,319	112,657	105,473	116,286
GDP	1,659,245	1,776,783	1,936,083	2,041,945	557,236	505,750	493,586	549,729
<i>Per capita GDP (\$)</i>	<i>237,960</i>	<i>252,952</i>	<i>273,783</i>	<i>285,403</i>	--	--	--	--
GNI	1,709,007	1,814,379	1,988,909	2,085,429	563,310	518,327	521,814	N.A.
<i>Per capita GNI (\$)</i>	<i>245,096</i>	<i>258,304</i>	<i>281,253</i>	<i>291,481</i>	--	--	--	--
Total final demand	4,701,557	5,569,918	6,222,859	6,606,473	1,771,601	1,642,524	1,699,326	1,783,396
Total final demand excluding re-exports ^(a)	2,687,437	3,058,478	3,435,212	3,684,368	989,140	933,583	939,547	965,208
Domestic demand	1,528,620	1,671,979	1,860,100	2,016,845	539,980	514,952	519,710	511,225
Private	1,327,688	1,449,592	1,614,207	1,740,094	465,504	435,933	451,491	437,867
Public	200,932	222,387	245,893	276,751	74,476	79,019	68,219	73,358
External demand	3,172,937	3,897,939	4,362,759	4,589,628	1,231,621	1,127,572	1,179,616	1,272,171

- 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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Private consumption expenditure	-1.6	7.1	3.5	6.1	8.6	1.9
Government consumption expenditure	2.4	1.4	-2.6	0.9	3.2	2.0
Gross domestic fixed capital formation	1.5	3.4	4.0	7.1	3.2	1.4
<i>of which:</i>						
Building and construction	-5.4	-10.7	-7.6	-7.1	-0.3	6.8
Machinery, equipment and intellectual property products	7.8	11.4	12.1	18.2	2.5	*
Total exports of goods ^{&}	14.0	14.9	10.4	9.3	7.0	1.9
Imports of goods ^{&}	13.1	13.7	8.0	9.2	8.8	1.8
Exports of services ^{&}	7.4	17.9	11.6	10.0	14.3	5.0
Imports of services ^{&}	-2.7	14.6	7.6	8.4	12.1	5.8
GDP	3.1	8.7	7.4	7.0	6.5	2.1
<i>Per capita GDP</i>	3.3	7.9	6.9	6.3	5.6	1.5
RGNI	2.5	4.1	4.3	6.7	8.2	3.3
<i>Per capita RGNI</i>	2.7	3.3	3.9	6.0	7.3	2.7
Total final demand	7.8	11.9	7.8	8.4	8.2	2.2
Total final demand excluding re-exports ^(a)	3.0	9.1	5.6	7.4	7.9	1.7
Domestic demand	-0.1	5.3	2.0	6.1	7.8	1.4
Private	-0.5	6.5	3.4	7.6	8.9	1.2
Public	1.9	-0.4	-5.7	-2.8	0.6	3.2
External demand	12.8	15.4	10.6	9.4	8.4	2.5

- 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>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>	<u>2013</u>			Average annual rate of change:	
					Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2002 to 2012 [#]	5 years 2007 to 2012 [#]
Private consumption expenditure	0.2	6.1	8.4	3.0	2.7	6.3	4.2	2.8	4.3	3.9
Government consumption expenditure	2.3	3.4	2.5	3.7	3.3	2.1	3.2	2.7	1.9	2.8
Gross domestic fixed capital formation	-3.5	7.7	10.2	9.4	11.4	-3.3	6.9	2.2	4.4	4.9
<i>of which:</i>										
Building and construction	-5.5	5.7	15.5	13.2	14.6	-2.6	-2.2	2.0	0.1	6.9
Machinery, equipment and intellectual property products	-2.2	6.5	12.2	10.7	9.2	-4.0	19.3	7.0	7.8	5.3
Total exports of goods ^{&}	-12.5	17.3	3.4	1.8	6.7	8.8	6.2	6.2	6.4	2.0
Imports of goods ^{&}	-9.5	18.1	4.7	3.0	7.6	9.6	7.6	6.8	6.9	3.3
Exports of services ^{&}	0.4	14.8	5.6	2.0	3.0	5.3	8.4	4.9	8.8	5.4
Imports of services ^{&}	-5.0	11.1	3.5	0.4	-0.7	0.5	-0.8	2.4	5.4	3.0
GDP	-2.5	6.8	4.9	1.5	2.8	2.9	3.2	2.9	4.5	2.5
Per capita GDP	-2.7	6.0	4.1	0.3	--	--	--	--	3.9	1.8
RGNI	-4.6	3.7	4.8	0.2	3.5	2.4	4.4	N.A.	3.3	1.4
Per capita RGNI	-4.8	2.9	4.1	-1.0	--	--	--	--	2.7	0.7
Total final demand	-6.8	13.6	4.7	2.4	5.5	6.8	5.7	5.3	5.9	3.0
Total final demand excluding re-exports ^(a)	-2.6	10.5	5.6	3.0	4.6	5.8	4.6	4.1	5.0	3.5
Domestic demand	0.5	7.1	6.5	3.6	4.7	4.1	3.6	3.9	4.0	3.8
Private	-0.1	6.6	6.7	3.2	4.0	4.4	3.5	3.3	4.3	3.5
Public	4.5	10.2	5.5	5.9	9.0	2.0	4.6	8.3	2.2	5.8
External demand	-9.9	16.8	3.9	1.9	5.8	8.0	6.7	5.9	6.9	2.7

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

	2008		2009		2010		2011 [#]		2012 [#]	
	\$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	1.7	30,578	1.6	30,651	1.5
Electricity, gas and water supply, and waste management	39,651	2.4	35,032	2.2	34,486	2.0	33,882	1.8	35,394	1.8
Construction	48,403	3.0	50,264	3.2	56,531	3.3	65,484	3.4	73,927	3.7
Services	1,499,529	92.6	1,466,724	92.7	1,615,373	93.0	1,771,677	93.1	1,875,729	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	513,555	25.5
<i>Accommodation^(a) and food services</i>	53,600	3.3	48,789	3.1	56,418	3.2	66,421	3.5	72,857	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	120,744	6.0
<i>Information and communications</i>	49,127	3.0	47,893	3.0	55,024	3.2	62,952	3.3	70,321	3.5
<i>Financing and insurance</i>	277,112	17.1	255,900	16.2	284,203	16.4	306,787	16.1	321,502	15.9
<i>Real estate, professional and business services</i>	166,086	10.3	173,903	11.0	188,476	10.8	213,965	11.2	232,054	11.5
<i>Public administration, social and personal services</i>	278,100	17.2	288,109	18.2	295,257	17.0	313,612	16.5	336,684	16.7
<i>Ownership of premises</i>	177,915	11.0	182,696	11.5	184,745	10.6	195,005	10.2	208,012	10.3
GDP at basic prices	1,620,013	100.0	1,581,824	100.0	1,737,748	100.0	1,902,565	100.0	2,016,815	100.0
Taxes on products	58,233	--	54,689	--	68,707	--	69,401	--	64,645	--
Statistical discrepancy (%)	1.7	--	1.4	--	-1.7	--	-1.9	--	-1.9	--
GDP at current market prices	1,707,487	--	1,659,245	--	1,776,783	--	1,936,083	--	2,041,945	--

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.
- (--)
- (*) Less than 0.05%.

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

(%)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>		<u>2013</u>	
							Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Agriculture, fishing, mining and quarrying	-4.3	-17.0	-4.6	3.9	0.8	0.3	2.3	1.6	2.4	4.5
Manufacturing	-0.8	-7.0	-8.2	3.3	0.7	-0.8	-0.1	1.3	0.5	0.3
Electricity, gas and water supply, and waste management	1.4	0.7	1.5	-0.2	0.6	1.6	-0.5	-0.4	-1.6	-2.5
Construction	-1.2	8.9	-7.5	15.6	18.1	11.3	5.2	16.1	-1.5	1.2
Services	7.1	2.4	-1.7	7.0	5.2	1.8	1.9	2.7	2.8	3.8
<i>Import/export, wholesale and retail trades</i>	5.8	6.8	-9.5	16.7	9.1	1.5	1.6	3.8	5.8	5.1
<i>Accommodation^(a) and food services</i>	10.7	1.7	-11.3	9.5	8.3	2.2	3.2	4.6	3.8	3.7
<i>Transportation, storage, postal and courier services</i>	5.1	2.5	-5.5	6.0	7.2	3.0	2.7	3.9	-0.5	3.0
<i>Information and communications</i>	6.3	-1.2	1.3	1.5	2.8	2.8	4.1	4.6	6.0	2.5
<i>Financing and insurance</i>	16.8	-0.5	4.1	6.6	6.9	1.1	0.8	1.1	4.1	7.5
<i>Real estate, professional and business services</i>	6.6	1.4	1.6	2.5	2.6	3.6	3.8	2.2	-0.3	-0.3
<i>Public administration, social and personal services</i>	2.7	1.4	3.0	2.2	1.5	2.0	2.0	1.6	1.8	3.6
<i>Ownership of premises</i>	3.0	2.0	0.3	0.8	0.7	0.4	0.3	0.5	0.3	0.3
Taxes on products	24.9	-1.7	-4.8	6.3	-6.8	-10.4	-13.9	-4.2	-1.3	-12.0
GDP in chained (2011) dollars	6.5	2.1	-2.5	6.8	4.9	1.5	1.5	2.8	2.9	3.2

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012[#]</u>	<u>2012</u>		<u>2013</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Current account ^(a)	255,808	164,001	124,820	109,018	47,038	31,481	17,077	-1,323	-3,268
Goods	194,753	103,008	25,564	-58,203	-165,392	-18,632	-29,238	-72,344	-95,332
Services	-21,041	27,617	79,240	134,186	190,492	48,083	46,494	63,142	69,208
Primary income	100,507	49,762	37,596	52,826	43,484	7,024	6,074	12,577	28,228
Secondary income	-18,412	-16,386	-17,580	-19,791	-21,547	-4,994	-6,253	-4,698	-5,372
Capital and financial account ^(a)	-254,709	-144,532	-88,838	-113,242	-37,591	-51,176	-32,047	-12,528	25,953
Capital account	-1,958	-3,021	-4,436	-2,021	-1,439	-91	-316	-123	-123
Financial account	-252,750	-141,511	-84,402	-111,220	-36,152	-51,084	-31,731	-12,405	26,076
Financial non-reserve assets	-28,774	470,987	-25,257	-24,437	152,736	-13,222	62,612	3,999	51,508
<i>Direct investment</i>	77,371	-28,421	-122,026	1,868	-72,919	-19,200	-54,430	-91,761	-81,059
<i>Portfolio investment</i>	-281,141	-310,083	-442,460	-10,979	-12,553	-53,698	-171,437	33,735	-31,658
<i>Financial derivatives</i>	63,338	24,560	18,677	20,884	15,274	1,140	11,887	3,914	-7,487
<i>Other investment</i>	111,659	784,930	520,552	-36,210	222,935	58,536	276,592	58,111	171,712
Reserve assets	-223,976	-612,498	-59,145	-86,783	-188,889	-37,862	-94,343	-16,404	-25,432
Net errors and omissions	-1,099	-19,470	-35,981	4,224	-9,447	19,695	14,970	13,851	-22,685
Overall Balance of Payments	223,976	612,498	59,145	86,783	188,889	37,862	94,343	16,404	25,432

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Total exports of goods	2,843,998	2,500,143	3,068,444	3,420,076	3,591,776	961,124	871,855	929,088	1,000,339
Imports of goods	3,024,089	2,702,966	3,395,057	3,848,200	4,116,410	1,096,046	1,024,117	1,100,267	1,117,381
Visible trade balance	-180,091 (-6.0)	-202,823 (-7.5)	-326,613 (-9.6)	-428,124 (-11.1)	-524,634 (-12.7)	-134,922 (-12.3)	-152,262 (-14.9)	-171,179 (-15.6)	-117,042 (-10.5)
Exports of services	720,837	672,794	829,495	942,683	997,852	270,497	255,717	250,528	271,832
Imports of services	367,034	339,346	398,078	438,576	448,118	118,319	112,657	105,473	116,286
Invisible trade balance	353,803 (96.4)	333,448 (98.3)	431,417 (108.4)	504,107 (114.9)	549,734 (122.7)	152,178 (128.6)	143,060 (127.0)	145,055 (137.5)	155,546 (133.8)
Exports of goods and services	3,564,835	3,172,937	3,897,939	4,362,759	4,589,628	1,231,621	1,127,572	1,179,616	1,272,171
Imports of goods and services	3,391,123	3,042,312	3,793,135	4,286,776	4,564,528	1,214,365	1,136,774	1,205,740	1,233,667
Visible and invisible trade balance	173,712 <5.1>	130,625 <4.3>	104,804 <2.8>	75,983 <1.8>	25,100 <0.5>	17,256 <1.4>	-9,202 <-0.8>	-26,124 <-2.2>	38,504 <3.1>

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
<u>At current market prices (\$Mn)</u>									
Total exports of goods	2,758,181	2,454,394	3,021,492	3,406,765	3,614,770	980,409	886,488	942,005	1,038,885
Imports of goods	2,563,428	2,351,386	2,995,928	3,464,968	3,780,162	1,009,647	958,832	1,037,337	1,061,880
Visible trade balance	194,753	103,008	25,564	-58,203	-165,392	-29,238	-72,344	-95,332	-22,995
	(7.6)	(4.4)	(0.9)	(-1.7)	(-4.4)	(-2.9)	(-7.5)	(-9.2)	(-2.2)
Exports of services	544,358	501,303	626,170	712,221	758,966	198,210	201,714	199,699	205,902
Imports of services	565,399	473,686	546,930	578,035	568,474	151,716	138,572	130,491	144,403
Invisible trade balance	-21,041	27,617	79,240	134,186	190,492	46,494	63,142	69,208	61,499
	(-3.7)	(5.8)	(14.5)	(23.2)	(33.5)	(30.6)	(45.6)	(53.0)	(42.6)
Exports of goods and services	3,302,539	2,955,697	3,647,662	4,118,986	4,373,736	1,178,619	1,088,202	1,141,704	1,244,787
Imports of goods and services	3,128,827	2,825,072	3,542,858	4,043,003	4,348,636	1,161,363	1,097,404	1,167,828	1,206,283
Visible and invisible trade balance	173,712	130,625	104,804	75,983	25,100	17,256	-9,202	-26,124	38,504
	<5.6>	<4.6>	<3.0>	<1.9>	<0.6>	<1.5>	<-0.8>	<-2.2>	<3.2>
<u>Rates of change in real terms (%)</u>									
Total exports of goods	3.2	-11.2	18.0	4.6	2.7	6.5	9.7	8.4	9.4
Imports of goods	3.7	-7.0	19.9	6.7	4.6	8.4	11.6	10.5	10.9
Exports of services	4.9	1.7	15.4	5.8	2.5	3.4	6.0	10.3	6.4
Imports of services	1.1	-12.9	10.0	-0.2	-2.3	-1.7	-1.8	-2.0	0.8

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>	<u>2013</u>		
	(% change)				(% change)	(\$Mn)	Q4	Q1	Q2	Q3
							(% change over a year earlier)			
All markets	5.1	-12.6	22.8	10.1	2.9	3,434,346	7.0	4.0	2.4	3.3
Mainland of China	4.7	-7.8	26.5	9.3	6.3	1,857,759	12.1	6.3	5.1	3.7
United States	-2.4	-20.6	16.4	-0.4	2.3	338,505	2.7	-1.4	-4.8	0.2
Japan	1.2	-10.0	17.2	5.9	6.5	143,970	4.3	-3.1	-7.5	-8.8
Taiwan	3.8	-0.4	25.4	24.3	-5.2	80,842	5.3	19.4	-13.3	-2.1
Germany	15.8	-15.5	1.6	10.7	-12.8	77,812	-3.7	-6.5	-5.7	-0.5
India	50.0	0.2	42.4	25.6	-17.5	77,181	-16.4	3.8	7.1	7.6
Republic of Korea	-6.4	-13.0	24.4	14.2	-4.0	58,853	-2.3	2.7	5.8	7.9
Singapore	9.6	-23.6	20.7	10.3	-0.5	55,950	1.5	8.3	3.0	1.3
United Kingdom	0.7	-20.8	1.9	-3.4	-6.0	55,164	3.5	-10.1	-8.9	5.3
Vietnam	19.4	16.6	33.9	37.3	9.9	50,702	-5.3	1.5	14.7	25.3
Rest of the world	8.4	-20.2	20.9	15.1	0.6	637,607	3.3	2.3	3.3	5.4

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		<u>2013</u>	
	(% change)		(% change)		(\$Mn)		Q4	Q1	Q2	Q3
							(% change over a year earlier)			
All sources	5.5	-11.0	25.0	11.9	3.9	3,912,163	8.1	4.9	3.5	2.6
Mainland of China	6.1	-11.4	22.4	10.9	8.5	1,840,862	17.5	9.9	5.9	4.0
Japan	3.6	-20.6	30.4	3.4	-2.2	311,605	-4.0	-12.6	-10.7	-7.3
Singapore	0.1	-10.4	35.9	7.2	-3.2	246,346	-5.4	6.3	-1.7	-5.0
Taiwan	-6.4	-8.5	28.0	7.2	1.6	244,889	2.0	10.3	8.9	1.2
United States	8.6	-5.7	26.0	18.0	-3.3	204,459	-9.6	-3.4	3.6	5.5
Republic of Korea	-1.1	-12.7	29.8	12.2	2.4	153,527	10.0	9.3	6.2	0.9
Malaysia	5.3	2.8	24.5	5.1	-6.0	83,649	-7.2	-4.0	-13.9	16.8
India	21.5	-9.3	36.5	20.6	-5.5	81,831	-4.9	9.7	-0.2	13.4
Switzerland	31.1	-11.5	26.3	51.7	-0.7	78,546	-8.2	-2.6	-10.7	6.4
Thailand	11.1	-9.7	32.5	0.3	-4.8	72,873	30.4	13.4	2.5	3.3
Rest of the world	9.5	-8.2	19.2	20.2	5.8	593,575	6.2	-0.5	8.6	2.9

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

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>		<u>2012</u>		<u>2013</u>	
	(% change)		(% change)		(\$Mn)		Q4	Q1	Q2	Q3
							(% change over a year earlier)			
Overall	5.3	-10.8	27.3	17.3	3.0	1,056,611	7.6	7.1	5.8	-0.1
Foodstuffs	19.7	9.9	17.0	18.8	5.1	114,870	2.5	13.4	5.1	16.0
Consumer goods	9.0	-14.0	33.8	36.0	5.9	265,125	15.9	4.2	2.1	7.0
Raw materials and semi-manufactures	-4.5	-6.4	32.3	0.2	-6.5	306,262	10.3	27.5	12.7	3.3
Fuels	26.6	-18.4	33.8	21.9	-4.2	135,728	-12.5	1.7	-11.4	-6.4
Capital goods	2.5	-18.7	12.9	27.3	19.0	234,489	11.0	-15.0	10.1	-15.7

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>		<u>2012</u>	<u>2013</u>		
	(% change)		(% change)		(\$Mn)		Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
							(% change over a year earlier)			
Exports of services	8.5	-6.7	23.3	13.6	5.9	997,852	4.8	6.5	8.4	6.2
Transportation	12.5	-18.6	26.3	7.8	*	250,161	-4.1	-2.5	-6.5	-1.1
Travel	11.1	6.7	35.6	28.4	15.9	256,644	15.2	20.5	29.0	13.1
Trade-related	8.5	-4.3	18.0	11.0	3.8	281,043	3.2	3.4	2.2	2.0
Other services	1.8	-3.1	16.7	10.6	4.8	210,004	4.7	4.7	11.8	12.9
Imports of services	9.8	-7.5	17.3	10.2	2.2	448,118	1.8	1.7	-0.1	2.6
Transportation	13.0	-21.6	20.7	14.3	-1.5	137,354	-4.2	-4.1	-3.4	1.4
Travel	6.8	-3.8	11.9	9.8	5.2	155,716	4.2	6.9	0.5	3.9
Trade-related	10.6	0.5	21.6	1.1	3.0	34,192	3.4	3.4	-1.0	-1.8
Other services	9.5	5.7	19.5	8.7	2.5	120,856	4.7	1.3	3.7	3.5
Net exports of services	7.2	-5.8	29.4	16.8	9.1	549,734	7.3	10.6	15.5	9.1

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.

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

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>		<u>2012</u>	<u>2013</u>		
	(% change)				(% change)	(\$Mn)	Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
							(% change over a year earlier)			
Exports of services	8.3	-7.9	24.9	13.7	6.6	758,966	5.4	7.3	10.0	7.6
Transportation	12.5	-18.6	26.3	7.8	*	250,161	-4.1	-2.5	-6.5	-1.1
Travel	11.1	6.7	35.6	28.4	15.9	256,644	15.2	20.5	29.0	13.1
Other services	2.4	-4.6	16.4	8.5	4.8	252,161	4.6	4.5	10.3	10.9
Imports of services	5.5	-16.2	15.5	5.7	-1.7	568,474	-0.6	-1.4	-1.9	0.8
Transportation	13.0	-21.6	20.7	14.3	-1.5	137,354	-4.2	-4.1	-3.4	1.4
Travel	6.8	-3.8	11.9	9.8	5.2	155,716	4.2	6.9	0.5	3.9
Other services	2.1	-19.0	15.1	0.1	-5.2	275,404	-1.4	-4.4	-2.6	-1.4

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.

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

Table 11 : Incoming visitors by source

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u> Q4	Q1	<u>2013</u> Q2	Q3
<u>('000)</u>									
All sources	29 506.6	29 590.7	36 030.3	41 921.3	48 615.1	13 238.7	12 742.3	12 623.5	14 498.9
Mainland of China	16 862.0	17 956.7	22 684.4	28 100.1	34 911.4	9 584.9	9 500.6	9 314.6	11 286.0
South and Southeast Asia	2 936.2	2 885.2	3 500.9	3 751.1	3 651.8	1 046.7	818.6	972.2	810.7
Taiwan	2 240.5	2 009.6	2 164.8	2 148.7	2 088.7	525.2	515.1	488.7	566.5
Europe	1 711.4	1 610.5	1 757.8	1 801.3	1 867.7	534.6	483.1	461.0	406.0
Japan	1 324.8	1 204.5	1 316.6	1 283.7	1 254.6	259.1	267.3	237.2	271.1
United States	1 146.4	1 070.1	1 171.4	1 212.3	1 184.8	314.7	270.3	285.0	245.8
Others	3 285.3	2 854.0	3 434.5	3 623.9	3 656.1	973.5	887.3	864.8	912.9
<u>(% change over a year earlier)</u>									
All sources	4.7	0.3	21.8	16.4	16.0	15.1	13.5	13.7	11.1
Mainland of China	8.9	6.5	26.3	23.9	24.2	24.2	20.3	21.2	15.8
South and Southeast Asia	1.7	-1.7	21.3	7.1	-2.6	-2.7	0.3	-1.3	0.8
Taiwan	0.1	-10.3	7.7	-0.7	-2.8	3.2	3.9	-1.8	-0.6
Europe	-3.4	-5.9	9.1	2.5	3.7	2.5	-0.1	4.0	-0.2
Japan	*	-9.1	9.3	-2.5	-2.3	-26.7	-22.3	-22.2	-21.8
United States	-6.9	-6.7	9.5	3.5	-2.3	-7.9	-4.9	-9.6	-9.1
Others	1.7	-13.1	20.3	5.5	0.9	-0.6	-1.8	-0.2	0.1

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

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

Table 12 : Property market

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	26 397	26 036	17 321	16 579	10 471	8 776	7 157
Commercial property	417	371	145	291	368	390	235
<i>of which :</i>							
Office space	299	279	34	108	320	341	151
Other commercial premises ^(b)	118	91	111	183	48	49	84
Industrial property ^(c)	15	1	17	27	16	78	3
<i>of which :</i>							
Industrial-cum-office premises	15	0	4	0	0	4	0
Conventional flatted factory space	0	1	0	0	16	70	3
Storage premises ^(d)	0	0	13	27	0	4	0
Production of public housing							
(in units)							
Rental housing flats ^(e)	13 705	20 614	24 691	4 430	4 795	22 759	19 021
Subsidised sales flats ^(e)	320	0	0	0	2 010	2 200	370
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	1 038.4	530.0	550.7	706.7	900.0	530.0	546.8
Commercial property	200.0	161.3	481.9	468.4	327.5	147.7	178.3
Industrial property ^(f)	0.8	16.4	35.1	23.9	103.5	106.6	97.1
Other properties	444.2	407.1	408.0	199.2	207.7	212.8	253.2
Total	1 683.3	1 114.8	1 475.8	1 398.2	1 538.6	997.1	1 075.4
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	71 576	100 630	103 362	82 472	123 575	95 931	115 092
Primary market	26 498	25 694	15 994	13 986	20 123	11 046	16 161
Secondary market	45 078	74 936	87 368	68 486	103 452	84 885	98 931
Selected types of non-residential properties ^(h)							
Office space	1 817	3 213	3 431	2 874	4 129	2 845	2 521
Other commercial premises	4 142	7 833	7 143	4 402	5 490	4 149	5 359
Flatted factory space	3 813	5 889	6 560	7 409	9 072	5 741	5 554

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>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u> Q4	Q1	<u>2013</u> Q2	Q3
Completion of new property by the private sector							
('000 m ² of internal floor area)							
Residential property ^(a) (in units)	13 405	9 449	10 149	4 016	236	1 249	2 951
Commercial property	189	197	226	104	5	28	66
<i>of which :</i>							
Office space	124	155	136	62	1	19	56
Other commercial premises ^(b)	65	42	90	42	4	9	11
Industrial property ^(c)	21	105	170	0	0	0	68
<i>of which :</i>							
Industrial-cum-office premises	0	0	0	0	0	0	0
Conventional flatted factory space	21	32	46	0	0	0	12
Storage premises ^(d)	0	73	123	0	0	0	56
Production of public housing							
(in units)							
Rental housing flats ^(e)	6 385	17 787	9 778	0	10 407	0	N.A.
Subsidised sales flats ^(e)	1 110	0	0	0	0	0	N.A.
Building plans with consent to commence work in the private sector							
('000 m ² of usable floor area)							
Residential property	570.5	580.6	796.4	59.8	149.8	214.5	N.A.
Commercial property	158.4	133.6	210.2	34.0	48.3	56.8	N.A.
Industrial property ^(f)	34.3	109.3	70.7	41.5	90.4	5.1	N.A.
Other properties	459.2	232.7	428.9	94.9	11.5	12.1	N.A.
Total	1 222.4	1 056.2	1 506.1	230.3	299.9	288.4	N.A.
Agreements for sale and purchase of property							
(Number)							
Residential property ^(g)	135 778	84 462	81 333	19 035	16 271	11 443	11 079
Primary market	13 646	10 880	12 968	3 639	2 924	2 508	1 628
Secondary market	122 132	73 582	68 365	15 396	13 347	8 935	9 451
Selected types of non-residential properties ^(h)							
Office space	3 591	3 071	3 269	1 099	869	279	269
Other commercial premises	7 639	5 980	7 282	2 451	2 208	692	538
Flatted factory space	8 206	7 619	9 731	3 630	2 265	687	578

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	61.6	78.0	92.0	92.7	103.5	120.5	121.3
Office space	62.5	99.3	133.0	139.3	165.5	199.0	179.8
Shopping space	85.5	119.3	149.3	153.5	172.5	192.2	193.1
Flatted factory space	71.7	88.6	125.0	158.5	199.5	235.9	216.3
Property rental indices ^(b) :							
Residential flats	73.6	77.7	86.5	91.6	101.8	115.7	100.4
Office space	74.6	78.1	96.4	117.4	131.9	155.5	135.7
Shopping space	86.4	92.8	100.5	104.3	111.8	116.2	110.9
Flatted factory space	74.9	77.3	82.6	91.0	100.5	109.3	99.4
<u>(% change)</u>							
Property price indices :							
Residential flats ^(a)	-11.9	26.6	17.9	0.8	11.7	16.4	0.7
Office space	-8.6	58.9	33.9	4.7	18.8	20.2	-9.6
Shopping space	0.6	39.5	25.1	2.8	12.4	11.4	0.5
Flatted factory space	-4.1	23.6	41.1	26.8	25.9	18.2	-8.3
Property rental indices ^(b) :							
Residential flats	-11.8	5.6	11.3	5.9	11.1	13.7	-13.2
Office space	-12.6	4.7	23.4	21.8	12.4	17.9	-12.7
Shopping space	-7.0	7.4	8.3	3.8	7.2	3.9	-4.6
Flatted factory space	-9.4	3.2	6.9	10.2	10.4	8.8	-9.1

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

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

For residential property, changes in rentals cover only new tenancies for which rentals are freshly determined.

For non-residential property, changes in rentals cover also lease renewals upon which rentals may be revised.

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

(+) Provisional figures.

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u> Q4	Q1	<u>2013</u> Q2 [#]	Q3 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	150.9	182.1	206.2	225.7	237.5	241.2	245.6
Office space	230.4	297.9	334.7	371.7	400.3	409.4	415.3
Shopping space	257.2	327.4	420.5	477.4	501.3	508.8	510.3
Flatted factory space	284.4	385.0	489.8	570.0	636.7	657.5	672.6
Property rental indices ^(b) :							
Residential flats	119.7	134.0	142.6	150.7	151.7	153.5	155.3
Office space	147.6	169.9	188.3	193.2	196.9	203.4	207.1
Shopping space	122.9	134.3	151.3	157.7	160.4	165.8	168.2
Flatted factory space	108.9	118.6	131.9	137.1	140.5	145.5	150.4
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	24.4	20.7	13.2	23.9	28.2	19.2	16.1
Office space	28.1	29.3	12.4	22.1	32.5	26.8	21.4
Shopping space	33.2	27.3	28.4	38.7	38.0	26.5	16.2
Flatted factory space	31.5	35.4	27.2	41.8	52.1	42.5	32.1
Property rental indices ^(b) :							
Residential flats	19.2	11.9	6.4	10.2	13.5	9.9	6.2
Office space	8.8	15.1	10.8	7.7	7.8	9.1	8.5
Shopping space	10.8	9.3	12.7	13.2	11.9	10.6	8.9
Flatted factory space	9.6	8.9	11.2	12.2	12.3	10.6	12.3

Table 14 : Monetary aggregates

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	354,752	412,629	348,248	387,909	454,342	491,115	671,241
M2 ^(a)	2,107,269	2,208,591	2,329,669	2,777,679	3,281,017	3,239,857	3,587,717
M3 ^(a)	2,122,861	2,219,557	2,345,838	2,795,545	3,300,500	3,261,306	3,604,843
Total money supply (\$Mn)							
M1	413,423	484,494	434,684	491,648	616,709	645,833	901,819
M2	3,813,442	4,166,706	4,379,057	5,054,332	6,106,348	6,268,058	6,602,310
M3	3,858,044	4,189,544	4,407,188	5,089,741	6,139,758	6,300,751	6,626,843
Deposit (\$Mn)							
HK\$	1,930,790	2,017,911	2,131,579	2,568,283	3,075,042	3,033,980	3,373,595
Foreign currency	1,636,227	1,848,145	1,936,322	2,188,993	2,793,856	3,024,004	3,007,445
Total	3,567,018	3,866,056	4,067,901	4,757,275	5,868,898	6,057,984	6,381,040
Loans and advances (\$Mn)							
HK\$	1,573,079	1,666,740	1,797,350	1,917,437	2,184,705	2,354,755	2,401,323
Foreign currency	462,000	488,964	514,637	550,392	776,971	930,883	887,160
Total	2,035,079	2,155,704	2,311,987	2,467,828	2,961,676	3,285,638	3,288,483
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	116.4	113.6	112.6	111.1	106.3	100.7	101.9
Import-weighted	118.2	115.4	114.1	112.6	107.6	101.3	102.2
Export-weighted	114.5	111.7	110.9	109.6	104.8	100.1	101.6
<u>(% change)</u>							
Hong Kong dollar money supply							
M1	36.8	16.3	-15.6	11.4	17.1	8.1	36.7
M2 ^(a)	6.2	4.8	5.5	19.2	18.1	-1.3	10.7
M3 ^(a)	5.9	4.6	5.7	19.2	18.1	-1.2	10.5
Total money supply							
M1	39.8	17.2	-10.3	13.1	25.4	4.7	39.6
M2	8.4	9.3	5.1	15.4	20.8	2.6	5.3
M3	8.3	8.6	5.2	15.5	20.6	2.6	5.2
Deposit							
HK\$	5.8	4.5	5.6	20.5	19.7	-1.3	11.2
Foreign currency	9.6	13.0	4.8	13.0	27.6	8.2	-0.5
Total	7.5	8.4	5.2	16.9	23.4	3.2	5.3
Loans and advances							
HK\$	-2.6	6.0	7.8	6.7	13.9	7.8	2.0
Foreign currency	0.3	5.8	5.3	6.9	41.2	19.8	-4.7
Total	-2.0	5.9	7.2	6.7	20.0	10.9	0.1
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	-3.2	-2.4	-0.9	-1.3	-4.3	-5.3	1.2
Import-weighted	-3.0	-2.4	-1.1	-1.3	-4.4	-5.9	0.9
Export-weighted	-3.5	-2.4	-0.7	-1.2	-4.4	-4.5	1.5

Definition of Terms :

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

Total Money Supply:

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

Table 14 : Monetary aggregates (Cont'd)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u> Q4	Q1	<u>2013</u> Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn)							
M1	730,093	794,726	920,920	920,920	945,074	956,250	987,294
M2 ^(a)	3,866,788	4,046,216	4,537,384	4,537,384	4,541,179	4,543,194	4,751,370
M3 ^(a)	3,878,193	4,055,404	4,545,590	4,545,590	4,549,476	4,553,568	4,761,231
Total money supply (\$Mn)							
M1	1,017,227	1,127,320	1,377,359	1,377,359	1,390,746	1,428,400	1,483,997
M2	7,136,271	8,057,530	8,950,005	8,950,005	9,047,164	9,219,621	9,726,412
M3	7,156,260	8,081,079	8,970,396	8,970,396	9,069,868	9,242,688	9,750,024
Deposit (\$Mn)							
HK\$	3,617,183	3,740,240	4,176,200	4,176,200	4,165,265	4,166,773	4,354,567
Foreign currency	3,245,081	3,851,020	4,120,234	4,120,234	4,187,837	4,314,027	4,551,307
Total	6,862,265	7,591,260	8,296,434	8,296,434	8,353,102	8,480,800	8,905,874
Loans and advances (\$Mn)							
HK\$	2,824,445	3,160,002	3,333,059	3,333,059	3,358,731	3,489,631	3,595,502
Foreign currency	1,403,281	1,920,659	2,233,751	2,233,751	2,377,606	2,606,608	2,803,965
Total	4,227,726	5,080,661	5,566,810	5,566,810	5,736,337	6,096,239	6,399,468
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	99.5	94.6	94.9	94.2	94.7	95.0	95.3
Import-weighted	99.2	93.9	94.2	93.5	94.3	94.8	95.2
Export-weighted	99.8	95.4	95.6	94.9	95.2	95.2	95.4
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply							
M1	8.8	8.9	15.9	15.9	17.6	18.1	14.5
M2 ^(a)	7.8	4.6	12.1	12.1	9.2	9.6	9.6
M3 ^(a)	7.6	4.6	12.1	12.1	9.2	9.7	9.6
Total money supply							
M1	12.8	10.8	22.2	22.2	17.9	17.4	14.6
M2	8.1	12.9	11.1	11.1	9.5	10.8	13.3
M3	8.0	12.9	11.0	11.0	9.6	10.9	13.4
Deposit							
HK\$	7.2	3.4	11.7	11.7	9.0	9.3	9.3
Foreign currency	7.9	18.7	7.0	7.0	8.9	10.8	15.1
Total	7.5	10.6	9.3	9.3	8.9	10.1	12.2
Loans and advances							
HK\$	17.6	11.9	5.5	5.5	6.5	8.9	10.9
Foreign currency	58.2	36.9	16.3	16.3	16.5	23.3	28.9
Total	28.6	20.2	9.6	9.6	10.4	14.6	18.1
Nominal Effective Exchange Rate Indices (Jan 2010 =100) ^(b)							
Trade-weighted	-2.4	-4.9	0.3	-0.4	0.2	-0.3	-0.2
Import-weighted	-2.9	-5.3	0.3	-0.5	0.4	0.1	0.4
Export-weighted	-1.8	-4.4	0.2	-0.4	0.0	-0.8	-1.0

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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>		<u>2013</u>	
					Q3	Q4	Q1	Q2
Services Industry								
Import and export trade	-13.7	19.7	8.9	-1.3	-3.8	5.7	0.6	*
Wholesale	-12.6	25.0	12.7	3.2	1.2	4.7	6.3	2.3
Retail	0.6	18.3	24.9	9.8	5.8	7.6	13.9	16.1
Transportation	-19.9	24.5	4.4	0.9	1.0	3.1	1.2	0.1
<i>within which :</i>								
Land transport	-2.6	6.0	7.0	11.9	14.9	11.0	7.6	6.3
Water transport	-24.1	20.5	0.6	-2.4	1.2	4.5	2.3	-3.9
Air transport	-21.0	33.7	6.7	0.3	-2.8	*	-1.2	1.2
Warehousing and storage	1.4	9.5	9.4	25.2	24.1	16.3	1.4	0.9
Courier	-6.1	28.3	17.3	16.1	17.5	27.5	16.4	14.7
Accommodation services ^(a)	-17.4	25.3	19.6	13.8	18.9	13.3	11.3	6.8
Food services	0.6	5.1	6.4	5.0	4.4	5.2	3.7	4.6
Information and communications	-3.2	4.9	8.8	9.3	5.4	13.0	7.0	8.2
<i>within which :</i>								
Telecommunications	1.4	3.0	8.1	14.7	7.5	26.3	9.6	8.3
Film entertainment	-12.6	-6.4	-5.6	1.9	8.0	1.1	-8.1	4.2
Banking	1.5	8.8	10.8	9.4	10.9	6.8	17.8	14.2
Financing (except banking)	-10.3	16.7	-2.4	1.6	3.8	10.9	0.2	7.1
<i>within which :</i>								
Financial markets and asset management	-11.7	15.3	-3.2	1.7	4.0	13.0	-2.0	6.7
<i>within which : Asset management</i>	-12.1	28.4	10.6	-5.4	-5.1	2.0	6.8	20.1
Insurance	0.7	8.3	9.4	13.6	12.6	15.0	13.6	12.1
Real estate	9.7	11.4	-0.9	11.8	29.1	11.5	5.7	-2.3
Professional, scientific and technical services	-0.5	13.9	7.3	-0.5	-2.1	0.4	4.1	10.8
Administrative and support services	-12.4	12.3	10.2	8.2	10.3	7.5	7.1	11.2
Services Domain								
Tourism, convention and exhibition services	3.2	30.6	20.6	14.8	12.2	15.4	15.2 ⁺	28.2 ⁺
Computer and information technology services	-15.0	32.5	10.4	15.1	13.5	9.7	4.6	2.7

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u> Q4	Q1	<u>2013</u> Q2	Q3
<u>(%)</u>									
Labour force participation rate	60.9	60.8	59.6	60.1	60.5	60.4	61.2	61.5	61.5
Seasonally adjusted unemployment rate	3.5	5.3	4.3	3.4	3.3	3.2	3.5	3.3	3.3
Underemployment rate	1.9	2.3	2.0	1.7	1.5	1.5	1.6	1.6	1.5
<u>('000)</u>									
Population of working age	5 977.1	6 022.9	6 093.8	6 164.4	6 253.4	6 283.6	6 299.7	6 305.1	6 314.7
Labour force	3 637.2	3 660.3	3 631.3	3 703.1	3 785.2	3 794.9	3 852.7	3 877.2	3 884.3
Persons employed	3 509.1	3 467.6	3 474.1	3 576.4	3 660.7	3 678.1	3 720.2	3 745.1	3 750.1
Persons unemployed	128.1	192.6	157.2	126.7	124.5	116.8	132.5	132.1	134.2
Persons underemployed	67.9	83.8	72.5	63.3	57.6	55.9	61.1	61.4	57.0
<u>(% change over a year earlier)</u>									
Population of working age	1.0	0.8	1.2	1.2	1.4	1.3	1.2	0.9	0.8
Labour force	0.4	0.6	-0.8	2.0	2.2	1.7	2.4	2.5	2.7
Persons employed	0.9	-1.2	0.2	2.9	2.4	1.7	2.2	2.4	2.7
Persons unemployed	-11.9	50.4	-18.4	-19.4	-1.8	0.7	7.6	4.5	1.9
Persons underemployed	-14.5	23.4	-13.5	-12.7	-9.0	6.7	4.2	12.7	-3.9

Table 17 : Employment in selected major industries

Selected major industries	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>			<u>2013</u>		
	(% change)					Sep	Dec	Mar	Jun		
						(% change over a year earlier)					(No.)
Manufacturing	-3.5	-5.7	-4.5	-5.6	-5.1	-4.3	-4.6	-3.7	-4.0	103 350	
Construction sites (manual workers only)	-1.5	2.2	9.6	13.2	13.8	13.4	1.7	10.1	15.1	82 542	
Import and export trade	-0.3	-4.4	0.9	-0.3	-1.1	-1.6	-0.9	0.4	-0.4	491 729	
Wholesale	-2.7	-2.0	1.2	*	-0.6	-1.6	-0.6	-1.5	-2.8	62 643	
Retail	2.8	-0.3	3.3	4.0	2.5	2.7	2.1	2.3	2.1	264 805	
Food and beverage services	1.8	*	3.7	6.6	1.6	1.8	2.0	2.1	1.0	237 934	
Accommodation services ^(a)	3.1	-1.0	1.5	5.8	9.2	9.6	9.2	4.6	4.5	38 273	
Transportation, storage, postal and courier services	3.5	1.1	1.5	2.0	1.8	1.9	1.1	1.5	1.6	169 346	
Information and communications	3.6	-1.6	1.3	3.4	5.6	6.3	4.2	3.3	5.4	101 073	
Financing and insurance	5.6	-0.5	4.8	6.3	1.9	*	0.2	-1.1	0.2	207 346	
Real estate	2.7	0.5	4.1	8.0	4.2	4.7	3.0	4.0	1.7	126 415	
Professional and business services (excluding cleaning and similar services)	3.4	0.9	2.2	4.2	3.4	2.7	2.6	3.6	4.0	265 434	
Cleaning and similar services	-1.7	6.7	13.7	9.5	3.3	4.1	2.8	2.9	1.2	79 110	
Education	4.8	5.3	3.4	1.5	2.4	2.2	2.5	3.1	2.7	176 973	
Human health services	5.1	3.8	3.0	4.1	4.9	5.7	5.0	5.1	5.4	105 796	
Residential care and social work services	1.3	1.5	1.8	1.3	2.0	1.7	2.9	2.0	0.4	59 078	
Arts, entertainment, recreation and other services	1.9	0.8	5.0	2.8	0.6	*	1.5	2.2	0.1	119 126	
Civil Service ^(b)	0.1	1.1	0.5	0.7	1.1	0.9	0.7	0.9	1.1	160 904	
Others ^(c)	7.0	-1.0	3.1	-0.6	-5.1	-6.2	-3.2	-0.4	2.5	10 668	

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

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

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

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

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

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>		<u>2013</u>	
						Sep	Dec	Mar	Jun
<u>(Number)</u>									
Building sites									
Private sector	28 899	28 776	28 620	31 780	37 687	37 375	36 461	39 845	43 217
Public sector ^(a)	8 136	10 277	11 463	12 335	10 578	11 311	10 579	11 744	10 701
Sub-total	37 034	39 053	40 083	44 115	48 265	48 686	47 040	51 589	53 918
Civil engineering sites									
Private sector	1 686	1 618	1 544	1 250	1 410	1 473	1 359	1 055	1 149
Public sector ^(a)	10 703	9 831	13 714	17 270	21 621	22 079	22 179	25 159	27 475
Sub-total	12 388	11 449	15 258	18 520	23 030	23 552	23 538	26 214	28 624
Total	49 422	50 501	55 341	62 635	71 295	72 238	70 578	77 803	82 542
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	-1.2	-0.4	-0.5	11.0	18.6	9.1	-2.5	5.8	10.1
Public sector ^(a)	4.7	26.3	11.5	7.6	-14.2	3.3	-5.4	8.6	11.3
Sub-total	0.1	5.5	2.6	10.1	9.4	7.7	-3.1	6.5	10.3
Civil engineering sites									
Private sector	0.7	-4.0	-4.6	-19.0	12.8	17.5	-6.7	-23.1	-19.9
Public sector ^(a)	-7.0	-8.1	39.5	25.9	25.2	27.8	14.5	20.9	28.3
Sub-total	-6.0	-7.6	33.3	21.4	24.4	27.1	13.0	18.2	25.3
Total	-1.5	2.2	9.6	13.2	13.8	13.4	1.7	10.1	15.1

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>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>		<u>2013</u>	
Selected industry section						Q3	Q4	Q1	Q2
(in nominal terms)									
Manufacturing	0.9	-3.5	2.6	7.2	8.6	8.6	5.9	2.1	3.1
Sewerage, waste management and remediation activities	-8.6	2.1	-0.1	5.6	4.5	5.6	2.1	3.5	6.3
Import/export and wholesale trade	6.3	-1.6	2.6	12.9	4.4	3.8	6.1	3.2	0.4
Retail trade	8.1	-1.5	3.9	12.3	10.1	8.1	9.9	4.9	8.0
Transportation, storage, postal and courier services	-0.6	-0.2	3.4	4.0	1.7	5.0	5.8	4.6	5.7
Accommodation ^(a) and food service activities	2.6	-0.6	3.3	9.7	6.0	5.0	5.9	4.7	7.6
Information and communications	6.6	0.2	2.6	7.4	8.3	9.0	7.1	4.4	5.0
Financial and insurance activities	9.0	-3.3	7.2	11.5	4.4	4.1	3.8	6.4	3.4
Real estate activities	8.0	-2.4	1.3	11.4	7.5	3.9	6.1	4.5	6.4
Professional and business services	3.5	0.6	2.4	2.0	4.9	2.7	4.0	4.8	7.4
Social and personal services	3.1	1.7	-2.4	3.1	7.4	7.4	5.2	5.8	4.1
All industries surveyed	2.6	0.5	2.4	7.9	6.5	6.3	5.9	5.2	5.0
(in real terms)									
Manufacturing	-3.3	-4.1	0.3	1.9	4.4	5.4	2.1	-1.4	-0.8
Sewerage, waste management and remediation activities	-12.3	1.5	-2.3	0.3	0.5	2.5	-1.6	-0.1	2.3
Import/export and wholesale trade	1.9	-2.3	0.2	7.2	0.3	0.7	2.2	-0.4	-3.5
Retail trade	3.6	-2.1	1.6	6.7	5.8	4.9	5.9	1.3	3.8
Transportation, storage, postal and courier services	-4.7	-0.8	1.1	-1.2	-2.3	1.9	2.0	0.9	1.7
Accommodation ^(a) and food service activities	-1.7	-1.2	1.0	4.2	1.8	2.0	2.1	1.0	3.5
Information and communications	2.2	-0.4	0.3	2.0	4.1	5.8	3.2	0.8	1.0
Financial and insurance activities	4.6	-3.9	4.8	6.0	0.3	1.0	*	2.7	-0.6
Real estate activities	3.5	-3.0	-1.0	5.8	3.3	0.9	2.2	0.9	2.4
Professional and business services	-0.7	*	0.1	-3.1	0.8	-0.3	0.3	1.1	3.3
Social and personal services	-1.2	1.1	-4.6	-2.1	3.3	4.3	1.4	2.1	0.1
All industries surveyed	-1.7	-0.1	0.1	2.5	2.3	3.2	2.0	1.5	1.0

Notes: The rates of change in real terms are compiled from the Real Indices of Payroll per Person Engaged. The Indices are derived by deflating the Nominal Indices of Payroll per Person Engaged by the 2009/10-based Composite CPI.

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

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

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

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

	(%)								
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>		<u>2013</u>	
Selected industry section						Sep	Dec	Mar	Jun
(in nominal terms)									
Manufacturing	2.6	-1.2	-1.0	6.7	4.3	4.2	1.6	2.4	6.5
Import/export, wholesale and retail trades ^(a)	3.6	-1.1	2.6	7.8	4.5	3.0	3.7	3.6	3.0
<i>within which :</i>									
Import/export and wholesale trades	3.1	-1.2	2.7	8.3	4.8	3.3	--	3.8	--
Retail trade	4.9	-0.2	1.1	-0.3	2.1	2.0	--	2.1	--
Transportation	1.8	*	1.1	4.0	3.4	3.3	2.9	3.6	3.7
Accommodation ^(b) and food service activities	3.1	-2.3	2.5	9.3	8.0	7.7	8.4	6.9	7.2
Financial and insurance activities ^(c)	2.8	-0.5	3.0	6.7	4.3	4.3	6.1	5.3	5.1
Real estate leasing and maintenance management	2.7	-0.4	2.6	8.6	8.0	6.7	7.1	5.8	9.2
Professional and business services	4.9	0.8	3.4	12.6	6.8	5.3	3.7	3.3	5.8
Personal services	0.5	-0.7	3.4	9.6	9.7	9.0	8.4	7.3	6.9
All industries surveyed	3.4	-0.9	2.4	8.1	5.7	4.8	5.1	4.7	5.2
(in real terms)									
Manufacturing	-0.1	-1.8	-3.7	1.3	0.3	-0.1	-2.5	-1.5	1.8
Import/export, wholesale and retail trades ^(a)	0.9	-1.7	-0.2	2.4	0.5	-1.3	-0.5	-0.4	-1.6
<i>within which :</i>									
Import/export and wholesale trades	0.4	-1.7	-0.1	2.8	0.7	-1.0	--	-0.2	--
Retail trade	2.2	-0.7	-1.6	-5.3	-1.8	-2.2	--	-1.8	--
Transportation	-0.8	-0.5	-1.7	-1.2	-0.6	-1.0	-1.3	-0.4	-0.8
Accommodation ^(b) and food service activities	0.4	-2.8	-0.3	3.8	3.8	3.3	4.0	2.8	2.5
Financial and insurance activities ^(c)	0.2	-1.0	0.2	1.3	0.2	*	1.8	1.3	0.5
Real estate leasing and maintenance management	0.1	-1.0	-0.2	3.1	3.8	2.3	2.7	1.8	4.4
Professional and business services	2.2	0.3	0.6	6.9	2.7	1.0	-0.5	-0.7	1.1
Personal services	-2.1	-1.2	0.6	4.1	5.5	4.5	4.0	3.2	2.2
All industries surveyed	0.7	-1.5	-0.4	2.7	1.6	0.4	0.9	0.7	0.6

Notes: The rates of change in real terms are compiled from the Real Wage Indices. The Indices are derived by deflating the Nominal Wage Indices by the 2009/10-based CPI(A).

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

- (a) Starting from 2009, the sample size of the wage enquiry conducted in the second and fourth quarters of a year will be reduced. Therefore, wage statistics at detailed industry breakdowns will not be available for June and December of a year.
- (b) Accommodation services covers hotels, guesthouses, boarding houses and other establishments providing short term accommodation.
- (c) Excluding stock, commodity and bullion brokers, exchanges and services companies; insurance agents and brokers; and real estate agencies.
- (*) Change within $\pm 0.05\%$.
- (--) Not applicable.

Table 21 : Rates of change in prices

(%)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
GDP deflator	-6.0	-3.6	-0.2	-0.5	3.1	1.3	-0.4	0.3
Domestic demand deflator	-4.0	-0.1	1.1	1.6	2.4	2.6	-0.8	2.2
Consumer Price Indices ^(a) :								
Composite CPI	-2.6	-0.4	1.0	2.0	2.0	4.3	0.5	2.4
CPI(A)	-2.1	*	1.1	1.7	1.3	3.6	0.4	2.7
CPI(B)	-2.7	-0.5	1.0	2.1	2.2	4.6	0.5	2.3
CPI(C)	-2.9	-0.9	0.8	2.2	2.7	4.7	0.6	2.1
Unit Value Indices :								
Domestic exports	0.2	1.5	2.2	-2.1	0.8	5.1	-0.2	5.5
Re-exports	-1.5	1.1	1.2	1.1	2.4	3.8	1.2	4.6
Total exports of goods	-1.4	1.2	1.3	1.0	2.3	3.8	1.1	4.7
Imports of goods	-0.4	2.9	2.7	2.1	2.3	4.4	-0.1	6.4
Terms of Trade Index	-1.0	-1.7	-1.4	-1.1	0.1	-0.5	1.3	-1.7
Producer Price Index for all manufacturing industries ^(b)	-0.3	2.2	0.8	2.2	3.0	5.6	-1.7	6.0
Tender Price Indices :								
Public sector								
building projects	-0.3	-1.5	1.4	5.0	20.1	41.9	-15.9	12.5
Public housing projects	-10.0	3.5	7.7	11.2	19.7	30.8	-6.8	6.7

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

(%)

	<u>2011</u>	<u>2012</u>	<u>2012</u>		<u>2013</u>			Average annual rate of change:	
			Q4	Q1	Q2	Q3	10 years	5 years	
							2002 to 2012	2007 to 2012	
GDP deflator [#]	3.9	3.9	4.3	1.4	0.8	1.8	0.1	1.8	
Domestic demand deflator [#]	4.5	4.7	4.9	2.4	0.7	-0.7	1.4	2.6	
Consumer Price Indices ^(a) :									
Composite CPI	5.3	4.1	3.8	3.7	4.0	5.3	1.8	3.3	
CPI(A)	5.6	3.6	4.2	4.2	4.6	7.3	1.8	3.2	
CPI(B)	5.2	4.3	3.6	3.5	3.8	4.6	1.9	3.4	
CPI(C)	5.1	4.1	3.3	3.3	3.6	4.2	1.8	3.3	
Unit Value Indices :									
Domestic exports	6.4	2.5	2.7	4.2	2.3	1.8	2.2	3.8	
Re-exports	8.0	3.4	1.3	0.5	0.4	1.7	2.5	4.2	
Total exports of goods	8.0	3.4	1.4	0.6	0.4	1.7	2.5	4.2	
Imports of goods	8.1	3.3	2.1	1.1	0.2	0.6	3.1	4.4	
Terms of Trade Index	-0.1	0.1	-0.7	-0.5	0.2	1.0	-0.6	-0.2	
Producer Price Index for all manufacturing industries ^(b)	8.3	0.1	-1.0	0.6	-2.4	N.A.	--	3.6	
Tender Price Indices :									
Public sector									
building projects	11.6	8.3	6.3	7.2	6.5	N.A.	7.4	10.2	
Public housing projects	10.1	6.4	6.8	8.8	9.6	N.A.	7.4	8.8	

Table 22 : Rates of change in Composite Consumer Price Index

(%)

	Weight	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
All items	100.0	-2.6 (--)	-0.4 (--)	1.0 (--)	2.0 (--)	2.0 (2.8)	4.3 (5.6)	0.5 (1.0)
Food	27.45	-1.5	1.0	1.8	1.7	4.3	10.1	1.3
<i>Meals bought away from home</i>	17.07	-1.5	0.2	0.9	1.3	2.5	5.9	1.6
<i>Food, excluding meals bought away from home</i>	10.38	-1.7	2.5	3.2	2.5	7.1	16.8	0.9
Housing ^(a)	31.66	-4.8	-5.2	0.1	4.7	2.0	4.1	3.7
<i>Private housing rent</i>	27.14	-6.3	-6.6	-0.1	5.6	4.0	6.8	3.6
<i>Public housing rent</i>	2.05	9.1	2.5	0.2	0.1	-17.7	-27.2	9.5
Electricity, gas and water	3.10	1.4	11.4	4.1	2.1	-0.7	-6.5	-25.3
Alcoholic drinks and tobacco	0.59	0.1	*	0.4	-3.7	-1.2	0.1	18.7
Clothing and footwear	3.45	-2.7	6.4	2.0	1.0	4.1	0.8	2.7
Durable goods	5.27	-6.4	-2.2	-3.2	-6.4	-4.7	-2.0	-3.0
Miscellaneous goods	4.17	2.3	3.6	1.5	1.7	2.5	5.0	2.3
Transport	8.44	-0.4	0.4	1.4	0.7	-0.1	2.5	-0.9
Miscellaneous services	15.87	-3.2	-0.2	1.0	1.9	1.7	0.8	-2.1

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

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

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

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

(--) Not applicable.

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

(%)										
	Weight	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>			Average annual rate of change:	
					Q4	Q1	Q2	Q3	10 years 2002 to 2012	5 years 2007 to 2012
All items	100.0	2.4	5.3	4.1	3.8	3.7	4.0	5.3	1.8	3.3
		(1.7)	(5.3)	(4.7)	(3.8)	(3.8)	(3.9)	(4.3)	(-)	(3.7)
Food	27.45	2.4	7.0	5.8	4.2	4.1	4.5	4.6	3.3	5.3
<i>Meals bought away from home</i>	17.07	1.7	5.2	5.4	4.6	4.4	4.3	4.3	2.3	3.9
<i>Food, excluding meals bought away from home</i>	10.38	3.5	9.9	6.5	3.6	3.6	4.8	4.9	5.0	7.4
Housing ^(a)	31.66	0.4	7.2	5.6	5.2	5.2	6.1	9.4	1.7	4.2
<i>Private housing rent</i>	27.14	0.9	7.2	6.8	5.1	5.0	6.1	7.0	2.1	5.0
<i>Public housing rent</i>	2.05	-7.8	11.9	-7.1	9.7	9.7	8.9	777.6	-3.4	-5.2
Electricity, gas and water	3.10	43.3	-4.2	-8.2	4.6	4.9	5.9	9.6	0.5	-2.5
Alcoholic drinks and tobacco	0.59	3.4	17.1	3.0	0.6	1.6	1.9	1.4	3.5	8.2
Clothing and footwear	3.45	1.8	6.8	3.1	1.9	1.5	1.0	1.7	2.6	3.0
Durable goods	5.27	-2.7	-3.8	-1.4	-1.7	-3.5	-5.0	-4.7	-3.6	-2.6
Miscellaneous goods	4.17	2.4	3.8	2.2	2.0	1.4	2.2	2.5	2.7	3.1
Transport	8.44	2.0	4.4	3.0	2.2	2.0	2.2	2.8	1.3	2.2
Miscellaneous services	15.87	2.0	3.5	2.8	2.9	3.5	3.1	3.9	0.8	1.4

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

(%)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Private consumption expenditure	-2.4	-0.4	1.6	0.9	4.1	2.5	-1.4
Government consumption expenditure	-2.2	-2.6	-1.7	0.1	2.2	4.4	0.7
Gross domestic fixed capital formation	-9.2	2.2	1.1	4.2	-2.1	1.7	0.3
Total exports of goods	-1.8	0.9	0.6	0.3	2.2	3.4	0.5
Imports of goods	-0.9	2.9	1.9	2.1	1.7	4.1	-1.3
Exports of services	-3.1	0.5	3.3	3.6	2.5	3.4	-7.0
Imports of services	2.7	4.1	1.0	0.8	3.0	3.8	-2.7
Gross Domestic Product	-6.0	-3.6	-0.2	-0.5	3.1	1.3	-0.4
Total final demand	-2.7	0.5	1.1	1.1	2.3	3.1	-1.1
Domestic demand	-4.0	-0.1	1.1	1.6	2.4	2.6	-0.8

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

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

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

(%)

	<u>2010</u>	<u>2011[#]</u>	<u>2012[#]</u>	<u>2012</u>		<u>2013</u>		Average annual <u>rate of change:</u>	
				Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]	10 years 2002 to 2012 [#]	5 years 2007 to 2012 [#]
Private consumption expenditure	1.4	3.6	3.1	2.7	1.8	2.1	2.8	1.3	1.8
Government consumption expenditure	-0.2	4.5	6.1	6.2	6.0	4.2	3.7	1.1	3.1
Gross domestic fixed capital formation	5.8	6.8	8.2	10.2	3.6	-3.7	-8.9	1.8	4.5
Total exports of goods	4.6	7.7	3.1	1.0	-0.5	-0.5	-0.4	2.1	3.9
Imports of goods	6.3	8.2	3.8	1.2	0.1	-0.5	-1.3	2.9	4.2
Exports of services	7.4	7.6	3.8	1.8	1.1	*	1.3	2.1	2.9
Imports of services	5.6	6.4	1.8	2.5	1.1	0.7	0.1	2.6	2.9
Gross Domestic Product	0.3	3.9	3.9	4.3	1.4	0.8	1.8	0.1	1.8
Total final demand	4.3	6.7	3.7	2.3	0.6	*	-0.3	1.9	3.3
Domestic demand	2.2	4.5	4.7	4.9	2.4	0.7	-0.7	1.4	2.6

