

## **Press Release**

(embargoed until 4:15 p.m. on 22 August 2006)

### **Economic Situation in the Second Quarter of 2006 and Latest GDP and Price Forecasts for 2006**

The Government released today (Tuesday) the Half-yearly Economic Report 2006, together with the preliminary figures on Gross Domestic Product for the second quarter of 2006.

The Government Economist, Mr K C Kwok, described the economic situation in the second quarter of 2006 and provided the latest GDP and price forecasts for the year.

#### **MAIN POINTS**

- \* The Hong Kong economy, after an exceptionally strong growth of 8.0% in the first quarter, grew by 5.2% in the second quarter of 2006 (former figure revised from the earlier estimate of 8.2%). This marked the eleventh consecutive quarter that GDP growth exceeded the average trend growth of 3.9% in the past ten years.
- \* Yet when compared with the first quarter, external trade was less sanguine. Merchandise exports, having attained continuous strong growth over the past three years, grew more moderately in the second quarter, by 6.4% in real terms over a year earlier. The slackening in export momentum was most apparent in the US market, upon the somewhat weaker consumer demand there. Exports to most other markets also showed different extents of moderation, partly due to the feed-through of a stronger US dollar in the earlier period. Yet the vibrant Mainland economy has helped to cushion the impact of weaker performance in other markets. Also, exports of services still maintained notable growth momentum, up 8.6% in real terms in the second quarter, bolstered by continued distinct growth in offshore trade and still vibrant inbound tourism.
- \* Against a weaker export performance, however, domestic demand continued to hold up well, thereby providing the key driver of economic growth in the second quarter. Private consumption expenditure picked up further to a 5.0% growth in real terms in the second quarter, alongside improving employment conditions. This improvement occurred even amidst the large volatilities in the stock market in May and June caused by an uncertain interest rate outlook.
- \* Overall investment expenditure grew by 4.3% in real terms in the second quarter, with the continued surge in expenditure on machinery and equipment, at 12.8%, more than offsetting the decline at 6.4% in building and construction expenditure. The former was a clear reflection of strong investor confidence on the back of expanding business activity.
- \* The above-trend economic growth led to a further improvement in the labour market, with the seasonally adjusted unemployment rate edging down to 5.0% in

the second quarter and further to 4.9% in May-July 2006, the lowest in nearly 5 years. Compared with the trough in 2003, some 263 000 additional jobs have been created; and the number of long-term unemployed has also come down markedly by nearly half. The unemployment rate for lower-skilled workers saw further improvement, while that for professional and managerial employees has fallen back to around 2%. Wages and earnings remained on the rise, and job vacancies continued to surge, reaching its highest since September 1997.

- \* The outlook for the rest of the year depends on how the various downside risks from the external front, including most notably, weaker US growth and high oil price, would play out to affect Hong Kong's external trade. Yet at this present juncture, it is believed that the external environment would remain largely positive in the second half of the year. Although the US market has shown some signs of moderation lately, the recent pause in the US interest rate up-cycle, the sustained brisk expansion of the Mainland economy, and the current upturn in Europe and Japan are all positive factors which would help to underpin Hong Kong's export performance going forward. The further weakening of the US dollar lately is another supportive factor. On balance, total exports are still poised for further growth in the second half of the year, albeit possibly not as fast as previously.
- \* Domestic demand can be expected to remain resilient and play an even more prominent role in driving economic growth in the rest of the year. Consumer spending looks set to grow solidly further in the near term, on the back of rising household incomes and better job prospects, aided further by the positive wealth effect from the recent stock market boom. The pause in the US interest rate up-cycle will add further support to households' willingness to spend. Investment in machinery and equipment also seems likely to increase briskly further, in tandem with rising corporate earnings and the expanding business. But the sluggishness in construction might continue to hold back the pace of upturn in overall investment.
- \* With the resilience in domestic demand and with the expected further growth in trade, the economic outlook for the rest of the year is for a further expansion closer to the past trend growth rate. That the economy would progressively move from a high growth track back to a growth pace more in line with its past trend during this year actually accords well with earlier expectations. Given the outturn so far and with the expected further solid expansion in the second half, for 2006 as a whole, the Hong Kong economy should easily attain the forecast growth range of 4-5% as put out earlier. On the whole, the May round forecast of a 4-5% GDP growth for 2006 is still applicable. Indeed, barring any abrupt adverse changes in the external environment, GDP growth for the year as a whole is likely to be close to 5%, the upper end of the range forecast.

- \* Consumer price inflation, though notching up to 2.0% in the second quarter, remained benign. Looking ahead, overall inflationary pressures are likely to stay rather moderate, being kept down by rising productivity and capacity expansion from hefty business investment. With the actual outturn of consumer price inflation so far broadly in line with the earlier expectations, the forecast rate of increase in the Composite CPI for 2006 as a whole is kept unchanged at 2%. As to the forecast rate of change in the GDP deflator, it is revised slightly downwards to 0% from the earlier forecast of 0.5%, in view of the persistent fall in the terms of trade caused by higher oil prices.

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## DETAIL

### GDP

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew by 5.2% in real terms in the second quarter of 2006 over a year earlier, following an exceptionally strong 8.0% growth (revised down from 8.2% in the earlier release) in the first quarter and a 7.3% growth in 2005. This marked the eleventh straight quarter of above-trend growth for the Hong Kong economy. On a seasonally adjusted quarter-to-quarter comparison, GDP showed virtually zero growth in real terms in the second quarter of 2006. This came after a strong 2.2% increase in the first quarter and eleven consecutive quarters of sustained expansion (*Chart*).

2. The latest figures on GDP and its major expenditure components up to the second quarter of 2006 are presented in *Table 1*. Developments in different segments of the economy in the second quarter of 2006 are described below.

### External trade

3. External trade was less sanguine in the second quarter compared with the exceptionally strong performance in the first quarter. Merchandise exports to most of the major markets slowed. Exports to the United States fell back in the quarter amidst weaker consumer demand there. Exports to Japan also slowed down considerably, conceivably affected by the notable depreciation of the yen over the past year or so. Exports to the EU, though still growing, were also much less robust than in the preceding quarters, again partly due to the feed-through of the weaker euro in the earlier quarters. Yet with the Mainland economy growing at a brisk pace, exports to the Mainland continued to show double-digit growth, thereby rendering some cushion to the weaker performance in other major overseas markets. Overall, *total exports of goods* grew by 6.4% in real terms in the second quarter of 2006 over a year earlier, following a 14.4% increase in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods fell by 1.1% in real terms in the second quarter, after a 2.2% increase in the preceding quarter.

4. *Exports of services*, in contrast, still held up well in the second quarter, up 8.6% in real terms, after an 8.9% growth in the first quarter, as offshore trade and transportation service exports were bolstered by Mainland's vibrant trade flows, and as inbound tourism continued to thrive. On a seasonally adjusted quarter-to-quarter comparison, exports of services rose by 1.8% in the second quarter, faster than the 0.8% increase in the preceding quarter.

### **Domestic sector**

5. The role of domestic demand in driving overall economic growth has become more prominent in the second quarter. On the back of improving employment conditions and job prospects, *private consumption expenditure* picked up further to a 5.0% growth in the second quarter, up from the 4.5% growth in the preceding quarter. This was notwithstanding the local stock market correction in May and June caused by uncertainties about future interest rate movements. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure went up by 1.0% in real terms in the second quarter, following a 1.6% increase in the first quarter.

6. Overall investment spending in terms of the *gross domestic fixed capital formation* grew further by 4.3% in real terms in the second quarter over a year earlier. Expenditure on machinery and equipment, which surged by 12.8%, continued to provide the major impetus to overall investment growth. Clearly, the business sector has seen the need to increase productivity and expand productive capacity to cater for the envisaged growth in business opportunities. This was also consistent with the strong business confidence prevailing in the economy as evidenced from the latest round of the Business Tendency Survey. Activity in the construction sector, however, remained subdued, falling by 6.4%.

### **The labour sector**

7. The labour market improved further in the second quarter. The *seasonally adjusted unemployment rate* fell to 5.0% in the second quarter and further to 4.9% in May – July, the lowest in nearly five years. Since the trough of 2003, some 263 000 additional jobs were created, leading to improvement in the employment conditions for workers at different skill levels. Meanwhile, the number of long-term unemployed persons continued to decline, and by now it has come down by around half. Also, the total number of job vacancies in the private sector rose markedly further in March 2006 over a year ago, and labour incomes remained on the rise.

### **Prices**

8. Consumer price inflation continued to inch up along with the further economic expansion. The *Composite Consumer Price Index* rose by 2.0% in the second quarter of 2006 over a year earlier, up from the 1.6% increase in the preceding quarter. (In July, the CCPI inflation was 2.3%, giving an average of 1.9%

for the first seven months taken together.) Although the feed-through of rising private housing rentals and soaring oil prices was increasingly felt, in overall terms inflationary pressures were still moderate, being mitigated by rising productivity and generally soft import prices. On a seasonally adjusted quarter-to-quarter comparison, the Composite CPI showed a 0.8% increase in the second quarter, following a 0.4% increase in the first quarter. As to the *GDP deflator*, it continued to decrease marginally by 0.1% in the second quarter over a year earlier, after a similar decline in the preceding quarter. This was entirely dragged by the fall in the terms of trade resulting from the faster increase in import prices, in turn due to higher oil prices.

### **Latest GDP and price forecasts for 2006**

9. After 11 quarters of above-trend growth, the economic outlook for the rest of the year is for a further expansion closer to the past trend growth rate. That the economy would progressively move from a high growth track back to a growth pace more in line with its past trend during the year actually accords well with earlier expectations.

10. Externally, total exports are still poised for further growth in the period ahead, with the support from the vibrant Mainland economy, continued economic upturn in Europe and Japan, and also the renewed weakening of the US dollar lately. But the export growth momentum going forward is unlikely to be as strong as in the past two years when global economic growth was amongst the strongest in 30 years.

11. Although external trade may not grow as fast, domestic demand is likely to stay firm to render the key impetus to overall economic growth in the rest of the year. Consumer spending will continue to be underpinned by rising household incomes and better job prospects, especially with the positive wealth effect from the recent stock market boom and also the pause in the US interest rate up-cycle. Investment in machinery and equipment looks set to surge further, in tandem with rising corporate earnings and the expanding business. But the sluggishness in construction will continue to hold back the pace of upturn in overall investment.

12. Having regard to the strong GDP outturn so far and the expected further expansion at a solid pace in the second half, for 2006 as a whole the Hong Kong economy should easily attain the forecast GDP growth range of 4-5% put out earlier. On the whole, the earlier range forecast of 4-5% GDP growth for 2006 as a whole is still applicable. Indeed, barring any abrupt adverse changes in the external environment, it is likely that, for the year as a whole, GDP growth would be close to 5%, the upper end of the range forecast (*Table 2*). For comparison, the forecasts of Hong Kong's GDP growth by a selection of international organisations and local analysts are summarised in *Table 3*.

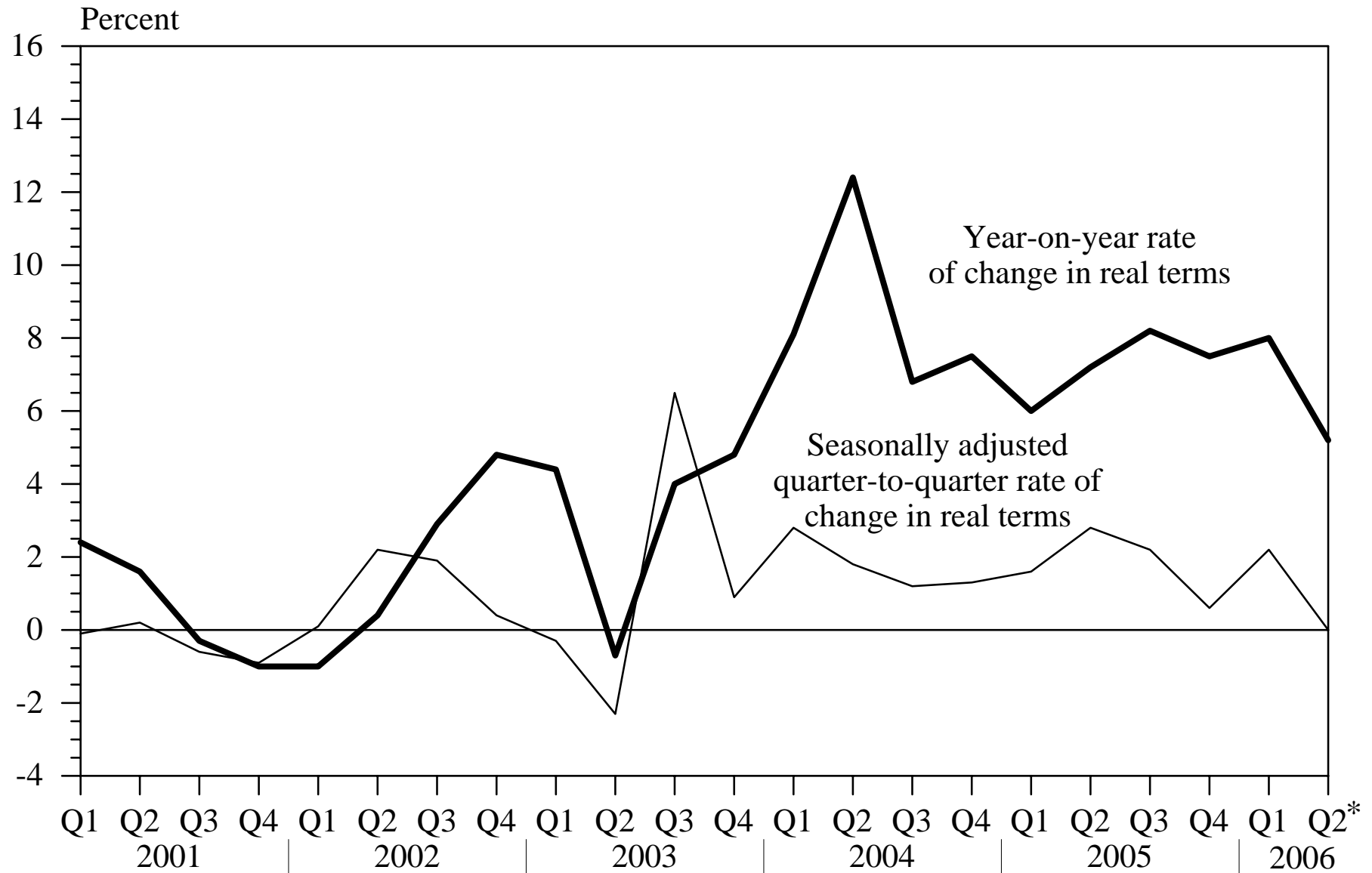
13. As to the outlook for consumer price inflation, it should remain at a rather moderate level through to the end of 2006, though possibly with some further notching up in tandem with the further economic expansion. With the actual outturn of consumer price inflation so far broadly in line with the earlier expectations, the

forecast rate of increase in the *Composite CPI* for 2006 as a whole is kept unchanged at 2%. As to the forecast rate of change in the *GDP deflator* for 2006 as a whole, it is revised slightly downwards to 0% from the earlier forecast of 0.5%, due to the persistent fall in the terms of trade caused by higher oil prices.

(The Half-yearly Economic Report 2006 is now available. Users can download the publication free of charge at <http://www.statisticalbookstore.gov.hk> or <http://www.info.gov.hk/hkecon/report>. Print version of the report can also be purchased on-line, or by calling the Publications Sales Unit of ISD at 2537 1910. The hard copy of the report is available for sale at \$68 per copy (15% discount offered if purchased on-line), yet with a postage charge.)

(The GDP figures up to the second quarter of 2006 are published in the Report of the Gross Domestic Product, Second Quarter 2006. Users can download the publication free of charge at <http://www.statisticalbookstore.gov.hk>. Print version of the report can also be purchased on-line, or by calling the Publications Sales Unit of ISD at 2537 1910. The hard copy of the report is available for sale at \$36 per copy (15% discount offered if purchased on-line), yet with a postage charge.)

# Hong Kong's Gross Domestic Product



Note : (\*) Preliminary figures.

**Table 1**

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

	<u>2004</u>	<u>2005</u>	<u>2005</u>				<u>2006</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u> <sup>#</sup>	<u>Q2</u> <sup>+</sup>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	7.3	3.4	4.1 (0.4)	2.4 (0.5)	3.6 (1.3)	3.4 (0.9)	4.5 (1.6)	5.0 (1.0)
Government consumption expenditure	0.7	-3.1	-4.6 (-2.6)	-2.3 (-0.7)	-1.6 (0.3)	-3.8 (-1.0)	1.2 (2.6)	-1.3 (-3.0)
Gross domestic fixed capital formation	3.0	4.1	0.4 (N.A.)	4.9 (N.A.)	2.8 (N.A.)	8.4 (N.A.)	7.6 (N.A.)	4.3 (N.A.)
<i>of which :</i>								
Building and construction	-11.7	-6.1	-1.0	-7.5	-5.2	-10.7	-11.1	-6.4
Machinery, equipment and computer software	11.0	10.6	0.8	10.7	7.1	24.0	23.3	12.8
Total exports of goods	15.3	11.2	8.9 (0.1)	11.1 (6.0)	12.8 (3.1)	11.4 (2.2)	14.4 (2.2)	6.4 (-1.1)
Imports of goods	14.1	8.6	3.8 (1.9)	7.0 (5.1)	11.0 (2.2)	12.0 (2.6)	14.0 (3.3)	6.7 (-1.6)
Exports of services	17.9	8.7	8.7 (0.4)	9.1 (2.4)	8.9 (4.3)	8.2 (1.1)	8.9 (0.8)	8.6 (1.8)
Imports of services	14.6	2.9	6.0 (-2.1)	-0.1 (3.7)	3.5 (0.7)	2.3 (-0.3)	4.9 (1.0)	7.9 (6.4)
<b>Gross Domestic Product</b>	<b>8.6</b>	<b>7.3</b>	<b>6.0</b> <b>(1.6)</b>	<b>7.2</b> <b>(2.8)</b>	<b>8.2</b> <b>(2.2)</b>	<b>7.5</b> <b>(0.6)</b>	<b>8.0</b> <b>(2.2)</b>	<b>5.2</b> <b>(*)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>-3.6</b>	<b>-0.2</b>	<b>-1.4</b> <b>(0.1)</b>	<b>-0.6</b> <b>(0.2)</b>	<b>0.2</b> <b>(*)</b>	<b>0.7</b> <b>(0.5)</b>	<b>-0.1</b> <b>(-0.9)</b>	<b>-0.1</b> <b>(0.2)</b>
<b>Composite Consumer Price Index</b>	<b>-0.4</b>	<b>1.0</b>	<b>0.4</b> <b>(0.1)</b>	<b>0.8</b> <b>(0.3)</b>	<b>1.4</b> <b>(0.3)</b>	<b>1.3</b> <sup>@</sup> <b>(0.5)</b> <sup>@</sup>	<b>1.6</b> <sup>@</sup> <b>(0.4)</b> <sup>@</sup>	<b>2.0</b> <sup>@</sup> <b>(0.8)</b> <sup>@</sup>
<i>Change in nominal GDP (%)</i>	<b>4.7</b>	<b>7.0</b>	<b>4.6</b>	<b>6.6</b>	<b>8.4</b>	<b>8.2</b>	<b>7.9</b>	<b>5.1</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

(@) By reference to the new 2004/05-based CPI series.

(\*) Change of less than 0.05%.



**Table 2****Economic forecasts for 2006  
(year-on-year rate of change (%))**

	Forecasts for 2006 as released <u>on 23.5.2006</u> (%)	Latest forecasts for 2006 <u>on 22.8.2006</u> (%)
<b>Gross Domestic Product (GDP)</b>		
<i>Real GDP</i>	4 to 5	4 to 5
<i>Nominal GDP</i>	4.5 to 5.5	4 to 5
<b>Composite Consumer Price Index</b>	2	2
<b>GDP Deflator</b>	0.5	0

**Table 3**

**2006 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u>	<u>Private consumption expenditure</u> ( growth rate	<u>Gross domestic fixed capital Formation</u> in real	<u>Total exports of goods</u> terms ( % )	<u>Exports of services</u>	<u>Rate of change in consumer prices</u> ( % )	<u>Reference source</u>
<b>International organisations:</b>								
IMF	Jan 2006	5.5	--	--	--	--	1.5	Staff Report for the 2005 Article IV Consultation Discussions, 6 Jan 2006.
	Apr 2006	5.5	--	--	--	--	1.8	World Economic Outlook, Apr 2006.
ADB	Apr 2006	5.5	--	--	--	--	2.5	Asian Development Outlook 2006, Apr 2006.
World Bank	Mar 2006	5.3	--	--	--	--	--	East Asia Update, Mar 2006.
<b>Private sector analysts:</b>								
<i>(a) Major local banks</i>								
HSBC	Feb 2006	5.5	3.2	2.5	4.9	6.4	2.2	Apple Daily, 21 Feb 2006.
	Apr 2006	5.5	3.2	2.5	--	--	2.2	Global Economics, Q2 2006.
	Jun 2006	6.4	3.5	5.8	--	--	2.3	Asian Economics, 22 Jun 2006.
Standard Chartered Bank	Feb 2006	6	--	--	--	--	2.5	On The Ground - Asia, 21 Feb 2006.
	Aug 2006	7	--	--	--	--	2.5	Asia Focus, 16 Aug 2006.
Hang Seng Bank	Dec 2005	5.3	3	2	8.5	6.4	2.3	Hang Seng Economic Monthly, Nov/Dec 2005.
	May 2006	5.3	--	--	--	--	2.2	Hang Seng Bank, 16 May 2006.
	Jun 2006	6.3	3.6	4.4	10.5	6.2	2.3	Hang Seng Economic Monthly, May/June 2006.
Bank of China (HK)	Dec 2005	5	3.3	3	8.5	8	2.5	Economic Review Monthly, Dec 2005.
	May 2006	6.5	4.2	6.8	10.5	8.6	2.2	Economic Review, 26 May 2006.
Bank of East Asia	Jan 2006	5.2	4.5	1	9	6	2.5	Economic Analysis, Jan 2006.
	May 2006	5.8	--	--	--	--	--	Sing Tao Daily, 25 May 2006.
	Aug 2006	5.8	--	--	--	--	2.3	Bank of East Asia, 16 Aug 2006.
ABN Amro Bank	Feb 2006	4.5	--	--	--	--	3	Asia Vision, 10 Feb 2006.
	May 2006	5.5	--	--	--	--	2.5	Asia Vision, 12 May 2006.
	Aug 2006	6	--	--	--	--	2.5	Asia Vision, 11 Aug 2006.

**Table 3 (cont'd)**

**2006 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u>	<u>Private consumption expenditure</u> ( growth rate	<u>Gross domestic fixed capital formation</u> in real	<u>Total exports of goods</u> terms (%) )	<u>Exports of services</u>	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
Citigroup	Feb 2006	5	--	--	--	--	2.8	Hong Kong Economics, 9 Feb 2006.
	May 2006	5.7	3.8	3.8	10.6	8.2	2.6	Hong Kong Economics, 17 May 2006.
	July 2006	5.7	4.3	3.4	--	--	2.2	Asia Economic Outlook and Strategy, 24 Jul 2006.
<i>(b) Investment bank</i>								
JP Morgan Chase	Feb 2006	5.7	--	--	--	--	2	JP Morgan Chase, 16 Feb 2006.
	May 2006	5.8	--	--	--	--	2.2	JP Morgan Chase, 16 May 2006.
	May 2006	6	--	--	--	--	--	Sing Tao Daily, 25 May 2006.
	Aug 2006	6	--	--	--	--	2.2	JP Morgan Chase, 21 Aug 2006.
Goldman Sachs Asia	Jan 2006	5.4	--	--	--	--	2.8	Hong Kong Economic Journal, 3 Jan 2006.
	Feb 2006	5.8	--	--	--	--	2.4	Asia-Pacific Economics Flash, 6 Feb 2006.
	May 2006	6.2	--	--	--	--	--	Sing Tao Daily, 25 May 2006.
	Aug 2006	6.2	4.9	5.8	--	--	2.6	Asia Economics Flash, 10 Aug 2006.
Morgan Stanley Asia	Nov 2005	5	3	3	--	--	2	Hong Kong Economics, 28 Nov 2005.
	May 2006	5	--	--	--	--	2	Morgan Stanley Asia, 16 May 2006.
Merrill Lynch	Jan 2006	6	--	--	--	--	3.9	The Asian Market Economist, 16 Jan 2006.
	Aug 2006	6	--	--	--	--	2.1	The Asian Market Economist, 16 Aug 2006.
Credit Suisse	Jan 2006	4.7	3.6	2.5	--	--	2.6	Asian Daily, 10 Jan 2006.
	Mar 2006	5	4.2	3	--	--	2.3	Global Emerging Markets Outlook, Q2 2006, 24 Mar 2006.
	Jul 2006	5.9	4.6	4	--	--	2.2	Emerging Markets, Q3 2006, 5 Jul 2006.
Lehman Brothers	Feb 2006	5.5	--	--	--	--	3.4	Asia Ex-Japan Weekly Economic Monitor, 10 Feb 2006.
	May 2006	6	--	--	--	--	3	Global Weekly Economic Monitor, 16 May 2006.

**Table 3 (cont'd)**

**2006 GDP and price forecasts for Hong Kong put out by selected international organisations and private sector analysts**

	<u>Date of release</u>	<u>GDP</u>	<u>Private consumption expenditure</u> ( growth rate	<u>Gross domestic fixed capital formation</u> in real	<u>Total exports of goods</u> terms (%) )	<u>Exports of services</u>	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
<i>(c) Others</i>								
Economist Intelligence Unit	May 2006	5.3	3.8	4	--	--	1.9	Country Forecast, May 2006.
	Jun 2006	6	3.9	4	--	--	1.8	Country Forecast, Jun 2006.
	Jul 2006	6.2	4.4	4	--	--	2.1	Country Forecast, Jul 2006.
	Aug 2006	6.1	5.4	4	--	--	2.1	Country Forecast, Aug 2006.
Hong Kong General Chamber of Commerce	Dec 2005	3.5	--	--	--	--	2.5	Hong Kong Economic Forecast, HKGCC, 2 Dec 2005.
	Feb 2006	4	--	--	--	--	2.5	HKGCC, 14 Feb 2006.
	May 2006	4.5	--	--	--	--	2	HKGCC, 16 May 2006.
	Jun 2006	5.5	--	--	--	--	--	Wen Wei Po, 14 Jun 2006.
	Aug 2006	6.5	--	--	--	--	2.5	HKGCC, 17 Aug 2006.
Hong Kong University	Jan 2006	5	--	--	--	--	2.5	RTHK Online News, 5 Jan 2006.
	Apr 2006	5 - 6	--	--	--	--	2.5 - 3	Sing Tao Daily, 7 Apr 2006.
	Jul 2006	6.5	--	--	--	--	2	RTHK on internet, 7 Jul 2006.
Federation of Hong Kong Industries	Jan 2006	5 - 5.5	--	--	--	--	--	Press release, 11 Jan 2006.
	Jul 2006	6.5 - 7	--	--	10	--	--	Press Release, 27 Jul 2006.

**Observation :**

Most private sector forecasters have marked up their GDP forecasts for 2006 after the release of the Q1 GDP numbers. Their prevailing forecasts are mostly in the range of 6 to 6.5%, averaging at 6.2%.



# Half-yearly Economic Report 2006

Government of the Hong Kong  
Special Administrative Region

# ***HALF-YEARLY ECONOMIC REPORT 2006***

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

*August 2006*

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## CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

### *Summary*

- *The Hong Kong economy, after an exceptionally strong growth of 8.0% in the first quarter, continued to show above-trend growth in the second quarter of 2006, with GDP up by 5.2% in real terms.*
- *Yet compared with the performance in the first quarter, external trade was less sanguine in the second quarter. The slackening in export momentum was most apparent in the US market, upon the slow-down in consumer demand there. Exports to most other markets also showed different extents of moderation, partly due to the feed-through of a stronger US dollar in the earlier period. But the vibrant Mainland economy and its thriving trade flows have helped to cushion the impact of weaker performance in the other markets. Moreover, exports of services still maintained notable growth momentum, thanks to continued distinct growth in offshore trade and still vibrant inbound tourism.*
- *Against a somewhat weaker export performance, however, domestic demand continued to hold up well, thereby providing the key driver of economic growth in the second quarter. Consumer demand remained resilient alongside better employment conditions, notwithstanding the volatilities in the stock market in May and June caused by an uncertain interest rate outlook.*
- *Concurrently, overall investment spending grew solidly further, with the continued surge in investment in machinery and equipment more than offsetting the decline in building and construction expenditure. The former was clear reflection of strong investor confidence on the back of expanding business activity.*
- *The above-trend economic growth led to broad-based improvement in the labour market. The seasonally adjusted unemployment rate edged down to a near 5-year low of 5.0% in the second quarter; wages and earnings remained on the rise; while job vacancies continued to surge at end-March 2006.*
- *Consumer price inflation remained benign, though notching up further in the second quarter along with the sustained rise in private housing rentals and a slight pick-up in food prices. Yet overall inflationary pressures remained moderate, mitigated by rising productivity and relatively soft import prices of consumer goods.*

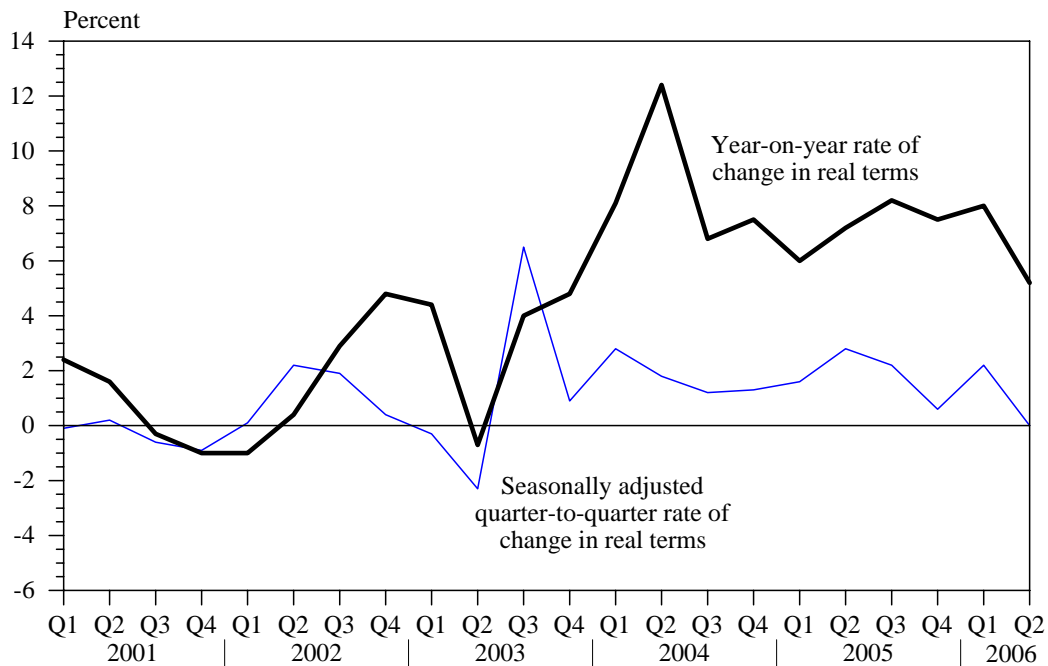
- *Among the various economic sectors, the net outputs of financial services, import and export trade, and transport services, the most dynamic and competitive parts of the economy, continued to grow at double-digit rates in the first quarter.*

## **Overall situation**

1.1 The Hong Kong economy continued to show above-trend growth in the second quarter of 2006. Although merchandise exports showed some moderation, service exports maintained fairly strong momentum. Of more significance was the increasing role played by domestic demand in driving overall economic growth. Consumer spending remained resilient despite rising interest rates and the stock market volatility during the quarter, thanks to the support from improving employment income and job prospects. Investment spending on machinery and equipment surged further, reflecting strong business confidence. The strength of the current economic upturn continued to benefit the labour market, with more new jobs generated alongside further improvement in labour incomes. Yet consumer price inflation remained benign thus far. In general, the overall economic situation was still rather sanguine in the second quarter.

1.2 In the second quarter of 2006, the *Gross Domestic Product (GDP)*<sup>(1)</sup> rose by 5.2% in real terms over a year earlier, marking the eleventh consecutive quarter of above-trend growth. This came after an exceptionally strong 8.0% growth in the preceding quarter (revised down from the earlier estimate of 8.2%). On a seasonally adjusted quarter-to-quarter comparison<sup>(2)</sup>, GDP showed virtually zero growth in real terms in the second quarter.

**Diagram 1.1 : Economy continued to grow at a solid pace in the second quarter**



1.3 Merchandise exports to most of the major markets slowed in the second quarter. Exports to the United States fell back in the quarter amidst the weaker consumer demand there. This was the first quarter of decline after 9 quarters of positive growth. Exports to Japan also slowed down considerably, conceivably affected by the notable depreciation of the yen over the past year or so. Exports to the EU, though still growing, were also much less robust than in the preceding quarters, again partly due to the feed-through of the weaker euro in the earlier quarters. Yet with the Mainland economy growing at a brisk pace, exports to the Mainland continued to expand at a double-digit rate in the second quarter, thereby rendering some cushion to the weaker performance in other major overseas markets. Overall, *total exports of goods* grew by 6.4% in real terms in the second quarter over a year earlier, considerably down from that of 14.4% in the first quarter. Yet *exports of services* still held up well, up notably by 8.6% in the second quarter, as offshore trade and transportation service exports were bolstered by Mainland's vibrant strong trade flows, and as inbound tourism continued to thrive.

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

	<u>2004</u>	<u>2005</u>	<u>2005</u>				<u>2006</u>	
			<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
<i>Change in real terms of GDP and its main expenditure components (%)</i>								
Private consumption expenditure	7.3	3.4	4.1 (0.4)	2.4 (0.5)	3.6 (1.3)	3.4 (0.9)	4.5 (1.6)	5.0 (1.0)
Government consumption expenditure	0.7	-3.1	-4.6 (-2.6)	-2.3 (-0.7)	-1.6 (0.3)	-3.8 (-1.0)	1.2 (2.6)	-1.3 (-3.0)
Gross domestic fixed capital formation	3.0	4.1	0.4 (N.A.)	4.9 (N.A.)	2.8 (N.A.)	8.4 (N.A.)	7.6 (N.A.)	4.3 (N.A.)
<i>of which :</i>								
Building and construction	-11.7	-6.1	-1.0	-7.5	-5.2	-10.7	-11.1	-6.4
Machinery, equipment and computer software	11.0	10.6	0.8	10.7	7.1	24.0	23.3	12.8
Total exports of goods	15.3	11.2	8.9 (0.1)	11.1 (6.0)	12.8 (3.1)	11.4 (2.2)	14.4 (2.2)	6.4 (-1.1)
Imports of goods	14.1	8.6	3.8 (1.9)	7.0 (5.1)	11.0 (2.2)	12.0 (2.6)	14.0 (3.3)	6.7 (-1.6)
Exports of services	17.9	8.7	8.7 (0.4)	9.1 (2.4)	8.9 (4.3)	8.2 (1.1)	8.9 (0.8)	8.6 (1.8)
Imports of services	14.6	2.9	6.0 (-2.1)	-0.1 (3.7)	3.5 (0.7)	2.3 (-0.3)	4.9 (1.0)	7.9 (6.4)
<b>Gross Domestic Product</b>	<b>8.6</b>	<b>7.3</b>	<b>6.0</b> <b>(1.6)</b>	<b>7.2</b> <b>(2.8)</b>	<b>8.2</b> <b>(2.2)</b>	<b>7.5</b> <b>(0.6)</b>	<b>8.0</b> <b>(2.2)</b>	<b>5.2</b> <b>(*)</b>
<i>Change in the main price indicators (%)</i>								
<b>GDP deflator</b>	<b>-3.6</b>	<b>-0.2</b>	<b>-1.4</b> <b>(0.1)</b>	<b>-0.6</b> <b>(0.2)</b>	<b>0.2</b> <b>(*)</b>	<b>0.7</b> <b>(0.5)</b>	<b>-0.1</b> <b>(-0.9)</b>	<b>-0.1</b> <b>(0.2)</b>
<b>Composite Consumer Price Index</b>	<b>-0.4</b>	<b>1.0</b>	<b>0.4</b> <b>(0.1)</b>	<b>0.8</b> <b>(0.3)</b>	<b>1.4</b> <b>(0.3)</b>	<b>1.3<sup>@</sup></b> <b>(0.5)<sup>@</sup></b>	<b>1.6<sup>@</sup></b> <b>(0.4)<sup>@</sup></b>	<b>2.0<sup>@</sup></b> <b>(0.8)<sup>@</sup></b>
<i>Change in nominal GDP (%)</i>	<b>4.7</b>	<b>7.0</b>	<b>4.6</b>	<b>6.6</b>	<b>8.4</b>	<b>8.2</b>	<b>7.9</b>	<b>5.1</b>

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

(#) Revised figures.

(+) Preliminary figures.

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

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

(@) By reference to the new 2004/05-based CPI series.

(\*) Change of less than 0.05%.

1.4 Continuing the trend in the preceding two quarters, domestic demand made significant contribution to overall economic growth. Local consumer spending held up well in the second quarter, thanks to improving employment conditions and job prospects. This was notwithstanding rising interest rates and the local stock market correction in May and June caused by uncertainties about future interest rate movements. *Private consumption expenditure (PCE)* went up by a solid 5.0% in real terms in the second quarter over a year earlier, further to a 4.5% growth in the first quarter. *Government consumption expenditure* decreased slightly in the second quarter, reflecting on-going fiscal restraint.

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

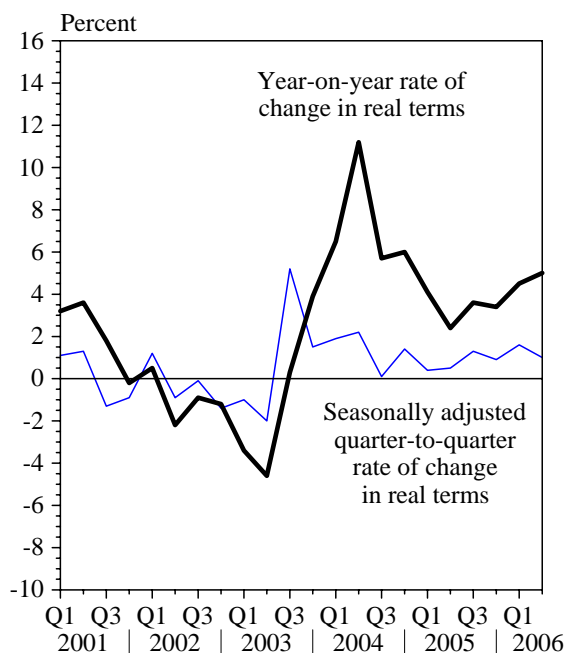
		Total consumer spending in the domestic market <sup>(a)</sup>	<i>Of which :</i>					Residents' expenditure abroad	Visitor spending	<b>Private consumption expenditure<sup>(b)</sup></b>
			<u>Food</u>	<u>Durables</u>	<u>Non- durables</u>	<u>Services</u>				
2005	Annual	4.3	3.8	6.7	6.3	3.2	-0.6	9.5	3.4	
	Q1	4.4	2.8	9.5	9.1	2.2	7.7	11.6	4.1	
	Q2	3.9	4.0	8.2	6.3	2.3	-9.1	8.2	2.4	
	Q3	4.6	3.2	7.2	5.0	4.2	-1.5	8.7	3.6	
	Q4	4.1	4.8	2.6	5.1	4.0	0.9	9.6	3.4	
2006	Q1	5.2	5.5	4.1	3.4	5.9	1.0	8.2	4.5	
	Q2	5.0	4.7	4.4	3.3	5.7	7.3	7.6	5.0	

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

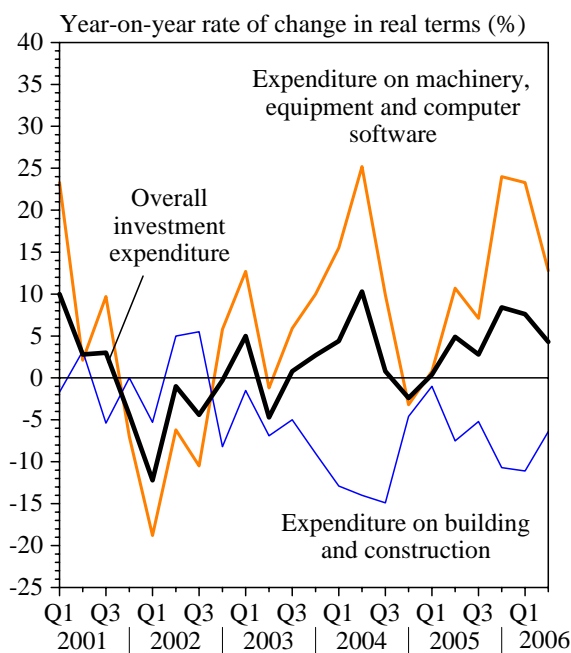
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

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

**Diagram 1.2 : Consumer spending stayed firm on the back of improving employment conditions**



**Diagram 1.3 : Investment spending on machinery and equipment surged further, indicative of strong business confidence**

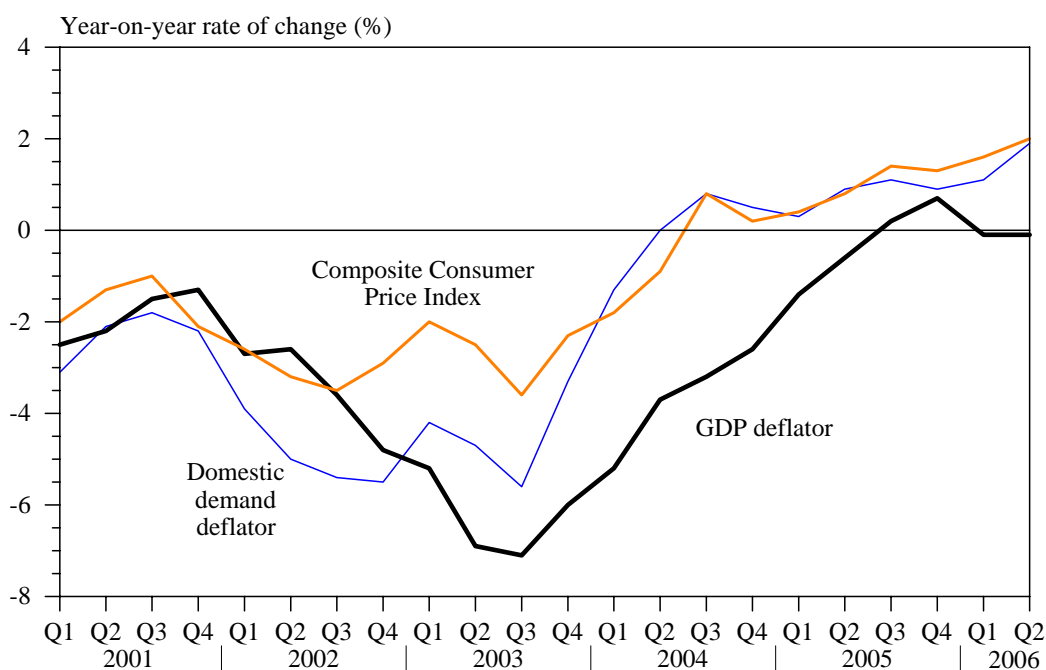


1.5 Overall investment spending in terms of *gross domestic fixed capital formation* grew solidly further in the second quarter of 2006, up by 4.3% in real terms over a year earlier. Machinery and equipment investment, which surged by 12.8%, continued to provide the major impetus to overall investment growth. Clearly, the business sector has seen the need to increase productivity and expand productive capacity to cater for the envisaged growth in business opportunities. This was also consistent with the strong business confidence prevailing in the economy as evidenced from the Business Tendency Survey. Activity in the construction sector, however, remained subdued, largely caused by the continued fall-off in public sector construction upon the winding-down of such major projects as the Shenzhen-Hong Kong Western Corridor and Deep Bay Link. Thus, the pace of investment upturn would have been even faster if not for the slack in construction output.

1.6 *Consumer price inflation* continued to inch up along with the further economic expansion, but remained at a moderate level. The Composite CPI rose by 2.0% in the second quarter over a year earlier, up from the 1.6% increase in the preceding quarter. Although the feed-through of higher private housing rentals and higher fuel prices was increasingly felt, in overall terms inflationary pressures were still modest, being mitigated by rising productivity and generally soft import prices. As to the *GDP deflator*, it continued to decrease slightly, by 0.1% in the second quarter year-on-year, being dragged by

a further decline in the terms of trade. Excluding the relative price movements of exports and imports, the domestic demand deflator went up by 1.9% in the second quarter, broadly in line with the trend of consumer price inflation.

**Diagram 1.4 : Inflation remained benign**



Note : From the fourth quarter of 2005 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 2004/05-based CPI series. Before then, the year-on-year rates of change are computed from the old 1999/2000-based CPI series. Splicing has been applied to the indices to maintain continuity.

### Net output or value added by major economic sector

1.7 With economic activities in Hong Kong moving towards higher value-added and more knowledge-based, the services sector as a whole continued to be the key growth engine of the economy. Latest available figures indicate that net output in the services sector as a whole surged by 9.7% in real terms in the first quarter of 2006 over a year earlier. Buoyed by the strong external sector in that quarter, transport, storage and communications, as well as import and export trade, made double-digit growth. So did financial services, buoyed by vibrant business in the local economy and an active stock market including several major IPOs during the quarter, yet this was also a

general reflection of the competitiveness of Hong Kong's financial sector. Restaurants and hotels, and to a lesser extent, wholesale and retail trades, also benefited from the vibrant inbound tourism and sustained local consumption demand. As for manufacturing, its net output also rose notably, in line with the strong domestic export performance. In contrast, net output in the construction sector fell markedly further and showed little sign of recovery.

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

	<u>2005</u>				<u>2006</u>		
	<u>2004</u>	<u>2005</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	1.7	2.1	-2.3	-0.1	4.1	5.9	7.0
Construction	-9.8	-6.6	0.5	-8.4	-5.5	-12.4	-12.3
Services <sup>(b)</sup>	9.9	7.9	7.1	8.4	8.5	7.7	9.7
Of which:							
Wholesale, retail and import and export trades, restaurants and hotels	15.1	11.1	10.5	12.1	11.0	10.9	12.4
Import and export trade	15.4	12.1	11.5	13.3	11.9	11.8	13.8
Wholesale and retail trade	7.8	5.2	6.5	6.2	4.3	4.2	3.8
Restaurants and hotels	22.6	8.3	6.6	7.4	8.9	10.3	9.4
Transport, storage and communications	13.9	13.5	12.7	12.3	15.3	13.5	15.4
Financing, insurance, real estate and business services	13.1	8.9	6.9	11.3	10.0	7.6	13.2
Financial services	21.7	11.0	8.5	14.2	12.2	9.3	20.4
Real estate and business services	1.1	5.4	4.4	6.4	6.3	4.6	1.0
Community, social and personal services	2.6	0.9	1.0	0.1	1.1	1.5	1.3

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

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

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



## Box 1.1

### **The Eleventh Five-Year Plan and the Economic Development of Hong Kong**

#### **Background**

The Outline of the 11<sup>th</sup> Five-Year Plan for National Economic and Social Development of China (hereinafter referred to as the Plan) was endorsed in the fourth session of the 10<sup>th</sup> National People's Congress held in Beijing in March this year. Drawn to clarify national strategic intentions, identify priorities of government work and guide the behaviour of market entities, the Plan is a grand blueprint for China's economic and social development in the next five years. In the Plan, the Central Government unequivocally "supports Hong Kong's development on fronts such as financial services, logistics, tourism and information services, and the maintenance of Hong Kong's status as an international hub on financial services, trade and shipping". The Central Government has not only re-affirmed its recognition of Hong Kong's advantages but also indicated for the first time Hong Kong's roles and functions in the development process of the country.

#### **The 11th Five-Year Plan: Managing the overall situation of economic and social development with the scientific concept of development**

The National Plan not only set a sustained high target average annual growth rate (the target average annual growth rate of China's Gross Domestic Product (GDP) is 7.5% in the 11th Five-Year Plan period and it is aimed to double the per capita GDP for 2000 by 2010), but also emphasized the importance of improving the quality and efficiency of economic growth. In order to achieve the objective of modernized development, China must manage the overall situation of economic and social development with the scientific concept of development, earnestly shift socio-economic development onto the track of all-round coordinated and sustainable development, as well as adhere to the following six principles:

- (1) Maintaining balanced and fairly rapid economic development. Further expand domestic demand; regulate the relationship between investment and consumption; control investment in a reasonable manner and strengthen the pulling effect of consumption on economic growth.
- (2) Speeding up the transformation of economic growth pattern. Uphold resource conservation as a basic national policy; develop a recycling economy; protect the ecological environment; expedite the building of a resource-conservation and environmental-friendly society; facilitate the coordination between economic development and population, resources and environment. Promote national economic and social informatization; move earnestly along the path of new industrialization and realise sustainable development.
- (3) Improving the capability of independent innovation. Promote independent innovation capability as the strategic hub for scientific and technological developments as well as the core element for adjusting industrial structure and modifying the mode of economic growth.
- (4) Promoting balanced development between urban and rural areas and among regions. Promote the building of a new socialist countryside and facilitate the healthy development of urbanisation. Implement general strategies of regional development so that a development mechanism with regional coordination can be formed, in which the eastern, central and western regions of China can complement each other's strengths and interact positively.
- (5) Strengthening the building of a harmonious society. The society should be people-oriented and employment should be increased. More emphasis should be put on social fairness so that all people can share the fruits of reform and development, and social stability and solidarity can be maintained.
- (6) Deepening reform and opening-up persistently. Improve the modern enterprise system and modern property right system. Establish a pricing mechanism which reflects the market supply and demand situation as well as the extent of resource scarcity. Give better play to the fundamental role of the market in resource allocation and enhance the efficiency of resource allocation. Rationalize the Government's functions and improve the macro-economic control system of the country.

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

### **The 11<sup>th</sup> Five-Year Plan: closely related to the economic development of Hong Kong**

Under the guidance of the National Plan, the Guangdong's provincial-level 11<sup>th</sup> Five-Year Plan has laid out 10 major tasks, including (1) adjusting and optimizing industrial structure; (2) improving independent innovation capability; (3) promoting the coordinated development between domestic and foreign-oriented economies; (4) strengthening regional coordination and cooperation; (5) coordinating rural and urban development; (6) developing educational, cultural and talent enterprises; (7) building a green Guangdong; (8) completing infrastructural development moderately ahead of schedule; (9) deepening institutional reforms and (10) facilitating harmonious social development.

The National and Guangdong's provincial-level Plans have formulated a number of strategic policies and initiatives, which include speeding up the financial system reform, developing modern logistics industry, according priority to developing transportation industry, vigorously developing business services, information services and tourism, facilitating coordinated development of regions, pushing ahead the strategy of "talent-strong nation", as well as building an environmental-friendly society for sustainable economic development, etc. All these are closely related to the future development of the Hong Kong economy. For example, with regard to facilitating coordinated development of regions, the National Plan proposes that the city clusters, including the Pearl River Delta (PRD), should continue to give full play to their strengths to boost development of the wider surrounding region, and that the cities within the city clusters should better define their social functions to complement each other's strengths to enhance the competitiveness of the whole city clusters. Guangdong's provincial-level Plan has formulated the corresponding development strategies to promote regional coordination, which include, inter alia, upgrading the level of development of the PRD, enhancing cooperation between Guangdong, Hong Kong and Macao, as well as promoting Pan-PRD cooperation.

### **Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong"**

The National and Guangdong's provincial-level Plans will have an important and far-reaching influence on Hong Kong's long-term development. For instance, we need to seriously probe into and examine the issue of, and formulate proposals on, how Hong Kong can enhance its integration and coordination with the PRD city clusters and further strengthen and upgrade its international competitiveness in order to further bring into play its role as an international metropolis and a world-class economy, so as to reach basic consensus on the way forward and on the strategic approaches for Hong Kong. The Government has therefore decided to hold an economic summit on 11 September 2006 to conduct strategic discussion on the challenges and opportunities brought about by the Plan for the economic development of Hong Kong, and to thrash out a series of strategies on how to respond to these challenges and opportunities to further develop our economy.

The economic summit will decide on the government departments, advisory bodies, business organisations and other stakeholders to be responsible for the follow-up work, so as to draw up an action agenda with clear objectives and practical actions as the working strategy to promote Hong Kong's economic development. The SAR Government will seek to discuss the recommendations of the Summit with the Central Government, ministries and commissions, Pan-PRD Regional Co-operation and Development Forum, Hong Kong-Guangdong Co-operation Joint Conference and various provincial governments. The work of the economic summit will be completed in the first half of next year.

## Some highlights of economic policy

1.8 The Government continues to step up efforts in fostering the economic integration of Hong Kong with its fast growing economic hinterland, the Mainland economy. Such integration is essential for Hong Kong's continued growth as a knowledge-based, high value-added economy. In early June, the Chief Executive led a delegation to attend the Third Pan-PRD Regional Co-operation and Development Forum in Yunnan and a series of co-operation agreements were reached. In late June, further liberalisation measures, including *inter alia* 15 new measures in ten existing service sectors, under the Closer Economic Partnership Arrangement (CEPA) framework were introduced. At the same time, the State Council was considering the further expansion of the scope of renminbi business in Hong Kong. In early July, Hong Kong reached a new arrangement on aviation with the Mainland authorities, strengthening the aviation links between Hong Kong and its economic hinterland, and also the competitiveness of Hong Kong as an aviation-cum-business hub in the region (*Chapters 2, 3 and 4*).

1.9 The implementation of the Mainland's Eleventh Five-Year Plan will have a far-reaching influence on Hong Kong's economic development track and strategies (*Box 1.1*). The Plan specifically states that "support will be given to Hong Kong's development on such fronts as financial services, logistics, tourism and information services, and to maintain Hong Kong's status as an international hub on financial services, trade and shipping". These specific references re-affirm the Central Government's recognition of Hong Kong's significant role in the development of the country. Yet the Government is aware that, as the Mainland cities blossom and globalisation intensifies, Hong Kong will face increasing challenges and opportunities in developing its status as a leading international hub. In May, the Government indicated that an economic summit would be held in September, involving representatives of the public sector, business leaders, economics experts, academics and labour leaders, to explore the subject of how Hong Kong should respond to the Plan to contribute to the development of the Mainland.

1.10 Attracting overseas and Mainland talents to live and work in Hong Kong is one of the important strategies adopted by the Government to enhance the overall competitiveness of the Hong Kong economy as an attractive place to do business. In late June, the Quality Migrant Admission Scheme was launched, with a view to addressing the shortage of high-skilled workers and further enhancing the quality of the labour force in Hong Kong (*Chapter 5*).

1.11 In July, the Government launched a public consultation on tax reform and broadening of tax base. Introducing tax reform in Hong Kong is aimed to stabilise public finances and place Hong Kong in a position to achieve sustainable economic growth. A simple and low-rate Goods and Services Tax is considered the best way to broaden Hong Kong's tax base. The proposals set out in the consultation document are not meant to be conclusive, but are intended to stimulate rational and informed discussion. The public consultation will run for about nine months until 31 March 2007.

## Box 1.2

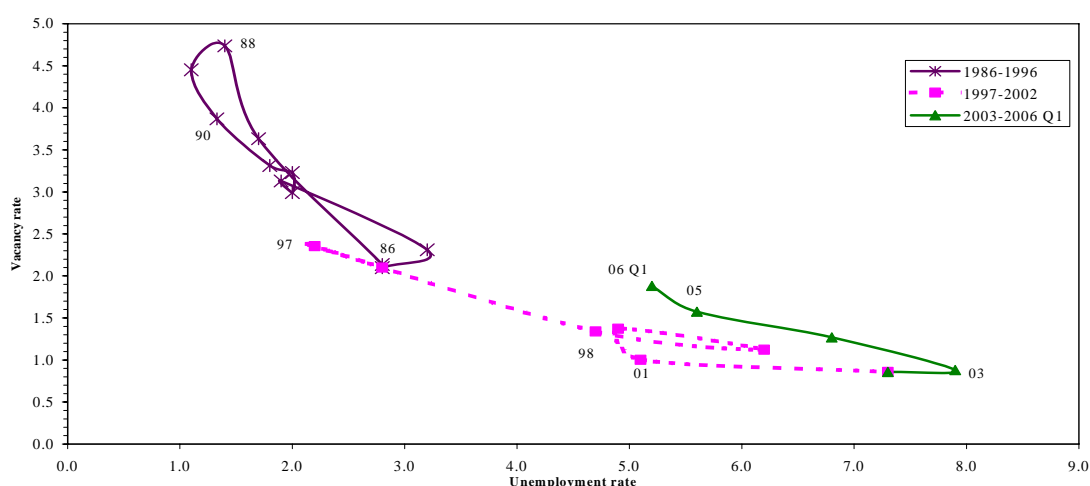
### Extent of skill mismatch in the local labour market

In Q1 2006, there still existed a visible gap between the unemployment rates for lower-skilled and higher-skilled workers, notwithstanding the significant narrowing over the past couple of years. This is oft-cited as a sign of high structural unemployment in Hong Kong.

However, the issue of structural unemployment may also be analysed by way of a Beveridge curve. The curve depicts the relationship between job vacancies and unemployment, which in turn reflects the underlying process of job matching between employers and job seekers. Generally speaking, movements along a given, convex Beveridge curve are associated with cyclical shocks, while shifts in the curve itself are associated with changes in parameters underlying the efficiency of the job matching process, including changes in demographic structure, regional labour mobility and skill mismatch, advancement in information technology, etc. Specifically, an outward shift in the curve is usually interpreted as a sign of increasing skill mismatch and higher structural/frictional unemployment, and vice versa.

The Beveridge curve for the Hong Kong economy between 1986 and Q1 2006 is shown in the diagram below. Apparently, there has been a fairly stable and negative relationship between the unemployment rate and vacancy rate since 1986, yet with no clear evidence of any major outward shift of the curve itself. Analytically, the Beveridge curve can be separated into two main parts, with the Asian financial crisis serving as the dividing line. At the upper part of the curve are the pre-crisis years, mostly involving a combination of higher vacancy rate and lower unemployment rate. The post-crisis years characterised by higher unemployment rate and lower vacancy rate are however found mostly at the lower part. Yet thanks to the latest economic revival, there has been an ease-back in unemployment rate and a concurrent rise in the vacancy rate since mid-2003, thereby contributing to a 'V' turn of the curve.

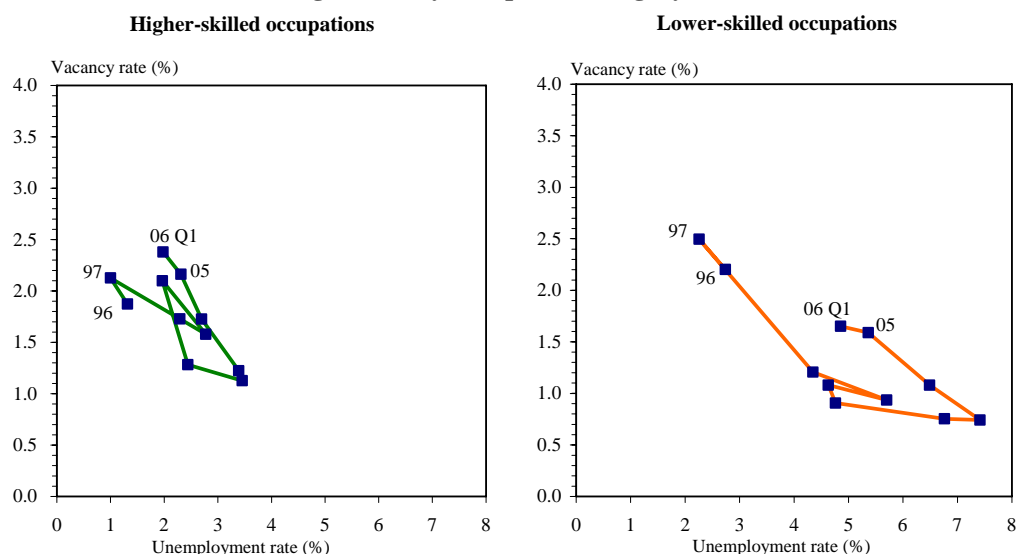
**Beveridge curve for the entire economy, 1986 - 2006 Q1**



## Box 1.2 (cont'd)

The Beveridge curve can be further analysed by a breakdown of workers into different skill levels. However, owing to the lack of data for the years before 1996, it is not possible to analyse the unemployment-vacancy relationship over a longer time frame, which makes it difficult to delineate the shifts in the Beveridge curve caused by structural factors from those caused by cyclical factors and external shocks. Nevertheless, the fact that there still exists a considerable proportion of unemployment in the construction, retail and restaurants sectors, which is to no small degree cyclical in nature, goes a long way in explaining why the unemployment rate for the lower-skilled workers has been relatively higher.

**Beveridge curve by occupation category, 1996-2006 Q1\***



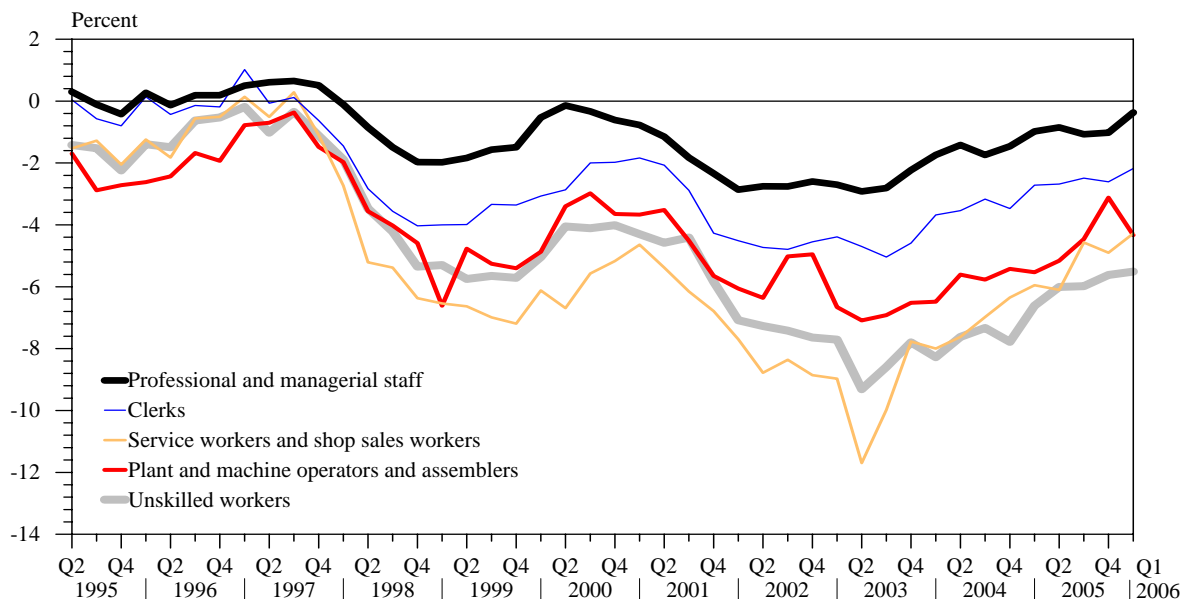
(\*) Excluding the construction sector, owing to the lack of respective vacancy data.

Another way to gauge the extent of skill mismatch is to examine the manpower resource balance<sup>(1)</sup> in different occupations and industries. The statistics show that the manpower resource balances in various occupations, though generally improving, have remained negative (i.e. in surplus) in recent years. For professionals and managerial staff, there is a much smaller surplus in labour supply, as a larger proportion of them have already been absorbed into employment. On the other hand, workers at the lower segment face a much looser manpower resource balance. Analysed by industry, except the financing sector comprising mainly banks and investment companies, the manpower resource balance has remained negative virtually across-the-board.

(1) Manpower resource balance is defined as the difference between total labour demand and supply (expressed as a ratio to labour supply). Total labour demand is measured by the sum of employment and vacancies which represents the overall job opportunities, whereas total labour supply is equivalent to total labour force (employment + unemployment). As such, manpower resource balance essentially refers to the gap between vacancies and unemployment.

## Box 1.2 (cont'd)

### Manpower resource balance still negative across major occupations

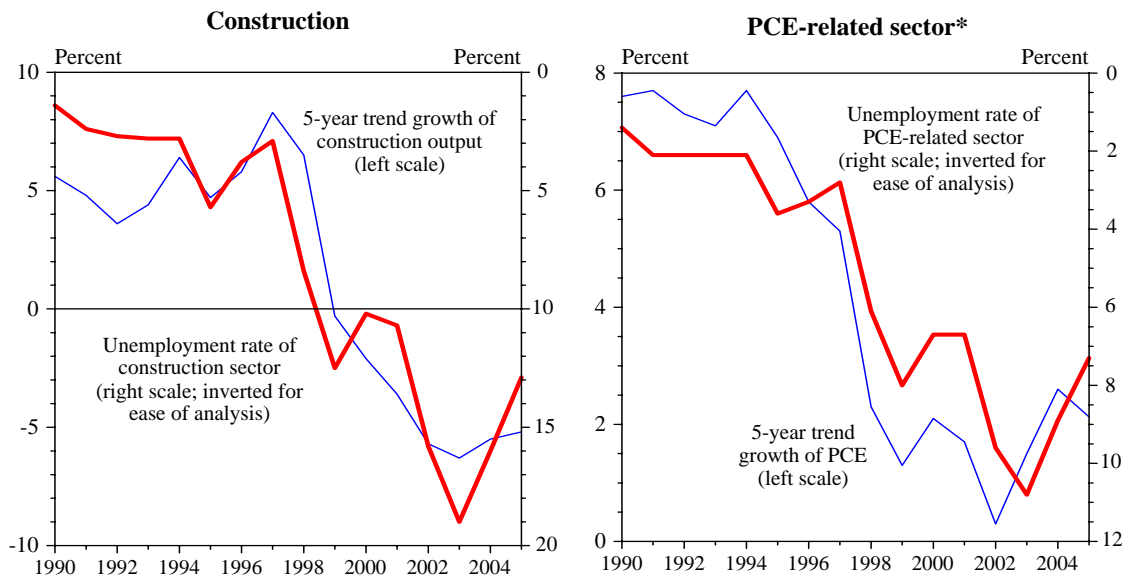


Two factors mainly of cyclical nature are thought to have held back the improvement in unemployment in recent period. *First*, despite the strong GDP growth since mid-2003, construction investment has been mostly on the decrease, and this is the sector where a large proportion of unemployment can be found (around 20% of the total). Excluding the construction sector, the unemployment rate (not seasonally adjusted) is reckoned to be only around 4.3% for Q2 2006, 0.7 of a percentage point lower than the overall average of 5.0%. Thus, it can be expected that as and when construction investment turns around, there will be room for unemployment to fall further.

*Secondly*, the weak consumption amidst the property market doldrums of 1997 – 2003 has also been aggravating unemployment. Over the period 1997-2005, private consumption expenditure has grown only mildly by an annual average of 1.4%. This explains why the unemployment rates in the consumption-related sectors, such as the retail trade, restaurants and hotels, are still substantially above the economy-wide average and also higher than their corresponding levels back in the 1990s.

## Box 1.2 (cont'd)

### Persistent weakness in construction and consumption had adversely affected the employment conditions of workers at the lower segment



Note : (\*) Comprising wholesale/retail trades and restaurants and hotels.

In conclusion, the above studies suggest that structural unemployment does exist in the economy, but the problem may be somewhat less severe than commonly perceived. A not-insignificant proportion of the current unemployment appears to be cyclical rather than structural in nature. The developments over the past few years also suggest that in order to generate a wide spectrum of jobs at the lower-skilled segment, it is imperative for the economy to attain a more balanced growth. Of no less importance is the need to enhance further the quality of the local workforce through education and job training and retraining for better coping with the changing work requirements in a knowledge-based economy.

## Notes :

- (1) The Gross Domestic Product (GDP) is an overall measure of net output produced within an economy in a specified period, such as a calendar year or a quarter, before deducting the consumption of fixed capital. In accordance with the expenditure approach to its estimation, GDP is compiled as total final expenditures on goods and services (including private consumption expenditure, government consumption expenditure, gross domestic fixed capital formation, changes in inventories, and exports of goods and services), less imports of goods and services.
  
- (2) The seasonally adjusted quarter-to-quarter GDP series, by removing the variations that occur at about the same time and in about the same magnitude each year, provides another perspective for discerning the trend, particularly in regard to turning points. A detailed examination reveals the presence of seasonality in the overall GDP and in some of its main components, including private consumption expenditure, government consumption expenditure, exports of goods, imports of goods, exports of services, and imports of services. However, due to the presence of considerable short-term fluctuations, no clear seasonal pattern is found in gross domestic fixed capital formation. Therefore, the seasonally adjusted series of GDP is compiled separately at the overall level, rather than summing up from its main components.



## CHAPTER 2 : THE EXTERNAL SECTOR

### *Summary*

- *Merchandise exports showed some moderation in growth in the second quarter of 2006, after an exceptionally strong performance in the first quarter. The pace of growth slowed notably in May before accelerating somewhat again in June.*
- *The slackening in total export growth was most evident in the US market, owing to the slowing consumer demand there. But signs of moderation were likewise observed in a number of major markets such as the EU, Japan, Singapore and Taiwan, partly due to the lagged effect from a stronger US dollar in the earlier quarters. Yet a rapidly growing Mainland economy along with its vibrant trade flows continued to render some cushion to the weaker performance in the other markets.*
- *Yet exports of services still maintained notable growth momentum in the second quarter. Exports of trade-related services stayed strong along with the Mainland's vibrant trade flows. Exports of travel services also held up well amidst the solid growth in inbound tourism.*
- *The Hong Kong economy will continue to leverage on the Mainland's economic development. On 29 June 2006, further liberalization measures under CEPA were announced, which will bring about new business opportunities to both the goods and services trade of Hong Kong. On 3 July, a new arrangement on aviation was signed with the Mainland authorities. This will further strengthen the aviation links between Hong Kong and the Mainland. Meanwhile, the Government continued to further its Pan-PRD co-operation initiative by actively participating in the Third Pan-PRD Regional Co-operation and Development Forum in June.*

## Visible trade

### *Total exports of goods*

2.1 In the second quarter of 2006, growth of merchandise exports moderated from the exceptionally strong pace in the preceding quarter. *Total exports of goods* (comprising re-exports and domestic exports) grew by 6.3% in real terms<sup>(1)</sup> in the second quarter of 2006 over a year earlier, following a 14.6% increase in the first quarter. After registering a further strong growth in April, there was a more notable slow-down in May before accelerating somewhat again in June. The moderation in May and June was largely due to the weaker performance of exports to the US and the EU, partly reflecting the relatively high base of comparison in 2005 and partly the possible lagged effects of the appreciation of the Hong Kong dollar, along with the US dollar, during most of last year as well as the slowing consumer demand growth in the US market. Given the increased volatility in the external environment in recent months, more observations are needed to ascertain if the moderation in Hong Kong's export growth would continue.

2.2 *Re-exports*<sup>(2)</sup> in overall terms moderated to a 5.3% growth in real terms in the second quarter of 2006, from a 13.2% increase in the first quarter. Yet re-exports to individual markets showed rather diverse performance. Also, this stream of exports continued to have a dominant share in total exports. Notwithstanding the slow-down in re-export growth, offshore trade continued to flourish, reflecting the competitive strength and adding impetus to the growth of our external trade sector.

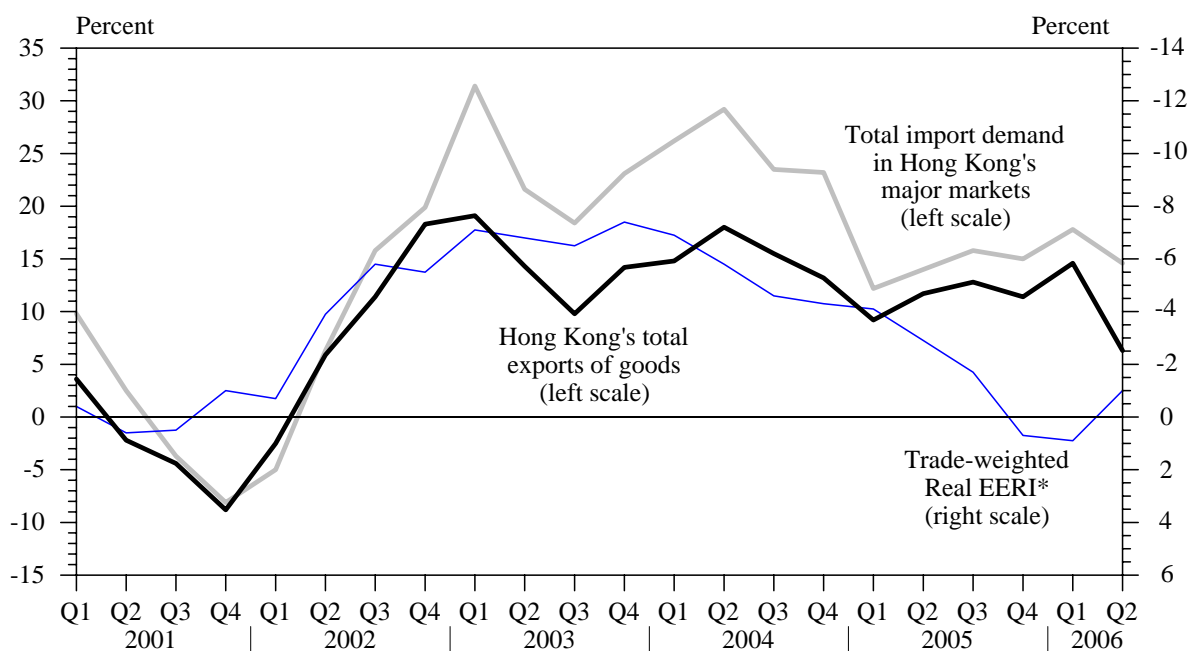
2.3 *Domestic exports* continued to exhibit strong growth, rising by 23.9% in real terms in the second quarter of 2006, albeit at a less rapid pace than the 42.3% growth in the first quarter. Domestic exports of clothing items continued to surge, partly contributed by the enlargement of local clothing production following the imposition of anti-surge safeguards by the US and the EU on their imports of Mainland's textile and clothing (T&C) items around mid-2005. However, domestic exports of non-clothing products grew more moderately, following the strong surge in the previous few quarters.

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

	<u>Total exports of goods</u>				<u>Re-exports</u>			<u>Domestic exports</u>				
	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>			
2005 Annual	11.4	11.4	1.3	11.7	11.6	1.2	8.0	7.6	2.2			
Q1	10.6	9.2	(0.2)	2.1	11.7	10.4	(0.9)	2.0	-6.9	-9.5	(-11.3)	4.8
Q2	12.5	11.7	(6.0)	1.8	13.8	13.0	(6.1)	1.6	-6.4	-8.3	(4.0)	4.7
Q3	12.5	12.8	(3.0)	1.0	12.4	12.7	(2.0)	1.0	14.0	14.3	(21.7)	1.1
Q4	10.0	11.4	(2.2)	0.4	9.0	10.3	(1.3)	0.5	25.2	28.1	(15.3)	-0.5
2006 Q1	12.1	14.6	(2.5)	-0.3	10.7	13.2	(2.9)	-0.2	38.7	42.3	(-2.7)	-2.9
Q2	5.4	6.3	(-1.4)	0.6	4.6	5.3	(-1.0)	0.9	19.9	23.9	(-6.9)	-3.9

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

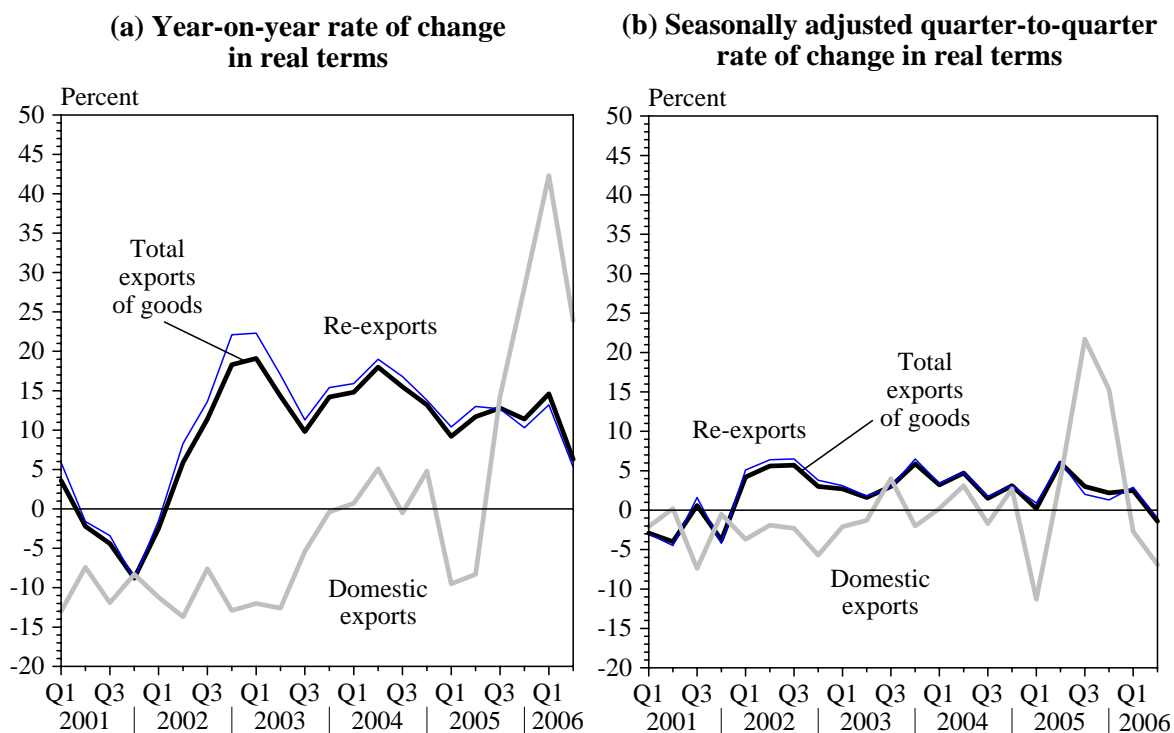
**Diagram 2.1 : Merchandise exports slowed in the second quarter, partly due to the earlier strengthening of the US dollar  
(year-on-year rate of change)**



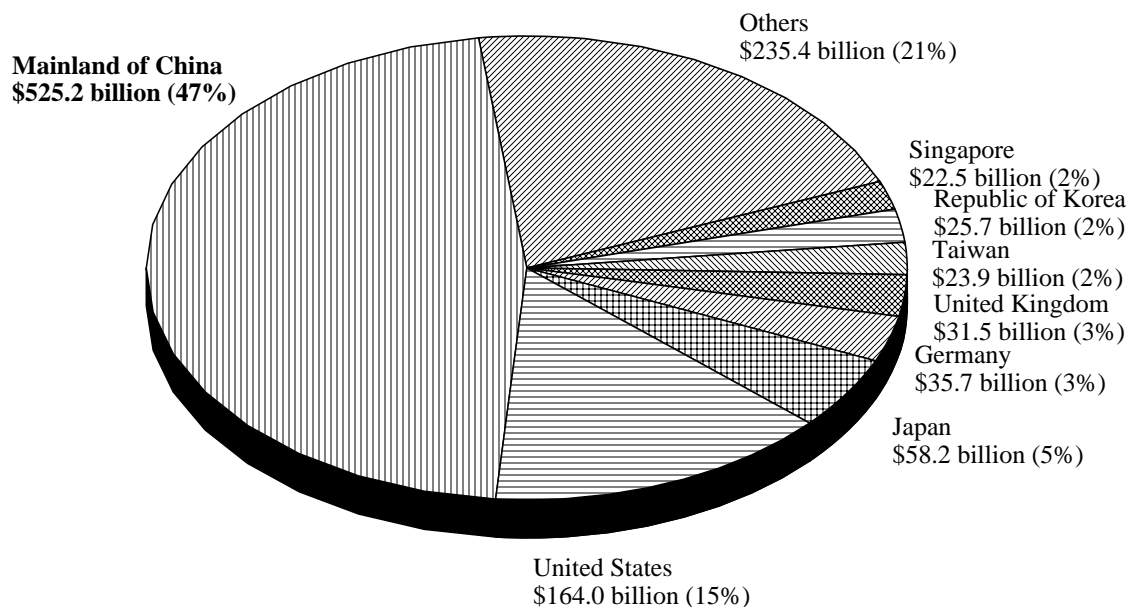
Notes : Total exports of goods as depicted refer to the year-on-year rate of change in real terms, while total import demand in Hong Kong's major markets as depicted refers to the year-on-year rate of change in US dollar terms in the aggregate import demand in East Asia, the United States and the European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

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

**Diagram 2.2 : Re-exports grew moderately while domestic exports continued to surge**



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



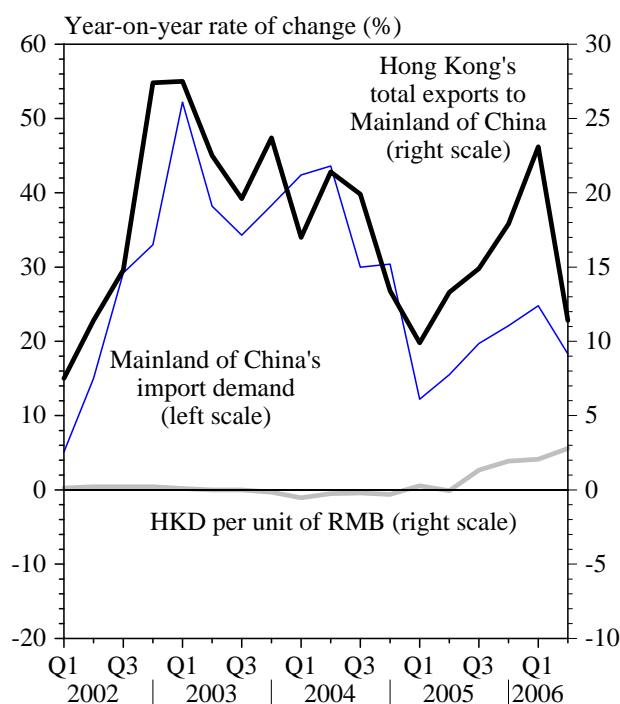
Total exports of goods in the first half of 2006 : \$1,122.1 billion

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

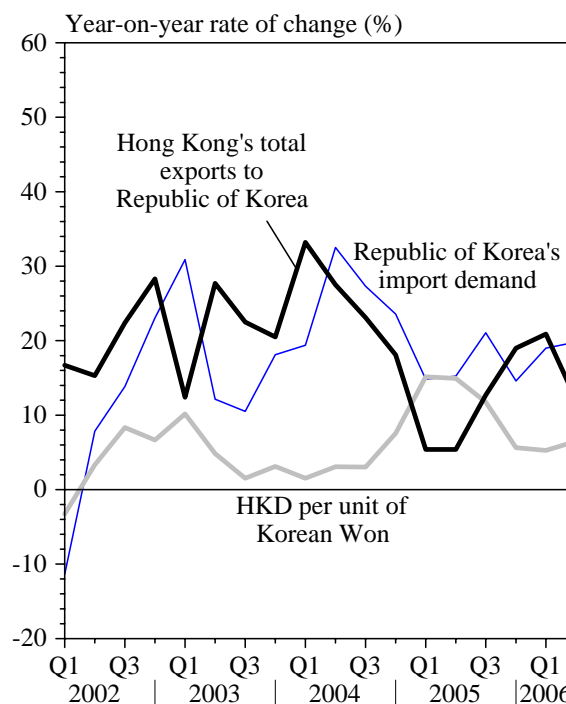
		Mainland of China	United States	European Union	Japan	Republic of Korea	Taiwan	Singapore
2005	Annual	14.2	5.5	16.6	9.6	10.8	4.1	9.0
	Q1	9.9	5.1	21.4	11.5	5.4	-5.4	15.7
	Q2	13.3	7.6	19.3	10.8	5.4	4.8	14.5
	Q3	14.9	8.4	14.9	11.1	12.7	8.4	0.8
	Q4	17.9	0.9	12.5	5.6	19.0	8.2	6.6
2006	Q1	23.1	3.5	9.5	8.2	20.9	10.4	2.3
	Q2	11.4	-2.4	4.1	3.0	12.0	-5.3	-5.4

2.4 Analysed by market, exports to the Mainland still maintained double-digit growth in the second quarter, albeit moderated from the exceptionally strong growth in the first quarter. While the series of tightening measures in the Mainland saw more noticeable slow-down in exports of capital goods to the Mainland, exports of consumer goods and raw materials remained strong, supported by the Mainland's robust consumption demand and vibrant exports. In addition, the strengthening of renminbi could have rendered some support to its import demand. The solid import demand from Korea coupled with a strong Korean won underpinned double-digit growth in exports to this market.

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

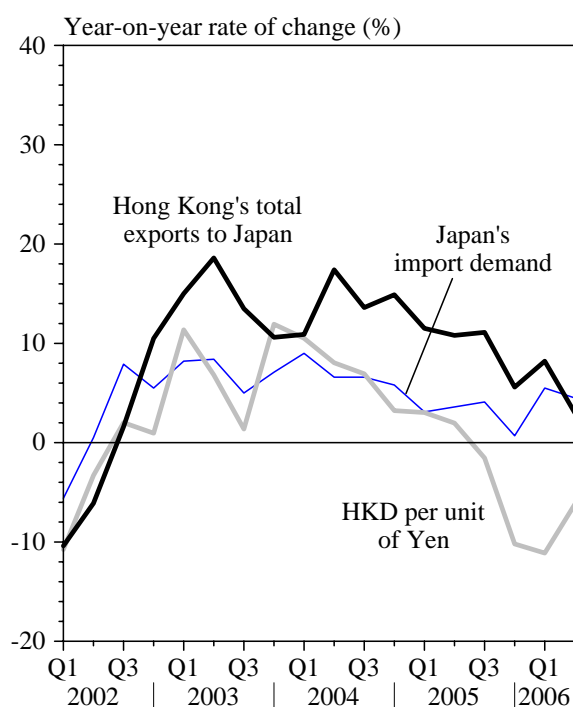


**Diagram 2.5 : Hong Kong's total exports of goods to Republic of Korea**

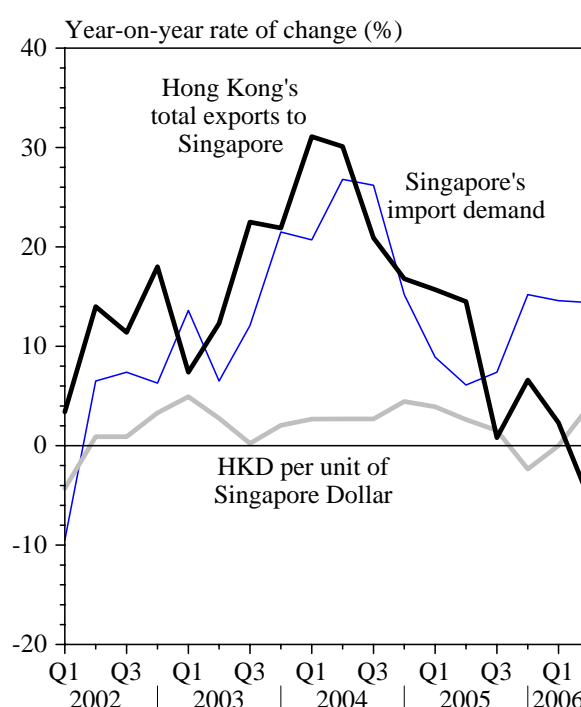


2.5 In contrast, exports to other East Asian markets such as Taiwan and Singapore slackened notwithstanding the rather solid import demand in those economies. The relatively slack export growth to Japan was largely due to the decline in exports of consumer goods, which more than offset the pick-up in exports of raw materials in the quarter. The continuous weakening of the yen over the past few quarters was the main drag.

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

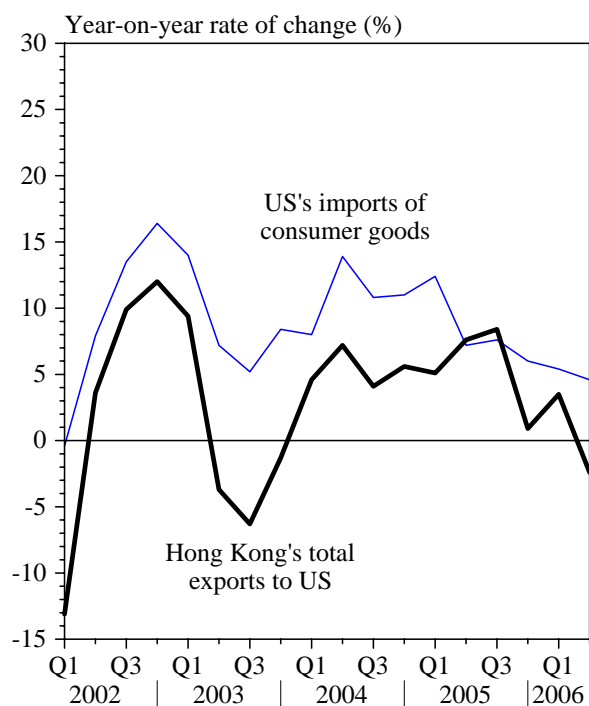


**Diagram 2.7 : Hong Kong's total exports of goods to Singapore**

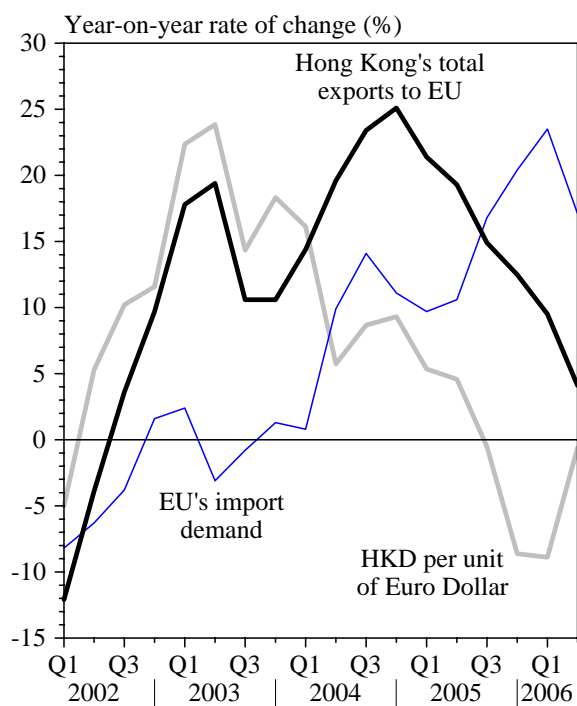


2.6 Export performance to the EU market as a whole was relatively weak, as the lagged effects of the depreciation of euro against the Hong Kong dollar during most of 2005 continued to feed through and as the surge in T&C exports to these markets last year formed a relatively high base of comparison. As for exports to the US market, the slow-down was mainly concentrated in exports of consumer goods amidst weaker consumption growth in this market. The progressive strengthening of renminbi against the US dollar since mid-2005 could have also exerted some dampening impact on Hong Kong's re-exports to the US. The high base of comparison due to the surge in T&C exports last year was also relevant.

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



**Diagram 2.9 : Hong Kong's total exports of goods to EU**



### ***Imports of goods***

2.7 *Imports of goods* sustained a solid 6.7% growth in real terms in the second quarter of 2006, compared with the 13.9% growth in the first quarter. Import intake for subsequent re-exporting slowed more noticeably, in tandem with the slow-down in re-exports. Nevertheless, supported by the solid expansion of domestic demand, *retained imports* continued to grow strongly, by 10.5% in real terms in the second quarter of 2006, following a 15.8% growth in the first quarter. In particular, retained imports of consumer goods surged markedly further in the second quarter, bolstered by the pick-up in local consumer demand and vibrant inbound tourism. Retained imports of capital goods continued its strong uptrend, as many companies needed to acquire new machinery and equipment for business expansion. This reflected the strong business confidence, notwithstanding the more volatile external environment.





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

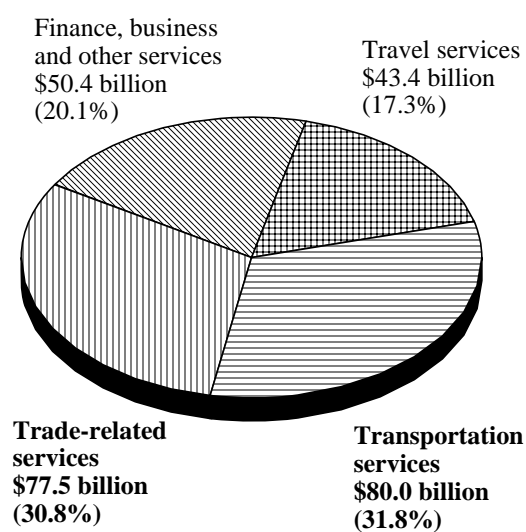
		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
2005	Annual	-4.9	1.8	15.8	-7.5	-6.0
	Q1	-6.7	-1.5	1.5	-19.5	-1.1
	Q2	-22.6	0.7	16.3	-8.8	-10.9
	Q3	-1.2	3.3	10.9	0.9	-1.4
	Q4	13.7	4.5	34.9	-1.4	-10.4
2006	Q1	16.9	4.3	38.4	-6.4	4.0
	Q2	37.3	4.8	19.8	-13.4	-4.9

## **Invisible trade**

### *Exports of services*

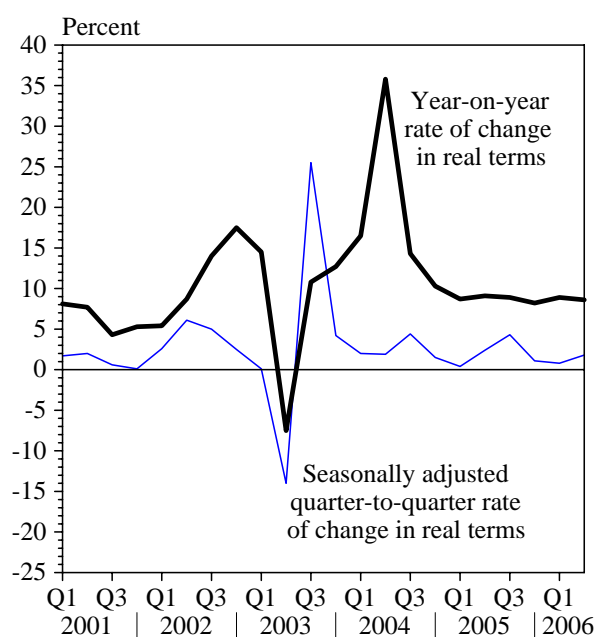
2.8 *Exports of services* maintained a notable 8.6% growth in real terms in the second quarter of 2006, after an 8.9% increase in the first quarter. Exports of trade-related and transportation services were still robust, as the strong competitiveness of Hong Kong's trading and logistics sector continued to render support to offshore trade. Exports of travel services held up well amidst the solid growth of inbound tourism. Meanwhile, exports of finance, business and other services remained on a steady rise.

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



Exports of services in the first half of 2006 : \$251.3 billion

**Diagram 2.12 : Exports of services expanding further, along with continued growth in external trade and inbound tourism**



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

*Of which :*

		Exports of services	Trade-related services <sup>(a)</sup>	Transportation services	Travel services <sup>(b)</sup>	Finance, business and other services
2005	Annual	8.7	12.3	6.6	9.5	5.0
	Q1	8.7 (0.4)	11.3	5.3	11.6	7.2
	Q2	9.1 (2.4)	14.9	7.0	8.2	4.0
	Q3	8.9 (4.3)	12.2	6.6	8.7	6.0
	Q4	8.2 (1.1)	11.4	7.2	9.6	2.7
2006	Q1	8.9 (0.8)	13.3	7.2	8.2	5.2
	Q2	8.6 (1.8)	10.2	8.9	7.7	6.4

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

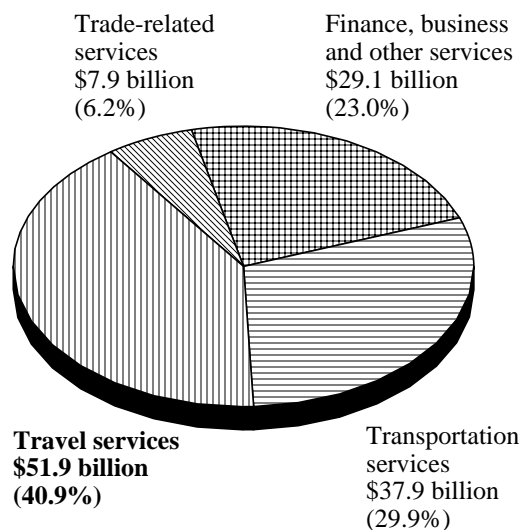
(a) Comprising mainly offshore trade.

(b) Comprising mainly inbound tourism receipts.

## Imports of services

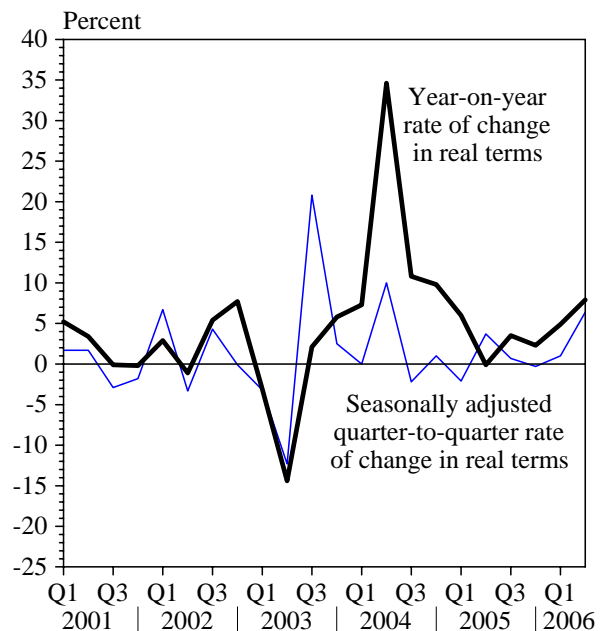
2.9 *Imports of services* picked up to a 7.9% growth in real terms in the second quarter of 2006, from 4.9% in the first quarter. Apart from the solid increase in imports of travel services upon the thriving outbound tourism (due partly to the timing of the Easter holidays), imports of transportation services picked up in growth given the uptrend in offshore trade, though imports of trade-related services moderated further.

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



*Imports of services in the first half of 2006 : \$126.8 billion*

**Diagram 2.14 : Imports of services rose solidly in the second quarter**



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

		<i>Of which :</i>					Finance, business and other services
		<u>Imports of services</u>	<u>Travel services<sup>(+)</sup></u>	<u>Transportation services</u>	<u>Trade-related services</u>		
2005	Annual	2.9	-0.7	5.8	7.5		4.6
	Q1	6.0	(-2.1)	6.3	7.5	6.5	3.8
	Q2	-0.1	(3.7)	-7.6	5.7	10.0	4.8
	Q3	3.5	(0.7)	-0.8	7.2	7.4	5.9
	Q4	2.3	(-0.3)	-0.2	3.2	6.6	3.8
2006	Q1	4.9	(1.0)	1.3	6.5	3.8	10.0
	Q2	7.9	(6.4)	6.8	10.1	0.9	9.5

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

(+) Comprising mainly outbound travel spending.

### Visible and invisible trade balance

2.10 The combined visible and invisible trade balance stood at \$26.6 billion in the second quarter of 2006, equivalent to 3.9% of the total value of imports of goods and services. These were smaller than the corresponding figures of \$31.2 billion and 4.9% in the same period in 2005. Nevertheless, the sustained large surplus in the visible and invisible trade account continued to underpin the overall strong external competitiveness of the Hong Kong economy.

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

		<u>Total exports</u>		<u>Imports</u>		<u>Trade balance</u>		
		<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Goods</u>	<u>Services</u>	<u>Combined</u>
2005	Annual	2,251.7	483.5	2,311.1	251.8	-59.3	231.6	172.3
	Q1	479.1	109.7	498.8	59.8	-19.7	49.9	30.2
	Q2	555.4	109.8	575.0	59.0	-19.6	50.8	31.2
	Q3	614.6	128.7	621.6	68.0	-6.9	60.7	53.7
	Q4	602.7	135.3	615.8	65.1	-13.1	70.2	57.1
2006	Q1	538.5	125.2	568.3	62.6	-29.8	62.6	32.8
	Q2	586.7	126.2	622.1	64.2	-35.4	61.9	26.6

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

## **Trade policy and other developments**

2.11 Hong Kong continued to uphold its trade policy objectives in promoting a free, open and stable trading system, as well as in fostering regional cooperation on a wide range of economic and trade issues. In particular, along with the increasing openness and further liberalisation of the Mainland economy, the Hong Kong economy would continue to leverage on the Mainland's economic development.

2.12 On 29 June 2006, further liberalization measures under CEPA were introduced. Starting from 1 July 2006, an additional 37 categories of Hong Kong products are entitled for zero tariff in entering the Mainland market, bringing the number of products with CEPA rules of origin to a total of 1 407. Moreover, 15 new liberalization measures in 10 existing services sectors will be implemented as from 1 January 2007, and protection of intellectual property is included into the trade and investment facilitation framework under CEPA (also see paragraph 3.18, Chapter 3). These measures will bring about new business opportunities to both the goods and services trade of Hong Kong, thus further enhancing the attractiveness of Hong Kong as a place to do business for foreign investors.

2.13 As at end-July 2006, the Trade and Industry Department (TID) and five Government Approved Certificate Organisations issued 14 724 certificates of Hong Kong origin (CEPA) to goods produced in Hong Kong, involving a total of \$5.09 billion worth of goods. TID also approved 983 applications for certificates of Hong Kong Service Supplier. As CEPA is an open and developing platform, the Government will continue to engage the Mainland authorities on further liberalisation measures under CEPA for the benefits of the Hong Kong economy.

2.14 In addition, the Government will continue to foster other economic links with the Mainland. On 3 July, a new Arrangement on aviation was signed with the Mainland authorities, which substantially liberalises the aviation market between Hong Kong and the Mainland (also see paragraph 3.10, Chapter 3). Meanwhile, the Government continues to step up efforts to further the co-operation between Hong Kong and its economic hinterland under the Pan-PRD framework. On 5-8 June 2006, the Chief Executive led a delegation to attend the Third Pan-PRD Regional Co-operation and Development Forum in Yunnan. A series of co-operation agreements on such areas as logistics, tourism, transport, energy, information, technology and environmental protection were reached. Hong Kong will continue to make use of its strength in financial

services, tourism, logistics, and trade and professional services, as well as its international experience and network, to promote Pan-PRD co-operation. In the medium to longer terms, by virtue of its extensive economic and trade connections with the ASEAN economies, Hong Kong will also strive to serve as a bridge connecting the Pan-PRD region with the ASEAN economies on commerce and trade.

**Notes :**

- (1) Estimates of price changes for the trade aggregates are based on changes in unit values, which do not take into account changes in the composition or quality of the goods traded, except for some selected commodities for which specific price indices are available. Changes in real terms are derived by discounting the effect of price changes from changes in the value of the trade aggregates.
- (2) Re-exports are those goods which have previously been imported into Hong Kong and are subsequently exported without having undergone in Hong Kong any manufacturing processes which change permanently the shape, nature, form or utility of the goods.

## CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

### *Summary*

- *Overall property sales and prices rebounded modestly during the first five months of 2006, before losing some steam towards the end of the second quarter amidst increased uncertainty over the interest rate outlook. Leasing activities stayed buoyant so far this year on the back of solid user demand.*
- *The new Mainland/Hong Kong Special Administrative Region Air Services Arrangement concluded in June 2006 will substantially liberalise the aviation market between the two places and strengthen their aviation links for mutual benefits. Hong Kong's competitiveness as an international and regional aviation hub will henceforth be enhanced.*
- *Inbound tourism continued to show a broad-based growth in the first half of 2006, with the momentum re-accelerating upon a renewed surge in visitor arrivals from the Mainland. Arrivals from other Asian markets generally continued to fare well, while those from long-haul markets mostly settled to slower yet still substantial growth after the earlier hectic situation.*
- *The logistics sector registered further growth as manifested by sustained expansion in both air and port cargo throughputs.*
- *The latest package of liberalisation measures under CEPA announced in June 2006 includes, inter alia, measures to facilitate further expansion of Hong Kong's various service sectors into the Mainland market. Besides, the inclusion of intellectual property (IP) protection as a new initiative under the trade and investment facilitation framework of CEPA will strengthen cooperation and exchanges between the two places on IP-related matters. This is conducive to the economic and trade developments in the two places, particularly those in relation to knowledge-based and innovative activities.*

## Property

3.1 Overall property sales and prices rebounded modestly during the first five months of 2006, aided by sustained economic upturn and a relatively stable local interest rate environment. However, the momentum lost some steam towards the end of the second quarter due to increased uncertainty over the interest rate outlook. Leasing activities stayed buoyant so far this year amidst solid user demand, with rentals holding firm for residential property and picking up further for non-residential properties.

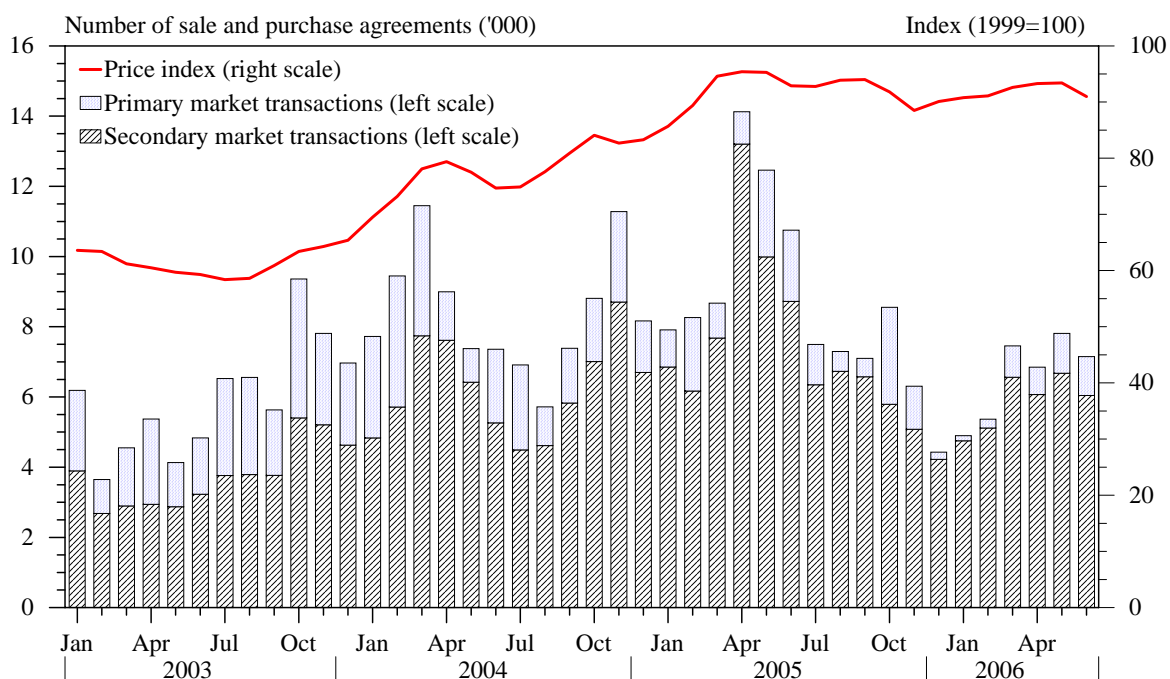
3.2 For *residential property*, monthly sales picked up gradually from the doldrums in late 2005 to a moderate level of 7 812 in May 2006, but then eased back to 7 150 in June (and further to 5 398 in July). Flat prices rose by 4% during the first five months of 2006 before softening by 3% in June, thereby giving a slight increase of 1% for the first half. Acquisition interest revived somewhat in the earlier months upon higher hope that the US interest rate hike would soon come to a pause. Also contributed was abundant market liquidity that enabled most banks to maintain attractive mortgage packages and keep their best lending rates from following fully the upward adjustments in their US counterparts. However, sentiment turned more cautious again in recent months amidst increased uncertainty about the interest rate outlook and associated volatility of the local stock market.

3.3 Leasing of residential property stayed buoyant while rentals held steady. Apart from improvement in household income, flat leasing was boosted by some diversion in demand from the sales market amidst cautious buying sentiment. Yet more landlords let out their flats by the same token, thereby curbing the upside in rentals. Comparing June 2006 with December 2005, flat rentals showed virtually no change.

3.4 Sales of *office space* showed a strong rebound in the first half of 2006, with the increase concentrated from March to May. Acquisition interest was largely supported by sustained vibrancy in leasing demand and anticipation of limited new supply in the prime locations in the near future. Compared with end-2005, prices of office space bounced up by 5% in June 2006. Concurrently, office rentals moved up markedly further, by 9% on average and 10% for A-graded premises. Leasing demand for quality office space was particularly robust in the financial and professional services sectors.



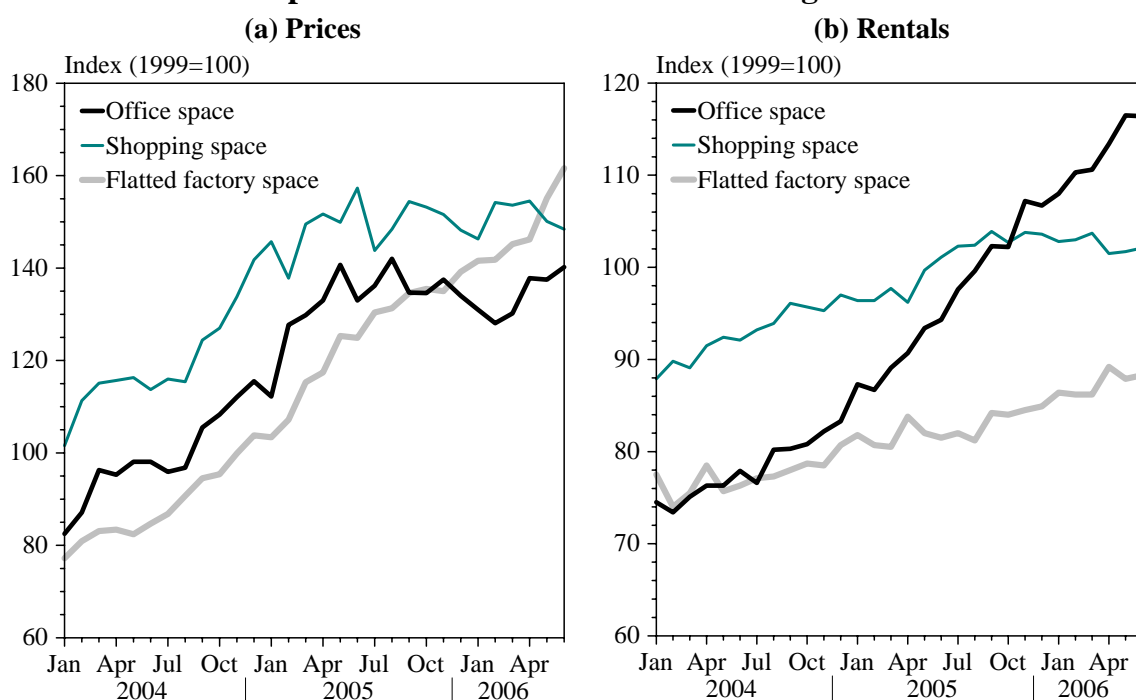
**Diagram 3.1 : Residential property sales bottomed out to a moderate level in the first half of 2006, but the rise in flat prices was curbed by cautious sentiment**



3.5 Sales of *flatted factory space* continued to be active due to enthusiasm of institutional investors to capture the high rental yields and explore conversion of the industrial premises into other commercial uses. Comparing June 2006 with December 2005, the number of transactions and prices of flatted factory space surged by 47% and 16% respectively. Over the same period, rentals rose steadily by 4%, on the back of increased demand from the manufacturing and logistics sectors for production and storage activities.

3.6 Sales of *shopping space* moderated again in the latter part of the second quarter, following a visible rebound earlier in the year. Interest rate factor apart, market sentiment was undermined by increased caution about the retail market outlook. Against this backdrop, prices of shopping space reverted to decline by 4% during May-June, virtually offsetting the increase in the first four months of 2006. Rentals fluctuated less but edged lower by 1% in the first half of 2006, with the decrease concentrated in the second quarter after narrow movements in the first quarter.

**Diagram 3.2 : Sales and leasing of non-residential properties generally displayed strength, despite adjustments of shopping space prices and rentals to the earlier surges**



## Land

3.7 In the second quarter of 2006, the Government received seven applications to trigger land sales through the *Application List System*, following nil response from September 2005 to March 2006. However, most of the sites involved were small and in peripheral areas, and only one of them was successfully triggered and subsequently sold through auction. This reflected that the property developers remained cautious in land acquisition. In the months ahead, more new prime sites on the 2006/07 Application List will be available for disposal and are likely to invite more land applications.

3.8 The *new railway sites* still received good response from property developers due to superiority in location. In the first half of 2006, the respective tenders for property development on a MTR site in Tseung Kwan O and a KCR site in Tai Wai were awarded, providing an estimated supply of about 8 600 residential flats by end-2010. More recently, the tender for property development on the site of KCR Tuen Mun Station was also awarded, providing an estimated supply of about 1 900 residential flats by end-2013.

## Box 3.1

### Vacancies of properties in recent years

In 2004 and 2005, vacancies of properties fell extensively as the economic recovery led to a strong revival in sales and leasing activities. Also relevant was the reduced new supplies of properties under the lagged impact of earlier slackening in building activities. Vacancies of newly completed properties are due to factors such as impending procedure for occupation, building defect rectification and interior decoration by owners.

In the *private residential property* market, the number of vacant flats fell markedly from 68 800 in 2003 to 63 500 in 2005, with the vacancy rate representing its proportion to total private housing stock dropping from 6.8% to 6.0%. The improvement was attributable in part to the distinct rebound in acquisition interest since mid-2003, thereby underpinning an excess of flat take-up over completions both in 2004 and 2005. Also contributed was the concurrent pick-up in leasing activities during these two years. Demand factors apart, the drop in vacancy rate of residential property was also caused by the reduction in completions of flats from 26 400 in 2003 to 17 300 in 2005. As the vacancy rate of new properties was relatively higher, the decrease in new supply had the effect of lowering the vacancy rate on average.

#### Completions, take-up and vacancy of private residential property

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	(number of units, unless otherwise indicated)				
Completions in the year <sup>(a)</sup>	26 260	31 050	26 400	26 040	17 320
Take-up in the year <sup>(b)</sup>	19 320	18 240	22 490	31 400	17 450
Vacancy at year-end <sup>(c)</sup> (as % of property stock)	60 410 (5.7)	65 270 (6.6)	68 780 (6.8)	64 250 (6.2)	63 540 (6.0)

Notes : (a) Completions comprise those premises deemed completed by virtue of the issue of an occupation permit from the Government, and represent new supply added to the stock of completed property. Figure is inclusive of village houses in 2001, but not so afterwards.

(b) Take-up figures represent the net change in the stock of property occupied in the year under review. The figures are arrived at by adding the completions in that year to the vacancy figures at the beginning of the year, then subtracting the year's demolition and the year-end vacancy figures.

(c) Vacancy indicates that the premises are not physically occupied. Premises under decoration are classified as vacant. Some vacancies can be due to premises not yet issued with the Certificate of Compliance or Consent to Assign, which therefore cannot have been occupied.

At the luxury end of the residential property market, however, the vacancy rate of large flats rose from 8.0% in 2003 to 9.9% in 2005. Despite vibrant sales, take-up of large flats was relatively slow in recent years, conceivably due to active participation of investors and speculators in this market segment. It is also note-worthy that the vacancy rate of large flats has been consistently higher than those for small and medium flats. Due to larger amount involved, the vacancy prior to resale and leasing transactions tends to be longer for more sizeable flats. The larger floor area involved also tends to require a longer vacant period for renovation and decoration process.

Regarding *private non-residential properties*, the vacancy situation fared even better in 2004 and 2005. Similar to residential property, the improvement was backed by the revival in acquisition and leasing interests on the demand side and the reduced completions on the supply side. Yet the pick-up in demand was even stronger, consistent with the greater sensitivity of non-residential property demand to economic cycle exhibited over the years.

### Box 3.1 (cont'd)

Amongst the major non-residential properties, the vacancy rate of overall office space dropped from 14.0% in 2003 to its 10-year low of 8.7% in 2005, with that for A-graded premises hitting an even lower level of 8.1%. The vacancy rate of flatted factory space also fell visibly, from 10.6% to 7.3% over the same period. Yet for shopping space, the vacancy rate only edged lower from 10.8% to 10.3%. Anecdotal evidences showed that while the vacancy of shopping arcades improved generally, the reverse was observed for retail premises on the streets. This was probably related to the observation that the buoyant secondary sales of shopping space in recent years were concentrated in retail premises on the streets rather than those inside shopping arcades. As sales activities were often accompanied by a period of vacancy around the time of ownership transfer, there was a lifting impact on the vacancy of retail premises on the streets.

#### Completions, take-up and vacancies of major private non-residential properties

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
	('000 m <sup>2</sup> , unless otherwise indicated)				
Completions in the year					
Office space	76	166	299	279	34
Shopping space*	132	138	118	91	111
Flatted factory space	30	3	0	1	0
Take-up in the year					
Office space	3	0.2	118	373	420
Shopping space	37	-110	54	66	139
Flatted factory space	-447	82	-107	329	219
Vacancy at year-end					
Office space	1 012	1 175	1 334	1 240	854
(as % of property stock)	(11.1)	(12.6)	(14.0)	(12.7)	(8.7)
Shopping space*	751	991	1 002	1 019	980
(as % of property stock)	(8.2)	(10.7)	(10.8)	(10.8)	(10.3)
Flatted factory space	1 923	1 840	1 844	1 512	1 273
(as % of property stock)	(10.9)	(10.5)	(10.6)	(8.7)	(7.3)

Notes : Definitions of completions, take-up and vacancies are the same as those for residential property.

(\*) Completion and vacancy figures cover a minor portion of non-retail premises designed or adapted for commercial use, with the exception of purpose-built offices.

## Transport

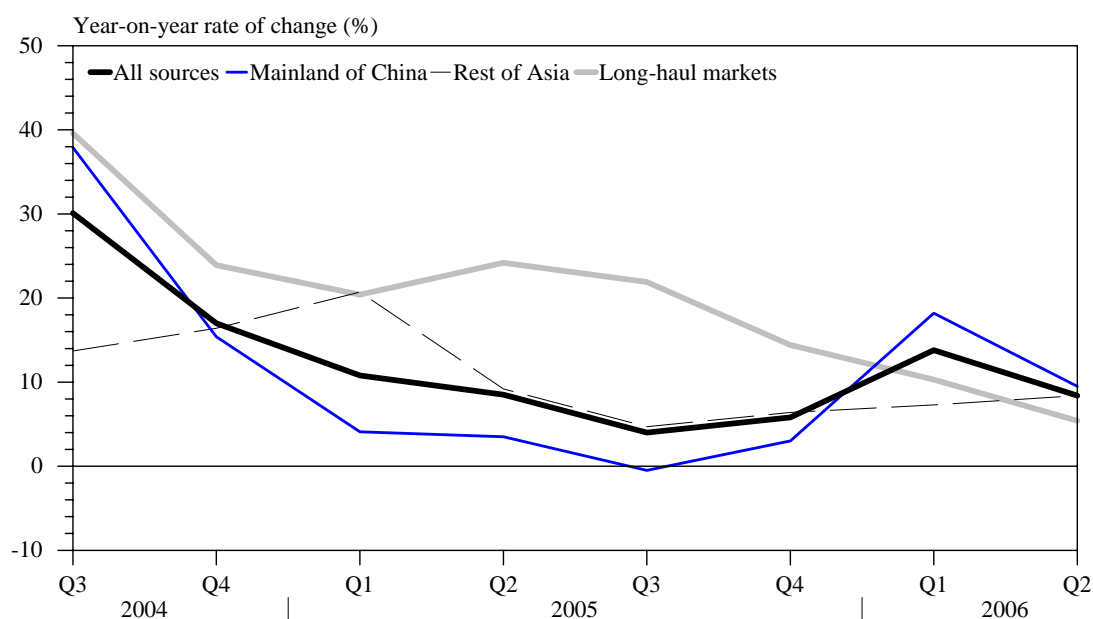
3.9 The Government and the MTR Corporation Limited have reached an understanding on the structure and terms for merging the *MTR and KCR systems*<sup>(1)</sup> and signed a non-binding Memorandum of Understanding on 11 April 2006. The Rail Merger Bill, which seeks to provide the legislative framework for implementing the merger, was gazetted on 30 June 2006 and introduced into the Legislative Council on 5 July 2006. Depending on the progress of the legislative amendment exercise, it is expected that the whole merger process will take about one year to complete.

3.10 On *external transport*, the General Administration of Civil Aviation of China and the Economic Development and Labour Bureau of Hong Kong Special Administrative Region (HKSAR) have recently concluded the annual review of the Mainland/HKSAR Air Services Arrangement. The new Arrangement will substantially liberalise the aviation market between the Mainland and Hong Kong by increasing the number of designated airlines on individual routes, extending the coverage to most major cities in the Mainland, and relaxing the capacity constraints on most of the routes<sup>(2)</sup>. The move is expected to foster the development of the aviation industries in both the Mainland and Hong Kong, and strengthen Hong Kong's status as an international and regional aviation hub. The tourism, trading and logistics sectors will be amongst the major beneficiaries from this development.

## Tourism

3.11 Inbound tourism continued to exhibit broad-based growth in the first half of 2006, with the total number of *incoming visitors* rising by 11% over a year earlier to 12.2 million. Moreover, this represented a re-acceleration from the moderate increase of 5% in the second half of 2005, on the back of a distinct pick-up in growth of the Mainland visitor arrivals. Arrivals from the rest of Asia continued to grow strongly, while those from the long-haul markets mostly settled to slower yet still substantial growth after the earlier hectic situation.

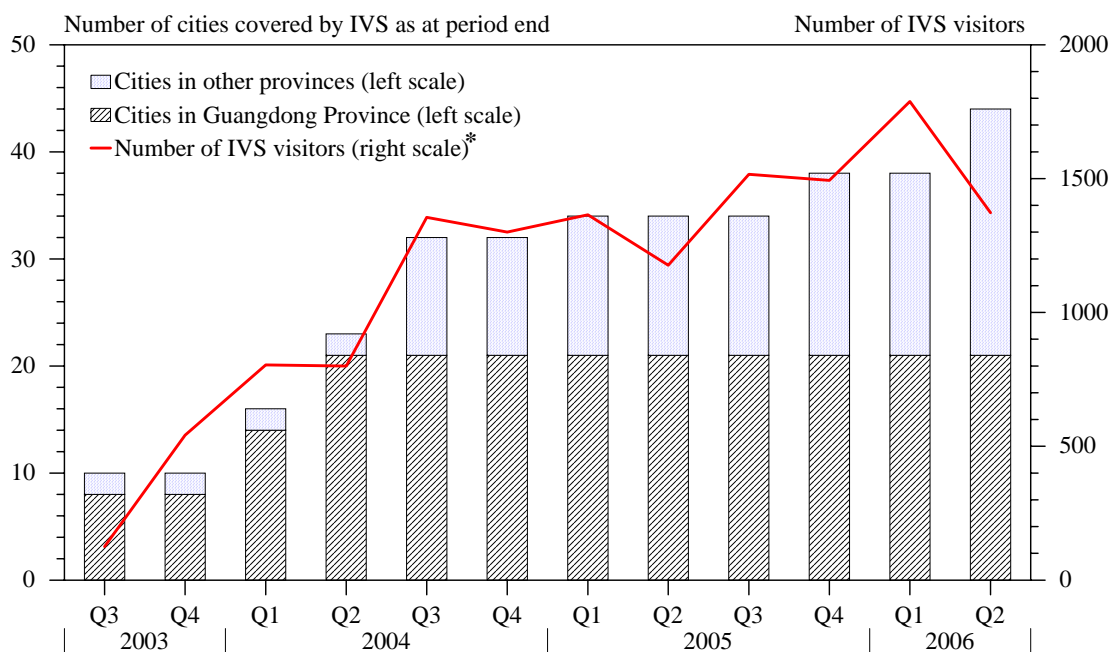
**Diagram 3.3 : Inbound tourism growth re-accelerated in the first half of 2006 as Mainland arrivals resumed strength**



Note : The sharp deceleration in year-on-year growth from mid-2004 to early 2005 was mainly due to fading and eventual dissipation of the base impact of SARS.

3.12 Amongst the Mainland visitor arrivals accounting for about 55% of total visitor arrivals, the number of incoming trips under the *Individual Visit Scheme* (IVS) picked up sharply by 24% to 3.2 million in the first half of 2006, as the effect from progressive expansion of the Scheme<sup>(3)</sup> continued to carry through. Against the favourable backdrop of Mainland’s vibrant outbound tourism, the number of other Mainland visitors resumed a positive growth in the first half of 2006, at 6%. This was notwithstanding the on-going diversion impact stemming from the IVS. In recent years, relaxation of the restrictions on outbound group tour in the Mainland had a boosting impact on group visits by Mainland residents to Hong Kong as part of the travel itinerary, while increased commercial links between the Mainland and Hong Kong led to a larger number of business visitors from the Mainland to Hong Kong.

**Diagram 3.4 : Arrivals under Individual Visit Scheme (IVS) kept soaring year-on-year alongside progressive expansion of the Scheme**



Note : (\*) Quarter-to-quarter change in visitor arrivals is much affected by seasonality. On a year-on-year basis to avoid such impact, the respective IVS arrivals in the first and second quarters of 2006 are 31% and 17% higher than a year earlier.

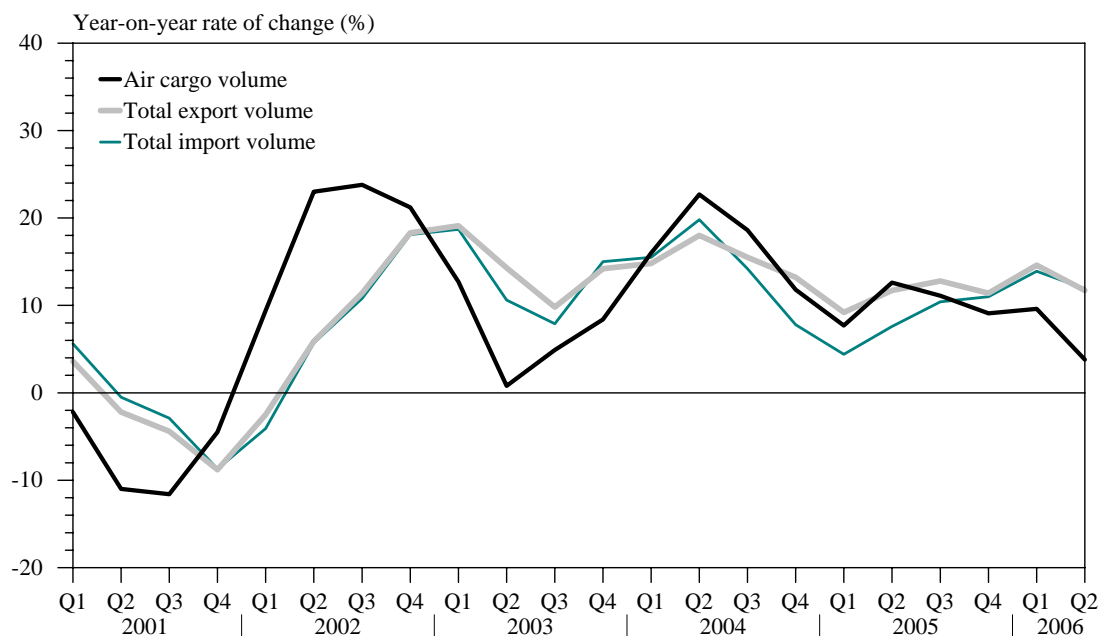
3.13 Along with the surge in visitor arrivals, the *average room occupancy rate of hotels and tourist guesthouses* rose to 86% in the first half of 2006, while the corresponding *average room rate* soared by 15% over a year earlier. Yet with many construction and extension projects of hotel facilities due for completion gradually, the new supply of hotel rooms in the pipeline should hopefully help to keep the hotel tariffs in check. It is estimated that the number of hotel rooms will increase from about 44 000 at end-2005 to 51 000 by end-2006 and further to 54 000 by end-2007.

3.14 Hong Kong's inbound tourism is set to benefit from the latest liberalisation measures under CEPA that covers, *inter alia*, trade in services. As from January 2007, eligible Hong Kong companies will enjoy better access to the Mainland markets in offering services in the Mainland for organising exhibitions in Hong Kong and Macao as well as outbound group tours to the two cities<sup>(4)</sup>. This not only will foster the respective industry developments but also will encourage more business and leisure visitors from the Mainland to Hong Kong.

## Logistics

3.15 The logistics sector showed a solid performance in the first half of 2006, on the back of sustained growth in external trade and transshipment activities. On *air cargo* movements, there was a further expansion of 7% year-on-year in the first half of 2006, though this was slower than the 10% increase in the second half of 2005. The deceleration occurred mainly in the second quarter, in line with the slowdown in growth in external trade.

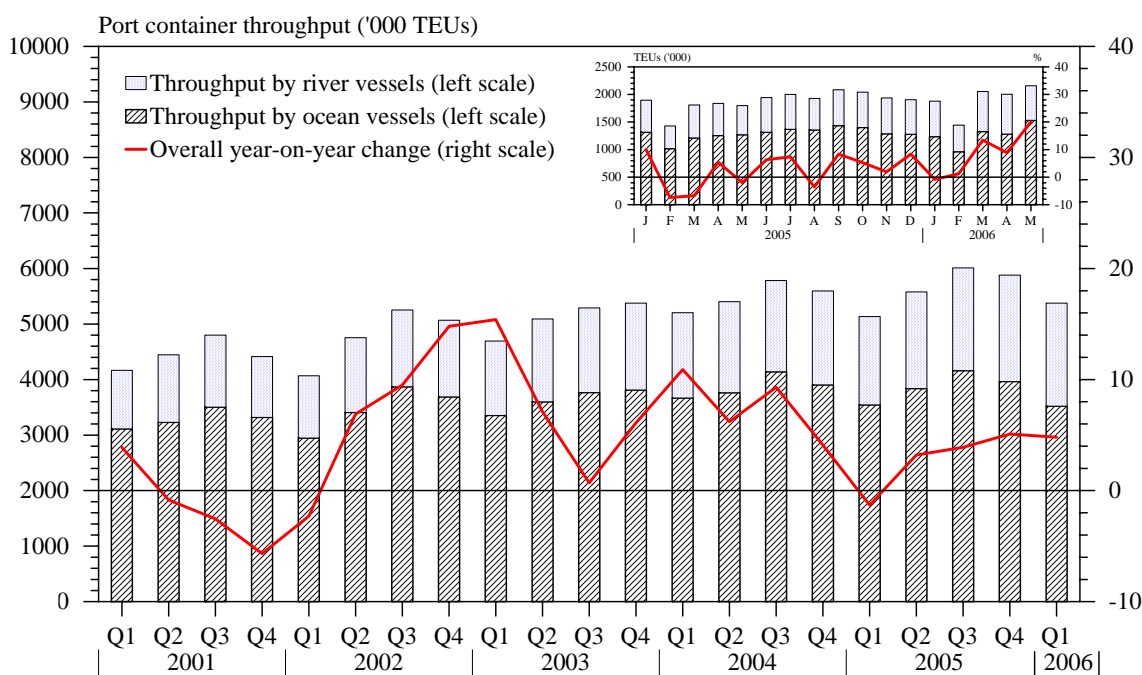
**Diagram 3.5 : Air freight continued to expand, albeit at a moderated pace more recently alongside slower growth in external trade**



3.16 On *port cargo* movement, overall container throughput handled by the Hong Kong port increased further by 9% in the first five months of 2006 over a year earlier. The growth in transshipment cargoes continued to outpace that in direct shipment cargoes, with respective rates of 10% and 8%. This reflected in part the on-going structural shift in trade pattern from re-exports to offshore

trade, and in part the competitiveness of Hong Kong port in terms of connectivity and shipping calls by ocean vessels. The close economic and trade relations between South China and Hong Kong boosted the volume of cargo handled by river vessels, registering a 19% growth year-on-year in the first five months of this year.

**Diagram 3.6 : Port container throughput showed a solid growth in the first five months of 2006 on the back of vibrant river cargo movements**



3.17 Along with the on-going shift in composition of Hong Kong’s external trade towards higher value and more time-sensitive goods, the share of Hong Kong’s external trade (excluding transshipment) handled by air rose to 35% in the first half of 2006, while the shares by sea and river edged lower to 33%. Yet in volume terms, the share of cargo movement (including transshipment) handled by sea and river was still predominant, at 85% in the first four months of 2006, while the corresponding share for air cargo was 1% only.

### Business services

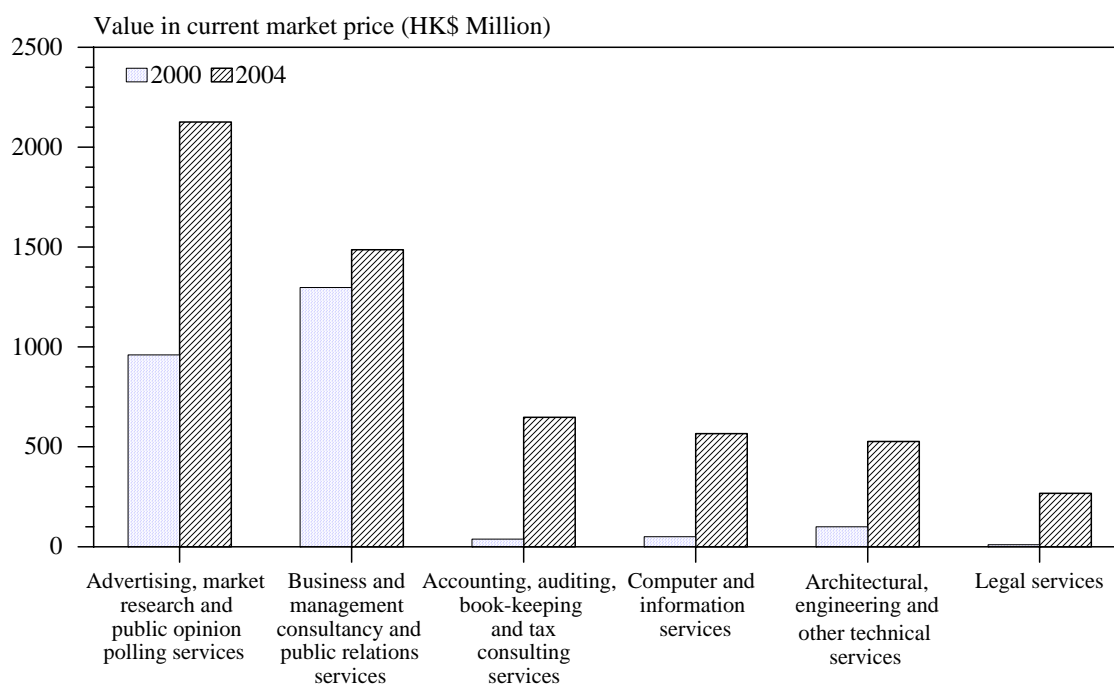
3.18 As part of the latest package of liberalisation measures under CEPA, there will be further preferential treatments to Hong Kong service providers in a number of business service sectors when setting up operation in the Mainland as from January 2007. Examples are legal, construction engineering cost consulting, information technology, and convention and exhibition services<sup>(5)</sup>. These measures are expected to facilitate further business expansion into the



Mainland by eligible Hong Kong companies, reinforcing the progressive growth achieved over the years on the back of fast growth in market demand, high standard of Hong Kong's services and expanding mutual recognition of professional qualifications. Benefiting from the increased business opportunities in the Mainland, total exports of miscellaneous services<sup>(6)</sup> (comprising mainly business services) grew further by 7% in value terms in the first half of 2006 over a year earlier, following an average annual increase of 3% during 2000-05.

3.19 Latest statistics on industry breakdown showed that the exports of selected major business services to the Mainland all recorded notable increases in value from 2000 to 2004. For these exports of services taken together, the share attributed to the Mainland market rose from 10% in 2000 to 28% in 2004.

**Diagram 3.7 : Hong Kong's service edge and fast-growing demand in the Mainland underpinning surge in exports of selected major business services to this giant market**



## Creativity and innovation

3.20 The growing tendency of businesses to engage in innovative activities for moving up the value chain is concurrent with increasing use of services from various creative industries. A notable example is the software industry that supports a wider use of information technology and software services in the business community. In 2005, the proportion of business enterprises with internet connection and web pages/sites rose to 55% and 15%, as compared to

the respective figures of 37% and 7% in 2000. Aided by information technology and software applications, many enterprises in different sectors can enhance efficiency and productivity as well as strengthen sales and distribution network.

**Table 3.1 : Pertinent examples of software application in different economic sectors**

<u>Client industries</u>	<u>Facilities/services supported by software</u>
Manufacturing	Computer-aided design and manufacturing system
Wholesale and retail trade	Bar coding and point-of-sale system
Trading & Logistics	Electronic trading & logistics platforms such as Tradelink system and Digital Trade and Transportation Network
Transportation	Electronic payment system such as Octopus Card system
Banking and finance	On-line and wireless investment, securities and banking services
Film and digital entertainment	Computer-generated animation, special effects

3.21 Effective protection of intellectual property (IP) is becoming more and more important for economic and trade development in Hong Kong as the economy is shifting towards knowledge-based and innovative activities. Conducive to this end, the inclusion of the IP protection as a new initiative under the trade and investment facilitation framework of CEPA recently agreed between the Mainland and Hong Kong will help enhance cooperation and exchanges between the two sides on issues relating to IP protection. The Intellectual Property Protection Coordination Centre to be set up by the Mainland in Hong Kong under the initiative will serve as an information exchange platform between the two places and provide enterprises with IP protection related information.

## Notes :

- (1) For details of the merger package, see the paper entitled “Merger of MTR and Kowloon-Canton Railway Systems – Proposed Way Forward” which was discussed at the meeting of the Legislative Council Panel on Transport and Panel on Financial Affairs on 12 April 2006.
- (2) Starting from end-October 2006, the new Arrangement will add another 11 routes to the current total of 45 between the Mainland and Hong Kong, thereby covering all major cities in the Mainland. From end-October 2007, each side will be able to designate three airlines to operate passenger and/or cargo flights and another airline to operate all-cargo flights on most of the routes between the Mainland and Hong Kong. Furthermore, the capacity limits for passenger services on 35 routes will be lifted completely in two phases i.e. end-October 2006 and end-March 2007, and capacity limits for the remaining routes will be substantially increased. By end-March 2007, the cargo capacity limits for Beijing and Shanghai will be substantially increased, while the limits for all other routes will be completely removed.
- (3) As from 1 May 2006, the Individual Visit Scheme has been further extended to six provincial cities in the Pan Pearl River Delta region, including Changsha, Nanning, Kunming, Nanchang, Guiyang and Haikou. The Scheme now covers 44 cities in the Mainland with a population exceeding 220 million.
- (4) As part of those CEPA measures to be effective in January 2007, Hong Kong service suppliers will be allowed to set up wholly-owned enterprises or enterprises in the form of equity joint venture or contractual joint venture in the Mainland to provide services for organising exhibitions in Hong Kong and Macao. Besides, Hong Kong travel agents will be allowed to set up on a wholly-owned or joint venture basis in Guangdong Province to provide for the operation on a pilot basis of group tours to Hong Kong and Macao for residents of Guangdong Province (residents registered with permanent residence in Guangdong Province).
- (5) For details, see information available in the relevant website of Trade and Industry Department ([www.tid.gov.hk/english/cepa/legaltext/cepa4.html](http://www.tid.gov.hk/english/cepa/legaltext/cepa4.html)).
- (6) According to the current statistical classification, the figures here cover communications services; computer and information services; royalties and licence fees; personal, cultural and recreational services; construction services; architectural, engineering and other technical services; legal services; accounting services; business and management consultancy services; advertising, market research services etc. However, finance, insurance, transportation, travel, and merchanting and other trade-related services are classified elsewhere.

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

### *Summary*

- *The financial sector boomed in the first few months of 2006. But the major correction and increased volatility in many markets, in line with international financial market developments, resulted in a consolidation of activities in many sectors during the second quarter.*
- *The Hong Kong dollar exchange and money markets held stable in the first half of 2006, notwithstanding higher interest rates in the second quarter. Liquidity in the banking sector remained abundant. Money supply expanded further in the second quarter.*
- *Credit demand in overall terms rose further in the first half of 2006 despite higher interest rates. Benefitting from continued improving economic conditions, asset quality of the banking sector continued to improve.*
- *After the buoyant activity in the first five months of 2006, the stock market consolidated somewhat in the second half of May and in June, along with the weakness of major overseas markets caused by an uncertain US interest rate outlook. Market sentiment was also affected to some extent by the stepping up in macroeconomic tightening in the Mainland. Market capitalisation nevertheless rose further to a new high in the second quarter due to new listings of several large Mainland enterprises.*
- *In late June, the Chief Executive indicated that the State Council is studying the scope for further expansion of renminbi business in Hong Kong, which includes allowing Hong Kong importers to settle direct import trade from the Mainland in renminbi, and allowing financial institutions in the Mainland to issue renminbi financial bonds in Hong Kong on a pilot basis. The expansion in the scope of renminbi business carried out in Hong Kong would reinforce further Hong Kong's position as an international financial centre.*

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

## **Overall situation**

4.1 The financial market continued its healthy development in the first half of 2006 in tandem with the solid expansion of the economy. Notwithstanding higher interest rates in the second quarter, the money markets held stable, with money supply expanding further in the second quarter. Bank loans in overall terms also remained on the rise. After the buoyant activity in the first five months of 2006, the local stock market pulled back somewhat from the peak in early May, along with weakness of the major overseas stock markets amidst an uncertain US interest rate outlook, and also to some extent the stepping up in macroeconomic tightening in the Mainland. Responses to initial public offerings of new stocks were less enthusiastic after May as market sentiment turned cautious. Funds raised in the debt market nevertheless continued to rise, and sales of mutual funds also surged further.

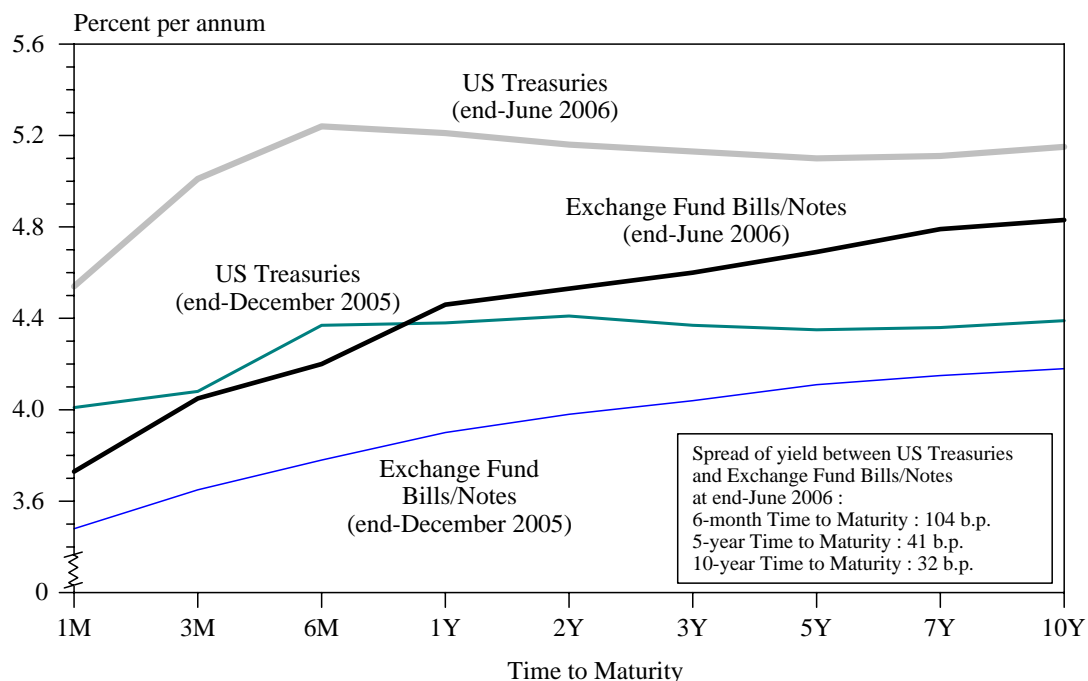
4.2 In mid-April, the Mainland authorities put on board several measures to relax policies on foreign exchange management under the current account. This would encourage more outflow of capital from Mainland residents and institutions for overseas investment. By virtue of its entrenched advantages as a conduit of fund flows between the Mainland and the outside world, Hong Kong's financial services industry could stand to benefit<sup>(1)</sup>. In late June, the Chief Executive indicated that the State Council is studying the scope for further expansion of renminbi business in Hong Kong, which includes allowing Hong Kong importers to settle direct import trade from the Mainland in renminbi, and allowing financial institutions in the Mainland to issue renminbi financial bonds in Hong Kong on a pilot basis. Administrative arrangements to ensure smooth implementation of the new measures are being formulated by relevant authorities of the State Council. The HKSAR Government will maintain close liaison with the Mainland authorities to expedite the preparatory work for an early launch of these two types of new business. The expansion in the scope of renminbi business carried out in Hong Kong would reinforce further Hong Kong's position as an international financial centre.

## **Interest rates, aggregate balance and exchange rates**

4.3 Hong Kong dollar interest rates edged up further in the first half of 2006, along with the uptrend in the US dollar interest rates. Alongside a cumulative 100 basis-point increase in the US Fed Funds Target Rate during the first half of 2006, the Base Rate under the Discount Window operated by the HKMA was adjusted upward by the same magnitude to 6.75% at end-June 2006<sup>(2)</sup>. Hong Kong dollar interbank interest rates also moved up, but by a

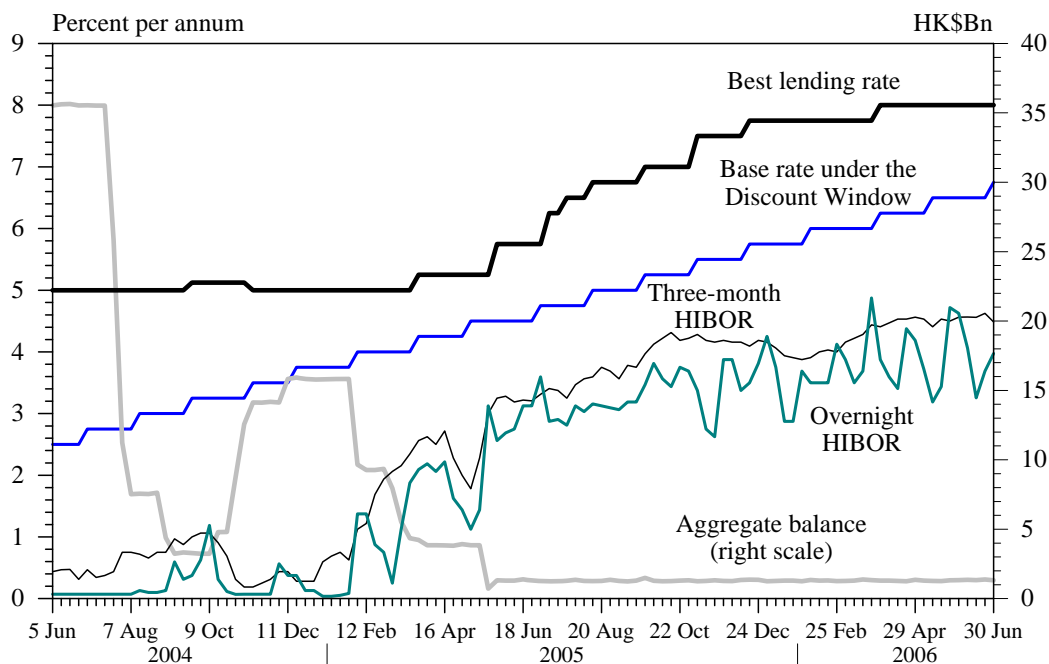
lesser extent, as liquidity in the local banking sector remained abundant. Both overnight HIBOR and its 3-month counterpart only edged up slightly to an average of 3.81% and 4.53% in the second quarter. Indicating the relatively soft local interest rates, the discount of three-month HIBOR over the corresponding Euro-dollar deposit rate widened from 37 basis points at end-December 2005 to 99 basis points at end-June 2006. Meanwhile, the Hong Kong dollar yield curve moved slightly upwards at end-June 2006 compared with end-2005, reflecting higher interest rates across the spectrum.

**Diagram 4.1 : Hong Kong dollar yield curve was below its US counterpart at end-June 2006, as liquidity in the banking sector remained abundant**



4.4 The deposit rates and the best lending rates both increased in the first half of 2006, though the magnitude of increases varied among different banks, reflecting the different cost structure and funding costs of the banks. Yet following the increases in the first quarter, the commercial banks kept the deposit and best lending rates unchanged notwithstanding the two increases in Base Rate by the HKMA in the second quarter. At end-June 2006, the best lending rates remained at 8.0 - 8.25%. Yet reflecting an increase in the average cost of funds of banks, the composite interest rate rose further from 3.00% at end-March 2006 to 3.16% at end-June 2006<sup>(3)</sup>. Meanwhile, the Aggregate Balance has held stable since the introduction of the three refinements to the Linked Exchange Rate System by the HKMA in May 2005, which closed at around \$1.3 billion at end-June 2006.

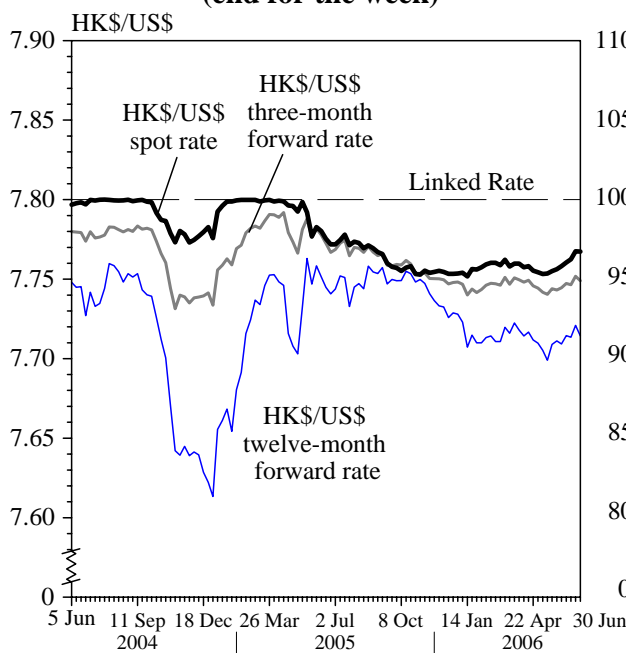
**Diagram 4.2 : Aggregate balance in the banking system remained stable while interest rates rose further during the first half of 2006  
(end for the week)**



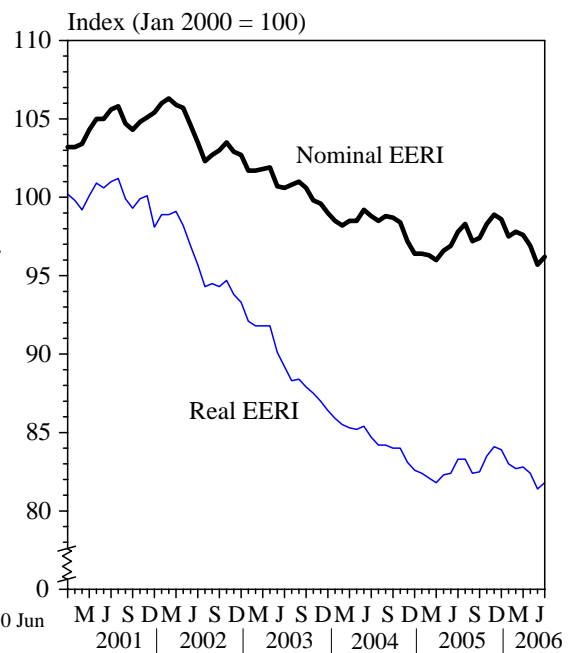
4.5 After staying on the strong side of the link in the first five months of 2006, the Hong Kong dollar weakened against the US dollar in June, concomitant with the quieter financial market activity in that month and possibly some arbitrage activity amidst widening US-Hong Kong interest rate differentials. The spot exchange rate of Hong Kong dollar against the US dollar closed at 7.7665 at end-June 2006, compared with 7.7525 at end-2005. Nevertheless, the discount of the twelve-month Hong Kong dollar forward rate over the spot rate widened noticeably from 255 pips to 530 pips during the same period, reflecting that speculative pressure on further renminbi appreciation continued to linger.

4.6 Under the Linked Exchange Rate System, movements in the exchange rate of the Hong Kong dollar against other currencies follow closely those in the US dollar. After a moderate rebound in 2005, the US dollar weakened against major currencies including the Pound Sterling, the Euro and Yen during the first half of 2006. As a result, the trade-weighted Nominal and Real Effective Exchange Rate Indices<sup>(4)</sup> of the Hong Kong dollar both dropped by an average of 2.4% over the same period.

**Diagram 4.3 : The Hong Kong dollar softened slightly against the US dollar, but forward spread widened in the first half of 2006 (end for the week)**



**Diagram 4.4 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar dropped in the first half of 2006 (average for the month)**

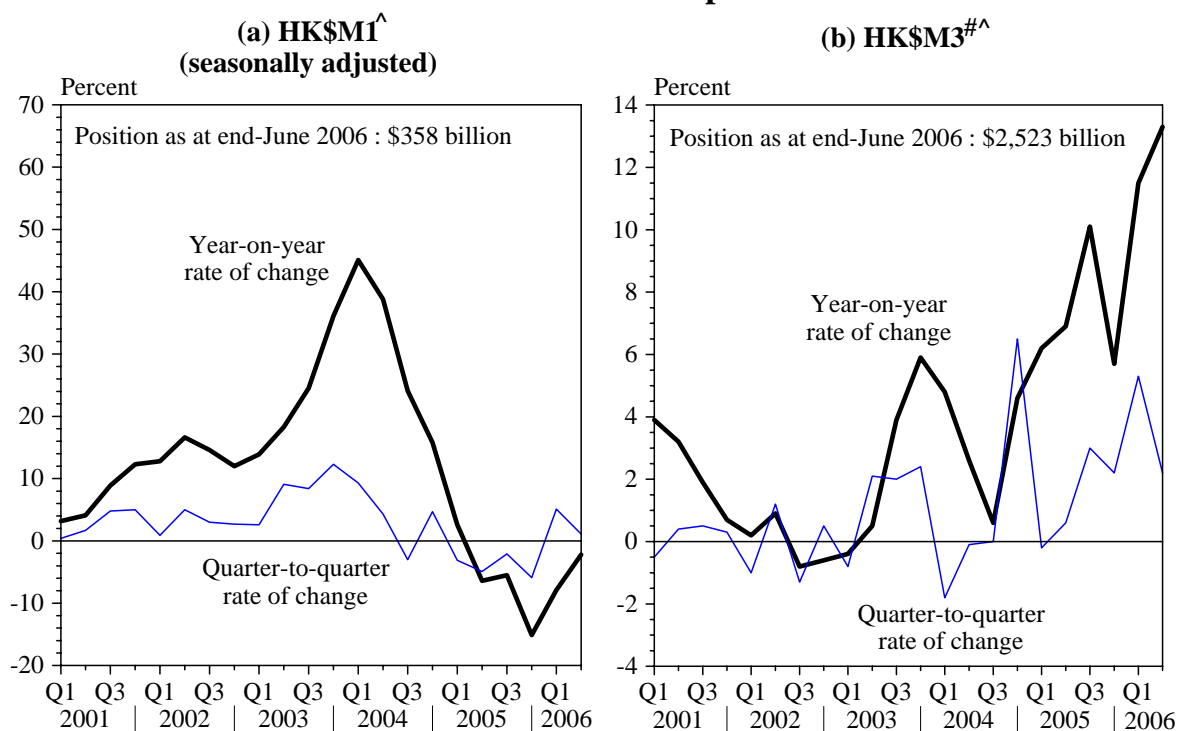




## Money supply and deposits

4.7 The monetary conditions stayed healthy in the first half of 2006, with both the narrow and broad money supply registering increases. The seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1)<sup>(5)</sup> grew by 6.2% at end-June 2006 over end-December 2005, as demand deposits rose sharply along with hectic stock market turnover and IPO activities in the first five months of the year. Hong Kong dollar broad money supply (HK\$M3) rose relatively faster during the first half of the year, by 7.6%, which was higher than nominal GDP growth, mainly led by the strong growth in time deposits along with higher interest rates.

**Diagram 4.5 : Money supply continued to rise along with the economic expansion**



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

(#) Adjusted to include foreign currency swap deposits.

4.8 Total deposits with authorized institutions<sup>(6)</sup> rose by 6.4% to \$4,330 billion (comprising Hong Kong dollar deposits of \$2,300 billion and foreign currency deposits of \$2,030 billion) at end-June 2006 over end-December 2005, as household and corporate incomes improved.

## Loans and advances

4.9 Total loans and advances increased by 4.6% to \$2,417 billion (comprising Hong Kong dollar loans of \$1,862 billion and foreign currency loans of \$556 billion) at end-June 2006 over end-December 2005. The increase was concentrated mostly in the second quarter, which extended to a wide range of economic activities in Hong Kong including notably trade financing, lending to property development, manufacturing, wholesale and retail trades, as well as loans for use outside Hong Kong. On the other hand, lending to stockbrokers, financial concerns and residential mortgages registered some declines in the second quarter. As Hong Kong dollar deposits rose faster than Hong Kong dollar loans during the first half of 2006, the loan-to-deposit ratio fell from 84.3% at end-2005 to 80.9% at end-June 2006.

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

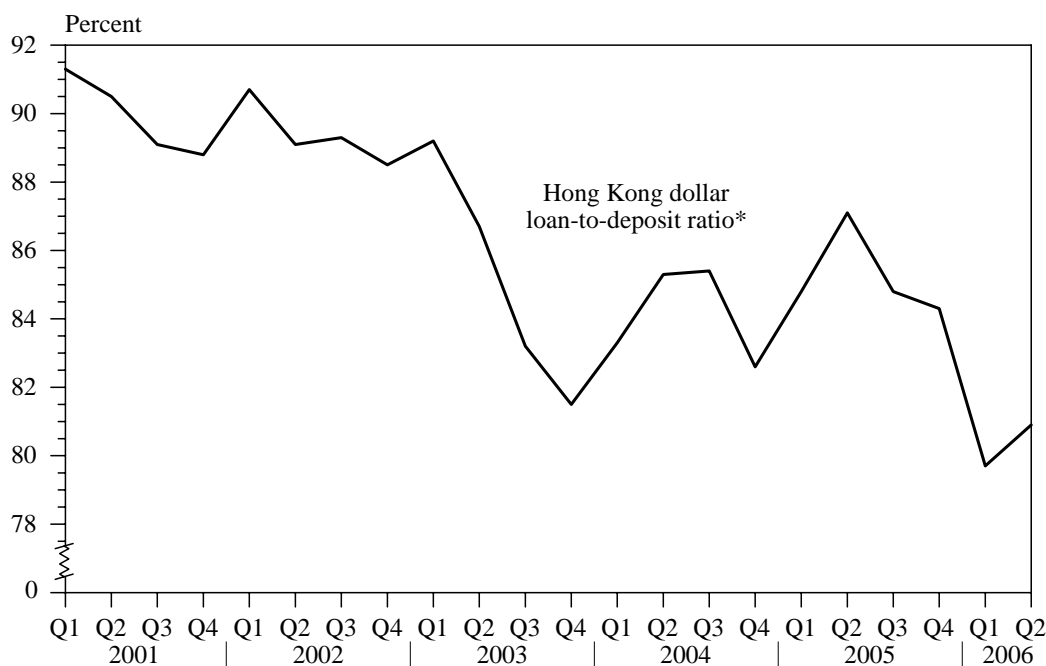
		Loans to :							<b>All loans and advances for use in Hong Kong<sup>(b)</sup></b>
		Finance visible Trade	Manu- facturing sector	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property <sup>(a)</sup>	Financial concerns	Stock- brokers	
<u>% change during the quarter</u>									
2005	Q1	2.4	8.1	-0.6	4.3	0.6	-0.8	5.8	1.6
	Q2	12.2	10.1	6.7	2.7	1.1	3.4	10.9	4.2
	Q3	-1.4	-2.1	-2.3	2.1	-1.1	2.2	-7.8	*
	Q4	-3.9	3.4	-1.3	7.6	-1.3	1.0	-36.6	1.8
2006	Q1	-2.4	-1.9	0.8	0.6	-1.1	3.6	5.3	-0.3
	Q2	10.1	3.7	2.1	5.7	-0.6	-0.1	-6.0	2.8
Total amount at the end of June 2006 (HK\$Bn)		152	120	105	479	596	185	7	2,125
% change over a year earlier		1.8	3.0	-0.8	16.8	-4.0	6.8	-42.1	4.4

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

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

(\*) Change of less than 0.05%.

**Diagram 4.6 : Hong Kong dollar loan-to-deposit ratio fell in the first half of 2006 as deposits rose faster than loans**



Note : (\*) Hong Kong dollar deposits have been adjusted to include foreign currency swap deposits.

## Banking

4.10 Asset quality of the local banking sector on the whole improved further in the first quarter of 2006 amidst the strong economic upturn. The ratio of classified loans to total loans of retail banks fell further from 1.38% at end-December 2005 to 1.32% at end-March 2006. Yet over the same period, the arrears for over three months in *credit card repayment* edged up slightly to 0.40% from 0.37%. Notwithstanding the further rise in mortgage rates, the delinquency ratio for *residential mortgage loans* held largely stable at 0.20% at end-June 2006, compared with 0.19% at end-December 2005. The consolidated capital adequacy ratio for local banks averaged at 15.0% at end-March 2006, well above the minimum international standard of 8% set by the Bank for International Settlements.

4.11 Hong Kong will follow the Basel Committee on Banking Supervision's timetable for implementing the new capital adequacy standards for banks ("Basel II") from January 2007. Since August 2004, the HKMA has issued for public consultation detailed proposals of its policies and standards relating to the implementation approach and the core requirements of the new framework. The banking industry endorses the proposals as pragmatic and the

policy setting stage is now complete. To provide a legal framework for implementing Basel II in Hong Kong, the Banking (Amendment) Ordinance 2005 was enacted on 6 July 2005 under which the HKMA will issue capital and disclosure rules in consultation with the Financial Secretary, the statutory advisory committees and the industry associations. Drafting of the rules is in progress. The new framework aligns regulatory capital requirement more closely with the inherent risks of banks, encouraging banks to improve risk management. Adopting the latest international banking standards in this respect will contribute to the safety and soundness of the banking system in Hong Kong and help to strengthen the position of Hong Kong as a leading international financial centre.

**Table 4.2 : Asset quality of retail banks<sup>(a)</sup>**  
(as % of total loans)

<u>As at the end of</u>	<u>Pass loans</u>	<u>Special mention loans</u>	<u>Classified loans</u> (gross)
2005 Q1	94.30	3.75	1.95
Q2	95.05	3.21	1.74
Q3	95.26	3.25	1.49
Q4	95.96	2.66	1.38
2006 Q1	95.97	2.71	1.32

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

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

4.12 Since February 2004, banks in Hong Kong have been offering renminbi deposit-taking, exchange and remittance services to customers. At end-June 2006, a total of 39 licensed banks were engaged in renminbi banking business in Hong Kong. Renminbi deposits with authorized institutions rose slightly further during the first half of 2006 to RMB 22.7 billion at end-June 2006, compared with RMB 22.6 billion at end-December 2005. Meanwhile, the share of renminbi deposits in total foreign currency deposits with all authorized institutions edged down during the period from 1.12% at end-December 2005 to 1.09% at end-June 2006, mainly due to widening interest rate differentials between renminbi and other major foreign currencies.

**Table 4.3 : Renminbi deposits in licensed banks**

<u>As at end of</u>		Demand and savings deposits <sup>(b)</sup> (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Interest rates on <sup>(a)</sup>		Number of licensed banks engaged in RMB business <sup>(d)</sup>
					Saving deposits <sup>(c)</sup> (%)	Three-month time deposits <sup>(c)</sup> (%)	
2005	Q1	6,440	8,536	14,976	0.46	0.65	38
	Q2	9,358	11,540	20,898	0.46	0.65	39
	Q3	10,219	12,425	22,643	0.46	0.65	38
	Q4	10,620	11,966	22,586	0.46	0.65	38
2006	Q1	10,682	11,776	22,458	0.46	0.65	39
	Q2	11,285	11,427	22,712	0.46	0.65	39

- Notes :
- (a) The interest rates are sourced from a survey conducted by the HKMA.
  - (b) Before March 2006, figures referred to savings deposits only.
  - (c) Period average figures.
  - (d) Licensed banks started to offer RMB deposit taking, currency exchange and remittance services on 25 February 2004.

## The debt market

4.13 Hong Kong's debt market continued to grow both in size and in depth, reinforcing the role of Hong Kong as an international financial centre. In the first half of 2006, gross issuance of Hong Kong dollar debt increased by 6.2% over a year earlier to \$233 billion. At end-June 2006, the total outstanding value of all Hong Kong dollar debt securities rose further by 5.8% over end-December 2005 to \$702 billion<sup>(7)</sup>. This was equivalent to 28% of HK\$M3, or 21% of the Hong Kong dollar-denominated assets of the entire banking sector<sup>(8)</sup>. Around 72% of the outstanding debt were owed to the private sector and Multilateral Development Banks, while the remaining 28%, comprising mainly Exchange Fund papers, were owed by the Government and statutory organisations. The Government will continue to devote effort in promoting liquidity and building an efficient financial infrastructure for development of the debt market.

4.14 In recognition of Hong Kong's strong economic fundamentals, large external creditor position as well as the Government's solid financial position, a number of credit rating agencies upgraded Hong Kong's foreign currency ratings. In late July Standard & Poor's (S&P's) upgraded its long-term foreign and local currency ratings on Hong Kong from "AA-" to "AA", the highest rating that S&P's has ever assigned to Hong Kong. In early August, Rating

and Investment Information Inc. also upgraded Hong Kong's long-term foreign currency rating from "AA-" to "AA". Meanwhile, in late May, Moody's also upgraded Hong Kong's foreign-currency country ceilings (which serve as a cap on ratings of corporations) by three notches to "Aa1". These all would help to lower the borrowing costs of Hong Kong companies.

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

		Exchange Fund paper	Statutory bodies/govern- ment-owned corporations	Govern- ment	Public sector total	AIs <sup>(a)</sup>	Local corporates	Non-MDBs overseas borrowers <sup>(b)</sup>	Private sector total	MDBs <sup>(b)</sup>	<b>Total</b>
<b>New Issuance</b>											
2005	Annual	213.8	8.5	-	222.3	62.6	9.9	105.4	177.9	1.8	402.0
	Q1	52.0	1.3	-	53.4	18.0	1.1	31.1	50.3	-	103.7
	Q2	53.1	2.3	-	55.4	20.1	2.4	36.3	58.7	1.1	115.3
	Q3	54.1	1.9	-	56.0	11.7	4.7	24.5	40.9	0.7	97.6
	Q4	54.4	3.0	-	57.4	12.8	1.7	13.5	28.0	-	85.4
2006	Q1	54.4	6.9	-	61.3	14.1	7.0	35.6	56.7	0.2	118.2
	Q2	55.6	3.5	-	59.1	12.0	1.2	42.0	55.2	-	114.3
<b>Outstanding (period-end figures)</b>											
2005	Q1	123.2	57.3	10.3	190.8	145.9	32.0	228.7	406.6	23.5	620.9
	Q2	124.3	56.1	10.3	190.7	148.4	33.3	248.1	429.7	23.6	644.1
	Q3	125.4	57.1	10.3	192.8	154.1	36.4	257.1	447.6	24.1	664.5
	Q4	126.7	57.7	10.3	194.7	153.4	38.1	256.0	447.5	21.5	663.7
2006	Q1	127.9	59.3	10.3	197.5	154.3	44.7	270.0	469.0	17.5	684.0
	Q2	129.3	54.0	10.3	193.6	152.9	43.3	295.3	491.5	17.1	702.2

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

(a) AIs : Authorized Institutions.

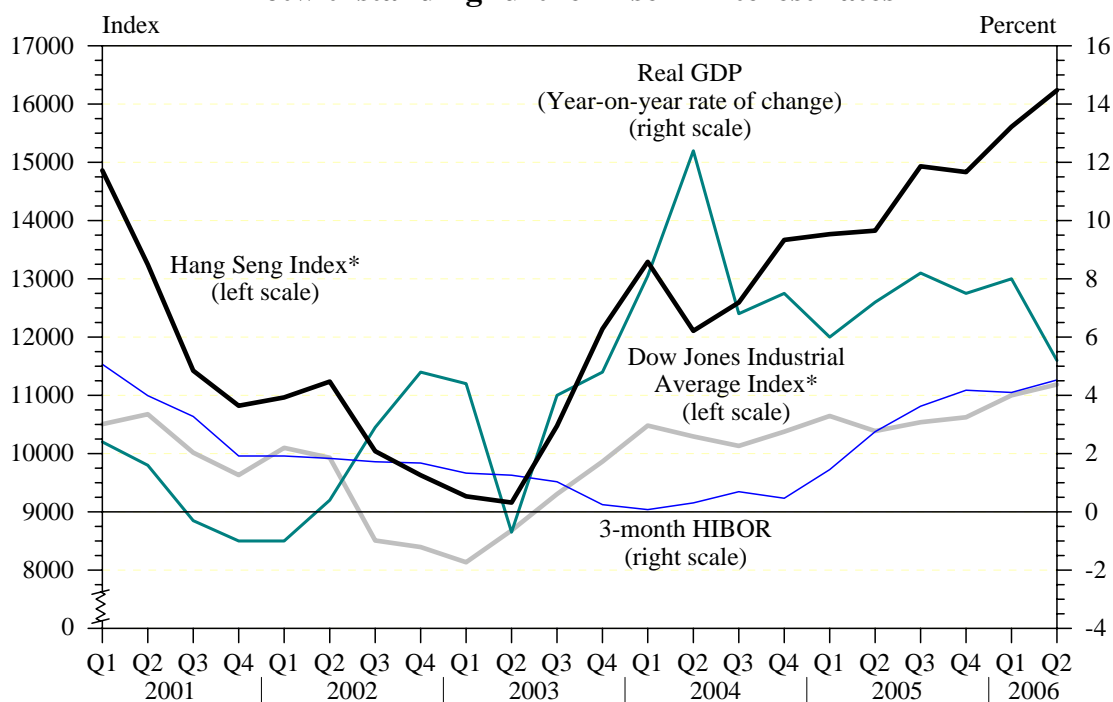
(b) MDBs : Multilateral Development Banks.

## The stock and futures markets

4.15 After the buoyant activity in the first five months of 2006, *the local stock market* consolidated somewhat since the second half of May along with the weakness of major overseas stock markets amidst the uncertain US interest rate outlook. The stepping up in macroeconomic tightening in the Mainland also put a drag on Mainland-related stocks. The turnaround in market sentiment also saw a marked retreat in IPO activities in June. Nevertheless, as economic fundamentals remained strong and there were indications that the US interest rates were about to peak, the market stabilised towards end-June.

After hitting a 5 1/2-year peak of 17 302 on 8 May, the Hang Seng Index fell to a low of around 15 200 in mid-June but rebounded swiftly to close at 16 268 at end-June 2006, which was still 2.9% higher than at end-March 2006 and 9.4% higher than at end-December 2005. Average daily turnover expanded further to a record high of \$34.1 billion in the second quarter, up by 9.3% from the preceding quarter. The stock market rebounded further to around 17 000 – 17 400 in mid-August, close to the highest level in six years.

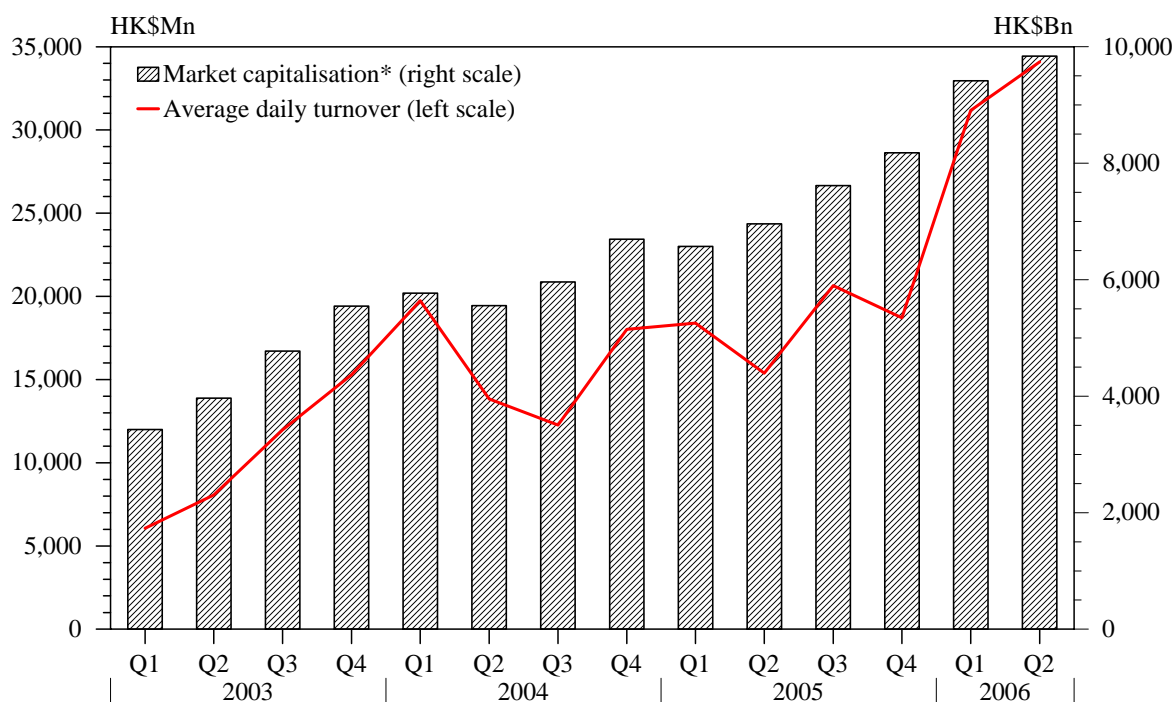
**Diagram 4.7 : The stock market surged further during the first half of 2006 albeit a brief correction in late May, notwithstanding further rise in interest rates**



Note: (\*) Period average figures.

4.16 Market capitalisation rose markedly further to a fresh record high of \$9,840 billion at end-June 2006 (comprising \$9,758 billion in the Main Board and \$82 billion in the Growth Enterprise Market), mainly due to the new listings of several large Mainland enterprises during the second quarter. According to the World Federation of Exchanges<sup>(9)</sup>, at end-June 2006, the Hong Kong stock market was the eighth largest in the world and second largest in Asia in terms of market capitalisation. In the first half of 2006, equity capital raised through new share flotations and post-listing in the Main Board surged markedly to \$176.4 billion, while that in the GEM amounted to \$6.5 billion<sup>(10)</sup>. The total value of equity raised escalated to the third place internationally among major international stock exchanges.

**Diagram 4.8 : Both average daily turnover and total market capitalisation in the Hong Kong stock market hit record high in the second quarter of 2006**



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

4.17 Reflecting the premier position of Hong Kong as a fund raising centre for the Mainland enterprises, in the first half of 2006, the Mainland enterprises raised a total of \$138.2 billion from the Hong Kong stock market, taking up 76% of the total equity raised during that period. Since January 1993, \$1,241 billion of capital have been raised by Mainland enterprises in the Hong Kong stock market, accounting for 53% of the total funds raised. At end-June 2006, there were 350 Mainland enterprises (including 130 H-share companies, 91 “Red Chips” companies and 129 private enterprises) listed on the Hong Kong stock market, accounting for 30% of the total number of listed companies, while the market capitalisation of these Mainland enterprises expanded sharply to \$4.3 trillion, accounting for 44% of the total market capitalisation of the Hong Kong stock market. In the first half of 2006, 57% of the market turnover in the stock market was contributed by trading of the above Mainland-related stocks.

4.18 In the second quarter of 2006, *derivatives trading* remained active notwithstanding a quieter stock market towards the latter part of the quarter. The average daily turnover of the Hang Seng Index Futures contracts, Hang Seng Index options contracts, H-shares Index Futures contracts, and stock options contracts were all higher, by 50% - 203% over a year earlier<sup>(11)</sup>.



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

		Hang Seng <u>Index Futures</u>	Hang Seng <u>Index Options</u>	H-shares <u>Index Futures</u>	Stock <u>Options</u>	Stock <u>Futures</u>
2005	Annual	40 205	12 462	8 027	35 385	53
	Q1	38 872	10 243	7 510	26 583	45
	Q2	36 396	11 266	7 492	23 907	34
	Q3	42 122	14 543	8 809	49 784	71
	Q4	43 294	13 603	8 242	40 304	61
2006	Q1	46 638	14 287	17 436	61 863	163
	Q2	54 535	17 141	22 703	65 038	299
% change in Q2 2006 over a year earlier		49.8	52.1	203.0	172.0	779.4

## **Fund management and investment funds**

4.19 The depth and breadth of investment funds managed in Hong Kong continued to increase, paving the way for Hong Kong to evolve as Asia's leading asset management centre. In the first half of 2006, gross sales of *mutual funds*<sup>(12)</sup> amounted to US\$14,046 million, up sharply further from US\$7,148 million in the second half of 2005. After deducting redemptions, net sales reached US\$3,482 million in the first half of 2006. This compared favourably against the second half of 2005 where net outflows of US\$500 million were recorded. Analysed by asset size, equity funds continued to take up a predominant portion, accounting for 67% of the total value of funds at end-June 2006. Funds managed under the *MPF schemes* continued to grow. The aggregate net asset value of the approved constituent funds surged to \$170.5 billion at end-June 2006, from \$164.6 billion at end-March 2006<sup>(13)</sup>.

4.20 The hedge funds business continued to flourish notwithstanding the increasing volatility in the global financial markets in the second quarter. There were 13 retail hedge funds authorised by the Securities and Futures Commission (SFC) with net asset size surged further to US\$1.48 billion as at end-June 2006, up by 28.7% from end-March 2006. The net asset size at end-June 2006 was more than eight times larger than that as at end-2002, the year when the hedge funds guidelines were first issued. Apart from authorised hedge funds, based on the information available as at June 2006, about 162 hedge funds were operating in Hong Kong with total assets under management (AUM) amounted to US\$18.4 billion. As the presence of hedge funds can contribute to or may adversely impact financial stability, the SFC is building

partnership with other regulators, whether local or overseas, as well as the industry itself to build a fair and transparent regulatory framework with the primary objective to safeguard investor interests. Besides, the co-operation can also facilitate market and product development, maintain market confidence and promote high standards.

## Insurance

4.21 The insurance sector continued to grow along with the pick-up in economic activities. Gross premium income from new long-term business and general business increased further by 18.6% in the first quarter of 2006 over a year earlier<sup>(14)</sup>. Growth in the former, which consisted mainly individual life and annuity business, continued to surge, while gross premium from non-life business registered a small decrease in the first quarter of 2006 over a year earlier. The greater demand for the former type of products reflected partly the increase in employment income amidst the economic upturn, and also the increasing awareness of the needs for individual risk coverage and retirement planning.

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

	<u>General business :</u>			<u>Premium for long-term business* :</u>				
	<u>Gross premium</u>	<u>Net premium</u>	<u>Underwriting profit</u>	<u>Individual life and annuity (non-linked)</u>	<u>Individual life and annuity (linked)</u>	<u>Other individual business</u>	<u>Non-retirement scheme group business</u>	<u>All long-term business</u>
2004 Annual	23,478	16,578	1,957	19,722	18,515	195	163	38,595
2005 Q1	6,944	4,909	63	4,814	4,209	45	41	9,109
Q2	6,171	4,422	141	6,099	5,376	41	48	11,564
Q3	5,704	4,177	433	5,749	5,281	43	39	11,112
Q4	5,069	3,525	1,210	7,628	6,385	49	32	14,094
Annual	23,888	17,033	1,847	24,290	21,251	178	160	45,879
2006 Q1	6,795	4,881	637	4,868	7,284	37	52	12,241
% change from 2005 Q1 to 2006 Q1	-2.2	-0.6	911.1	1.1	73.1	-17.8	26.8	34.4

Note : (\*) Figures refer to new businesses only. Retirement scheme businesses are excluded.

## Notes :

- (1) The measures were jointly promulgated by the People's Bank of China, State Administration of Foreign Exchange and the China Banking Regulatory Commission. The measures provide that commercial banks are allowed to invest in stipulated financial products in foreign financial markets on behalf of domestic institutions and households. Meanwhile, with effect from 1 May 2006, the requirement of prior approval for opening up of foreign exchange account related to the current account items by domestic institutions is abolished. Individuals are allowed to buy up to US\$20,000 of foreign currency a year, up from the previous quota of US\$8,000.
- (2) At present, the Base Rate is set at either 150 basis points above the prevailing US Fed Funds Target Rate or the average of the five-day moving averages of the overnight and one- month HIBORs, whichever is higher.
- (3) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average costs of funds of banks. The published data enable the banks to keep track of changes in funding cost and thus help improve interest rate risk management in the banking sector.
- (4) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

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

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

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

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

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

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

- (6) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-June 2006, there were 134 licensed banks, 31 restricted licence banks and 33 deposit-taking companies in Hong Kong. Altogether, 198 authorized institutions (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (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 authorized institutions in Hong Kong as well as from banks abroad, loans and advances to customers, negotiable certificates of deposits (NCDs) held, negotiable debt instruments other than NCDs held, and other assets. Certificates of indebtedness issued by Exchange Fund and the counterpart bank notes issued are nevertheless excluded.
- (9) The ranking is sourced from the World Federation of Exchanges, a global trade association for the stock exchange industry. Its membership comprises 54 stock exchanges, covering almost all globally recognised stock exchanges.
- (10) At end-June 2006, there were 948 and 200 companies listed on the Main Board and GEM respectively.
- (11) At end-June 2006, there were 43 classes of stock options contracts and 42 classes of stock futures contracts.
- (12) These figures are sourced from the Sales and Redemptions Survey conducted by the Hong Kong Investment Funds Association on their members, and cover only the active authorized funds that have responded to the survey. To provide a more accurate picture of the retail fund market in Hong Kong, the survey has been revamped, with effect from 2005, such that it would cover only retail transactions (including switching) and exclude institutional transactions. At end-June 2006, there were a total of 1 067 authorized-funds covered by the Survey.
- (13) There were 19 approved trustees at end-June 2006. On MPF products, 37 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 308 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 229 400 employers, 2.02 million employees and 286 700 self-employed persons have participated in MPF schemes.
- (14) As at end-June 2006, there were 175 authorized insurers in Hong Kong. Within this total, 46 were engaged in long-term insurance business, 110 in general insurance business, and 19 in composite insurance business. These authorized insurers come from 22 countries and territories (including Hong Kong).

## CHAPTER 5 : THE LABOUR SECTOR

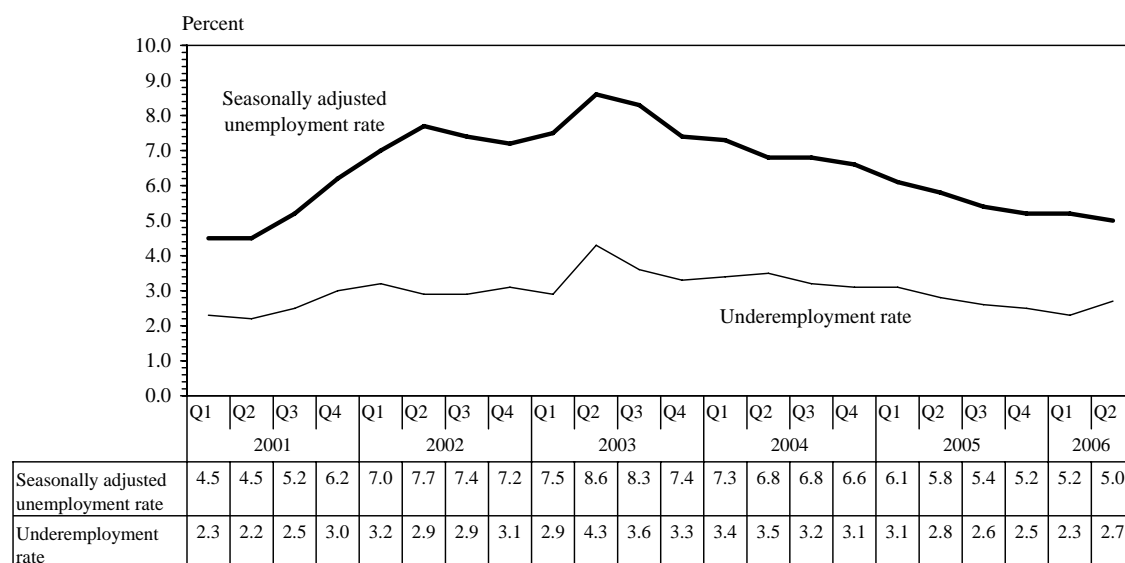
### *Summary*

- *The labour market exhibited a broad-based improvement during the second quarter of 2006, thanks to the improved labour demand alongside the sustained pick-up in economic activity.*
- *Total employment, estimated at 3.43 million, and the seasonally adjusted unemployment rate, at 5.0%, were close to the all-time high and 57-month low recorded just in March – May 2006 respectively.*
- *Labour wages and earnings continued to rise modestly in overall terms, extending the mild uptrend established since early 2005.*
- *The near-term outlook will depend on the overall economic growth and in particular the pace of job creation for absorbing the new batch of fresh graduates and school leavers entering the labour market.*

### **Overall labour market situation**

5.1 Despite signs of weakness still evident in a few segments, the labour market as a whole fared better during the second quarter of 2006. The sustained robust economic growth fuelling strong labour demand in the corporate sector was the key contributory factor. Total employment rose to 3 427 500, which coupled with a modest decrease in the labour supply to 3 606 600, led to a further reduction in the numbers unemployed to 179 000. The *seasonally adjusted unemployment rate*<sup>(1)</sup> also fell, to 5.0%. Meanwhile, the *underemployment rate*<sup>(2)</sup> rose to 2.7%, conceivably due to increased engagement of part-time and casual workers in the construction, restaurants and hotels, and manufacturing sectors.

**Diagram 5.1 : Unemployment dropped amid continued economic growth, yet underemployment increased**



### Total employment and labour supply

5.2 *Total employment*<sup>(3)</sup> as enumerated by household surveys stood at 3 427 500 in the second quarter of 2006, somewhat below the record high of 3 437 500 just in March – May, but still marginally above the level in the first quarter of the year. Extensive increases in employment were observed in many of the service sectors, including in particular the wholesale and retail trades, education, restaurants, and amusement and recreational services. These outweighed the job losses seen primarily in the manufacturing and transport sectors. Furthermore, as employment gains occurred largely among job categories at the upper end of the labour market, workers with better skills and higher educational attainment tended to be the chief beneficiaries. On a year-on-year comparison, total employment remained distinctly higher by 1.8% in the second quarter of 2006, although this was somewhat smaller than the increase of 2 –2.4% in the preceding quarters.

5.3 On the *labour supply*<sup>(4)</sup>, there was however a marginal contraction in the second quarter of 2006 to 3 606 600, notwithstanding the entry of some fresh graduates and school leavers. The decrease took place primarily among those persons previously engaged in sectors like manufacturing, construction, transport, communications and real estate, which were characterised by a relatively higher proportion of part-time jobs and labour turnover rate. During the second quarter, some of the people in this group could have quit the labour market upon completion of their part-time work, or in pursuit of further studies, thereby leading to a drop in the labour force participation rate predominantly for males aged 20-29. Yet when compared with a year earlier, the labour force

still registered a 1.0% increase in the second quarter of 2006, broadly similar to the growth in the preceding quarters.

5.4 Comparing the second quarter of 2006 with the same quarter in 2003, the change in the labour demand/supply situation was even more notable, in particular with total employment rising markedly by nearly 230 000. While new jobs had been created almost across-the-board, the majority of them were found at the upper segment of the occupational hierarchy. This largely accounted for the visible drop in the unemployment rate for managers, administrators, professionals and associate professionals over the period. As for the lower-skilled workers, whilst the gain in employment was relatively smaller, it nevertheless coincided with a distinct contraction in the labour supply. Thus, the respective unemployment rate likewise changed distinctly for the better. These developments, besides reflecting the relative shift in market demand more towards higher skilled workers amid the ongoing restructuring of the economy, also underlined the importance of the need to enhance the quality of the local workforce through education and training with a view to meeting with the evolving economic and labour market conditions.

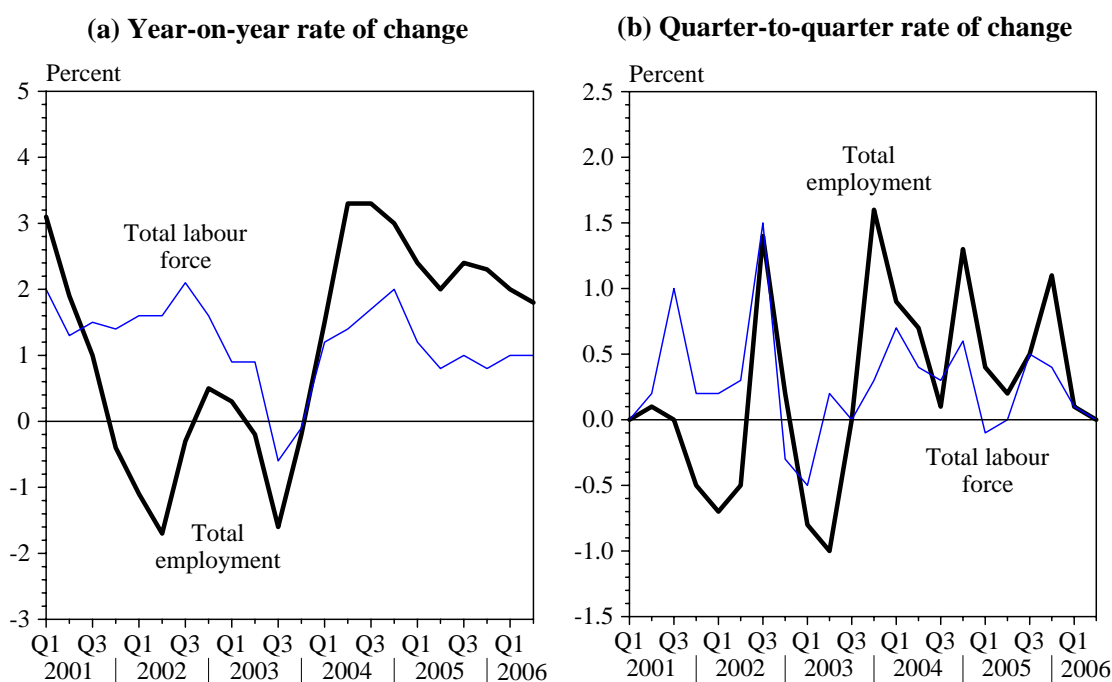
**Table 5.1 : The labour force, and persons employed, unemployed and underemployed**

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed</u> <sup>(a)</sup>	<u>Persons underemployed</u>
2005	Annual	3 584 600	(0.9)	3 384 000	(2.3)	200 600	98 600
	Q1	3 571 000	(1.2)	3 359 900	(2.4)	211 000	110 000
	Q2	3 571 900	(0.8)	3 367 300	(2.0)	204 600	100 500
	Q3	3 590 700	(1.0)	3 385 300	(2.4)	205 400	94 700
	Q4	3 604 800	(0.8)	3 423 400	(2.3)	181 500	89 200
2006	Q1	3 606 700	(1.0)	3 426 200	(2.0)	180 500	82 600
	<i>Three months ending</i>						
	Apr	3 607 400	(1.2)	3 426 800	(2.1)	180 600	85 600
	May	3 612 300	(1.2)	3 437 500	(2.2)	174 800	95 100
	Jun	3 606 600	(1.0)	3 427 500	(1.8)	179 000	96 000
			<*>		<*>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.  
 ( ) Year-on-year % change.  
 < > % change between Q1 and Q2 (i.e. April-June).  
 (\*) Change of less than 0.05%.

Source : General Household Survey, Census and Statistics Department.

**Diagram 5.2 : Employment growth still outstripped the labour supply growth, particularly on a year-on-year comparison**

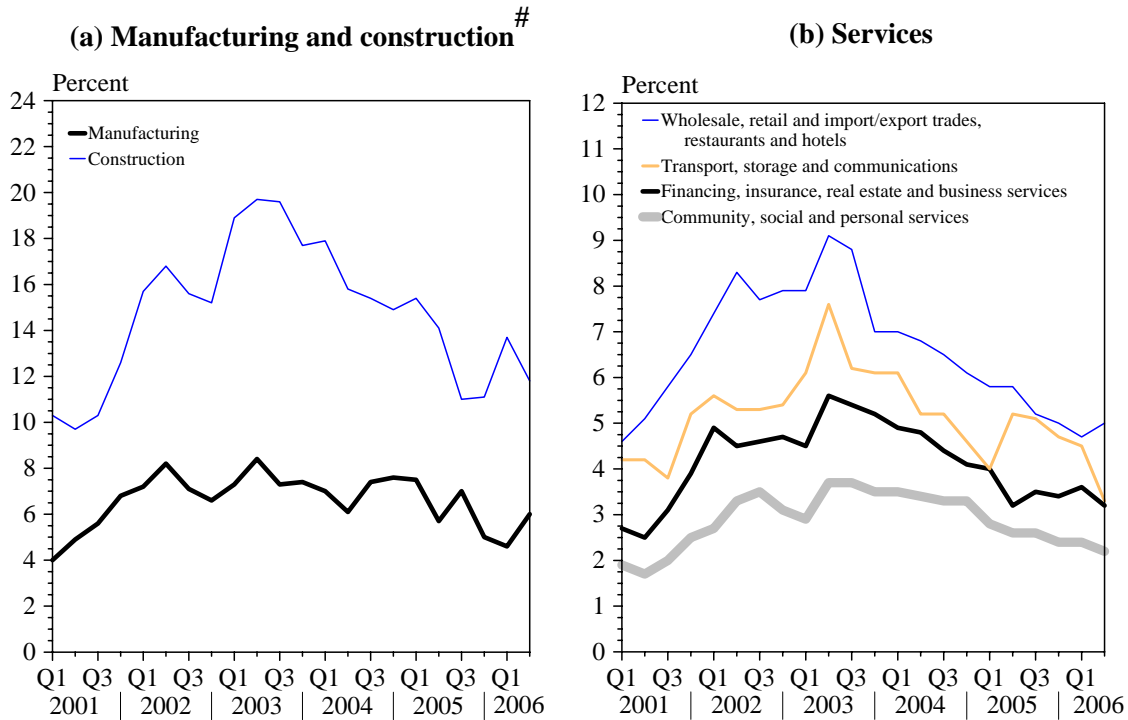


### Profile of unemployment

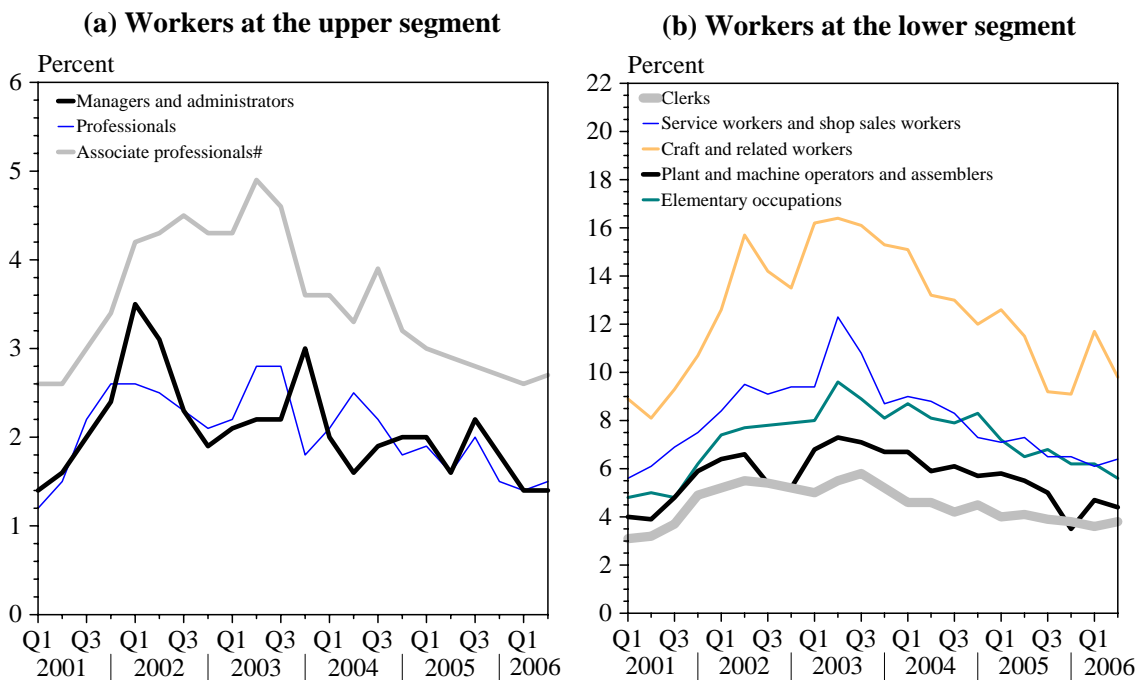
5.5 With the total employment growth still outstripping the labour supply growth, the unemployment figures generally followed a declining trend in the past couple of years. In the second quarter of 2006, the seasonally adjusted unemployment rate was 5.0%, which was only marginally above the 57-month low of 4.9% recorded just in March – May. In absolute terms, the total number of unemployed persons fell below the 180 000 mark to 179 000. Among them, those long-term unemployed (i.e. for six months or longer) decreased further to 47 200. Thus, unemployment eased not only in scale but also in intensity. On a quarter-to-quarter comparison, construction was the sector where a visible reduction in unemployment rate was found, yet this was largely due to a contraction in the respective labour supply. On the other hand, increases in unemployment rate were seen in restaurants and the import/export trades, as the jobs created fell short of the growth in labour supply. Broadly consistent with these sectoral movements, craft and related workers and workers in elementary occupations saw some reduction in unemployment, whereas service workers and shop sales workers experienced higher unemployment. Yet for the lower-skilled workers as a whole, the unemployment situation still turned better. As to the higher skilled workers, the unemployment rate rose slightly, with the increase occurring largely among associate professionals. This was attributable partly to a surge in the respective labour supply consequential upon more fresh graduates and school leavers entering the labour market.



**Diagram 5.3 : Unemployment rates\* in the service sectors stayed below those in the manufacturing and construction sectors**



**Diagram 5.4 : Unemployment rates\* for lower-skilled workers, though still above those for higher-skilled workers, generally went down**

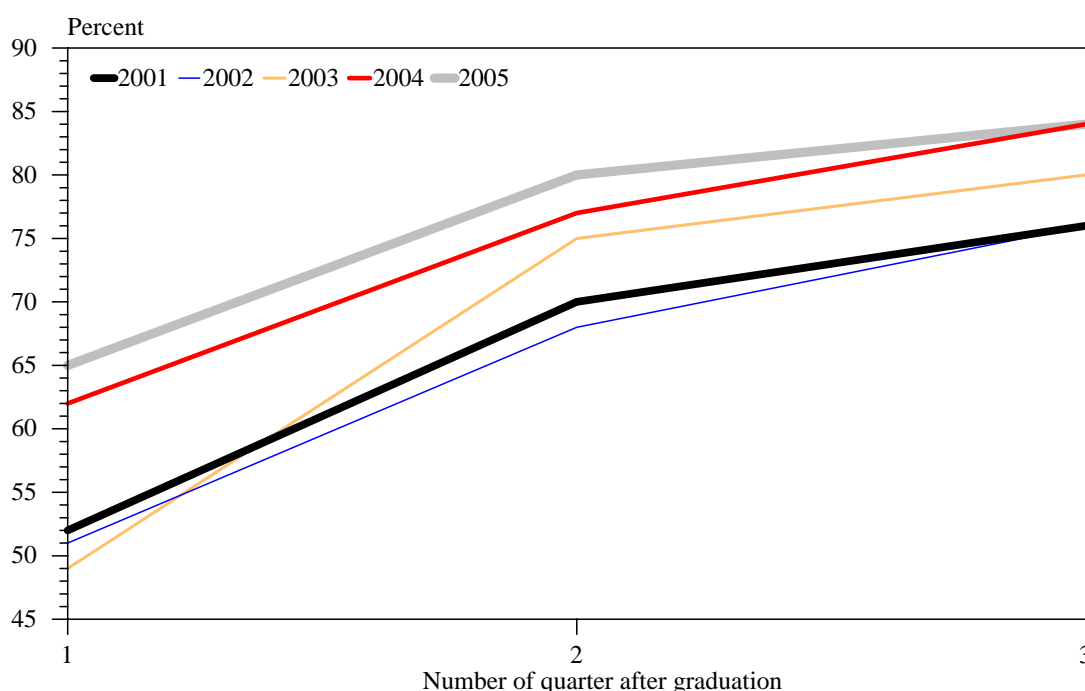


## Box 5.1

### Recent employment situation of fresh graduates and school leavers

Over the past two years, fresh graduates and school leavers have benefited greatly from the improving economic and labour market situation. Reflecting this, the employment rates<sup>(1)</sup> for these new entrants into the workforce were high at 62% and 65% respectively in the third quarter of 2004 and 2005 (i.e. the first quarter immediately after graduation)<sup>(2)</sup>. These figures compared very favourably with those of 49-52% in the same quarter of preceding three years, when the Hong Kong economy was hard hit by the property market slump and a prolonged deflation upon the impacts of the Asian financial crisis and the subsequent global economic downturn and outbreak of SARS in 2001 - 2003.

#### Employment rate for fresh graduates and school leavers



Source : General Household Survey, Census and Statistics Department.

As for the ensuing quarters after graduation, the employment rates for fresh graduates and school leavers were again higher in 2004 and 2005 than in the earlier few years, albeit by a smaller margin. So, these newcomers on the whole had relatively less difficulty in finding jobs during the economic upturn over the last two years.

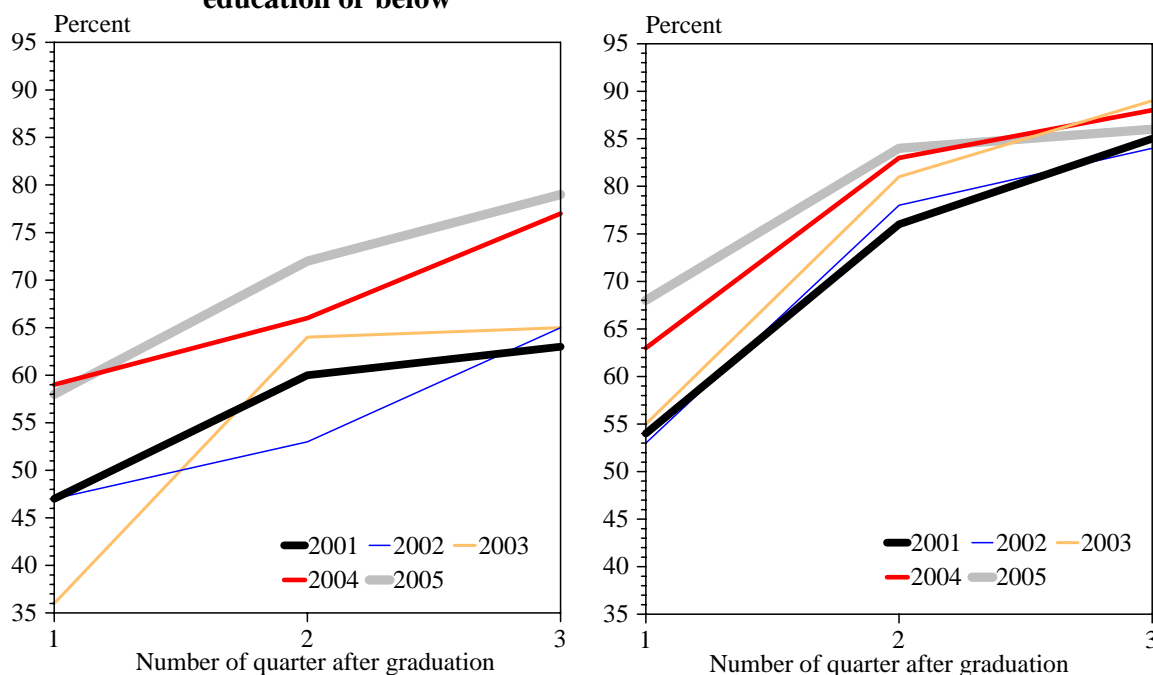
A further breakdown by educational attainment revealed that fresh graduates with upper secondary/matriculation education or below had an employment rate averaging at 58% in Q3 2005, much improved from the low of 36% in Q3 2003. This was broadly in line with the distinct downtrend in the unemployment rate for lower-skilled workers over the same period.

(1) Unless stated otherwise, the employment rate here refers to the ratio of employment to labour supply in respect of fresh graduates and school leavers aged 15 to 25, including those graduated from overseas countries.

(2) As students in Hong Kong normally complete their study in around mid-year, the first quarter after graduation refers to Q3 of the year.

## Box 5.1 (cont'd)

### Employment rate for fresh graduates and school leavers Upper secondary/matriculation education or below      Tertiary education



Source : General Household Survey, Census and Statistics Department.

By comparison, those better-educated graduates with tertiary education had an even higher employment rate at 68% in Q3 2005, likewise up from their 2001-03 levels at 53-55%. This was largely consistent with the trend of increasing employment among associate professionals, which were generally considered as the entry post for most of these first-time job-seekers. With higher educational attainment, this particular group of people tended to benefit more from the greater demand for higher skilled workers resulting from the economic restructuring towards knowledge-based activities.

Yet the cyclical ups and downs of an economy were also an important factor affecting the pace of fresh graduates and school leavers entering the labour market, and henceforth the respective employment rate. As shown in the table below, the proportion of fresh graduates with bachelor degree or above entering the labour market seemed to bear an inverse relationship with the overall economic conditions in recent years. Yet for sub-degree graduates, there was a steady rise in the proportion of those pursuing further studies, apparently regardless of the economic cycles. To some extent, this might be due to the increasing aspiration among people of younger age to upgrade their knowledge and skills in order to rise to the challenges of a knowledge-based economy.

#### Proportion of UGC-funded full-time programme graduates pursuing further studies

Year of completed studying	Bachelor degree or above (%)	Sub-degree (%)
2001	12.7%	21.3%
2002	15.6%	30.2%
2003	15.4%	33.5%
2004	13.3%	43.0%
2005	11.8%	48.3%

Source: Graduate Employment Surveys conducted by UGC-funded institutions.

### **Box 5.1 (cont'd)**

On wages and earnings, fresh graduates with tertiary education generally experienced a renewed rise in salaries over the past two years. Even so, the statistics indicated that the average salary of full-time graduates in 2005 was still some way below that in 1997, especially at the sub-degree level, reflecting the influences of both demand and supply factors. More specifically, despite the recent economic revival, the labour market in 2005 had yet to recover fully from the earlier shocks. Furthermore, there was a growing supply of tertiary graduates, following the Government's vast investment in higher education in recent years.

#### **Average annual salaries of UGC-funded full-time programme graduates**

<u>Year of completed studying</u>	<u>Bachelor degree or above (\$)</u>	<u>Sub-degree (\$)</u>
1997	178,000	166,000
2001	168,000	156,000
2002	147,000	125,000
2003	139,000	117,000
2004	143,000	115,000
2005	151,000	119,000

Source: Graduate Employment Surveys conducted by UGC-funded institutions.

The corresponding income figures for 2006 are not yet available. But the anecdotal evidence available so far points to a further hike in the entry pay for fresh graduates with tertiary degree education. The rate of pay rise seems to be larger for those jobs in the accounting, banking and finance fields.

### **Profile of underemployment**

5.6 The underemployment rate moved higher to 2.7% in the second quarter of 2006. The rise in underemployment was most apparent among craft and related workers engaged in the construction (especially foundation and superstructure) and manufacturing sectors, as well as among service workers and shop sales workers engaged mainly in restaurants and the retail trade, as a relatively larger proportion of these workers were involved in casual or part-time jobs. Most of them received relatively limited education at lower secondary level or below.

## Profile of employment in establishments

5.7 As to persons engaged in *private sector establishments*, the total number went up by 2.0% in March 2006 over a year earlier, according to the latest figures available from the establishment survey. The service sectors remained the principal engine of growth, registering an employment gain of 2.9%. The increase was concentrated in the retail trade, restaurants and hotels, and financing, insurance, real estate and business services. In stark contrast, employment at building and construction sites<sup>(5)</sup> stayed on a downtrend, falling further by 16.5%, owing to the still slack construction activity particularly at the public sector sites. Manufacturing employment was also reduced, albeit by a smaller magnitude of 1.0%, reflecting mainly the negative effect of continued outward relocation of the local manufacturing process to the neighbouring low cost centres, predominantly the Mainland. Also worth noting was that the small and medium-sized enterprises<sup>(6)</sup> continued to be a more significant provider of new jobs than the larger ones, with the respective contributions being 1.8% and 0.2% in March 2006.

5.8 In March 2006, the civil service employment was slimmed down further by 1.5% from a year earlier. On current indications, the size of civil service establishment<sup>(7)</sup> may be reduced to about 161 900 by end-March 2007, as earlier planned.

**Table 5.2 : Employment by major economic sector**

	<u>2005</u>					<u>2006</u>
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>
Wholesale, import and export trades	581 800 (2.5)	583 100 (4.8)	579 100 (2.8)	585 300 (1.4)	579 500 (0.9)	581 200 (-0.3)
Retail trade	221 100 (1.8)	216 000 (0.7)	224 600 (3.7)	221 700 (1.0)	221 900 (1.6)	225 900 (4.6)
Restaurants and hotels	215 400 (3.6)	210 700 (2.9)	214 500 (2.3)	214 300 (3.7)	222 300 (5.4)	221 800 (5.3)
Transport and storage	153 300 (3.6)	151 400 (4.3)	153 700 (4.1)	153 400 (3.6)	154 600 (2.6)	154 100 (1.8)
Communications	30 000 (-2.4)	29 800 (-3.6)	31 200 (0.1)	29 700 (-1.2)	29 200 (-4.9)	30 000 (0.6)
Financing, insurance, real estate and business services	456 100 (4.4)	447 600 (4.4)	457 200 (5.3)	455 400 (4.0)	464 400 (3.8)	468 300 (4.6)
Community, social and personal services	439 000 (4.5)	434 400 (5.4)	437 000 (4.5)	437 700 (5.3)	446 800 (2.7)	451 300 (3.9)
Manufacturing	164 700 (-2.0)	163 100 (-3.5)	161 900 (-4.5)	166 300 (-1.0)	167 400 (1.3)	161 500 (-1.0)
Building and construction sites	59 300 (-10.6)	65 800 (-4.8)	60 000 (-14.2)	56 800 (-12.4)	54 500 (-11.1)	54 900 (-16.5)
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	<i>2 328 700 (2.5)</i>	<i>2 310 000 (3.2) &lt;0.6&gt;</i>	<i>2 327 300 (2.6) &lt;0.5&gt;</i>	<i>2 328 900 (2.3) &lt;0.1&gt;</i>	<i>2 348 700 (2.0) &lt;0.8&gt;</i>	<i>2 357 200 (2.0) &lt;0.6&gt;</i>
<i>Civil service<sup>(b)</sup></i>	<i>156 500 (-2.7)</i>	<i>157 300 (-3.5)</i>	<i>156 800 (-3.0)</i>	<i>156 200 (-2.4)</i>	<i>155 500 (-1.8)</i>	<i>155 000 (-1.5)</i>

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

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

(b) These figures cover only those employed on civil service terms of appointment. Judges, judicial officers, ICAC officers, locally engaged staff working in overseas Hong Kong Economic and Trade Offices, 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.

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

## Vacancies

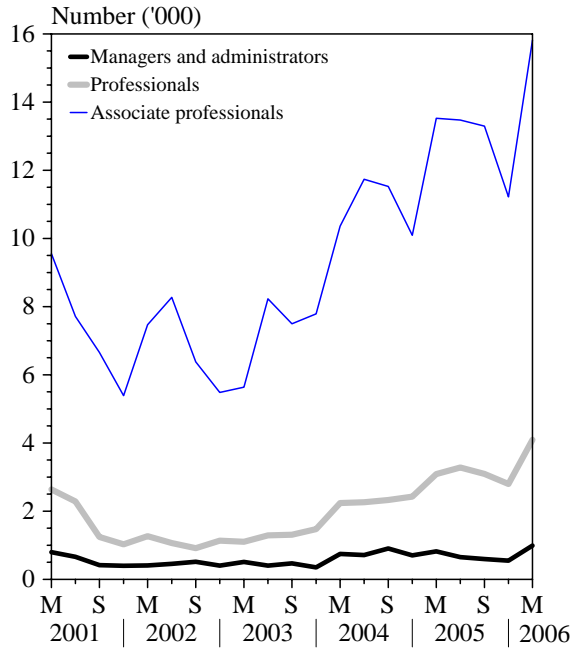
5.9 Job vacancies in *private sector establishments* continued to register a double-digit growth of 22.8% over a year earlier to 45 500 in March 2006, representing the highest level since September 1997. The overall vacancy rate leaped in tandem, to 1.9%. Of the total vacancies, over 95% came from the service sectors. Among them, restaurants and hotels, the retail trade, and financing, insurance, real estate and business services were the ones having larger gains in vacancies. Whilst job openings at the lower segment of the labour market continued to grow at a faster pace than those at the upper segment, the growth differential between them had narrowed considerably in the more recent periods consequential to the surging demand for professionals. As regards the *civil service*, the number of vacancies exhibited an accelerated increase to 2 600 in March 2006, as more additional posts had been granted exemption from the general recruitment freeze on the grounds of operational needs.

5.10 More recent data on job vacancies in some selected sectors can be available from the Employment Services of the Labour Department. The statistics show that the number of private sector job vacancies registered in the second quarter of 2006 was 11.4% more than a year earlier. On average, over 1 800 vacancies were received per working day. Meanwhile, the number of placements attained by the Department showed a similar surge, by 11.8%.

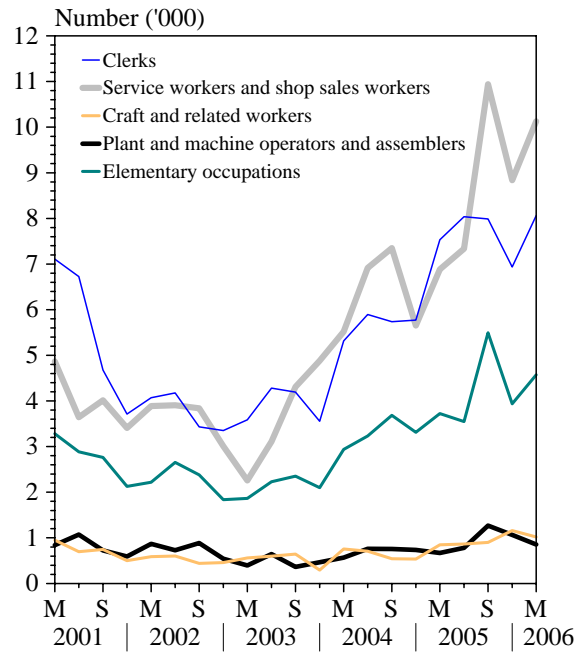
5.11 In addition to regular employment services, the Labour Department has periodically arranged general or theme-specific job fairs at different locations to facilitate job matching. In the first half of 2006, 8 large-scale and 44 district-based job fairs were organised. Larger-scale job fairs were well attended by over 200 prospective employers, offering some 19 000 vacancies. The most recent one was held in Tuen Mun on 16-17 August.

**Diagram 5.5 : Vacancies in the corporate sector maintained a double-digit growth, reaching its highest level since 1997**

**(a) Workers at the upper segment**



**(b) Workers at the lower segment**





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

	<u>No. of vacancies</u>						<u>Vacancy rate in Mar 2006 (%)</u>
	<u>Annual average</u>	<u>2005</u>					
		<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	
Wholesale, import and export trades	9 100 (20.1)	10 300 (42.4)	9 300 (7.2)	9 100 (13.4)	7 800 (21.0)	10 600 (3.0)	1.8
Retail trade	3 700 (40.3)	3 000 (33.7)	3 300 (35.7)	4 800 (46.8)	3 700 (41.9)	4 800 (58.7)	2.1
Restaurants and hotels	3 400 (58.3)	2 400 (39.3)	2 700 (24.3)	4 300 (70.8)	4 100 (94.7)	4 000 (63.4)	1.8
Transport and storage	1 800 (30.3)	1 700 (36.6)	1 900 (19.2)	2 300 (38.1)	1 500 (27.5)	2 000 (20.1)	1.3
Communications	700 (34.8)	400 (-32.7)	500 (32.3)	1 200 (48.7)	900 (108.3)	800 (93.0)	2.5
Financing, insurance, real estate and business services	10 800 (21.0)	10 500 (21.5)	11 200 (23.8)	12 000 (28.8)	9 700 (9.7)	13 600 (29.6)	2.8
Community, social and personal services	7 100 (22.1)	6 800 (30.1)	7 200 (15.2)	8 000 (39.3)	6 600 (6.4)	7 900 (15.6)	1.7
Manufacturing	2 000 (33.3)	2 000 (33.1)	1 900 (16.2)	2 000 (28.8)	2 200 (58.6)	1 900 (-3.4)	1.2
Building and construction sites	# (-75.7)	# (-92.7)	# (-84.7)	# (-77.3)	# (-36.4)	# (66.7)	*
<i>All establishments surveyed in the private sector<sup>(a)</sup></i>	38 800 (26.4)	37 100 (30.4)	38 000 (17.9)	43 600 (32.7)	36 500 (24.9)	45 500 (22.8)	1.9
		<5.5>	<*>	<21.1>	<-2.1>	<3.6>	
<i>Civil service<sup>(b)</sup></i>	900 (57.0)	1 500 (231.5)	1 100 (270.4)	700 (672.5)	500 (-66.9)	2 600 (76.3)	1.7

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

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

(b) These figures cover only vacancies for those staff to be employed on civil service terms of appointment. They have been adjusted by deducting the vacant posts emerging from the Voluntary Retirement Schemes. A general recruitment freeze to the civil service has been imposed with effect from 1 April 2003. The civil service vacancies during the general recruitment freeze period refer only to the number of vacant posts for which exemptions from recruitment freeze have been granted.

( ) % change over a year earlier.

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

(#) Less than 50.

(\*) Less than 0.05%.

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

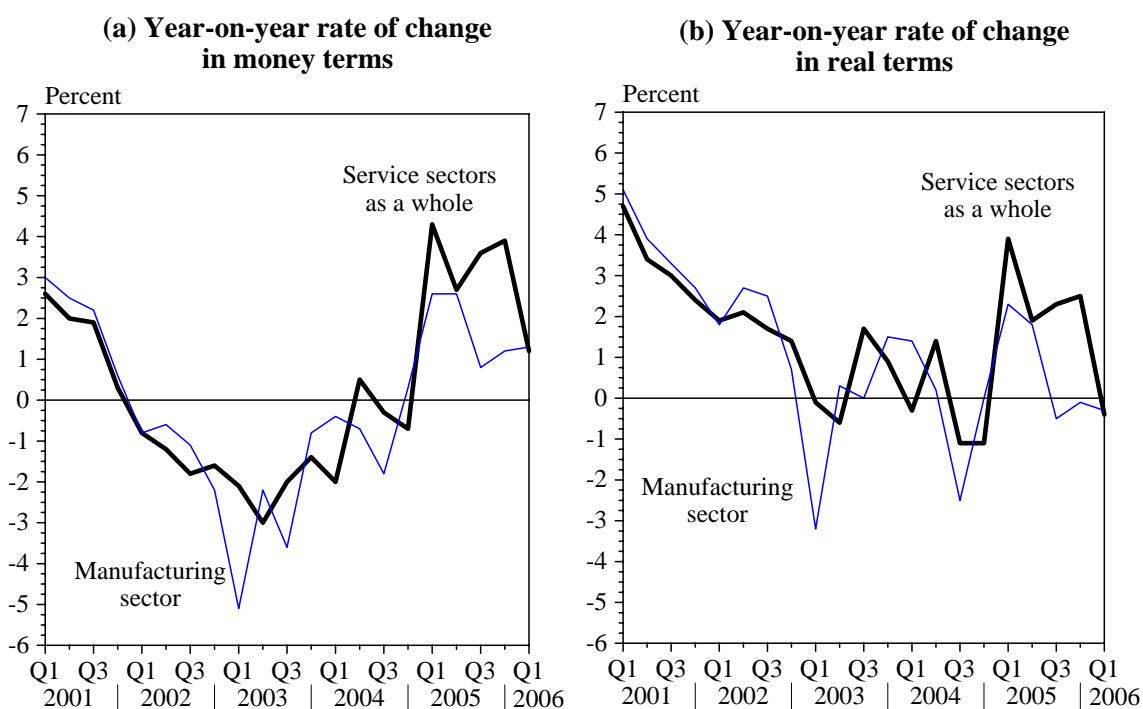
## Earnings and wages

5.12 *Labour earnings*<sup>(8)</sup>, measured by payroll per person engaged in the private sector, edged up by 1.3% in money terms in the first quarter of 2006 over a year earlier, though slightly down by 0.3% in real terms<sup>(9)</sup>. The mild uptrend in nominal earnings established since early 2005 was thus sustained.

5.13 The modest rise in payroll at the aggregate level, however, concealed varying pay adjustments in different sectors. For instance, those service sectors with a relatively larger proportion of higher skilled workers, who were generally in greater demand, faced larger increases in labour earnings. Notable examples included financial institutions and the import/export trades. As to those sectors like restaurants and hotels, and community, social and personal services where a larger share of lower skilled employees was found, there were little changes or even declines in labour earnings. Regarding the manufacturing sector, labour earnings went up on the back of the robust domestic exports performance in the first quarter of the year.

5.14 More recent data from the General Household Survey indicated an increase in overall employment earnings in the second quarter of 2006 over a year earlier. Increases were seen among associate professionals of various sectors. Reportedly, in those sectors where a more acute shortage of skilled workers was found, more generous remuneration packages had been offered by the employers concerned as a means to reduce the staff turnover rate.

**Diagram 5.6 : Nominal earnings remained on the rise, amid the tighter labour market conditions**



5.15 By comparison, *labour wages* had a smaller rise of 0.7% in money terms in March 2006 over a year earlier. In real terms, there was a modest decrease of 0.7%. The different performance of the two sets of statistics on labour income (i.e. labour earnings and wages) can be attributed to their difference in coverage with wages covering regular payments of workers only up to the supervisory level. Milder pay rises among the lower-skilled workers and generally looser manpower resource balance for lower-end occupations were the major reasons. The prevailing tendency among business establishments to reward employees through variable or discretionary pay so as to enhance work incentive and flexibility in human resource management might also have contributed.

5.16 In sectoral terms, the March 2006 data showed that nominal wage increases were found entirely in the manufacturing and the financing, real estate and business services sectors. Nominal wages in the wholesale, retail and import/export trades, restaurants and hotels, and transport services however fell, after having risen for quite some time. Analysed by occupation, whereas upward adjustments in wages were observed among production supervisors and estate officers in property management companies, decreases were seen among office assistants and general cleansers. The pattern of movements in real terms was broadly similar.

## Newly introduced labour-related measures

5.17 The HKSAR Government launched the Quality Migrant Admission Scheme (QMAS) on 28 June 2006, with a view to attracting highly-skilled or talented persons to come to Hong Kong, thereby enhancing the quality of local human capital. The scheme is quota-based and operated on a points-based system with an initial annual quota of 1 000. Individuals from the Mainland and overseas who meet all the pre-requisites<sup>(10)</sup> may choose to be assessed under a General Points Test or Achievement-based Points Test. High scoring applicants will be short-listed for selection by a non-statutory advisory committee with regard to the socio-economic needs of the community, the sectoral mix of the short-listed applicants and other relevant factors. Successful applicants will be granted an initial stay of 12 months in Hong Kong, accompanied by spouses and unmarried children below the age of 18, without the requirement of securing prior job offers. At the end of this period, entrants will normally be required to demonstrate commitment to settle in Hong Kong, for example, by securing gainful employment or establishing a business. The Government will review the scheme one year after operation and decide upon suitable improvements and/or continuation. It is hoped the QMAS would contribute significantly to local economic development and job creation and is also expected to enhance Hong Kong's competitiveness in the global market through the build-up of a critical mass of quality personnel.

5.18 In a move to reduce work-related pressure and improve the quality of family life, the Government has begun phased implementation of 5-day work week as from 1 July 2006. In taking forward the initiative, the primary concern is to maintain the overall level and efficiency of government services. The Government adheres to four governing principles of the initiative, viz, no additional staffing resources, no reduction in the conditioned hours of service of individual staff, no reduction in emergency services and the continued provision of some essential counter services on Saturdays. The Government has no plan to mandate a 5-day week in Hong Kong. While some members of the public may need some time to adapt to the new arrangement, such initiative is likely to yield certain positive impacts on the community. Specifically, a longer weekend for rest will be helpful to workers' health and safety in work place, especially in view of the relatively long working hours in Hong Kong as compared with the other developed economies (*Table 5.4*). This will in turn reduce stress and facilitate local workers to maintain a healthy work-life balance, with the wider benefits of improving family relationships and enhancing social harmony. Also, with more leisure and a new life style, there

may be higher consumption over the weekend which will help boost the GDP growth and generate additional employment. Furthermore, such an institutional change is in line with international practices and will be conducive to the structural transformation of Hong Kong's economy towards value-intensive activities emphasising knowledge and creativity.

**Table 5.4 : Comparison of hours of work per week between Hong Kong and selected overseas economies**

	Proportion of employed persons working for :		
	Average hours of work per week	Less than 40 hours	40 hours or more
	<u>in 2004</u> (Hours)	<u>per week</u> (%)	<u>per week</u> (%)
<b>Hong Kong</b>	<b>47.1</b>	<b>19.2</b>	<b>80.8<sup>(a)</sup></b>
Australia	34.9	60.3	39.7
Austria	31.5	43.7	56.3
Canada	33.7	50.1	49.9
Germany	27.7	58.7	41.3
France	27.7	74.8	25.2
Italy	30.5	41.2	58.8
Japan	34.4	N.A.	N.A.
New Zealand	35.1	39.6	60.4
United Kingdom	32.1	65.3	34.7
United States	35.1	25.7	74.3

Notes : (a) A more detailed breakdown shows that the proportions of employed persons working for 50 hours or more and for 60 hours or more per week were 40% and 23% respectively.

N.A. Not available.

Sources: Census and Statistics Department.  
OECD database.

## Notes :

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

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

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

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

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

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

- (3) The employed population refers to those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (4) The labour force, or the economically active population, is defined to include all persons aged 15 or above who either were engaged in productive work during the reference period (i.e. seven days before enumeration) or would otherwise have been engaged in productive work but were unemployed.
- (5) Taking into account off-site workers and related professional and support staff, employment in the entire building and construction sector actually increased by 0.8% in the second quarter of 2006 over a year earlier.

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

- (6) Small and medium-sized enterprises (SMEs) generally refer to those establishments with the number of persons engaged less than 50. Yet in so far as the manufacturing sector is concerned, establishments with staff strength of 50-99 are also classified as SMEs.
- (7) Civil service establishment refers to the total number of posts, whether filled or unfilled, under the prevailing organisational structure of the civil service. It is different from the strength or actual employment figures as shown in Table 5.2.
- (8) In addition to wages, which include all regular payments like basic pay and stipulated bonuses and allowances, earnings also cover overtime pay and other non-guaranteed or irregular bonuses and allowances, except severance pay and long service payment. Because of this difference, as well as the difference in sectoral and occupational coverage, the movements in average earnings, as measured by payroll per person engaged, do not necessarily match closely with those in wage rates.
- (9) Different consumer price indices are used for compiling the real indices of labour earnings and wages, taking into account their relevance to the respective occupation coverage. Specifically, the Composite CPI, being an indicator of overall consumer prices, is taken as the price deflator for earnings received by employees at all levels of the occupational hierarchy. The CPI(A), being an indicator of consumer prices for the middle to lower income groups, is taken as the price deflator for wages in respect of workers on occupations up to the supervisory level, and also in respect of manual workers engaged in the construction sector.
- (10) The applicants of QMAS must (i) be aged between 18 and 50; (ii) be able to demonstrate that they are capable of supporting and accommodating themselves and their dependants, if any, on their own without relying on public assistance during their stay in Hong Kong; (iii) have no criminal or adverse immigration record in Hong Kong or elsewhere; (iv) be proficient in written and spoken Chinese (Putonghua or Cantonese) or English; and (v) have a good education background, normally a first degree from a recognised university or tertiary educational institution. In special circumstances, good technical qualifications, proven professional abilities and/or experience and achievements supported by documentary evidence may be considered.

## CHAPTER 6 : PRICES

### *Summary*

- *Consumer price inflation moved up gradually to 2.0% year-on-year in the second quarter of 2006, along with the broad-based economic expansion. The feed-through of higher private housing rentals, and to a much lesser extent that of fuel prices, into the consumer price indices had become more evident. Nevertheless, the price increases in most other consumer goods and services remained contained. Overall, inflationary pressure was still moderate.*
- *Externally, the run-up of oil prices continued to exert upward pressure on global inflation. However, as the Hong Kong economy, being highly service-oriented, is not oil dependent, the direct impact on local inflation has been rather limited thus far. Concurrently, import prices of consumer goods remained soft in the second quarter amidst ongoing global competitive pressures, thereby helping to mitigate inflation pressure to some extent.*
- *Domestically, the pressure from labour cost was also modest. The marked increase in labour productivity, helped by hefty business investment in recent quarters, actually contributed to a decrease in unit labour cost. As for the pressure from sustained rise in commercial rentals, the continued expansion in business volume provided an offset, resulting in only a moderate increase in rentals on a unit cost basis.*

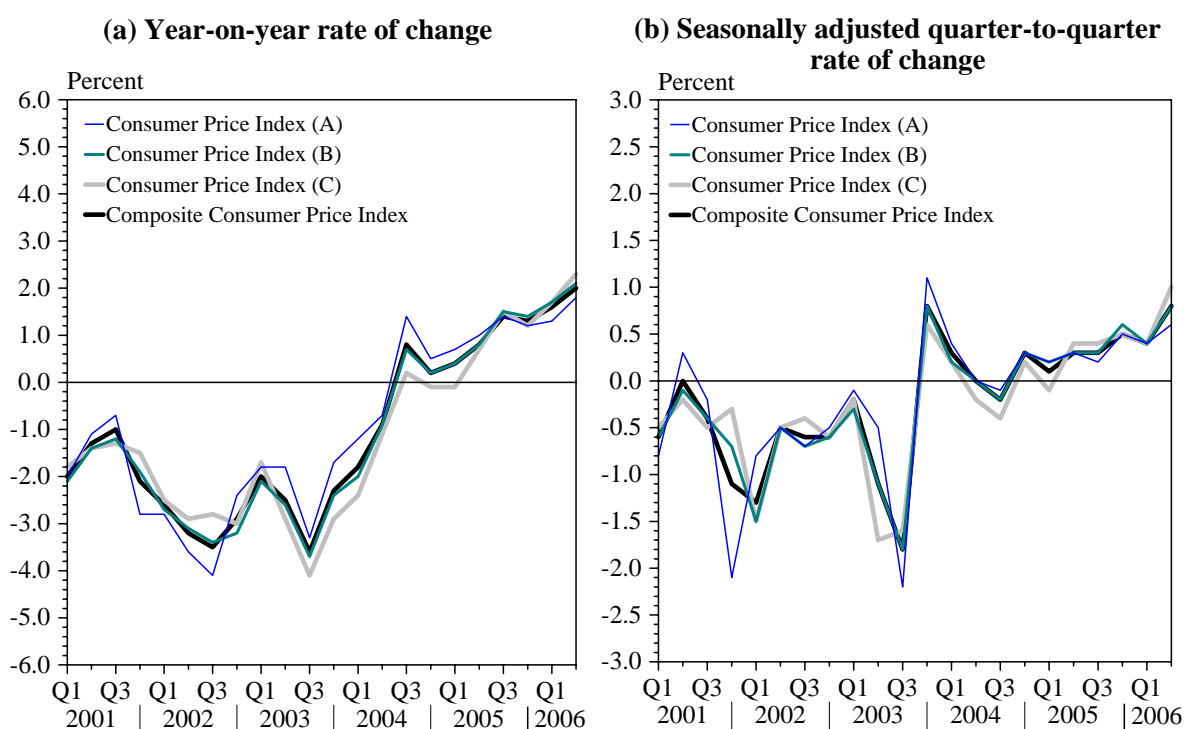
### **Consumer prices**

6.1 Consumer price inflation inched up gradually to 2.0% year-on-year in the second quarter of 2006. The feed-through of higher private housing rentals to the consumer price indices had become more evident. On the other hand, the impact of higher commercial rentals on consumer prices was still rather mild. The pressure on businesses to raise their prices was alleviated to a large extent by the increase in business turnover as well as the still tame labour cost. Inflation pressure from the external front was also subdued in overall terms, with the import prices of consumer goods remaining soft given the ample production capacity on the global scale. This was notwithstanding the slight fall in the Hong Kong dollar, along with the US dollar, against other major



currencies in the second quarter. Energy-related prices continued to surge at a pace comparable to those in the previous quarters, with crude oil prices hitting record highs in early May. However, as the Hong Kong economy, being highly service-oriented, is not oil dependent, the direct impact of elevated oil prices on local inflation had so far been limited.

**Diagram 6.1 : Consumer price inflation moving up to 2.0% this quarter, remained moderate**

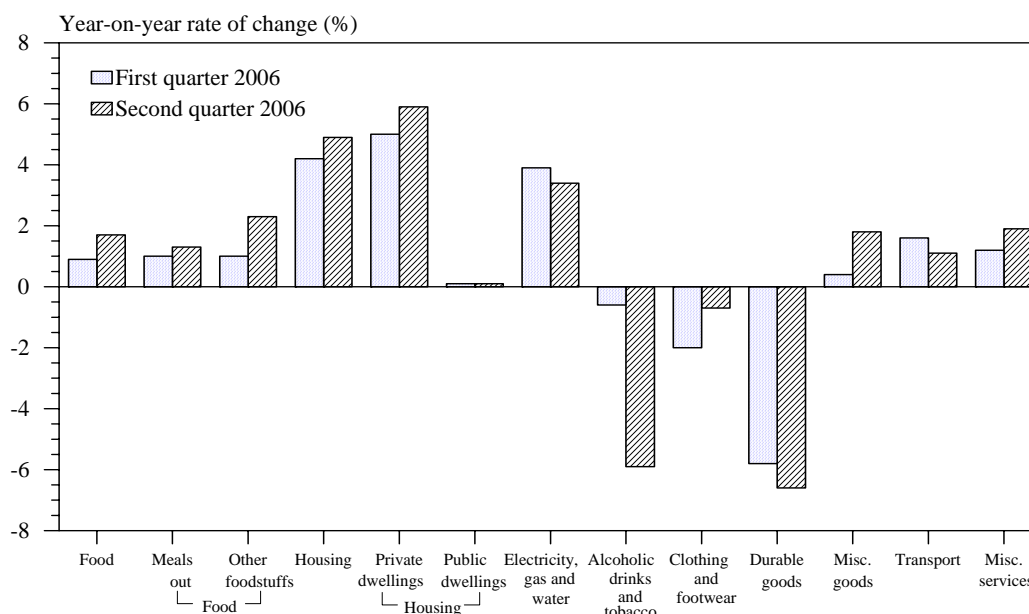


Note : From the fourth quarter of 2005 onwards, the year-on-year rates of change in the Consumer Price Indices are computed from the new 2004/05-based CPI series. Before then, the year-on-year rates of change are computed from the old 1999/2000-based CPI series. Splicing has been applied to the indices to maintain continuity.

6.2 Considering the main components of the Composite CPI<sup>(1)</sup> and their respective weightings, the main drivers behind the edging up of the CPI inflation were housing and food. The rise in housing index was due to the feed-through of past increases in private housing rentals, with the existing tenancies being gradually renewed to reflect the higher rentals prevailing in the leasing market<sup>(2)</sup>. With a greater weight being attached to private housing rentals in the CPI(C) than in the CPI(B) and CPI(A), the CPI(C) rose slightly faster than the other two CPIs in the second quarter. As for food prices, the faster increase in the quarter was partly due to some spikes in import prices on certain items such as vegetable and poultry. Prices of energy items, affected by the hike in fuel prices in the international markets, continued to rise steadily. However, the softening prices of consumer goods, which usually have high

import contents, i.e. the like of clothing and durable goods, continued to provide a cushion to the rise in overall prices. The increases in prices of other components, such as transport and consumer services, remained contained, at around 1-2%. In sum, overall inflation pressure in the second quarter was still moderate when viewed against the sustained expansion of the economy.

**Diagram 6.2 : Current edge-up in consumer prices, led by housing, was cushioned by softening prices of consumer goods**



Note : Comparison between the two quarters is made on the new 2004/05-based Composite CPI series.

**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>
2005	Annual	1.0	1.1	1.0	0.8
	H1	0.6	0.8	0.6	0.3
	H2	1.4	1.3	1.4	1.4
	Q1	0.4	0.7	0.4	-0.1
	Q2	0.8	1.0	0.8	0.7
	Q3	1.4	1.4	1.5	1.5
	Q4	1.3	1.2	1.4	1.2
2006	H1	1.8	1.6	1.9	2.0
	Q1	1.6	1.3	1.7	1.7
	Q2	2.0	1.8	2.1	2.3

Note: The year-on-year changes of the CPIs from the fourth quarter of 2005 onwards are from the 2004/05-based CPI series, while the ones before that are from the 1999/2000-based series. Splicing has been applied to the two sets of CPI series in order to obtain better estimates of the annual rate of change for 2005 and for the second half of 2005.

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

<u>Expenditure component</u>	<u>Weighting</u>	<u>2005</u>	<u>2006</u>	
		<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
Food	26.94	1.4	0.9	1.7
<i>Meals bought away from home</i>	16.86	1.1	1.0	1.3
<i>Other foodstuffs</i>	10.08	1.9	1.0	2.3
Housing <sup>(a)</sup>	29.17	2.8	4.2	4.9
<i>Private dwellings</i>	23.93	3.3	5.0	5.9
<i>Public dwellings</i>	2.49	0.1	0.1	0.1
Electricity, gas and water	3.59	4.0	3.9	3.4
Alcoholic drinks and tobacco	0.87	0.4	-0.6	-5.9
Clothing and footwear	3.91	0.1	-2.0	-0.7
Durable goods	5.50	-6.7	-5.8	-6.6
Miscellaneous goods	4.78	-0.1	0.4	1.8
Transport	9.09	1.5	1.6	1.1
Miscellaneous services	16.15	1.1	1.2	1.9
All items	100.00	1.3	1.6	2.0

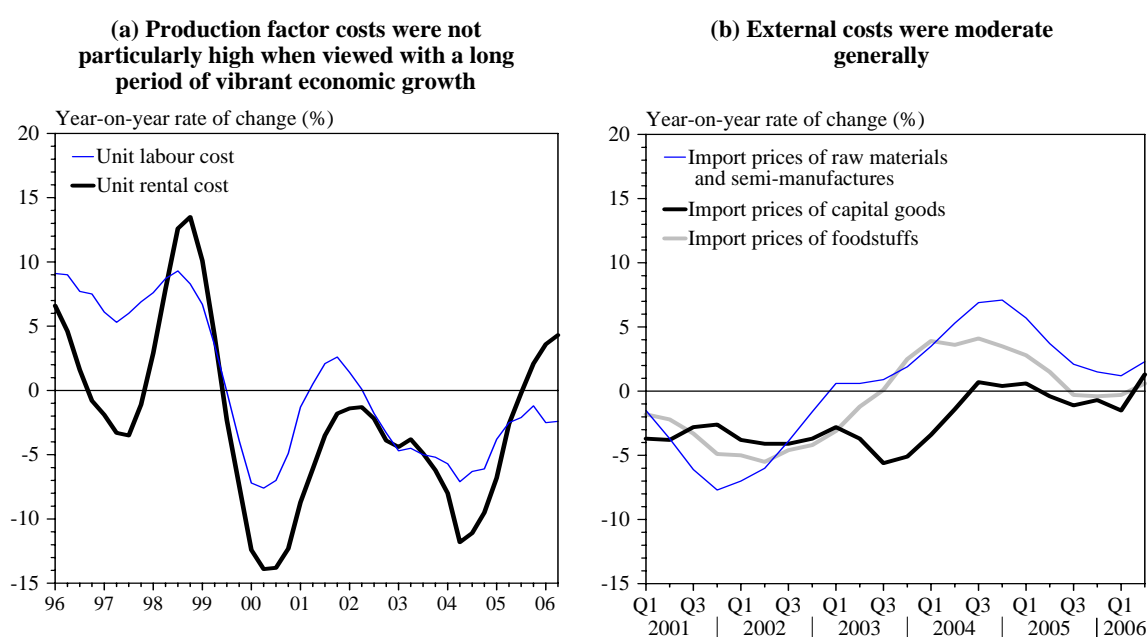
Note: (a) The housing component covers rents, rates, Government rent, maintenance costs and other housing charges. Its sub-components on private and public dwellings as presented here, however, cover rents, rates and Government rent only. Hence, the combined weighting of private and public dwellings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

## Costs of factor inputs

6.3 By now, the economy had been on the high-level growth track for 12 straight quarters. As a natural consequence, land and labour costs rose further, reflecting the tighter demand-supply situation. Unit rental cost continued to move higher in the second quarter, while the unit labour cost narrowed its decrease. At present, the pressure on local costs in overall terms as a result of rising rentals and wages was not particularly large, because the increase in factor productivity brought about by previous successive upsurges in investment as well as the continued expansion of business volume both helped to alleviate the pressure on businesses to raise output prices to cover cost increases.

6.4 The pressure on business costs from the external front, with the exception of fuel costs, was largely subdued in the second quarter. Despite the modest depreciation of the Hong Kong dollar during the quarter, import prices of *foodstuffs* and *consumer goods* were virtually flat, while those of *raw materials* and *capital goods* had modest increases. Conceivably, this was largely a reflection of the ample production capacity throughout Asia, the Mainland in particular, they being Hong Kong's major sources of imports as well as our key production hinterlands. Meanwhile, with international oil prices hitting record highs in early May, import prices of fuels continued to surge. But the impact of higher fuel prices on Hong Kong's overall inflation had so far been limited, although the continued rise in domestic fuel prices had a greater cost impact on the fuel-intensive industries.

**Diagram 6.3 : Costs of factor inputs**

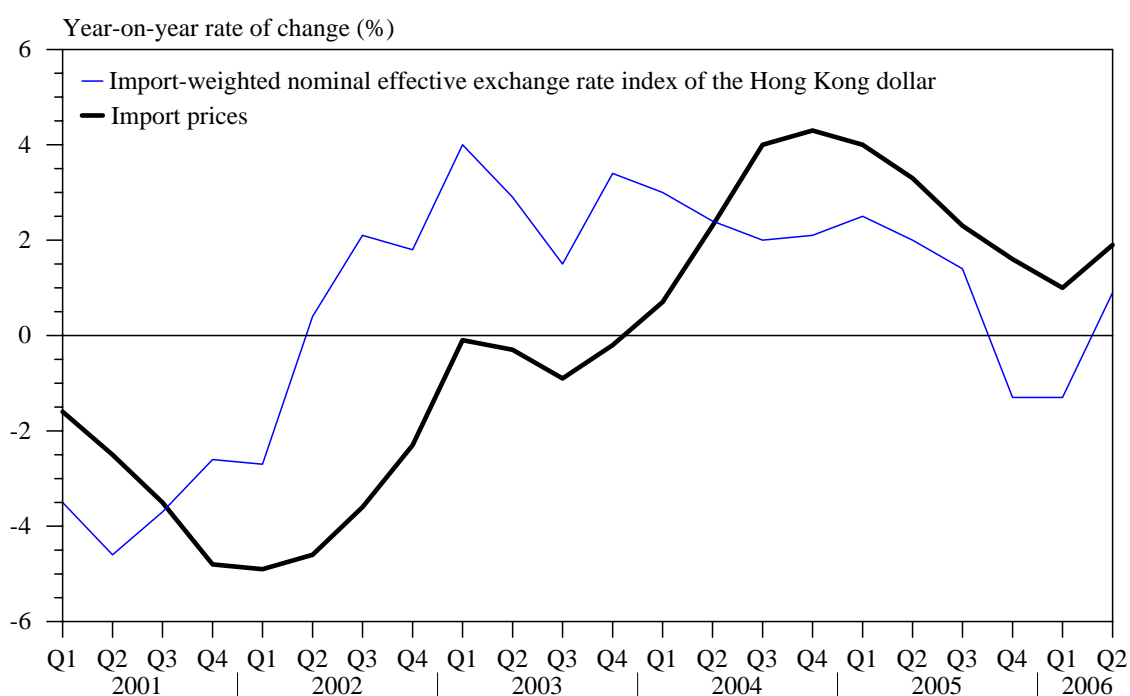


**Table 6.3 : Prices of imports by end-use category  
(year-on-year rate of change (%))**

		<u>Foodstuffs</u>	<u>Consumer goods</u>	<u>Raw materials</u>	<u>Fuels</u>	<u>Capital goods</u>	<u>All</u>
2005	Annual	0.9	2.8	3.1	32.9	-0.5	2.7
	H1	2.1	3.4	4.6	33.3	0.1	3.6
	H2	-0.4	2.3	1.8	32.4	-0.9	1.9
	Q1	2.8	3.2	5.7	27.1	0.6	4.0
	Q2	1.5	3.6	3.7	39.9	-0.4	3.3
	Q3	-0.3	2.9	2.1	38.3	-1.1	2.3
	Q4	-0.4	1.8	1.5	26.7	-0.7	1.6
2006	H1	0.2	0.3	1.8	27.5	*	1.5
	Q1	-0.3	0.5	1.2	32.4	-1.5	1.0
	Q2	0.6	0.1	2.3	23.7	1.3	1.9

(\*) Change of less than 0.5%

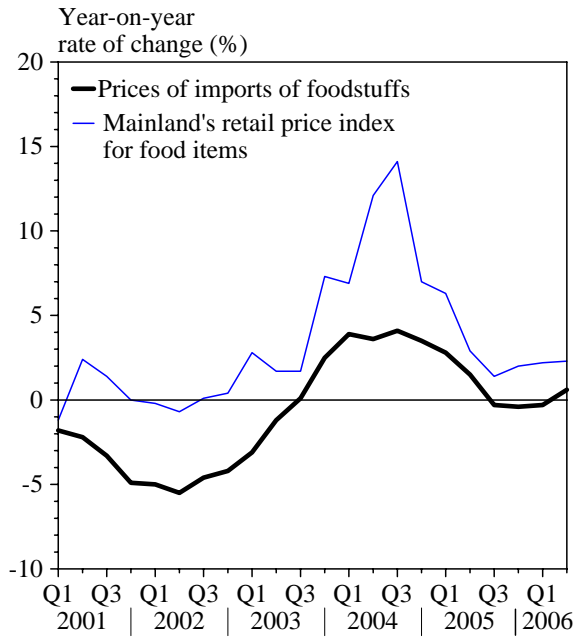
**Diagram 6.4 : Mild imported inflation in the second quarter 2006, notwithstanding the slight Hong Kong dollar depreciation**



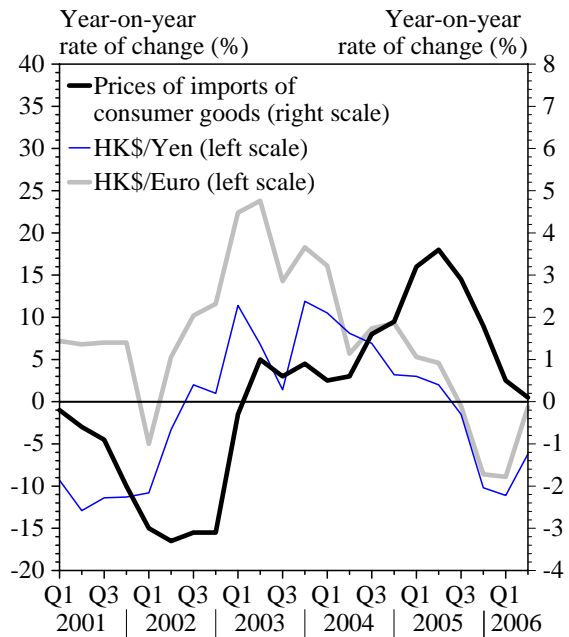
Note : The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

## Diagram 6.5 : Import fuel prices surged further while other import prices remained soft

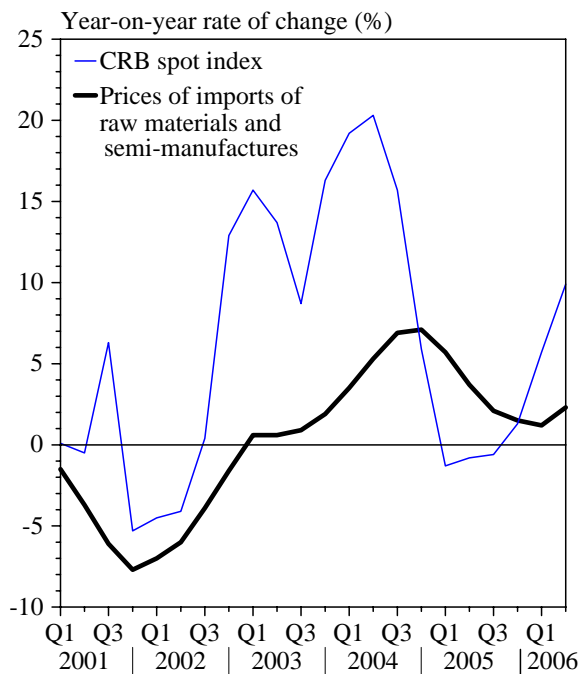
**(a) Prices of imports of foodstuffs and Mainland's food prices**



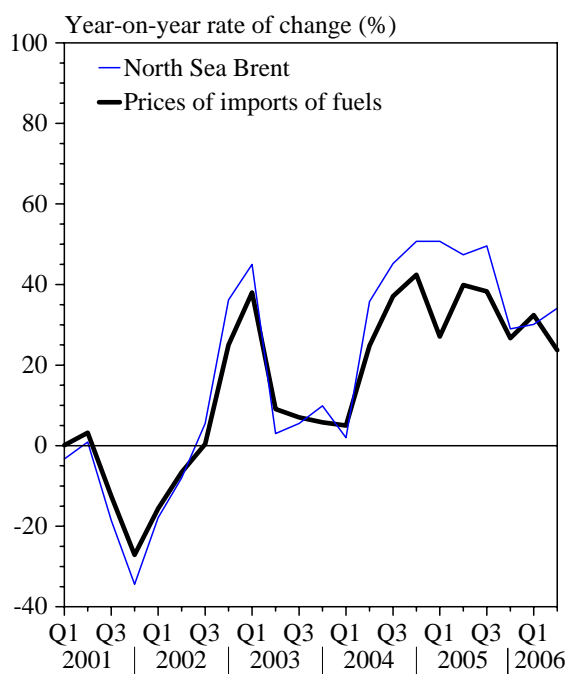
**(b) Prices of imports of consumer goods and selected exchange rates**



**(c) Prices of imports of raw materials and semi-manufactures and international commodity prices**



**(d) Prices of imports of fuel and international crude oil prices**



## Output prices<sup>(3)</sup>

6.5 Echoing the recent strong growth in domestic exports of goods, there was a mild pick-up in local manufacturing prices in the first quarter of 2006. As for the service industries, output prices remained contained, with the exception of hotels and boarding houses, which had strong pricing power in face of the vibrant inbound tourism. Another notable feature was the continued fall in the prices for telecommunications and other communication services as a result of competitive pressure and technological advancement.

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

<u>Industry group</u>	<u>Annual</u>	<u>2005</u>				<u>2006</u>
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>
Manufacturing	0.8	0.5	0.7	0.8	1.1	2.0
Selected services sector <sup>(#)</sup>						
Hotels and boarding houses	12.3	14.0	11.8	11.2	12.1	10.1
Land transport	1.0	0.9	0.4	1.3	1.5	1.0
Maritime transport	0.4	1.6	0.2	0.9	-1.0	-3.6
Air transport	2.5	1.6	2.9	3.1	2.5	0.7
Telecommunications	-7.5	-8.2	-7.6	-8.0	-6.2	-7.2
Miscellaneous communications services	*	-0.3	0.1	0.1	0.1	1.5

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

(\*) Change of less than 0.05%.

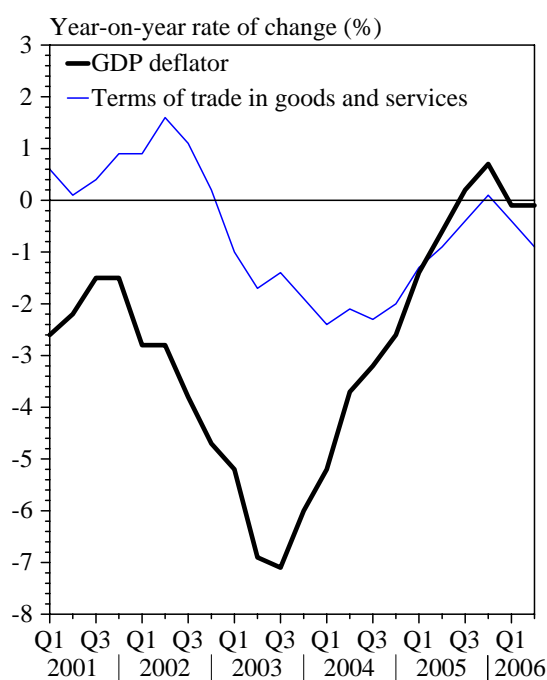
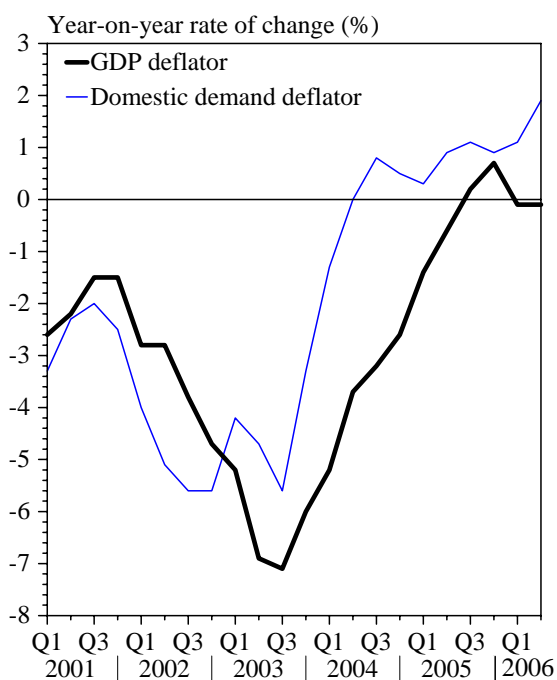
## GDP deflator

6.6 The *GDP deflator*<sup>(4)</sup>, a broad measure of overall changes in prices of the economy, continued to show a marginal decline in the second quarter. This was entirely caused by a continued fall in the *terms of trade*<sup>(5)</sup>, a dominant item in the GDP deflator given the sheer size of trade in the Hong Kong economy. This was mainly due to the deterioration in the terms of trade on the goods side, in turn caused mostly by the hike in oil prices. Yet, reflecting the stronger domestic demand, the *domestic demand deflator* actually picked up in the second quarter in tandem with the rise in consumer price inflation. The *final demand deflator* also resumed a small increase.

**Diagram 6.6**

(a) GDP deflator continued to fall slightly...

(b) ...as the terms of trade stayed sluggish





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

	<u>Annual</u>	<u>2005</u>				<u>2006</u>	
		<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1<sup>#</sup></u>	<u>Q2<sup>+</sup></u>
Private consumption expenditure	1.4	0.4	1.4	1.5	2.2	1.9	1.5
Government consumption expenditure	-1.6	-1.8	-1.6	-1.7	-1.4	1.2	1.2
Gross domestic fixed capital formation	0.9	2.3	1.8	1.3	-1.7	-2.0	3.0
Total exports of goods	-0.1	1.3	0.4	-0.2	-1.3	-1.8	-0.7
Imports of goods	1.3	2.9	1.8	0.8	*	*	1.4
Exports of services	3.5	2.6	2.9	3.2	5.2	4.8	5.8
Imports of services	0.9	2.0	1.7	0.9	-0.7	-0.2	0.8
<b>Gross Domestic Product</b>	<b>-0.2</b>	<b>-1.4</b>	<b>-0.6</b>	<b>0.2</b>	<b>0.7</b>	<b>-0.1</b>	<b>-0.1</b>
		<0.1>	<0.2>	<*>	<0.5>	<-0.9>	<0.2>
Total final demand	0.8	1.2	0.9	0.5	0.2	*	1.0
Domestic demand	0.8	0.3	0.9	1.1	0.9	1.1	1.9

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

(#) Revised figures.

(+) Preliminary figures.

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

(\*) Change of less than 0.05%.

## Notes :

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

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

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

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

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

- (2) In any particular period, only a small proportion of the tenancies of private dwellings are new lettings for which rentals are freshly determined, and lease renewals upon which rentals are revised. The majority of the tenancies are existing leases with rentals fixed until their expiry. Upon aggregation, the movements in private housing cost thus tend to be less responsive than the corresponding movements in market rentals, as reflected in the rental index for private residential flats compiled by the Rating and Valuation Department (RVD). According to the RVD, rentals for new lettings rose further by an average of 5.7% year-on-year in the second quarter of 2006, after an average of 8.2% and 11.3% increase in the first quarter of 2006 and the whole year of 2005 respectively.

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



## Statistical Appendix

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

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>
	(\$Mn)				
Private consumption expenditure	755,508	833,825	795,948	765,282	774,280
Government consumption expenditure	103,541	112,751	116,550	119,993	120,172
Gross domestic fixed capital formation	378,486	451,891	388,731	325,328	347,375
<i>of which:</i>					
Building and construction	185,648	223,264	208,235	171,930	155,441
Machinery, equipment and computer software	170,652	190,760	165,177	141,349	180,204
Changes in inventories	9,762	12,313	-15,651	-10,612	14,399
Total exports of goods	1,397,917	1,455,949	1,347,649	1,349,000	1,572,689
Domestic exports	212,160	211,410	188,454	170,600	180,967
Re-exports	1,185,758	1,244,539	1,159,195	1,178,400	1,391,722
Imports of goods	1,511,365	1,589,876	1,408,317	1,373,500	1,636,711
Exports of services	285,385	286,595	262,099	276,385	315,012
Imports of services	189,753	198,424	194,245	185,174	192,427
<b>GDP</b>	<b>1,229,481</b>	<b>1,365,024</b>	<b>1,292,764</b>	<b>1,266,702</b>	<b>1,314,789</b>
<i>Per capita GDP (\$)</i>	<i>191,047</i>	<i>210,350</i>	<i>197,559</i>	<i>191,736</i>	<i>197,268</i>
<b>GNP</b>	<b>1,218,405</b>	<b>1,363,409</b>	<b>1,317,362</b>	<b>1,291,470</b>	<b>1,323,543</b>
<i>Per capita GNP (\$)</i>	<i>189,326</i>	<i>210,101</i>	<i>201,318</i>	<i>195,485</i>	<i>198,581</i>
Total final demand	2,930,599	3,153,324	2,895,326	2,825,376	3,143,927
Total final demand excluding re-exports <sup>(a)</sup>	1,949,977	2,130,313	1,952,900	1,886,191	2,045,858
Domestic demand	1,247,297	1,410,780	1,285,578	1,199,991	1,256,226
Private	1,078,661	1,233,803	1,107,816	1,014,347	1,075,654
Public	168,636	176,977	177,762	185,644	180,572
External demand	1,683,302	1,742,544	1,609,748	1,625,385	1,887,701

Definitions of Terms :

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

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

	(\$Mn)						
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004<sup>#</sup></u>	<u>2005<sup>#</sup></u>	<u>2006</u> Q1 <sup>#</sup>	Q2 <sup>#</sup>
Private consumption expenditure	782,587	747,850	719,304	767,769	804,708	205,697	213,389
Government consumption expenditure	128,866	131,291	130,151	127,309	121,332	33,015	28,441
Gross domestic fixed capital formation	333,036	286,020	261,367	274,872	288,821	73,597	79,410
<i>of which:</i>							
Building and construction	142,651	131,752	116,419	107,532	105,773	25,528	23,453
Machinery, equipment and computer software	180,011	144,832	136,537	150,543	163,158	44,512	51,529
Changes in inventories	-4,060	5,660	9,111	7,076	-5,085	1,608	493
Total exports of goods	1,480,987	1,562,121	1,749,089	2,027,031	2,251,744	538,460	586,741
Domestic exports	153,520	131,079	122,126	126,386	136,324	34,498	34,992
Re-exports	1,327,467	1,431,041	1,626,964	1,900,645	2,115,419	503,963	551,749
Imports of goods	1,549,222	1,601,527	1,794,059	2,099,545	2,311,091	568,261	622,110
Exports of services	320,799	347,836	362,420	429,563	483,455	125,162	126,151
Imports of services	194,180	202,494	203,400	242,507	251,832	62,568	64,208
<b>GDP</b>	<b>1,298,813</b>	<b>1,276,757</b>	<b>1,233,983</b>	<b>1,291,568</b>	<b>1,382,052</b>	<b>346,710</b>	<b>348,307</b>
<i>Per capita GDP (\$)</i>	<i>193,135</i>	<i>188,118</i>	<i>181,385</i>	<i>187,657</i>	<i>199,261</i>	--	--
<b>GNP</b>	<b>1,327,356</b>	<b>1,282,409</b>	<b>1,262,474</b>	<b>1,314,978</b>	<b>1,384,515</b>	<b>354,763</b>	<b>N.A.</b>
<i>Per capita GNP (\$)</i>	<i>197,379</i>	<i>188,951</i>	<i>185,573</i>	<i>191,058</i>	<i>199,616</i>	--	--
Total final demand	3,042,215	3,080,778	3,231,442	3,633,620	3,944,975	977,539	1,034,625
Total final demand excluding re-exports <sup>(a)</sup>	1,982,896	1,923,066	1,895,705	2,061,787	2,195,754	561,770	579,432
Domestic demand	1,240,429	1,170,821	1,199,933	1,177,026	1,209,776	313,917	321,733
Private	1,053,568	985,985	938,326	1,001,274	1,047,131	270,112	285,734
Public	186,861	184,836	181,607	175,752	162,645	43,805	35,999
External demand	1,801,786	1,909,957	2,111,509	2,456,594	2,735,199	663,622	712,892

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

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

(--) Not applicable.

N.A. Not available.

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

(%)

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Private consumption expenditure	3.9	6.2	-6.6	1.4	6.0	2.1
Government consumption expenditure	3.8	2.4	0.7	3.1	2.1	6.0
Gross domestic fixed capital formation	10.9	12.6	-7.3	-16.6	11.0	2.6
<i>of which:</i>						
Building and construction	7.0	10.5	-2.4	-15.5	-7.6	-1.1
Machinery, equipment and computer software	12.0	13.1	-7.9	-18.2	27.0	6.2
Total exports of goods	4.8	6.1	-4.3	3.7	17.1	-3.3
Domestic exports	-8.4	2.1	-7.9	-7.2	7.5	-10.2
Re-exports	7.5	6.8	-3.7	5.4	18.5	-2.4
Imports of goods	4.3	7.3	-7.3	*	18.2	-1.9
Exports of services	10.2	-0.4	-3.5	8.8	12.1	6.4
Imports of services	5.1	3.9	1.6	-4.4	4.2	2.0
<b>GDP</b>	<b>4.2</b>	<b>5.1</b>	<b>-5.5</b>	<b>4.0</b>	<b>10.0</b>	<b>0.6</b>
<b>Per capita GDP (\$)</b>	<b>-0.3</b>	<b>4.2</b>	<b>-6.2</b>	<b>3.0</b>	<b>9.0</b>	<b>-0.3</b>
<b>GNP</b>	<b>2.4</b>	<b>6.0</b>	<b>-3.5</b>	<b>4.0</b>	<b>8.6</b>	<b>2.2</b>
<b>Per capita GNP (\$)</b>	<b>-2.1</b>	<b>5.1</b>	<b>-4.3</b>	<b>3.0</b>	<b>7.6</b>	<b>1.3</b>
Total final demand	4.3	6.2	-6.0	1.3	14.4	-0.6
Total final demand excluding re-exports <sup>(a)</sup>	2.2	5.8	-7.6	-1.7	11.3	0.4
Domestic demand	2.1	8.2	-9.2	-4.4	10.3	1.0
Private	1.2	9.5	-9.9	-5.4	12.3	0.7
Public	9.2	-1.0	-3.8	2.1	-2.8	3.3
External demand	5.4	5.3	-4.3	4.4	16.4	-1.7

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.



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

	(%)							
	<u>2002</u>	<u>2003</u>	<u>2004<sup>#</sup></u>	<u>2005<sup>#</sup></u>	<u>2006</u>	Average annual rate of change:		
					Q1 <sup>#</sup>	Q2 <sup>#</sup>	10 years 1995 to 2005 <sup>#</sup>	5 years 2000 to 2005 <sup>#</sup>
Private consumption expenditure	-1.0	-0.9	7.3	3.4	4.5	5.0	2.1	2.1
Government consumption expenditure	2.5	1.9	0.7	-3.1	1.2	-1.3	2.0	1.6
Gross domestic fixed capital formation	-4.5	0.9	3.0	4.1	7.6	4.3	1.3	1.2
<i>of which:</i>								
Building and construction	-1.1	-5.6	-11.7	-6.1	-11.1	-6.4	-3.6	-5.2
Machinery, equipment and computer software	-7.6	6.7	11.0	10.6	23.3	12.8	4.5	5.1
Total exports of goods	8.7	14.2	15.3	11.2	14.4	6.4	7.1	9.0
Domestic exports	-11.2	-7.3	2.4	7.6	44.4	25.7	-3.5	-4.0
Re-exports	11.0	16.3	16.3	11.4	12.8	5.3	8.5	10.3
Imports of goods	7.9	13.1	14.1	8.6	14.0	6.7	6.2	8.2
Exports of services	10.9	7.9	17.9	8.7	8.9	8.6	7.7	10.3
Imports of services	3.9	-2.1	14.6	2.9	4.9	7.9	3.1	4.1
<b>GDP</b>	<b>1.8</b>	<b>3.2</b>	<b>8.6</b>	<b>7.3</b>	<b>8.0</b>	<b>5.2</b>	<b>3.9</b>	<b>4.3</b>
<b>Per capita GDP (\$)</b>	<b>0.9</b>	<b>3.0</b>	<b>7.3</b>	<b>6.4</b>	--	--	<b>2.6</b>	<b>3.4</b>
<b>GNP</b>	<b>0.1</b>	<b>5.1</b>	<b>8.0</b>	<b>5.6</b>	<b>8.1</b>	<b>N.A.</b>	<b>3.8</b>	<b>4.2</b>
<b>Per capita GNP (\$)</b>	<b>-0.8</b>	<b>4.8</b>	<b>6.8</b>	<b>4.8</b>	--	--	<b>2.5</b>	<b>3.3</b>
Total final demand	5.1	8.1	12.0	7.8	11.1	6.2	5.1	6.4
Total final demand excluding re-exports <sup>(a)</sup>	2.0	3.5	9.2	5.3	9.9	6.9	2.9	4.0
Domestic demand	-0.7	0.1	5.1	1.9	6.7	5.2	1.3	1.5
Private	-1.0	-0.2	6.4	3.4	9.0	6.5	1.5	1.8
Public	1.2	1.7	-1.6	-7.0	-6.0	-4.2	0.1	-0.5
External demand	9.1	13.1	15.8	10.7	13.3	6.7	7.2	9.2

Notes (cont'd) : (\*) Change of less than 0.05%.

(--) Not applicable.

N.A. Not available.

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

	2000		2001		2002		2003		2004 <sup>#</sup>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	920	0.1	1,003	0.1	1,002	0.1	824	0.1	886	0.1
Mining and quarrying	241	*	174	*	136	*	116	*	72	*
Manufacturing	67,646	5.4	59,760	4.8	51,396	4.2	44,403	3.7	44,455	3.5
Electricity, gas and water	36,917	2.9	37,957	3.1	39,609	3.2	38,839	3.2	39,726	3.2
Construction	62,054	4.9	57,167	4.6	51,534	4.2	44,910	3.7	40,376	3.2
Services	1,087,570	86.6	1,088,211	87.5	1,091,272	88.4	1,073,941	89.3	1,130,301	90.0
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	308,600	24.6	309,926	24.9	310,500	25.1	308,872	25.7	345,092	27.5
<i>Transport, storage and communications</i>	118,974	9.5	117,526	9.4	121,766	9.9	117,420	9.8	126,820	10.1
<i>Financing, insurance, real estate and business services</i>	268,399	21.4	251,495	20.2	247,045	20.0	251,085	20.9	266,834	21.2
<i>Community, social and personal services</i>	249,997	19.9	262,960	21.1	265,746	21.5	261,917	21.8	263,756	21.0
<i>Ownership of premises</i>	141,600	11.3	146,304	11.8	146,214	11.8	134,648	11.2	127,799	10.2
<b>GDP at factor cost</b>	<b>1,255,348</b>	<b>100.0</b>	<b>1,244,271</b>	<b>100.0</b>	<b>1,234,949</b>	<b>100.0</b>	<b>1,203,034</b>	<b>100.0</b>	<b>1,255,816</b>	<b>100.0</b>
Taxes on production and imports	57,908		53,917		43,325		48,057		58,729	
Statistical discrepancy (%)	0.1		*		-0.1		-1.4		-1.8	
<b>GDP at current market prices</b>	<b>1,314,789</b>		<b>1,298,813</b>		<b>1,276,757</b>		<b>1,233,983</b>		<b>1,291,568</b>	

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

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

(\*) Less than 0.05%.

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

	(%)								
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004<sup>#</sup></u>	<u>2005<sup>#</sup></u>	<u>2005</u>			<u>2006</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Agriculture and fishing	4.1	-0.7	-5.6	2.8	2.1	7.4	5.4	-0.8	2.6
Mining and quarrying	-14.1	-11.1	2.2	-17.0	10.3	12.8	18.9	7.0	18.4
Manufacturing	-9.1	-10.0	-10.3	1.7	2.1	-0.1	4.1	5.9	7.0
Electricity, gas and water	1.7	3.8	1.8	2.0	3.4	4.8	0.5	4.3	-0.1
Construction	-2.2	-1.5	-4.9	-9.8	-6.6	-8.4	-5.5	-12.4	-12.3
Services	1.8	2.8	4.5	9.9	7.9	8.4	8.5	7.7	9.7
<i>Wholesale, retail and import/export trades, restaurants and hotels</i>	<i>0.3</i>	<i>4.5</i>	<i>9.1</i>	<i>15.1</i>	<i>11.1</i>	<i>12.1</i>	<i>11.0</i>	<i>10.9</i>	<i>12.4</i>
<i>Transport, storage and communications</i>	<i>1.9</i>	<i>6.5</i>	<i>0.7</i>	<i>13.9</i>	<i>13.5</i>	<i>12.3</i>	<i>15.3</i>	<i>13.5</i>	<i>15.4</i>
<i>Financing, insurance, real estate and business services</i>	<i>0.5</i>	<i>2.7</i>	<i>5.7</i>	<i>13.1</i>	<i>8.9</i>	<i>11.3</i>	<i>10.0</i>	<i>7.6</i>	<i>13.2</i>
<i>Community, social and personal services</i>	<i>4.0</i>	<i>-0.6</i>	<i>0.6</i>	<i>2.6</i>	<i>0.9</i>	<i>0.1</i>	<i>1.1</i>	<i>1.5</i>	<i>1.3</i>
<i>Ownership of premises</i>	<i>3.4</i>	<i>2.0</i>	<i>2.7</i>	<i>0.9</i>	<i>4.2</i>	<i>4.0</i>	<i>4.3</i>	<i>4.1</i>	<i>3.3</i>
Taxes on production and imports	-1.1	-0.1	3.4	13.0	1.0	2.0	10.1	-5.0	3.3
<b>GDP at constant (2000) market prices</b>	<b>0.6</b>	<b>1.8</b>	<b>3.2</b>	<b>8.6</b>	<b>7.3</b>	<b>7.2</b>	<b>8.2</b>	<b>7.5</b>	<b>8.0</b>

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

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

(\$Mn)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004<sup>#</sup></u>	<u>2005<sup>#</sup></u>	<u>2005</u>			<u>2006</u>
						Q2 <sup>#</sup>	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>
Current account	76,315	96,800	128,240	122,491	157,692	32,029	43,367	49,547	36,584
Goods	-64,970	-39,406	-44,970	-72,514	-59,347	-19,646	-6,941	-13,083	-29,801
Services	126,620	145,341	159,020	187,056	231,623	50,833	60,661	70,221	62,594
Income	28,543	5,652	28,491	23,410	2,463	4,763	-6,085	-3,214	8,053
Current transfers	-13,878	-14,787	-14,301	-15,461	-17,046	-3,921	-4,268	-4,377	-4,262
Capital and financial account	-97,359	-151,179	-179,086	-184,640	-160,882	-7,427	-48,610	-50,400	-49,186
Capital and financial non-reserve assets (net change)	-60,829	-169,720	-171,497	-159,155	-150,202	-12,926	-45,639	-39,746	-37,723
Capital transfers	-9,155	-15,686	-8,292	-2,561	-5,237	-1,511	-683	-390	-415
Financial non-reserve assets (net change)	-51,674	-154,033	-163,205	-156,594	-144,966	-11,415	-44,956	-39,356	-37,308
<i>Direct investment</i>	96,948	-60,685	63,372	-91,038	25,845	3,928	-30,607	51,554	27,362
<i>Portfolio investment</i>	-322,045	-302,484	-264,619	-306,368	-168,100	-91,131	-19,263	13,063	34,018
<i>Financial derivatives</i>	39,640	51,563	78,288	44,319	13,754	5,749	952	2,847	2,275
<i>Other investment</i>	133,783	157,573	-40,247	196,492	-16,464	70,038	3,961	-106,821	-100,963
Reserve assets (net change) <sup>(a)</sup>	-36,530	18,541	-7,589	-25,486	-10,679	5,500	-2,971	-10,654	-11,463
Net errors and omissions	21,044	54,379	50,846	62,149	3,190	-24,602	5,244	853	12,602
<b>Overall balance of payments</b>	<b>36,530</b>	<b>-18,541</b>	<b>7,589</b>	<b>25,486</b>	<b>10,679</b>	<b>-5,500</b>	<b>2,971</b>	<b>10,654</b>	<b>11,463</b>

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

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

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

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

	(\$Mn)								
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004<sup>#</sup></u>	<u>2005<sup>#</sup></u>	<u>2005</u>		<u>2006</u>	
						Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Total exports of goods	1,480,987	1,562,121	1,749,089	2,027,031	2,251,744	614,625	602,671	538,460	586,741
Imports of goods	1,549,222	1,601,527	1,794,059	2,099,545	2,311,091	621,566	615,754	568,261	622,110
<b>Visible trade balance</b>	<b>-68,235</b>	<b>-39,406</b>	<b>-44,970</b>	<b>-72,514</b>	<b>-59,347</b>	<b>-6,941</b>	<b>-13,083</b>	<b>-29,801</b>	<b>-35,369</b>
	<b>&lt;-4.4&gt;</b>	<b>&lt;-2.5&gt;</b>	<b>&lt;-2.5&gt;</b>	<b>&lt;-3.5&gt;</b>	<b>&lt;-2.6&gt;</b>	<b>&lt;-1.1&gt;</b>	<b>&lt;-2.1&gt;</b>	<b>&lt;-5.2&gt;</b>	<b>&lt;-5.7&gt;</b>
Exports of services	320,799	347,836	362,420	429,563	483,455	128,678	135,275	125,162	126,151
Imports of services	194,180	202,494	203,400	242,507	251,832	68,017	65,054	62,568	64,208
<b>Invisible trade balance</b>	<b>126,619</b>	<b>145,342</b>	<b>159,020</b>	<b>187,056</b>	<b>231,623</b>	<b>60,661</b>	<b>70,221</b>	<b>62,594</b>	<b>61,943</b>
	<b>&lt;65.2&gt;</b>	<b>&lt;71.8&gt;</b>	<b>&lt;78.2&gt;</b>	<b>&lt;77.1&gt;</b>	<b>&lt;92.0&gt;</b>	<b>&lt;89.2&gt;</b>	<b>&lt;107.9&gt;</b>	<b>&lt;100.0&gt;</b>	<b>&lt;96.5&gt;</b>
Exports of goods and services	1,801,786	1,909,957	2,111,509	2,456,594	2,735,199	743,303	737,946	663,622	712,892
Imports of goods and services	1,743,402	1,804,021	1,997,459	2,342,052	2,562,923	689,583	680,808	630,829	686,318
<b>Visible and invisible trade balance</b>	<b>58,384</b>	<b>105,936</b>	<b>114,050</b>	<b>114,542</b>	<b>172,276</b>	<b>53,720</b>	<b>57,138</b>	<b>32,793</b>	<b>26,574</b>
	<b>&lt;3.3&gt;</b>	<b>&lt;5.9&gt;</b>	<b>&lt;5.7&gt;</b>	<b>&lt;4.9&gt;</b>	<b>&lt;6.7&gt;</b>	<b>&lt;7.8&gt;</b>	<b>&lt;8.4&gt;</b>	<b>&lt;5.2&gt;</b>	<b>&lt;3.9&gt;</b>

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

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

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

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

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u> \$Mn	<u>2005</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
	(% change)						(% change over a year earlier)			
	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>			<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
<b>All markets</b>	<b>-5.8</b>	<b>5.4</b>	<b>11.7</b>	<b>15.9</b>	<b>11.4</b>	<b>2,250,174</b>	<b>12.5</b>	<b>10.0</b>	<b>12.1</b>	<b>5.4</b>
Mainland of China	0.6	12.3	21.1	19.7	14.0	1,012,565	14.2	14.5	18.4	8.5
United States	-9.8	1.0	-2.6	5.4	5.6	360,639	7.9	1.7	3.8	-0.1
Japan	0.5	-4.5	12.3	14.4	10.3	118,578	12.5	5.7	6.9	2.3
Germany	-13.9	-5.3	15.1	11.9	15.6	72,720	14.5	14.7	10.5	2.5
United Kingdom	-12.2	-2.0	5.8	14.8	5.2	69,247	2.8	0.1	2.1	3.6
Taiwan	-11.1	-2.2	22.2	16.2	2.7	50,427	6.5	3.0	4.1	-6.3
Republic of Korea	-9.4	17.2	16.9	24.0	9.5	48,241	11.0	16.4	16.3	10.5
Singapore	-19.5	6.8	13.0	22.0	6.8	46,541	-2.0	3.4	-1.0	-3.7
Rest of the world	-8.4	3.5	7.1	17.3	13.3	471,215	16.7	10.4	10.3	5.9

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

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u> \$Mn	<u>2005</u>	<u>2006</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
	(% change)						(% change over a year earlier)					
<b>All sources</b>	<b>-5.4</b>	<b>3.3</b>	<b>11.5</b>	<b>16.9</b>	<b>10.3</b>	<b>2,329,469</b>	<b>11.5</b>	<b>11.3</b>	<b>13.8</b>	<b>8.1</b>		
Mainland of China	-4.6	5.1	9.6	16.9	14.3	1,049,335	15.3	13.5	16.9	11.0		
Japan	-11.2	3.4	17.2	19.7	0.1	256,501	-0.4	1.5	4.4	-1.1		
Taiwan	-13.1	7.4	8.0	22.8	9.4	168,227	8.5	21.2	19.4	18.4		
Singapore	-2.8	3.9	19.6	22.5	21.8	135,190	26.9	32.6	34.3	15.9		
United States	-7.0	-12.8	7.9	13.4	6.5	119,252	9.6	-2.4	0.1	-5.0		
Republic of Korea	-12.2	7.3	15.0	15.0	2.6	103,035	4.5	15.4	19.8	13.1		
Rest of the world	0.5	2.2	12.1	13.6	8.4	497,928	9.4	6.2	8.0	4.1		

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

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u> \$Mn	<u>2005</u>	<u>2006</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1</u>	<u>Q2</u>
	(% change)						(% change over a year earlier)					
<b>Overall</b>	<b>-9.1</b>	<b>-9.0</b>	<b>2.6</b>	<b>14.8</b>	<b>7.3</b>	<b>585,301</b>	<b>9.6</b>	<b>19.5</b>	<b>22.7</b>	<b>18.5</b>		
Foodstuffs	-2.6	0.2	1.5	8.6	3.1	50,763	2.8	5.1	4.1	8.5		
Consumer goods	3.9	-5.2	-1.8	7.4	5.5	127,819	8.2	19.5	12.9	24.8		
Fuels	-10.2	3.9	12.9	37.5	23.5	56,964	33.3	14.9	40.0	19.4		
Raw materials and semi-manufactures	-22.3	-1.6	10.7	17.6	4.2	215,854	9.7	14.0	14.3	7.9		
Capital goods	-2.8	-24.9	-6.6	13.3	10.8	134,658	4.0	36.0	38.9	27.4		

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

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004<sup>#</sup></u>	<u>2005<sup>#</sup></u>	<u>2005</u>		<u>2006</u>		
	(% change)					\$Mn	Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
							(% change over a year earlier)			
<b>Exports of services</b>	<b>1.8</b>	<b>8.4</b>	<b>4.2</b>	<b>18.5</b>	<b>12.5</b>	<b>483,455</b>	<b>12.3</b>	<b>13.9</b>	<b>14.1</b>	<b>14.9</b>
Transportation	-5.9	10.8	3.8	25.5	12.5	152,147	12.0	11.9	10.2	11.8
Travel	0.7	25.4	-4.4	26.1	14.1	79,994	12.0	15.3	13.7	16.2
Trade-related	9.0	9.0	12.2	12.6	11.6	163,498	10.8	11.1	12.9	10.8
Other services	3.4	-5.9	-1.4	12.7	12.9	87,816	16.4	22.0	23.3	26.2
<b>Imports of services</b>	<b>0.9</b>	<b>4.3</b>	<b>0.4</b>	<b>19.2</b>	<b>3.8</b>	<b>251,832</b>	<b>4.4</b>	<b>1.6</b>	<b>4.7</b>	<b>8.8</b>
Transportation	4.7	-4.7	7.8	29.4	8.0	73,067	9.5	3.8	7.0	11.4
Travel	-1.4	0.8	-8.0	15.9	0.1	103,492	0.1	-1.2	1.6	8.0
Trade-related	5.7	24.2	9.2	3.2	10.3	18,211	9.7	8.2	4.9	1.9
Other services	0.5	20.0	8.2	19.7	3.8	57,062	4.7	1.5	7.6	8.8
<b>Net exports of services</b>	<b>3.3</b>	<b>14.8</b>	<b>9.4</b>	<b>17.6</b>	<b>23.8</b>	<b>231,623</b>	<b>22.8</b>	<b>28.3</b>	<b>25.4</b>	<b>21.9</b>

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

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



**Table 11 : Incoming visitors by source**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>		
						Q3	Q4	Q1	Q2
<u>('000)</u>									
<b>All sources</b>	<b>13 725.3</b>	<b>16 566.4</b>	<b>15 536.8</b>	<b>21 810.6</b>	<b>23 359.4</b>	<b>5 975.6</b>	<b>6 405.8</b>	<b>6 226.3</b>	<b>5 971.0</b>
Mainland of China	4 448.6	6 825.2	8 467.2	12 245.9	12 541.4	3 293.7	3 364.0	3 591.8	3 114.5
South and Southeast Asia	1 746.6	1 905.2	1 359.6	2 077.7	2 413.0	544.5	751.9	543.6	695.7
Taiwan	2 418.8	2 428.8	1 852.4	2 074.8	2 130.6	573.5	541.3	526.8	513.0
Europe	1 019.9	1 083.9	780.8	1 142.7	1 398.0	329.1	414.9	351.6	364.5
Japan	1 336.5	1 395.0	867.2	1 126.3	1 210.8	303.5	326.0	320.7	305.1
United States	935.7	1 000.8	683.8	1 051.7	1 143.1	274.9	313.8	264.0	300.2
Others	1 819.2	1 927.4	1 525.8	2 091.7	2 522.6	656.4	693.9	627.7	677.9
<u>(% change over a year earlier)</u>									
<b>All sources</b>	<b>5.1</b>	<b>20.7</b>	<b>-6.2</b>	<b>40.4</b>	<b>7.1</b>	<b>4.0</b>	<b>5.8</b>	<b>13.8</b>	<b>8.4</b>
Mainland of China	17.5	53.4	24.1	44.6	2.4	-0.5	3.0	18.2	9.5
South and Southeast Asia	*	9.1	-28.6	52.8	16.1	8.8	12.7	8.9	12.7
Taiwan	1.4	0.4	-23.7	12.0	2.7	2.0	2.2	4.9	-0.1
Europe	-4.6	6.3	-28.0	46.3	22.3	26.2	17.6	14.0	5.5
Japan	-3.3	4.4	-37.8	29.9	7.5	-4.5	-1.7	1.2	15.3
United States	-3.1	7.0	-31.7	53.8	8.7	4.3	2.7	1.2	2.3
Others	5.6	5.9	-20.8	37.1	20.6	24.1	15.8	15.4	7.9

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

(\*) Change of less than 0.05%.

**Table 12 : Property market**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	19 875	18 202	22 278	35 322	25 790	26 262	31 052
Commercial property	390	705	945	634	160	208	304
<i>of which :</i>							
Office space	269	456	737	428	96	76	166
Other commercial premises <sup>(b)</sup>	121	249	208	206	64	132	138
Industrial property <sup>(c)</sup>	440	343	300	191	62	45	29
<i>of which :</i>							
Industrial-cum-office premises	115	72	145	40	37	14	0
Conventional flatted factory space	242	181	31	4	19	30	3
Storage premises <sup>(d)</sup>	83	90	124	147	6	0	27
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	18 358	16 046	14 267	26 733	40 944	47 590	20 154
Subsidized sales flats <sup>(e)</sup>	10 725	21 535	21 993	26 532	22 768	25 702	1 072
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property <sup>(f)</sup>	1 058.2	1 631.4	1 472.0	1 692.8	1 142.7	1 002.5	790.0
Commercial property	1 005.7	599.0	395.7	287.5	337.5	265.0	365.3
Industrial property <sup>(g)</sup>	530.5	461.6	69.5	84.9	129.2	45.7	107.1
Other properties	375.8	259.2	201.5	125.8	240.2	75.0	109.3
Total	2 970.2	2 951.2	2 138.7	2 190.9	1 849.5	1 388.1	1 371.8
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(h)</sup>	129 484	172 711	85 616	77 087	65 340	69 667	72 974
Primary market	N.A.	15 806	23 441	18 325	13 911	18 366	23 088
Secondary market	N.A.	156 905	62 175	58 762	51 429	51 301	49 886
Selected types of non-residential properties <sup>(i)</sup>							
Office space	N.A.	N.A.	N.A.	N.A.	1 724	1 774	1 639
Other commercial premises	N.A.	N.A.	N.A.	N.A.	2 411	2 989	3 167
Flatted factory space	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	3 756

Notes : (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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>		<u>2006</u>	
				Q3	Q4	Q1	Q2
<b>Completion of new property by the private sector</b>							
<i>('000 m<sup>2</sup> of internal floor area)</i>							
Residential property <sup>(a)</sup> (in units)	26 397	26 036	17 321	4 627	1 522	2 785	5 765
Commercial property	417	371	145	4	83	8	65
<i>of which :</i>							
Office space	299	280	34	0	2	1	28
Other commercial premises <sup>(b)</sup>	118	91	111	4	81	8	37
Industrial property <sup>(c)</sup>	15	1	17	0	13	15	7
<i>of which :</i>							
Industrial-cum-office premises	15	0	4	0	0	0	0
Conventional flatted factory space	0	1	0	0	0	0	0
Storage premises <sup>(d)</sup>	0	0	13	0	13	15	7
<b>Production of public housing</b>							
<i>(in units)</i>							
Rental housing flats <sup>(e)</sup>	13 705	20 614	24 691	5 534	3 722	2 033	2 397
Subsidized sales flats <sup>(e)</sup>	320	0	0	0	0	0	0
<b>Building plans with consent to commence work in the private sector</b>							
<i>('000 m<sup>2</sup> of usable floor area)</i>							
Residential property <sup>(f)</sup>	1 038.4	530.0	550.7	151.6	253.8	174.9	88.5
Commercial property	200.0	161.3	481.9	43.4	228.0	15.5	100.9
Industrial property <sup>(g)</sup>	0.8	16.4	35.1	20.6	2.9	1.4	13.1
Other properties	444.2	407.1	408.0	35.1	61.8	28.1	46.6
Total	1 683.3	1 114.8	1 475.8	250.6	546.5	220.0	249.1
<b>Agreements for sale and purchase of property</b>							
<i>(Number)</i>							
Residential property <sup>(h)</sup>	71 576	100 630	103 362	21 895	19 288	17 724	21 811
Primary market	26 498	25 694	15 994	2 243	4 193	1 294	3 023
Secondary market	45 078	74 936	87 368	19 652	15 095	16 430	18 788
Selected types of non-residential properties <sup>(i)</sup>							
Office space	1 817	3 213	3 431	798	595	658	807
Other commercial premises	4 142	7 833	7 143	1 753	1 136	1 105	1 147
Flatted factory space	3 813	5 889	6 560	1 705	1 471	1 683	2 128

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

(f) As from 1995, the classification of residential property has been revised to include developments under the UIS of the Housing Society, but to exclude developments under the HOS and the PSPS of the Housing Authority.

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

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

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

N.A. Not available.

**Table 13 : Property prices and rentals**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	116.9	163.1	117.1	100.0	89.6	78.7	69.9
Office space <sup>(b)</sup>	188.4	213.1	134.5	100.0	89.9	78.7	68.4
Shopping space	134.0	177.3	128.3	100.0	93.6	86.8	85.0
Flatted factory space	171.4	168.9	131.8	100.0	91.2	82.0	74.8
Property rental indices <sup>(c)</sup> :							
Residential flats	119.0	134.5	112.6	100.0	98.1	95.4	83.4
Office space <sup>(b)</sup>	152.3	156.8	135.9	100.0	98.5	101.0	85.4
Shopping space	117.8	123.5	111.2	100.0	101.3	99.4	92.9
Flatted factory space	132.4	132.5	118.1	100.0	95.4	90.3	82.7
<u>(% change)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	8.9	39.5	-28.2	-14.6	-10.4	-12.2	-11.2
Office space <sup>(b)</sup>	-3.2	13.1	-36.9	-25.7	-10.1	-12.5	-13.1
Shopping space	3.3	32.3	-27.6	-22.1	-6.4	-7.3	-2.1
Flatted factory space	-13.7	-1.5	-22.0	-24.1	-8.8	-10.1	-8.8
Property rental indices <sup>(c)</sup> :							
Residential flats	-1.4	13.0	-16.3	-11.2	-1.9	-2.8	-12.6
Office space <sup>(b)</sup>	-14.7	3.0	-13.3	-26.4	-1.5	2.5	-15.4
Shopping space	*	4.8	-10.0	-10.1	1.3	-1.9	-6.5
Flatted factory space	-9.9	0.1	-10.9	-15.3	-4.6	-5.3	-8.4

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

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

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

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

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

	<u>2003</u>	<u>2004</u>	<u>2005<sup>#</sup></u>	<u>2005</u> Q3 <sup>#</sup>	Q4 <sup>#</sup>	<u>2006</u> Q1 <sup>#</sup>	Q2 <sup>+</sup>
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	61.6	78.0	92.0	93.6	90.1	91.5	92.6
Office space <sup>(b)</sup>	62.5	99.3	133.0	137.6	135.4	129.8	138.5
Shopping space	85.5	119.3	149.3	148.9	151.0	151.4	151.0
Flatted factory space	71.7	88.6	125.0	132.1	136.6	142.9	154.3
Property rental indices <sup>(c)</sup> :							
Residential flats	73.6	77.7	86.5	88.3	89.9	89.3	90.4
Office space <sup>(b)</sup>	74.6	78.1	96.4	99.8	105.4	109.6	115.4
Shopping space	86.4	92.8	100.5	102.9	103.4	103.2	101.8
Flatted factory space	74.9	77.3	82.6	82.5	84.5	86.3	88.5
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats <sup>(a)</sup>	-11.9	26.6	17.9	20.3	8.0	1.8	-2.0 <56.2> {-45.4}
Office space <sup>(b)</sup>	-8.6	58.9	33.9	38.4	20.9	5.4	2.1 <134.7> {-38.4}
Shopping space	0.6	39.5	25.1	25.5	12.5	4.9	-1.3 <86.4> {-21.9}
Flatted factory space	-4.1	23.6	41.1	45.6	37.0	31.6	26.0 <120.4> {-11.1}
Property rental indices <sup>(c)</sup> :							
Residential flats	-11.8	5.6	11.3	12.3	12.1	8.2	5.7 <25.7> {-34.9}
Office space <sup>(b)</sup>	-12.6	4.7	23.4	26.3	28.4	25.0	24.4 <60.9> {-27.4}
Shopping space	-7.0	7.4	8.3	9.0	7.7	6.6	2.8 <21.0> {-18.3}
Flatted factory space	-9.4	3.2	6.9	6.5	6.6	6.5	7.4 <22.6> {-33.8}

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

(+) Provisional figures.

(\*) Change of less than 0.05%.

< > % change from the trough in 2003.

{ } % change from the peak in 1997.

**Table 14 : Monetary aggregates**

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	198,311	188,135	178,260	205,339	203,966	229,841	259,411
M2 <sup>(a)</sup>	1,503,603	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049
M3 <sup>(a)</sup>	1,520,461	1,684,325	1,840,824	1,935,471	2,002,358	2,016,635	2,004,225
Total money supply (\$Mn)							
M1	217,460	208,093	197,666	225,156	243,847	258,056	295,650
M2	2,532,236	2,788,808	3,111,942	3,386,196	3,649,492	3,550,060	3,518,326
M3	2,611,636	2,871,425	3,168,199	3,434,467	3,692,753	3,594,130	3,561,852
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,400,077	1,551,555	1,699,726	1,773,169	1,851,177	1,854,651	1,824,911
Foreign currency	1,058,180	1,158,728	1,300,302	1,477,448	1,676,670	1,551,852	1,492,631
Total	2,458,256	2,710,282	3,000,027	3,250,617	3,527,847	3,406,502	3,317,542
Loans and advances (\$Mn)							
HK\$	1,447,844	1,742,481	1,695,027	1,607,126	1,652,191	1,647,684	1,615,667
Foreign currency	2,467,045	2,379,189	1,609,400	1,205,784	809,259	537,301	460,659
Total	3,914,890	4,121,670	3,304,427	2,812,910	2,461,450	2,184,986	2,076,325
Nominal Effective Exchange Rate Indices (Jan 2000 = 100) <sup>(c)(d)</sup>							
Trade-weighted	94.0	98.0	103.4	100.9	101.7	104.7	104.0
Import-weighted	93.0	97.9	105.5	101.4	101.5	105.1	104.7
Export-weighted	95.1	98.1	101.3	100.4	101.9	104.3	103.3
<u>(% change)</u>							
Hong Kong dollar money supply :							
M1	15.5	-5.1	-5.2	15.2	-0.7	12.7	12.9
M2 <sup>(a)</sup>	19.3	--	9.7	5.2	3.4	0.5	-0.7
M3 <sup>(a)</sup>	18.9	--	9.3	5.1	3.5	0.7	-0.6
Total money supply :							
M1	14.2	-4.3	-5.0	13.9	8.3	5.8	14.6
M2	10.9	--	11.6	8.8	7.8	-2.7	-0.9
M3	10.5	--	10.3	8.4	7.5	-2.7	-0.9
Deposit <sup>(b)</sup>							
HK\$	19.5	--	9.5	4.3	4.4	0.2	-1.6
Foreign currency	0.3	--	12.2	13.6	13.5	-7.4	-3.8
Total	10.4	--	10.7	8.4	8.5	-3.4	-2.6
Loans and advances							
HK\$	17.0	20.4	-2.7	-5.2	2.8	-0.3	-1.9
Foreign currency	-1.4	-3.6	-32.4	-25.1	-32.9	-33.6	-14.3
Total	4.7	5.3	-19.8	-14.9	-12.5	-11.2	-5.0
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	2.6	4.3	5.5	-2.4	0.8	2.9	-0.7
Import-weighted	3.8	5.3	7.8	-3.9	0.1	3.5	-0.4
Export-weighted	1.5	3.2	3.3	-0.9	1.5	2.4	-1.0

Definition of Terms :

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

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>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u> Q3	Q4	<u>2006</u> Q1	Q2
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	354,752	412,629	348,248	350,711	348,248	356,869	353,297
M2 <sup>(a)</sup>	2,107,269	2,208,591	2,329,673	2,278,988	2,329,673	2,453,240	2,506,043
M3 <sup>(a)</sup>	2,122,861	2,219,557	2,345,841	2,294,680	2,345,841	2,469,679	2,523,182
Total money supply (\$Mn)							
M1	413,423	484,494	434,684	431,190	434,684	438,946	447,433
M2	3,813,442	4,166,706	4,379,062	4,243,288	4,379,062	4,522,812	4,636,505
M3	3,858,044	4,189,544	4,407,193	4,270,883	4,407,193	4,551,810	4,666,894
Deposit <sup>(b)</sup> (\$Mn)							
HK\$	1,930,790	2,017,911	2,131,583	2,080,347	2,131,583	2,248,321	2,300,208
Foreign currency	1,636,227	1,848,145	1,936,323	1,845,628	1,936,323	1,959,835	2,029,667
Total	3,567,018	3,866,056	4,067,906	3,925,974	4,067,906	4,208,156	4,329,875
Loans and advances (\$Mn)							
HK\$	1,573,079	1,666,740	1,797,350	1,763,803	1,797,350	1,792,148	1,861,717
Foreign currency	462,000	488,964	514,637	505,312	514,637	535,632	555,708
Total	2,035,079	2,155,704	2,311,987	2,269,115	2,311,987	2,327,780	2,417,424
Nominal Effective Exchange Rate Indices (Jan 2000 =100) <sup>(c)(d)</sup>							
Trade-weighted	100.7	98.3	97.4	97.6	98.6	97.6	96.2
Import-weighted	101.6	99.2	98.1	98.3	99.5	98.2	96.8
Export-weighted	99.8	97.3	96.7	96.9	97.7	97.0	95.6
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	36.8	16.3	-15.6	-5.5	-15.6	-7.8	-2.1
M2 <sup>(a)</sup>	6.2	4.8	5.5	10.1	5.5	11.4	13.2
M3 <sup>(a)</sup>	5.9	4.6	5.7	10.1	5.7	11.5	13.3
Total money supply :							
M1	39.8	17.2	-10.3	-3.1	-10.3	-5.5	2.1
M2	8.4	9.3	5.1	8.6	5.1	8.6	11.3
M3	8.3	8.6	5.2	8.2	5.2	8.6	11.3
Deposit <sup>(b)</sup>							
HK\$	5.8	4.5	5.6	10.6	5.6	12.2	14.0
Foreign currency	9.6	13.0	4.8	5.4	4.8	6.0	10.4
Total	7.5	8.4	5.2	8.1	5.2	9.2	12.3
Loans and advances							
HK\$	-2.6	6.0	7.8	9.8	7.8	5.5	5.9
Foreign currency	0.3	5.8	5.3	6.9	5.3	11.0	11.3
Total	-2.0	5.9	7.2	9.2	7.2	6.7	7.1
Nominal Effective Exchange Rate Indices <sup>(c)(d)</sup>							
Trade-weighted	-3.2	-2.4	-0.9	-1.1	1.3	1.5	-0.9
Import-weighted	-3.0	-2.4	-1.1	-1.4	1.3	1.3	-0.9
Export-weighted	-3.4	-2.5	-0.6	-0.8	1.3	1.6	-0.8

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

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

	(%)								
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>			<u>2006</u>
						Q2	Q3	Q4	Q1
Wholesale trade	-12.0	-10.7	-5.0	4.7	5.6	7.9	4.8	5.7	4.3
Retail trade	-1.2	-4.1	-2.3	10.8	6.8	7.3	6.1	5.3	6.1
Import/export trade	-14.1	-2.8	6.5	12.4	10.6	10.0	8.7	10.7	10.3
Restaurants	-2.5	-5.4	-9.7	10.1	6.0	4.5	6.3	7.0	8.8
Hotels	-7.6	-2.3	-19.7	39.4	22.1	22.3	19.2	23.4	14.7
Transport <sup>(a)</sup>	-2.4	2.3	0.5	22.8	17.8	15.5	21.2	15.4	17.6
Storage	-14.9	-19.6	-4.5	17.0	10.4	10.5	12.9	12.5	9.2
Communications	-13.2	-2.6	-2.4	1.0	5.1	4.9	7.9	3.6	1.2
Banking	2.7	-0.8	*	4.4	10.9	11.6	17.5	9.2	18.0
Financing (other than banking)	-12.6	-14.3	17.3	33.2	14.3	11.8	30.0	18.7	50.8
Insurance	14.2	10.3	19.1	22.3	16.0	14.7	17.9	21.2	35.5
Real estate	-16.9	-2.5	6.2	13.5	16.0	42.2	12.1	-1.0	-6.0
Business services	-9.6	-5.8	0.5	8.3	4.9	6.2	6.2	5.5	19.2
Film entertainment	15.2	-9.1	2.3	3.7	5.0	5.2	-1.3	7.6	0.6
Tourism, convention and exhibition services <sup>+</sup>	-3.8	10.7	-7.3	26.5	12.9	12.1	10.4	14.8	13.9
Computer and information services	-11.6	5.7	5.7	20.5	23.4	27.0	25.2	25.8	21.5

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

(+) Figures for 2005 are provisional figures.

(\*) Change of less than 0.05%.



**Table 16 : Labour force characteristics**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>		<u>2006</u>	
						Q3	Q4	Q1	Q2
<u>(%)</u>									
Labour force participation rate	61.4	61.8	61.4	61.3	60.9	60.9	60.8	61.1	60.8
Seasonally adjusted unemployment rate	5.1	7.3	7.9	6.8	5.6	5.4	5.2	5.2	5.0
Underemployment rate	2.5	3.0	3.5	3.3	2.8	2.6	2.5	2.3	2.7
<u>('000)</u>									
Population of working age	5 579.2	5 642.8	5 694.0	5 796.0	5 885.2	5 893.5	5 925.6	5 905.3	5 933.8
Labour force	3 427.1	3 487.1	3 496.2	3 551.0	3 584.6	3 590.7	3 604.8	3 606.7	3 606.6
Persons employed	3 252.3	3 231.6	3 219.1	3 308.6	3 384.0	3 385.3	3 423.4	3 426.2	3 427.5
Persons unemployed	174.8	255.5	277.2	242.5	200.6	205.4	181.5	180.5	179.0
Persons underemployed	85.5	105.2	123.3	116.7	98.6	94.7	89.2	82.6	96.0
<u>(% change over a year earlier)</u>									
Population of working age	1.5	1.1	0.9	1.8	1.5	1.5	1.6	0.9	1.1
Labour force	1.6	1.8	0.3	1.6	0.9	1.0	0.8	1.0	1.0
Persons employed	1.4	-0.6	-0.4	2.8	2.3	2.4	2.3	2.0	1.8
Persons unemployed	4.7	46.2	8.5	-12.5	-17.3	-18.0	-20.4	-14.4	-12.5
Persons underemployed	-8.6	23.0	17.3	-5.4	-15.5	-16.5	-19.8	-24.9	-4.5

**Table 17 : Employment in selected major economic sectors**

Major economic sector	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>			<u>2006</u>		
	(% change)					<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>		No.
						(% change over a year earlier)					
<b>Manufacturing</b>	<b>-8.6</b>	<b>-9.0</b>	<b>-10.3</b>	<b>-3.0</b>	<b>-2.0</b>	<b>-4.5</b>	<b>-1.0</b>	<b>1.3</b>	<b>-1.0</b>	<b>161 500</b>	
<i>of which :</i>											
Wearing apparel, except footwear	-14.9	-19.3	-11.6	-0.8	-4.7	-9.9	-1.7	-3.0	-3.7	20 700	
Textiles	-8.7	-1.1	-16.8	-11.1	0.5	1.5	3.8	0.8	-3.4	18 800	
Electronics	-17.4	-13.1	-18.9	-2.3	-4.7	-7.3	-4.3	-7.9	-11.9	13 400	
Plastic products	-16.4	-17.0	-19.1	-16.8	-1.3	-4.8	-1.0	12.7	2.6	3 300	
Fabricated metal products, except machinery and equipment	-16.9	-14.6	-20.7	-4.9	-9.7	-7.0	-12.8	-2.9	-8.3	5 700	
<b>Wholesale, retail, import/export trades, restaurants and hotels</b>	<b>-1.2</b>	<b>-2.3</b>	<b>-3.0</b>	<b>2.9</b>	<b>2.6</b>	<b>2.9</b>	<b>1.8</b>	<b>2.0</b>	<b>1.9</b>	<b>1 029 000</b>	
<i>of which :</i>											
Wholesale, retail and import/export trades	-1.9	-1.6	-1.9	2.1	2.3	3.1	1.3	1.1	1.0	807 100	
Restaurants and hotels	1.2	-4.8	-7.3	6.0	3.6	2.3	3.7	5.4	5.3	221 800	
<b>Transport, storage and communications</b>	<b>2.4</b>	<b>-1.8</b>	<b>-4.4</b>	<b>3.7</b>	<b>2.6</b>	<b>3.4</b>	<b>2.8</b>	<b>1.4</b>	<b>1.6</b>	<b>184 100</b>	
<i>of which :</i>											
Land transport	2.6	-0.3	0.5	-2.2	-1.5	-1.7	-1.1	-1.7	-0.6	37 800	
Water transport	3.3	1.0	-3.6	0.1	-0.3	1.4	1.2	-4.8	-3.6	26 500	
Services allied to transport	-0.8	1.1	-3.7	10.3	7.9	8.6	6.3	7.4	3.6	61 800	
<b>Financing, insurance, real estate and business services</b>	<b>1.6</b>	<b>-1.3</b>	<b>-1.9</b>	<b>3.6</b>	<b>4.4</b>	<b>5.3</b>	<b>4.0</b>	<b>3.8</b>	<b>4.6</b>	<b>468 300</b>	
<i>of which :</i>											
Financial institutions	-0.5	-5.6	-6.5	1.1	4.7	5.2	5.1	4.8	4.1	129 400	
Insurance	7.1	0.3	1.2	2.4	5.9	13.1	7.6	0.9	2.3	28 700	
Real estate	-3.0	5.2	0.7	2.2	6.8	6.0	5.7	9.6	8.2	97 400	
Business services except machinery and equipment rental and leasing	4.5	-1.2	-0.2	6.0	2.9	3.9	2.2	1.1	3.7	212 100	
<b>Community, social and personal services</b>	<b>7.2</b>	<b>5.9</b>	<b>2.9</b>	<b>3.2</b>	<b>4.5</b>	<b>4.5</b>	<b>5.3</b>	<b>2.7</b>	<b>3.9</b>	<b>451 300</b>	
<i>of which :</i>											
Sanitary and similar services	5.1	13.8	6.0	1.5	2.4	0.9	5.6	1.5	4.4	59 200	
Education services	6.9	2.5	2.9	1.8	1.8	1.6	1.2	2.9	4.0	136 000	
Medical, dental and other health services	5.5	3.2	-0.3	2.5	1.6	0.4	2.9	1.9	2.5	77 900	
Welfare institutions	25.4	11.9	13.9	2.1	-0.4	-2.4	-3.3	-0.5	2.4	54 000	
<b>Civil Service<sup>(a)</sup></b>	<b>-3.5</b>	<b>-3.7</b>	<b>-2.4</b>	<b>-3.8</b>	<b>-2.7</b>	<b>-3.0</b>	<b>-2.4</b>	<b>-1.8</b>	<b>-1.5</b>	<b>155 000</b>	

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

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

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	Jun	<u>2005</u> Sep	Dec	<u>2006</u> Mar
<u>(number)</u>									
Building sites									
Private sector	40 556	40 017	33 892	33 619	31 556	31 266	30 679	30 310	32 156
Public sector <sup>(a)</sup>	17 183	11 727	16 183	13 325	10 135	10 027	10 571	8 459	8 312
Sub-total	57 738	51 744	50 074	46 944	41 690	41 293	41 250	38 769	40 468
Civil engineering sites									
Private sector	2 633	2 869	2 755	2 564	2 198	2 281	1 861	1 560	1 594
Public sector <sup>(a)</sup>	19 931	18 611	17 466	16 772	15 378	16 427	13 735	14 127	12 835
Sub-total	22 564	21 480	20 221	19 336	17 576	18 708	15 596	15 687	14 429
<b>Total</b>	<b>80 302</b>	<b>73 223</b>	<b>70 295</b>	<b>66 280</b>	<b>59 266</b>	<b>60 001</b>	<b>56 846</b>	<b>54 456</b>	<b>54 897</b>
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	19.2	-1.3	-15.3	-0.8	-6.1	-13.3	-7.4	-0.9	-5.3
Public sector <sup>(a)</sup>	-37.0	-31.8	38.0	-17.7	-23.9	-30.0	-12.7	-21.8	-27.6
Sub-total	-5.8	-10.4	-3.2	-6.3	-11.2	-18.1	-8.8	-6.3	-11.0
Civil engineering sites									
Private sector	58.9	9.0	-4.0	-6.9	-14.3	-14.4	-30.4	-45.4	-48.4
Public sector <sup>(a)</sup>	19.6	-6.6	-6.2	-4.0	-8.3	-2.3	-19.1	-16.9	-25.5
Sub-total	23.1	-4.8	-5.9	-4.4	-9.1	-4.0	-20.6	-21.0	-29.0
<b>Total</b>	<b>0.9</b>	<b>-8.8</b>	<b>-4.0</b>	<b>-5.7</b>	<b>-10.6</b>	<b>-14.2</b>	<b>-12.4</b>	<b>-11.1</b>	<b>-16.5</b>

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

**Table 19 : Average labour earnings by major economic sector**

	(\$)								
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>			<u>2006</u>
Major economic sector						Q2	Q3	Q4	Q1
Wholesale, retail and import/export trades	12,700 (2.0) <3.7>	12,500 (-1.6) <1.4>	12,300 (-1.5) <1.1>	12,400 (0.4) <0.9>	13,300 (7.3) <6.3>	12,100 (5.2) <4.4>	12,400 (9.6) <8.2>	13,400 (9.0) <7.5>	15,500 (2.6) <1.0>
Restaurants and hotels	9,000 (0.1) <1.7>	8,700 (-4.2) <-1.2>	8,100 (-6.2) <-3.7>	8,100 (-0.1) <0.4>	8,300 (1.9) <0.9>	7,900 (2.7) <1.9>	8,000 (-0.4) <-1.7>	8,000 (-1.4) <-2.7>	9,000 (-0.9) <-2.4>
Transport, storage and communications	18,900 (1.3) <3.0>	18,900 (-0.2) <2.9>	18,500 (-1.7) <0.9>	18,300 (-1.3) <-0.9>	19,200 (5.0) <4.1>	18,000 (4.3) <3.5>	18,100 (7.4) <6.0>	20,200 (3.1) <1.7>	19,800 (-3.4) <-4.9>
Financing, insurance, real estate and business services	19,200 (0.4) <2.0>	18,800 (-2.2) <0.8>	18,600 (-1.4) <1.2>	18,500 (-0.1) <0.4>	19,100 (2.8) <1.8>	18,100 (1.2) <0.4>	17,200 (1.5) <0.2>	19,900 (5.1) <3.6>	22,200 (5.6) <4.0>
Community, social and personal services	20,000 (0.7) <2.3>	19,800 (-1.3) <1.8>	18,900 (-4.7) <-2.2>	18,400 (-2.6) <-2.2>	18,000 (-2.2) <-3.1>	17,800 (-0.3) <-1.1>	18,100 (-4.5) <-5.7>	18,100 (-1.1) <-2.4>	17,700 (-0.4) <-1.9>
Manufacturing	11,900 (2.1) <3.8>	11,800 (-1.2) <1.9>	11,400 (-3.0) <-0.4>	11,300 (-0.6) <-0.2>	11,600 (1.8) <0.9>	11,200 (2.6) <1.8>	10,600 (0.8) <-0.5>	11,600 (1.2) <-0.1>	12,900 (1.3) <-0.3>
<b>All sectors surveyed</b>	<b>15,400</b> <b>(1.8)</b> <b>&lt;3.5&gt;</b>	<b>15,300</b> <b>(-1.1)</b> <b>&lt;2.0&gt;</b>	<b>15,000</b> <b>(-1.8)</b> <b>&lt;0.8&gt;</b>	<b>14,900</b> <b>(-0.7)</b> <b>&lt;-0.2&gt;</b>	<b>15,400</b> <b>(3.5)</b> <b>&lt;2.6&gt;</b>	<b>14,600</b> <b>(2.7)</b> <b>&lt;1.8&gt;</b>	<b>14,600</b> <b>(3.2)</b> <b>&lt;1.9&gt;</b>	<b>15,700</b> <b>(3.7)</b> <b>&lt;2.3&gt;</b>	<b>17,000</b> <b>(1.3)</b> <b>&lt;-0.3&gt;</b>

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

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

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

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

Selected major economic sector	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>			<u>2006</u>
						Jun	Sep	Dec	Mar
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	1.4	-0.6	-1.7	-1.6	1.6	0.9	1.9	1.8	-0.3
Restaurants and hotels	0.7	-2.6	-4.1	-2.2	*	-1.0	0.2	0.7	-0.1
Transport services	0.7	0.6	-1.9	-1.0	1.0	1.5	0.5	1.4	-0.8
Financing, insurance, real estate and business services	-0.9	-0.8	-0.1	-0.5	*	-0.3	0.5	1.8	4.0
Personal services	0.7	-1.5	-3.1	1.3	-1.5	-0.9	-4.5	-2.7	-1.5
Manufacturing	2.2	-1.4	-2.7	-1.3	1.2	0.5	0.5	2.5	2.8
<b>All sectors surveyed</b>	<b>0.8</b>	<b>-1.0</b>	<b>-1.9</b>	<b>-1.1</b>	<b>0.8</b>	<b>0.4</b>	<b>0.8</b>	<b>1.4</b>	<b>0.7</b>
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	4.1	1.7	0.4	-1.7	0.4	-0.3	0.6	0.4	-1.7
Restaurants and hotels	3.3	-0.4	-2.1	-2.3	-1.3	-2.2	-1.1	-0.6	-1.5
Transport services	3.4	2.9	0.1	-1.0	-0.2	0.3	-0.9	*	-2.2
Financing, insurance, real estate and business services	1.7	1.5	2.0	-0.6	-1.2	-1.5	-0.8	0.5	2.5
Personal services	3.3	0.8	-1.1	1.3	-2.7	-2.1	-5.7	-4.0	-2.9
Manufacturing	4.8	0.8	-0.7	-1.4	-0.1	-0.7	-0.8	1.2	1.4
<b>All sectors surveyed</b>	<b>3.5</b>	<b>1.3</b>	<b>0.2</b>	<b>-1.2</b>	<b>-0.4</b>	<b>-0.8</b>	<b>-0.6</b>	<b>*</b>	<b>-0.7</b>

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

(\*) Change of less than 0.05%.

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

	(%)						
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
GDP deflator	5.8	5.6	0.2	-5.8	-5.6	-1.8	-3.5
Domestic demand deflator	4.9	4.5	0.4	-2.3	-5.0	-2.3	-4.9
Consumer Price Indices <sup>(a)</sup> :							
Composite CPI	6.3	5.8	2.8	-4.0	-3.8	-1.6	-3.0
CPI(A)	6.0	5.7	2.6	-3.3	-3.0	-1.7	-3.2
CPI(B)	6.4	5.8	2.8	-4.7	-3.9	-1.6	-3.1
CPI(C)	6.6	6.1	3.2	-3.7	-4.5	-1.5	-2.8
Unit Value Indices :							
Domestic exports	0.3	-2.4	-2.8	-2.4	-1.0	-4.7	-3.3
Re-exports	-0.5	-1.5	-3.9	-2.8	-0.1	-2.0	-2.7
Total exports of goods	-0.3	-1.6	-3.8	-2.7	-0.2	-2.3	-2.7
Imports of goods	-1.3	-2.3	-4.9	-2.0	0.8	-3.1	-3.9
Terms of Trade Index	1.0	0.7	1.2	-0.7	-1.0	0.9	1.2
Producer Price Index for all manufacturing industries	-0.1	-0.3	-1.8	-1.6	0.2	-1.6	-2.7
Construction Labour and Material Cost Index	6.8	9.3	7.5	1.4	1.8	0.3	-0.3
Tender Price Indices :							
Public sector building projects	14.4	17.6	9.1	-4.4	-13.1	-8.5	-11.7
Public housing projects	11.4	18.9	9.0	-3.3	-11.9	-15.1	-9.6

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

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

(\*) Change of less than 0.05%.

N.A. Not available.

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

	(%)						
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>		<u>2006</u>	
				Q3	Q4	Q1	Q2
GDP deflator	-6.4	-3.6 #	-0.2 #	0.2 #	0.7 #	-0.1 #	-0.1 #
Domestic demand deflator	-4.5	* #	0.8 #	1.1 #	0.9 #	1.1 #	1.9 #
Consumer Price Indices <sup>(a)</sup> :							
Composite CPI	-2.6	-0.4	1.0	1.4	1.3	1.6	2.0
CPI(A)	-2.1	*	1.1	1.4	1.2	1.3	1.8
CPI(B)	-2.7	-0.5	1.0	1.5	1.4	1.7	2.1
CPI(C)	-2.9	-0.9	0.8	1.5	1.2	1.7	2.3
Unit Value Indices :							
Domestic exports	0.2	1.5	2.2	1.1	-0.5	-2.9	-3.9
Re-exports	-1.5	1.1	1.2	1.0	0.5	-0.2	0.9
Total exports of goods	-1.4	1.2	1.3	1.0	0.4	-0.3	0.6
Imports of goods	-0.4	2.9	2.7	2.3	1.6	1.0	1.9
Terms of Trade Index	-1.0	-1.7	-1.4	-1.3	-1.2	-1.3	-1.3
Producer Price Index for all manufacturing industries	-0.3	2.2	0.8	0.8	1.1	2.0	N.A.
Construction Labour and Material Cost Index	-1.0	-1.2	-2.1	-2.7	-2.8	-2.7	N.A.
Tender Price Indices :							
Public sector building projects	-0.3	-1.5	1.4	2.0	-0.6	0.4	N.A.
Public housing projects	-10.0	3.5	7.7	7.5	6.2	3.4	N.A.

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

(%)

	Weight	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<b>All items</b>	<b>100.0</b>	<b>6.3</b>	<b>5.8</b>	<b>2.8</b>	<b>-4.0</b>	<b>-3.8</b>	<b>-1.6</b>	<b>-3.0</b>
Food	26.94	3.9	3.6	1.9	-1.8	-2.2	-0.8	-2.1
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>3.9</i>	<i>4.0</i>	<i>2.2</i>	<i>-1.2</i>	<i>-0.9</i>	<i>-0.3</i>	<i>-1.5</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>3.9</i>	<i>3.0</i>	<i>1.5</i>	<i>-2.8</i>	<i>-4.2</i>	<i>-1.7</i>	<i>-3.1</i>
Housing <sup>(a)</sup>	29.17	10.2	9.2	4.7	-5.1	-8.2	-3.1	-5.7
<i>Private housing rent</i>	<i>(23.93)</i>	<i>10.7</i>	<i>9.1</i>	<i>5.5</i>	<i>-6.1</i>	<i>-9.8</i>	<i>-2.9</i>	<i>-6.5</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>8.3</i>	<i>13.5</i>	<i>-3.4</i>	<i>1.4</i>	<i>1.1</i>	<i>-8.3</i>	<i>-2.7</i>
Electricity, gas and water	3.59	5.0	5.0	1.4	-0.4	3.6	-1.9	-7.0
Alcoholic drinks and tobacco	0.87	5.7	5.6	6.6	1.2	-0.9	3.3	2.4
Clothing and footwear	3.91	8.3	8.4	-0.8	-20.6	-10.1	-4.6	0.7
Durable goods	5.50	1.9	2.2	0.2	-6.3	-4.6	-7.1	-6.3
Miscellaneous goods	4.78	2.7	5.4	2.6	-0.7	0.9	1.3	1.7
Transport	9.09	6.2	4.0	3.9	0.5	1.0	0.4	-0.6
Miscellaneous services	16.15	6.1	4.5	2.7	-1.3	-0.2	0.5	-2.3

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

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

(\*) Change of less than 0.05%.



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

		(%)						
	Weight	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	
					Q3	Q4	Q1	Q2
<b>All items</b>	<b>100.0</b>	<b>-2.6</b>	<b>-0.4</b>	<b>1.0</b>	<b>1.4</b>	<b>1.3</b>	<b>1.6</b>	<b>2.0</b>
Food	26.94	-1.5	1.0	1.8	1.9	1.4	0.9	1.7
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>-1.5</i>	<i>0.2</i>	<i>0.9</i>	<i>1.1</i>	<i>1.1</i>	<i>1.0</i>	<i>1.3</i>
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	<i>-1.7</i>	<i>2.5</i>	<i>3.2</i>	<i>3.3</i>	<i>1.9</i>	<i>1.0</i>	<i>2.3</i>
Housing <sup>(a)</sup>	29.17	-4.8	-5.2	0.1	1.0	2.8	4.2	4.9
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-0.1</i>	<i>1.3</i>	<i>3.3</i>	<i>5.0</i>	<i>5.9</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>9.1</i>	<i>2.5</i>	<i>0.2</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>
Electricity, gas and water	3.59	1.4	11.4	4.1	3.2	4.0	3.9	3.4
Alcoholic drinks and tobacco	0.87	0.1	*	0.4	0.6	0.4	-0.6	-5.9
Clothing and footwear	3.91	-2.7	6.4	2.0	2.2	0.1	-2.0	-0.7
Durable goods	5.50	-6.4	-2.2	-3.2	-1.7	-6.7	-5.8	-6.6
Miscellaneous goods	4.78	2.3	3.6	1.5	2.7	-0.1	0.4	1.8
Transport	9.09	-0.4	0.4	1.4	2.1	1.5	1.6	1.1
Miscellaneous services	16.15	-3.2	-0.2	1.0	0.8	1.1	1.2	1.9

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

	(%)						
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Private consumption expenditure	5.2	3.9	2.1	-5.2	-4.5	-1.0	-3.4
Government consumption expenditure	6.5	6.4	2.6	-0.1	-1.9	1.1	-0.6
Gross domestic fixed capital formation	2.0	6.0	-7.2	0.4	-3.8	-6.6	-10.1
Total exports of goods	-0.7	-1.9	-3.3	-3.4	-0.5	-2.6	-2.9
Imports of goods	-1.2	-1.9	-4.4	-2.6	0.8	-3.5	-4.2
Exports of services	2.1	0.8	-5.1	-3.1	1.6	-4.3	-2.2
Imports of services	-0.1	0.7	-3.6	-0.3	-0.3	-1.1	0.4
<b>Gross Domestic Product</b>	<b>5.8</b>	<b>5.6</b>	<b>0.2</b>	<b>-5.8</b>	<b>-5.6</b>	<b>-1.8</b>	<b>-3.5</b>
Total final demand	1.7	1.3	-2.3	-3.7	-2.7	-2.6	-3.7
Domestic demand	4.9	4.5	0.4	-2.3	-5.0	-2.3	-4.9

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

(\*) Change of less than 0.05%.

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

	(%)						
	<u>2003</u>	<u>2004<sup>#</sup></u>	<u>2005<sup>#</sup></u>	<u>2005</u>		<u>2006</u>	
				Q3 <sup>#</sup>	Q4 <sup>#</sup>	Q1 <sup>#</sup>	Q2 <sup>#</sup>
Private consumption expenditure	-2.9	-0.5	1.4	1.5	2.2	1.9	1.5
Government consumption expenditure	-2.7	-2.9	-1.6	-1.7	-1.4	1.2	1.2
Gross domestic fixed capital formation	-9.4	2.1	0.9	1.3	-1.7	-2.0	3.0
Total exports of goods	-2.0	0.5	-0.1	-0.2	-1.3	-1.8	-0.7
Imports of goods	-0.9	2.5	1.3	0.8	*	*	1.4
Exports of services	-3.4	0.4	3.5	3.2	5.2	4.8	5.8
Imports of services	2.6	4.0	0.9	0.9	-0.7	-0.2	0.8
<b>Gross Domestic Product</b>	<b>-6.4</b>	<b>-3.6</b>	<b>-0.2</b>	<b>0.2</b>	<b>0.7</b>	<b>-0.1</b>	<b>-0.1</b>
Total final demand	-3.0	0.4	0.8	0.5	0.2	*	1.0
Domestic demand	-4.5	*	0.8	1.1	0.9	1.1	1.9

