

Press Release

(embargoed until 4:15 p.m. on 21 November 2006)

Economic Situation in the Third Quarter of 2006 and Latest GDP and Price Forecasts for 2006

The Government released today (Tuesday) the Third Quarter Economic Report 2006, together with the preliminary figures on Gross Domestic Product for the third quarter of 2006.

The Acting Government Economist, Mrs Helen Chan, described the economic situation in the third quarter of 2006 and provided the latest GDP and price forecasts for the year.

MAIN POINTS

- * The Hong Kong economy gathered strong momentum again in the third quarter of 2006, with GDP expanding briskly by 6.8% in real terms, up distinctly from a 5.5% increase in the second quarter (figure revised up from the earlier estimate of 5.2%). This signified the twelfth consecutive quarter of distinctly above-trend growth since the current upturn began in mid-2003.
- * External trade regained vigor in the third quarter after some moderation in the second quarter. Merchandise exports resumed a faster growth of 8.9% in real terms in the third quarter over a year earlier, thanks to thriving trade flows of the Mainland and the renewed weakening of the US dollar in recent months. Exports of services likewise grew strongly, by 8.6% in real terms, along with vibrant offshore trade and buoyant financial market activities during the quarter.
- * Domestic demand continued to play an important role in the current economic upturn. Private consumption expenditure rose notably further by 4.4% in real terms in the third quarter, on the back of upbeat consumer sentiment and an improving labour market. Overall investment expenditure surged by 12.7% in real terms in the third quarter, the fastest since the fourth quarter of 2000, underlining the strength of business confidence and also sustained business expansion in the corporate sector. While overall building and construction activity continued to be dragged down by the sharp fall in public sector output, private sector output seemed to have stabilized over the past two quarters.
- * With robust economic expansion transpiring into broad-based job creation, the labour market continued to show extensive improvements recently. Some 311 000 additional jobs have been created since the trough in 2003, bringing the seasonally adjusted unemployment rate down to a 64-month low of 4.5% in the three months ending October. The number of long-term unemployed has fallen by 55%.

- * The outlook for the remainder of 2006 is for a further expansion in economic activity at a solid pace. Externally, despite the economic slow-down in the US, the economic situation elsewhere is still very favourable. The vibrant Mainland economy and its surging trade flows, in particular, will continue to provide the main impetus to Hong Kong's trade growth. Economic recovery in the euro area and Japan remains on track. The recent easing in oil prices and the pause in interest rate hikes in the US will also help to reduce some downside risks to the global economy. Against this background, Hong Kong's external trade looks set for further growth in the fourth quarter, particularly with the additional boost from a weak US dollar.
- * Domestic demand has been gathering strength over the past few quarters, and this trend is likely to extend into the fourth quarter. Consumer demand should continue to hold up well under the support of rising household incomes, lower local interest rates and the positive wealth effect from the recent stock market rally. The prevailing business confidence is likewise strong, which should provide the favourable ground for a further surge in machinery and equipment investment. Construction activity, though likely to remain weak in the near term, might also show some relative improvement if private sector activity can continue to stabilise.
- * In the light of an exceptionally strong GDP outturn of 6.8% growth for the first three quarters of 2006, and even after allowing for some possible moderation in external trade in the fourth quarter, the forecast GDP growth for 2006 as a whole is revised upward from 4-5% to 6.5% in the current update.
- * CPI inflation has remained moderate so far this year and is likely to remain so through to the year-end given the substantial easing in oil prices lately and also continued notable growth in labour productivity. With the actual outturn of the Composite CPI in the first ten months of 2006 in line with expectations, the forecast rate of increase in the Composite CPI for 2006 as a whole is maintained at 2%. The forecast rate of change in the GDP deflator for 2006 as a whole is likewise kept unchanged at 0%.

DETAIL

GDP

According to the preliminary figure on the *Gross Domestic Product (GDP)* released today by the Census and Statistics Department, GDP grew strongly by 6.8% in real terms in the third quarter of 2006 over a year earlier. This was not only the twelfth consecutive quarter that economic growth was distinctly above the trend growth of 3.9% in the past ten years, it was also considerably up from the 5.5% growth in the second quarter (revised up from the earlier estimate of 5.2%). On a seasonally adjusted quarter-to-quarter comparison, the pace of economic expansion likewise accelerated notably, to 3.5% in real terms in the third quarter of 2006 from 0.3% in the second quarter (revised up from the earlier estimate of virtually no growth) (*Chart*).

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

External trade

3. Exports regained vigor in the third quarter after some moderation in the second quarter, supported by the pick-up in Mainland's already strong trade flows during the quarter, surging intraregional trade flows and also the renewed weakening of the US dollar over the past few months. *Total exports of goods* picked up to an 8.9% growth in real terms in the third quarter over a year earlier, up from a 6.4% increase in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, total exports of goods expanded by 6.4% in real terms in the third quarter, following a slight 1.1% decline in the preceding quarter.

4. Export performance varied across regions. The Mainland market continued to be the key growth spot, under the support of a rapidly growing Mainland economy and its vibrant trade flows. Exports to other Asian markets such as Taiwan, Singapore and Korea also attained strong growth of close to or exceeding 10%, in tandem with their generally strong import demand and the buoyant intra-regional trade. Yet exports to Japan slowed down further, dragged by the weakness of the yen. Export performance to markets outside Asia was not as impressive. Exports to the EU showed only a modest increase, again partly due to dampening effect of the earlier weakening of the euro. Exports to the United States were likewise weak, partly due to a slowing US economy, and conceivably also due to the drag from the on-going shift to offshore trade.

5. *Exports of services* maintained strong growth at 8.6% in real terms in the third quarter, broadly similar to the increase in the second quarter. Exports of trade-related services were bolstered by buoyant trade flows of the Mainland, while exports of transportation services sustained strong growth in tandem with the faster

trade growth. Exports of financial and insurance services also attained near double-digit growth amidst the more active financial market activities. Yet the momentum in exports of travel services slowed upon a somewhat less rapid growth in incoming visitors. On a seasonally adjusted quarter-to-quarter comparison, exports of services expanded briskly by 4.3% in the third quarter, after a 2.2% increase in the preceding quarter.

Domestic sector

6. Domestic demand continued to hold up very well in the third quarter. Local consumer spending rose solidly further in the third quarter, amidst improving employment income, expanding job opportunities and a buoyant stock market. A more stable property market, together with the pause in interest rate hikes, also helped. *Private consumption expenditure (PCE)* attained a solid growth of 4.4% in real terms in the third quarter over a year earlier, further to growth of 4.5% and 5.1% in the first two quarters. On a seasonally adjusted quarter-to-quarter comparison, private consumption expenditure increased by 0.5% in real terms in the third quarter, following a 1.2% growth in the second quarter.

7. *Overall investment spending* accelerated markedly to double-digit growth at 12.7% in real terms in the third quarter over a year earlier, marking the fastest growth since the fourth quarter of 2000. Machinery and equipment investment, which surged by 22.4%, was the key driver of overall investment growth, reflecting the strong business confidence. Activity in the construction sector remained weak in overall terms, as public sector output continued to fall sharply. On the other hand, the decline in output in the private sector segment seemed to have been largely arrested in the past two quarters.

The labour sector

8. The labour market continued to experience broad-based improvement. Strong expansion in labour demand pushed total employment to successive new highs over the past few months, bringing the *seasonally adjusted unemployment rate* down to 4.7% in the third quarter, and further down to a 64-month low of 4.5% in August - October. Since the trough in mid-2003, some 311 000 additional jobs have been created, leading to a significant improvement in employment conditions for workers at different skill levels. At the same time, the long-term unemployment situation continued to improve, most apparently in the manufacturing and construction sectors. The total number of job vacancies in the private sector remained on a broad-based rise in June 2006 over a year ago, while labour incomes continued to rise modestly in overall terms.

Prices

9. Along with the sustained economic expansion, consumer price inflation in terms of the year-on-year rate of increase in the *Composite Consumer Price Index (CCPI)* edged slightly higher to 2.3% in the third quarter, from 2.0% in the second

quarter. (In October, the CCPI inflation was 2.0%, giving an average of also 2.0% for the first ten months taken together.) On the domestic front, upward pressures on local business costs remained largely in check, with unit labour cost kept down by rising productivity, and with the increase in unit rental cost also stabilizing in tandem with some softening in shop rentals lately. External cost pressures were likewise modest. On a seasonally adjusted quarter-to-quarter comparison, the CCPI rose by 0.6% in the third quarter, following a 0.9% increase in the second quarter. With regard to the *GDP deflator*, it continued to register a marginal decline, at 0.2% in the third quarter over a year earlier, after a 0.1% decline in the second quarter. This was entirely due to the drag from the continued fall in the terms of trade. Excluding the relative price movements of exports and imports, the domestic demand deflator rose by 2.1% in the third quarter, broadly in line with the rate of consumer price inflation.

Latest GDP and price forecasts for 2006

10. Although the external environment has been overshadowed by a number of downside risks since early this year, including most notably the surge in oil prices and a slowing US economy, so far the global economy as a whole has continued to forge ahead seemingly with much resilience against these possible shocks. This was largely underscored by a robust Mainland economy, and also continued strength in Japan and the EU economies. The pause in interest rate hikes in the US and the substantial ease back in oil prices are other favourable developments in the global scene, which together with the weakness of the dollar, should support Hong Kong's exports of goods and services in the near term and help to cushion against the negative impact of slowing US demand.

11. Domestically, despite successive interest rate hikes since 2005, domestic demand has held up very well. This trend is expected to extend into the fourth quarter. The macro conditions, which were already supportive to consumer demand over the past few quarters, seem to have improved even further lately, with the abundant liquidity in the banking sector leading to the latest fall in local interest rates, an improving job market, and even more upbeat economic sentiment with the stock market rally lately. Also, a sanguine business outlook should continue to bode well for business investment in machinery and equipment. Activity in the construction sector, though likely to remain weak in overall terms, might also stage some relative improvement, now that private sector output has largely arrested its downslide.

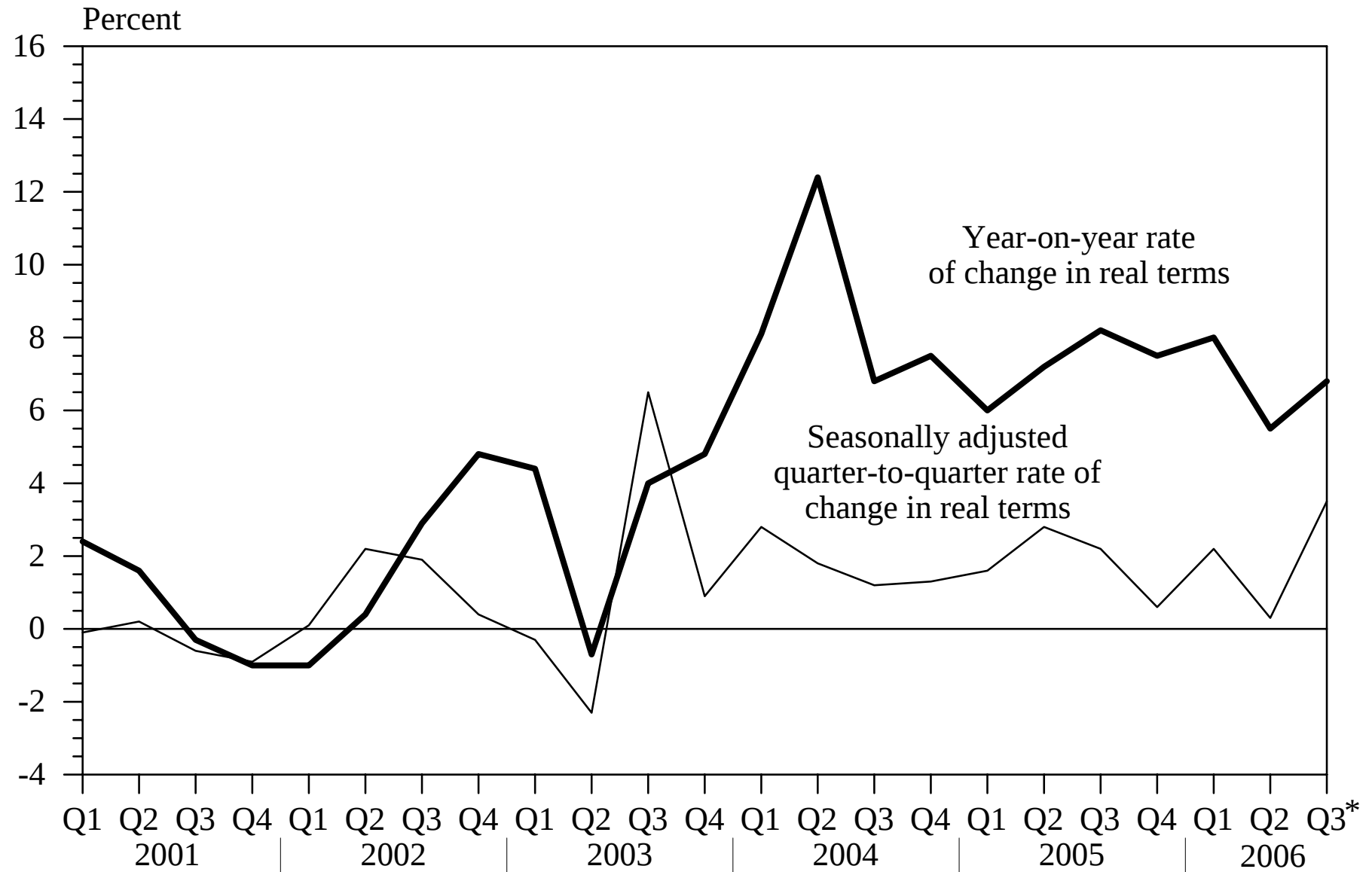
12. On the back of a strong GDP outturn of 6.8% growth for the first three quarters of 2006, and after allowing for some possible moderation in trade because of a likely slowing US demand in the fourth quarter, the forecast GDP growth for 2006 as a whole is revised upwards from 4-5% to 6.5% in the current update (**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 is expected to remain moderate in the remainder of 2006, being capped by rising productivity and continued capacity expansion, and with the substantial easing in oil prices lately as another favourable development. With the actual outturn of the first ten months of 2006 in line with expectations, the forecast rate of increase in the *CCPI* for 2006 as a whole is maintained at 2%. As to the forecast rate of change in the *GDP deflator* for 2006 as a whole, it is likewise kept unchanged at 0%.

(The Third Quarter 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), with a postage charge.)

(The GDP figures up to the third quarter of 2006 are published in the Report of the Gross Domestic Product, Third 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), 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>	<u>Q2[#]</u>	<u>Q3⁺</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)	5.1 (1.2)	4.4 (0.5)
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)	-1.5 (-3.1)	-1.0 (0.7)
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.)	5.0 (N.A.)	12.7 (N.A.)
<i>of which :</i>									
Building and construction	-11.7	-6.1	-1.0	-7.5	-5.2	-10.7	-11.1	-3.7	-5.7
Machinery, equipment and computer software	11.0	10.6	0.8	10.7	7.1	24.0	23.3	12.8	22.4
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)	8.9 (6.4)
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)	8.5 (4.7)
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)	9.0 (2.2)	8.6 (4.3)
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)	8.3 (6.8)	5.5 (-2.1)
Gross Domestic Product	8.6	7.3	6.0 (1.6)	7.2 (2.8)	8.2 (2.2)	7.5 (0.6)	8.0 (2.2)	5.5 (0.3)	6.8 (3.5)
<i>Change in the main price indicators (%)</i>									
GDP deflator	-3.6	-0.2	-1.4 (0.1)	-0.6 (0.2)	0.2 (*)	0.7 (0.5)	-0.1 (-0.9)	-0.1 (0.2)	-0.2 (0.1)
Composite Consumer Price Index	-0.4	1.0[@]	0.4[@] (*)[@]	0.8[@] (0.4)[@]	1.4[@] (0.3)[@]	1.3[@] (0.6)[@]	1.6[@] (0.3)[@]	2.0[@] (0.9)[@]	2.3[@] (0.6)[@]
<u>Change in nominal GDP (%)</u>	4.7	7.0	4.6	6.6	8.4	8.2	7.9	5.4	6.6

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 22.8.2006</u> (%)	Latest forecasts for 2006 <u>on 21.11.2006</u> (%)
Gross Domestic Product (GDP)		
<i>Real GDP</i>	4 to 5	6.5
<i>Nominal GDP</i>	4 to 5	6.5
Composite Consumer Price Index	2	2
GDP Deflator	0	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>
International organisations:								
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.
	Sep 2006	6	--	--	--	--	2.3	World Economic Outlook, Sep 2006.
	Oct 2006	5.5-6	--	--	--	--	--	Preliminary Conclusions of the IMF Mission, 24 Oct 2006.
ADB	Apr 2006	5.5	--	--	--	--	2.5	Asian Development Outlook 2006, Apr 2006.
	Sep 2006	6.5	--	--	--	--	2.4	Asian Development Outlook 2006 Update, Sep 2006.
World Bank	Mar 2006	5.3	--	--	--	--	--	East Asia Update, Mar 2006.
PECC	Nov 2006	6.3	2.1	--	--	--	2	State of the Region 2006-2007, Nov 2006.
Private sector analysts:								
<i>(a) Major local banks</i>								
HSBC	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.
	Oct 2006	6.4	4.4	6.4	--	--	2.2	Macro Currencies, October 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.
	Nov 2006	7	--	--	--	--	2.5	Asia Focus, 15 Nov 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.
	Nov 2006	6.3	--	--	--	--	2.1	Economic Bulletin, Nov 2006.

Table 3 (cont'd)

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	<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 terms (%)</u>	<u>Exports of services</u>)	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
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.
	Nov 2006	6.5	--	--	--	--	2.2	Bank of China (HK), 15 Nov 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.
	Nov 2006	5.8	--	--	--	--	2.1	Bank of East Asia, 16 Nov 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.
	Aug 2006	5.5	--	--	--	--	2.5	Asia Vision, 24 Aug 2006.
	Nov 2006	5.5	--	--	--	--	2.6	Asia Vision, 3 Nov 2006.
	Nov 2006	5.5	--	--	--	--	2.2	Asia Vision, 17 Nov 2006.
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.
	Nov 2006	6	--	--	--	--	2.1	Citigroup, 17 Nov 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.
	Nov 2006	5.8	--	--	--	--	2.2	JP Morgan Chase, 16 Nov 2006.

Table 3 (cont'd)

**2006 GDP and price forecasts for Hong Kong put out by
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	<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 terms (%)</u>	<u>Exports of services</u>)	<u>Rate of change in consumer prices</u> (%)	<u>Reference source</u>
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.
	Aug 2006	5.6	4	5	--	--	2.3	Morgan Stanley Research, 23 Aug 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.
	Nov 2006	5.1	--	--	--	--	2.3	The Asian Market Economist, 16 Nov 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.
	Aug 2006	5.8	--	--	--	--	2.3	Global Weekly Economic Monitor, 16 Aug 2006.
	Nov 2006	6.1	--	--	--	--	2.3	Global Weekly Economic Monitor, 10 Nov 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 terms (%)</u>	<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.
	Sep 2006	5.9	4.7	4.9	--	--	2.1	Country Forecast, Sep 2006.
	Nov 2006	5.9	4.7	4.9	--	--	2.1	Country Forecast, Nov 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.
	Nov 2006	6.5	--	--	--	--	2.3	HKGCC, 17 Nov 2006.
University of Hong Kong	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.
	Oct 2006	5.7	4.8	5	--	--	2.2	HK Economic Times, 11 Oct 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 :

The forecasts of GDP growth in real terms for 2006 from the private sector analysts listed above are mostly in the range of 6 to 6.5%, averaging at 6.3%.



Third Quarter Economic Report 2006

Government of the Hong Kong
Special Administrative Region

THIRD QUARTER ECONOMIC REPORT 2006

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

November 2006

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STATISTICAL APPENDIX

CHAPTER 1 : OVERVIEW OF ECONOMIC PERFORMANCE

Summary

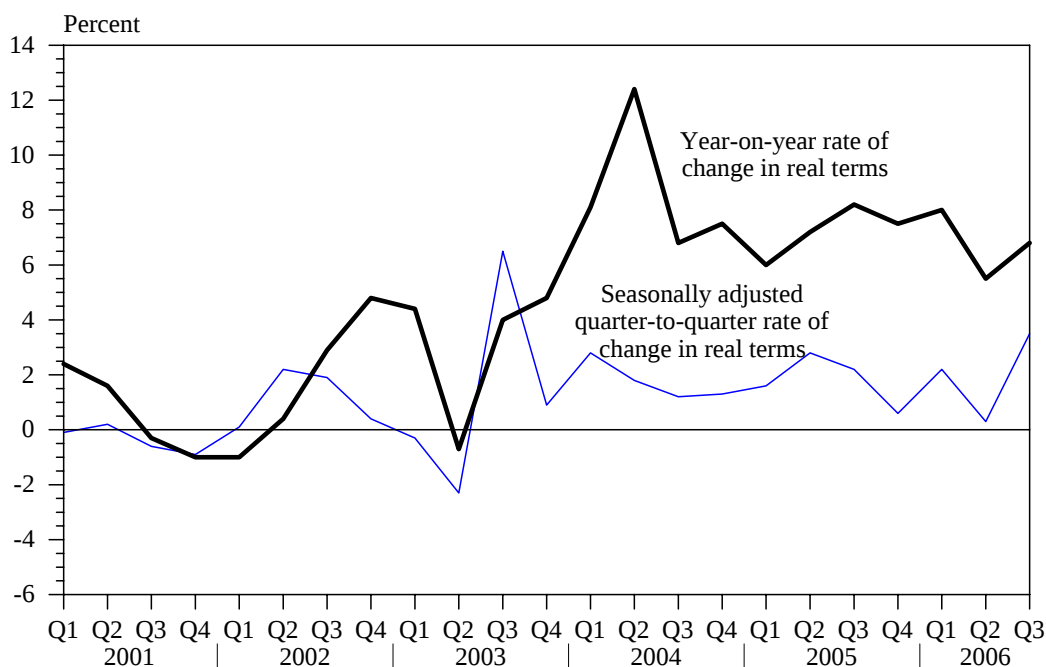
- *The Hong Kong economy gathered strong momentum again in the third quarter, with GDP expanding briskly by 6.8% in real terms. This not only marked the twelfth consecutive quarter of above-trend growth, the growth pace in the third quarter was also distinctly faster than the revised 5.5% in the second quarter.*
- *Merchandise exports regained much vigor on entering the third quarter, after some moderation in the preceding quarter. The dampening effect of slowing US economy had been more than offset by the Mainland's robust trade flows and surging intra-regional trade. Exports of services sustained fairly strong growth, bolstered mainly by continued brisk expansion of offshore trade.*
- *Domestic demand continued to display strength. Consumer demand grew solidly further, on the back of the broad-based improvement in labour market conditions. But the rally in the stock market and a more stable property market, in turn boosted by the pause in interest rate hikes, have rendered an additional boost to consumer spending.*
- *Investment in machinery and equipment continued to surge, reflecting the underlying strong business confidence. Yet construction activity remained weak in overall terms, dragged by distinct fall-off in public sector output. Construction output in the private sector actually showed some improvement over the past two quarters.*
- *Sustained economic expansion has transpired into broad-based job generation, benefiting workers at different skilled levels across different sectors. Some 307 000 additional jobs had been created since the trough in 2003, thereby pushing the seasonally adjusted unemployment rate down to a 62-month low of 4.7% in the third quarter.*
- *Consumer price inflation remained benign and in fact eased back slightly in September, on account of lower oil prices, fall-back of certain fresh food prices and more steady increase in private housing rentals. Rising productivity also helped to keep the inflation rate at a moderate level.*
- *The net outputs of financial services, communications, restaurants and hotels, import and export trade, and transport and storage continued to show good performance in the second quarter, reflecting the development of Hong Kong into international centres for financial services, trade and logistics, and tourism.*

Overall situation

1.1 The Hong Kong economy picked up again in the third quarter of 2006, as merchandise exports regained vigor, service exports sustained fairly robust growth, and domestic demand continued to display strength. Meanwhile, consumer price inflation remained benign, helped by the recent easing in oil prices, more steady increase in private housing rentals and sustained increase in productivity.

1.2 With trade showing a renewed acceleration and with domestic sector holding up very well, the *Gross Domestic Product (GDP)*⁽¹⁾ picked up to growth at 6.8% in real terms in the third quarter over a year earlier, from that of 5.5% in the second quarter (revised up from the earlier estimate of 5.2%). This also signified the twelfth consecutive quarter of above-trend growth. For the first three quarters of 2006 as a whole, the pace of economic expansion was brisk, at 6.8% over the same period in 2005. On a seasonally adjusted quarter-to-quarter comparison⁽²⁾, GDP also grew faster, by 3.5% in real terms in the third quarter, up from that of 0.3% in the second quarter (revised from the previous estimate of virtually no growth).

Diagram 1.1 : Economy gathering strength again in the third quarter



**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</u>	<u>Q2[#]</u>	<u>Q3⁺</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)	5.1 (1.2)	4.4 (0.5)
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)	-1.5 (-3.1)	-1.0 (0.7)
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.)	5.0 (N.A.)	12.7 (N.A.)
of which :									
Building and construction	-11.7	-6.1	-1.0	-7.5	-5.2	-10.7	-11.1	-3.7	-5.7
Machinery, equipment and computer software	11.0	10.6	0.8	10.7	7.1	24.0	23.3	12.8	22.4
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)	8.9 (6.4)
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)	8.5 (4.7)
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)	9.0 (2.2)	8.6 (4.3)
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)	8.3 (6.8)	5.5 (-2.1)
Gross Domestic Product	8.6	7.3	6.0 (1.6)	7.2 (2.8)	8.2 (2.2)	7.5 (0.6)	8.0 (2.2)	5.5 (0.3)	6.8 (3.5)
<i>Change in the main price indicators (%)</i>									
GDP deflator	-3.6	-0.2	-1.4 (0.1)	-0.6 (0.2)	0.2 (*)	0.7 (0.5)	-0.1 (-0.9)	-0.1 (0.2)	-0.2 (0.1)
Composite Consumer Price Index	-0.4	1.0[@]	0.4[@] (0.1)[@]	0.8[@] (0.3)[@]	1.4[@] (0.3)[@]	1.3[@] (0.5)[@]	1.6[@] (0.4)[@]	2.0[@] (0.8)[@]	2.3[@] (0.6)[@]
<i>Change in nominal GDP (%)</i>	4.7	7.0	4.6	6.6	8.4	8.2	7.9	5.4	6.6

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%.

1.3 Merchandise exports showed a faster growth in the third quarter, thanks to the Mainland's continued robust trade flows and surging intra-regional trade. The growth of exports to the US, the EU and Japan however remained rather weak, the former being affected by slowing economy there, the latter two possibly due to the lagged effects of the weakening of the euro and yen in late 2005 and early 2006. Yet with exports to Asia showing a visible pick-up, *total exports of goods* as a whole accelerated to an 8.9% growth in real terms in the third quarter over a year earlier, distinctly up from the 6.4% growth in the second quarter. *Exports of services* sustained fairly robust growth in the third quarter, at 8.6%, with much of the growth coming from the continued brisk expansion of offshore trade. The buoyant financial market and growing business activities also generated increased demand for exports of financial and other business services.

1.4 Domestic demand continued to play an important role in the current full-fledged economic upturn. Local consumer spending rose solidly further in the third quarter, amidst improving employment income, expanding job opportunities and a buoyant stock market. A more stable property market, together with the pause in interest rate hikes, also helped. *Private consumption expenditure (PCE)* attained a solid growth of 4.4% in real terms in the third quarter over a year earlier, further to growth of 4.5% and 5.1% in the first two quarters. *Government consumption expenditure* continued to fall in the third quarter. The Government remained vigilant in maintaining a robust and sustainable fiscal position.

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

Of which :

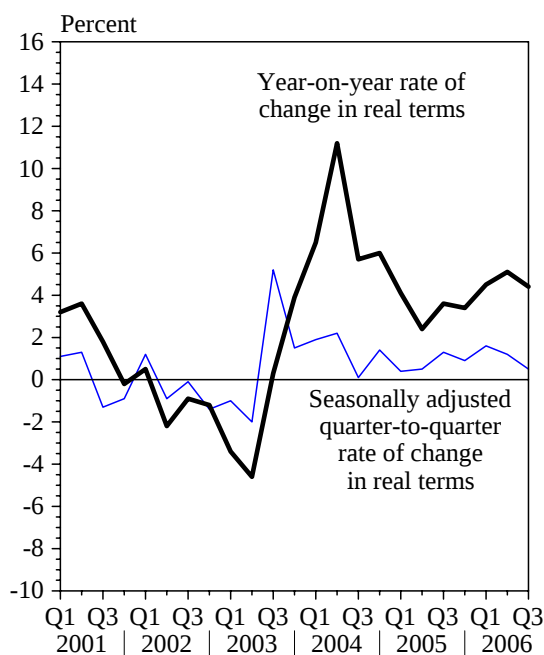
		Total consumer spending in the domestic market ^(a)	Food	Durables	Non- durables	Services	Residents' expenditure abroad	Visitor spending	Private consumption expenditure ^(b)
2005	Annual	4.3	3.8	6.7	6.3	3.2	-0.6	9.5	3.4
	Q1	4.4	2.8	9.5	9.1	2.2	7.7	11.6	4.1
	Q2	3.9	4.0	8.2	6.3	2.3	-9.1	8.2	2.4
	Q3	4.6	3.2	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	4.8	4.4	3.3	5.7	7.3	5.4	5.1
	Q3	4.4	2.7	6.1	3.7	4.6	1.3	0.7	4.4

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

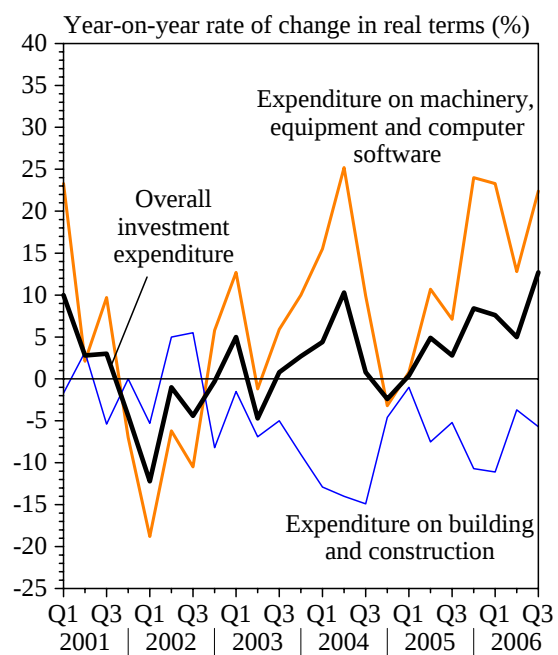
(b) Private consumption expenditure is obtained by deducting visitor spending from the total consumer spending in the domestic market, and adding back residents' expenditure abroad.

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

**Diagram 1.2 : Consumer spending
grew solidly further,
amidst upbeat sentiment**



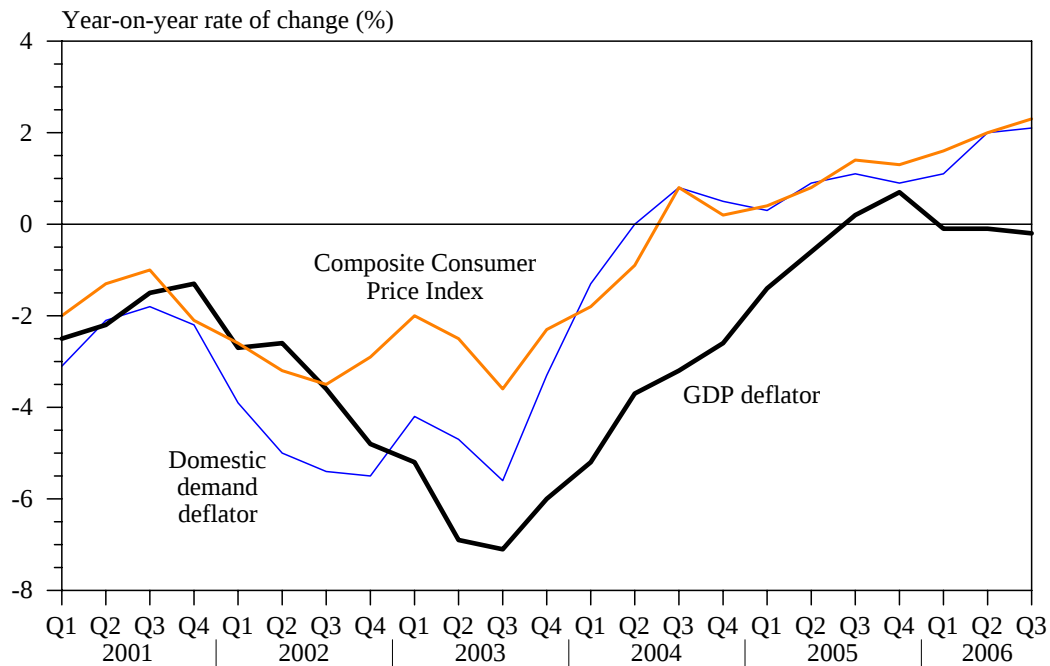
**Diagram 1.3 : Investment spending
on machinery and equipment
surged further, but construction
activity remained sluggish**



1.5 Overall investment spending in terms of *gross domestic fixed capital formation* accelerated sharply in the third quarter of 2006, up by 12.7% in real terms over a year earlier, the fastest growth since the fourth quarter of 2000. Machinery and equipment investment, which surged by 22.4%, was still the key driver of overall investment growth, reflecting the strong business confidence. According to the latest Business Tendency Survey, the big companies surveyed were generally positive about the near-term business outlook. Indeed, being the trade and business hub in the region and against the backdrop of a rapidly growing Mainland economy, the attractiveness of Hong Kong as a place for doing business has been increasing over the years. Activity in the construction sector remained weak in overall terms, as public sector output continued to fall sharply. On the other hand, the decline in output in the private sector segment had been arrested in the recent two quarters. With few large-scale construction projects going on in the public sector, it might take some time for overall construction activity to turn around.

1.6 *Consumer price inflation* remained moderate, notwithstanding the brisk pace of economic expansion for twelve quarters by now. The Composite CPI rose by 2.3% in the third quarter over a year earlier, slightly up from the 2.0% increase in the second quarter. Yet consumer price inflation actually edged slightly lower from 2.5% in August to 2.1% in September, on account of the recent easing in oil prices, fall-back in prices of some fresh food items and the more steady increase in private housing rentals. As to the *GDP deflator*, it remained soft in the third quarter over a year earlier, due to continued decline in the terms of trade. Excluding the relative price movements of exports and imports, the domestic demand deflator rose by 2.1% in the third quarter, broadly similar to the rate of consumer price inflation.

Diagram 1.4 : Inflation remained benign



Net output or value added by major economic sector

1.7 It is important to enhance further the role of Hong Kong as an international financial centre as well as a trading and logistics hub in the region. The activities so generated will be the major driving forces underlying Hong Kong's overall economic growth. Latest available figures indicate that net output in the services sector as a whole rose by 7.3% in real terms in the second quarter of 2006 over a year earlier. Among the various service sectors, financial services showed the most impressive performance, followed by communications. Meanwhile, the pick-up in local consumption spending and the sustained expansion of inbound tourism has lifted the business in the restaurants and hotels, and to a less extent, also the wholesale and retail trades. Import and export trade, and transport and storage also grew further, albeit less rapidly in the second quarter than in the first, reflecting mainly the moderation in external trade over the period. As for manufacturing, its net output rose further, amidst the strong domestic export performance in the second quarter. Net output in the construction sector continued to fall, though with some relative improvement over the preceding quarter.

**Table 1.3 : GDP by economic activity^(a)
(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>	<u>Q2</u>
Manufacturing	1.7	2.1	-2.3	-0.1	4.1	5.9	7.0	5.3
Construction	-9.8	-6.6	0.5	-8.4	-5.5	-12.4	-12.3	-4.1
Services ^(b)	9.9	7.9	7.1	8.4	8.5	7.7	9.1	7.3
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	6.8
Import and export trade	15.4	12.1	11.5	13.3	11.9	11.8	13.8	7.0
Wholesale and retail trades	7.8	5.2	6.5	6.2	4.3	4.2	3.8	3.6
Restaurants and hotels	22.6	8.3	6.6	7.4	8.9	10.3	9.4	9.3
Transport, storage and communications	13.9	13.5	12.7	12.3	15.3	13.5	11.2	6.8
Transport and storage	14.0	14.5	13.8	13.0	16.6	14.2	10.7	5.7
Communications	13.8	10.8	9.7	10.5	11.4	11.6	12.7	10.0
Financing, insurance, real estate and business services	13.1	8.9	6.9	11.3	10.0	7.6	13.1	14.6
Financial services	21.7	11.0	8.5	14.2	12.2	9.3	20.4	22.2
Real estate and business services	1.1	5.4	4.4	6.4	6.3	4.6	0.8	0.4
Community, social and personal services	2.6	0.9	1.0	0.1	1.1	1.5	1.3	1.2

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.

Some highlights of economic policy

1.8 In his Policy Address on 11 October, the Chief Executive indicated if Hong Kong is to embrace the era of globalisation, it is pivotal to integrate with the Mainland economy and to play an appropriately important role in its development. To attain such a mission, the following strategic directions are identified to enable the economy to scale new heights:

- To consolidate and enhance the position of Hong Kong as an international financial centre. Specifically, the listing rules will be amended to enable well-established foreign enterprises to list in Hong Kong; the Government is fully prepared to launch new renminbi business in Hong Kong; and the Government will study the development of commodity futures market and seek to attract some of the offshore securities investment business of Mainland insurance agencies.
- To further the development of trade and logistics. The Government will enter into more economic and trade arrangements with trading partners to gain more favourable access for Hong Kong goods and services. Measures will also be taken to facilitate river trade, to expand air services network as well as the airport's air cargo and passenger capacity, and to work with the Mainland authorities to enhance cross-boundary cargo flows.
- To promote innovation and information technology. Specific measures include promoting e-Government, introducing legislation in 2006-07 to establish a new Communications Authority, consulting public on radio spectrum management to ensure better utilisation, and earmarking \$100 million over five years for Hong Kong Design Centre to help trades and industries to improve designs and to build brand names.
- To develop cultural and creative industries. The Government will better co-ordinate the support for the film industry, establish a Hong Kong Film Development Council and seriously consider the proposals put forward by the Film Development Committee. Other specific measures will also be introduced to promote arts and culture.
- To protect labour rights and to attract talent. The Government will ensure all strata of the community be benefited from economic growth, by launching a Wage Protection Movement for employees in the cleansing and guarding services sectors and promoting the use of written employment contracts. To sustain economic development, the Government will

continue to attract talent from around the world, by adopting a more open-minded and proactive policy approach to expand the pool of human capital.

1.9 The Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" was held on 11 September. Representatives from the industrial and business, professional, labour and academic sectors attended the Economic Summit to discuss how Hong Kong should respond to the challenges and opportunities arising from the 11th Five-Year Plan, with a view to coming up with a pragmatic and feasible "action agenda" for the Government, academics, the business sector and the public around the end of the year. Several broad strategic directions were identified for further discussions at the next stage. First, the flow of people, freight, capital and information between Hong Kong and Guangdong and the Mainland should be enhanced. Second, the communication with the Central Authorities should be further stepped up. Third, Hong Kong should continue to work harder in the nurturing of talent as well as attracting talent from overseas and the Mainland to come to work here. Fourth, Hong Kong should build on the "Brand Hong Kong" and give full play to it in the 11th Five-Year Plan. Also, strategic directions were identified to further strengthen the position of Hong Kong as an international financial centre.

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 resumed faster growth in the third quarter of 2006 after some moderation in the second quarter. The Mainland's continued vibrant trade flows, the generally active intra-regional trade, as well as the renewed weakening of the US dollar in recent quarters were the major contributing factors.*
- *The pick-up in exports was mainly seen in the Asian markets, with China again as the bright spot and with exports to quite a number of Asian economies also resuming double-digit growth along with the resurgence in intra-regional trade. Exports to the European Union showed only modest increase, while exports to the US remained weak.*
- *Exports of services continued to grow briskly in the third quarter of 2006. Exports of trade-related services were bolstered by buoyant trade flows of the Mainland, while exports of transportation services picked up in tandem with the faster trade growth. Exports of financial and insurance services also attained double-digit growth amidst the more active financial market activities. Yet the momentum in exports of travel services slowed upon a more moderate growth in incoming visitors.*
- *The Chief Executive's 2006-07 Policy Address put forth various policy initiatives to sharpen the competitiveness of the trading and logistics sector. The Policy Address also committed to work closely with the Mainland authorities to ensure the smooth and effective implementation of CEPA. Meanwhile, following the Economic Summit held in early September, action agenda on a number of strategic issues on the trade front would be worked out by the end of this year.*

Visible trade

Total exports of goods

2.1 Merchandise exports resumed faster growth in the third quarter of 2006, after expanding less vigorously in the second quarter. *Total exports of goods* (comprising re-exports and domestic exports) picked up to an 8.9% growth in real terms⁽¹⁾ in the third quarter of 2006 over a year earlier, after a moderated 6.3% growth in the second quarter. The improved performance in the third quarter occurred even in the midst of a more moderate US economic growth, being underpinned by the Mainland's continued vibrant trade flows, the resurgence of intra-regional trade, and the renewed weakening of the US dollar in recent quarters.

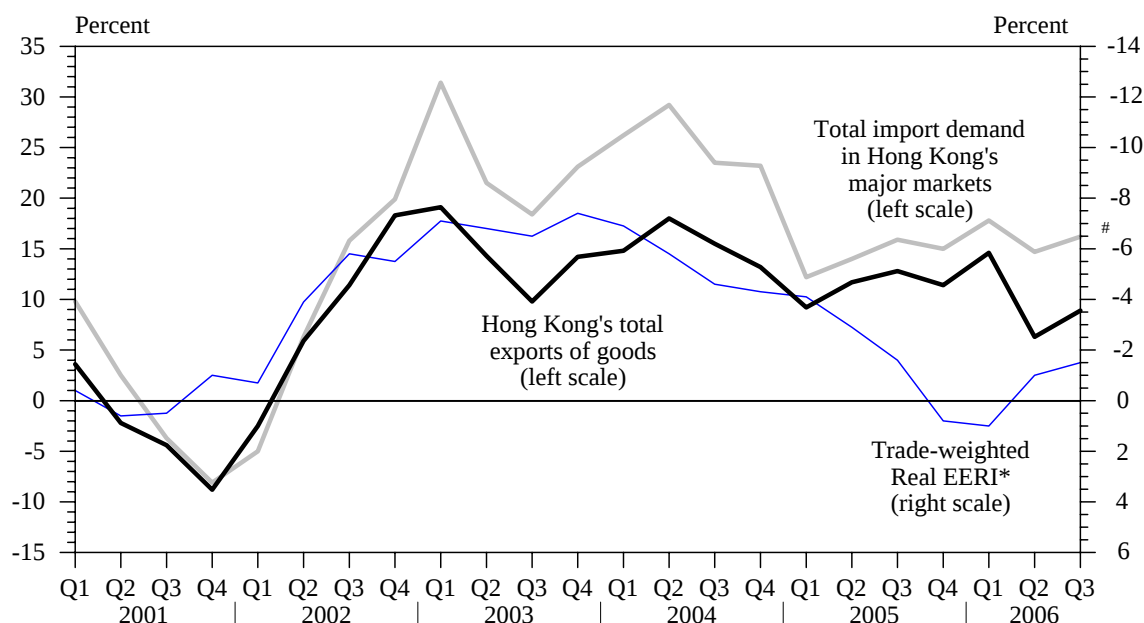
2.2 Within total exports, *re-exports*⁽²⁾ re-accelerated to a 9.8% growth in real terms in the third quarter of 2006, distinctly up from that of 5.3% in the second quarter. Re-exports to almost all major markets showed improvement in the third quarter, underscoring the resilience and competitiveness of our trading sector.

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

	<u>Total exports of goods</u>				<u>Re-exports</u>			<u>Domestic exports</u>				
	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices	In value terms	In real terms	Change in prices
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			
Q3	8.4	8.9 (6.4)	1.4	9.4	9.8 (7.4)	1.5	-6.1	-4.2 (-8.9)	-1.3			

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

**Diagram 2.1 : Merchandise exports regained vigor in the third quarter
(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.

(#) Figure for Jul-Aug only.

2.3 But *domestic exports* reverted to a decline of 4.2% in real terms in the third quarter of 2006, having surged continuously for four consecutive quarters thereby resulting in a distinctly high base of comparison for the current quarter. Domestic exports of textile and clothing items fell back in the third quarter, as the base effect from the enlargement of local clothing production following the imposition of anti-surge safeguards by the US and the EU last year on their textile and clothing imports from the Mainland set in. This more than offset the increase in domestic exports of non-clothing products.

**Diagram 2.2 : Re-exports picked up distinctly,
while domestic exports reverted to decline**

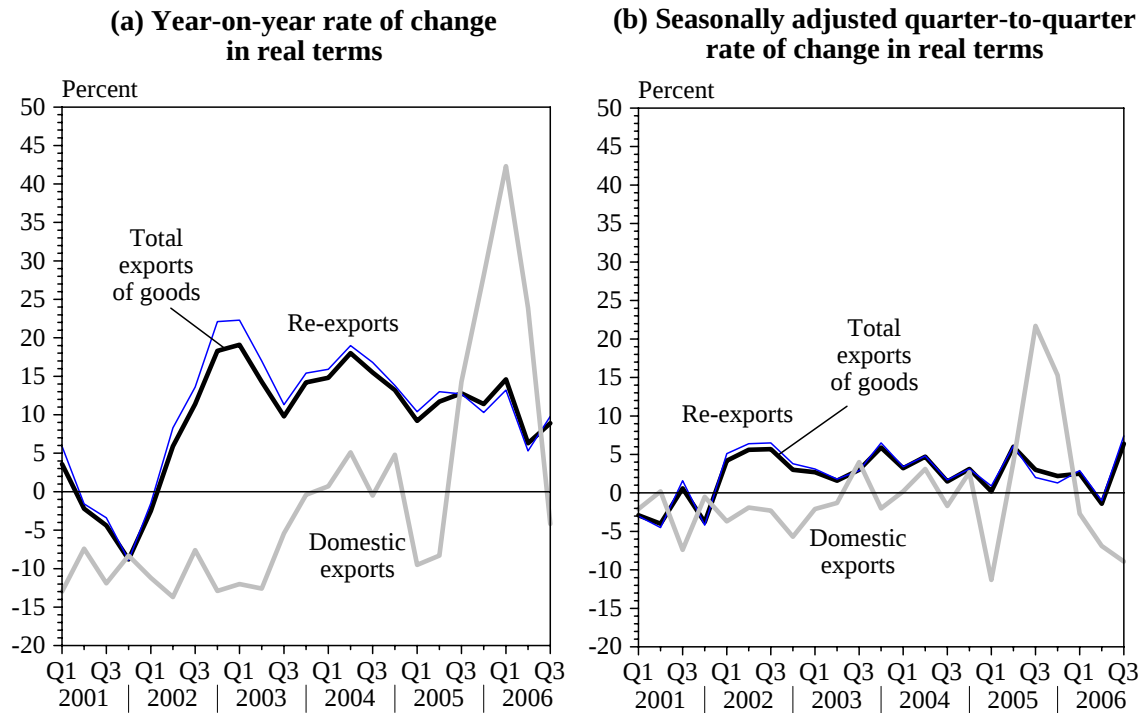
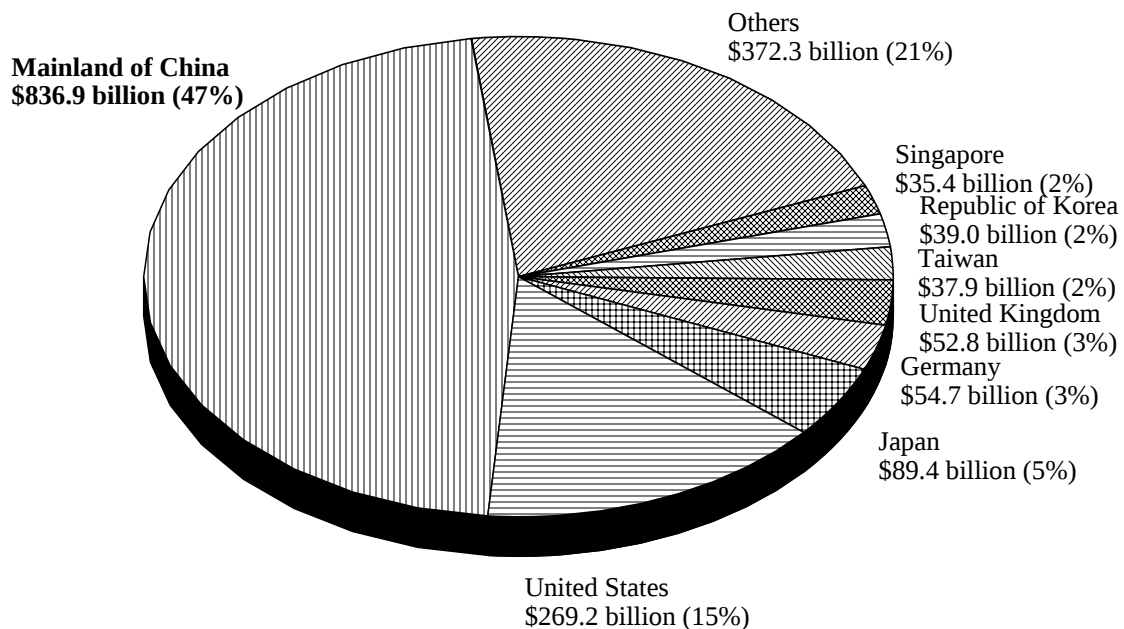


Diagram 2.3 : The Mainland featured prominently in Hong Kong's exports



Total exports of goods in the first three quarters of 2006 : \$1,787.5 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
	Q3	15.8	-1.1	1.9	0.6	10.7	8.3	12.8

2.4 The export performance varied quite substantially across different regions. Total exports to Asia picked up quite visibly in the third quarter, marked by a further acceleration in exports to the Mainland, thanks to the Mainland's vibrant trade flows. Exports to many other Asian economies such as Taiwan and Singapore showed a notable rebound, underpinned by their fairly strong import demand amidst sustained economic growth. Meanwhile, exports to Korea attained another quarter of double-digit growth, thanks to its persistently strong import demand and a strong won. On the other hand, exports to Japan slowed down further, being curbed by the weakness of the yen and also the moderating import demand there.

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

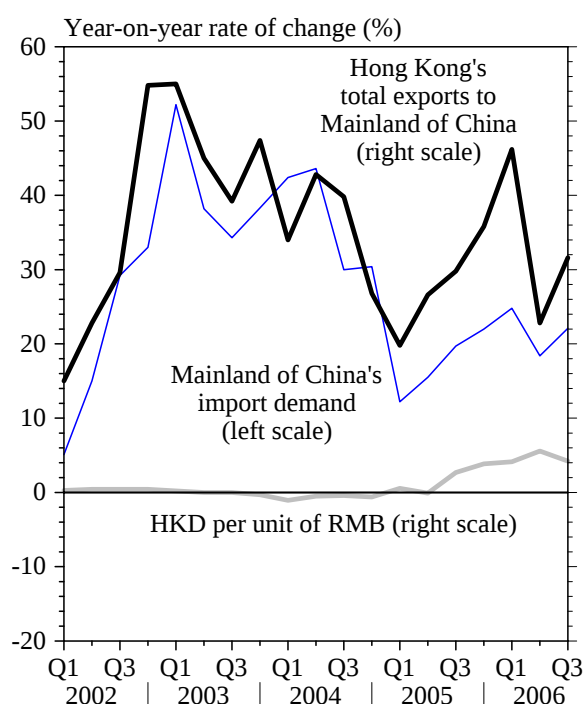


Diagram 2.5 : Hong Kong's total exports of goods to Singapore

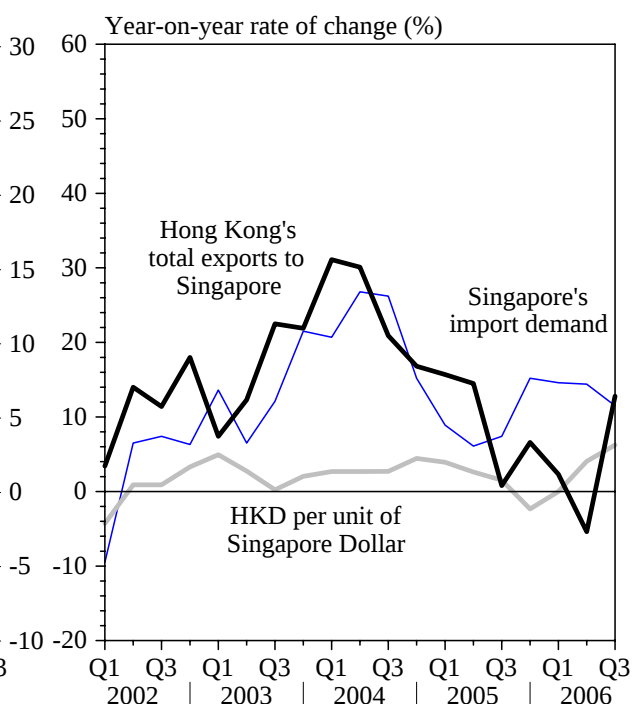


Diagram 2.6 : Hong Kong's total exports of goods to Republic of Korea

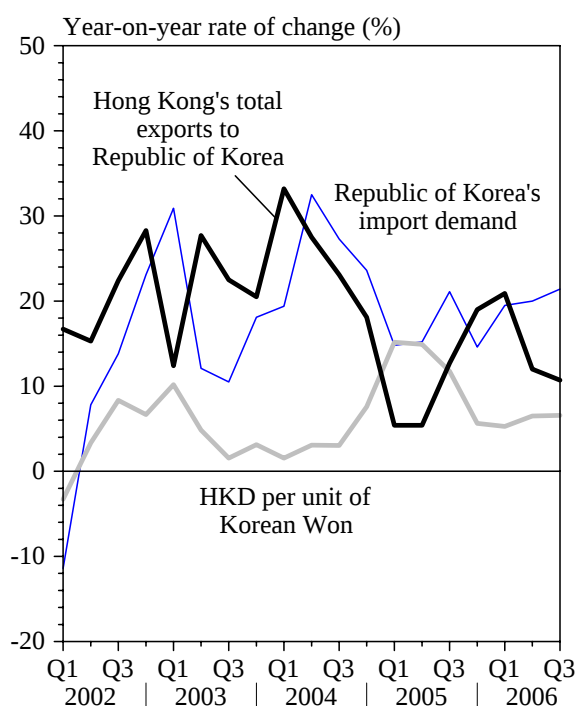
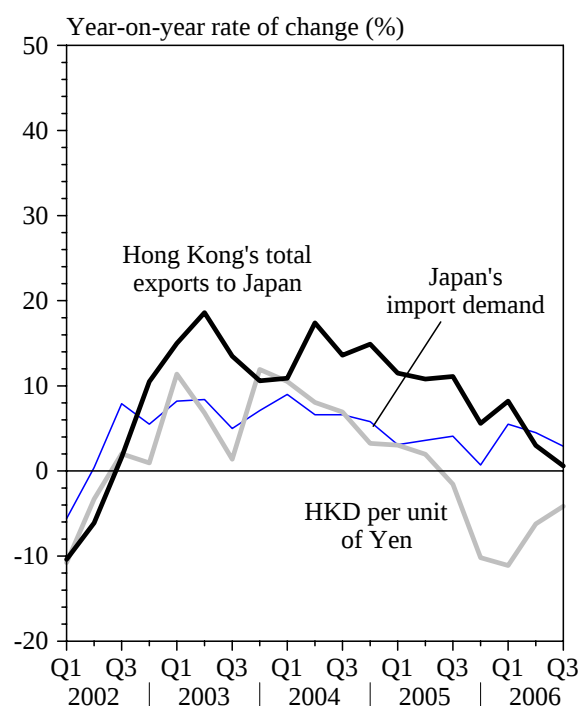
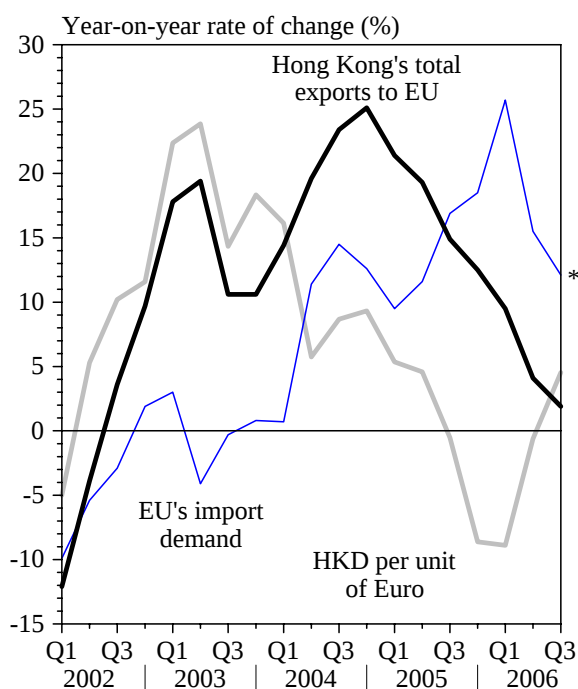


Diagram 2.7 : Hong Kong's total exports of goods to Japan



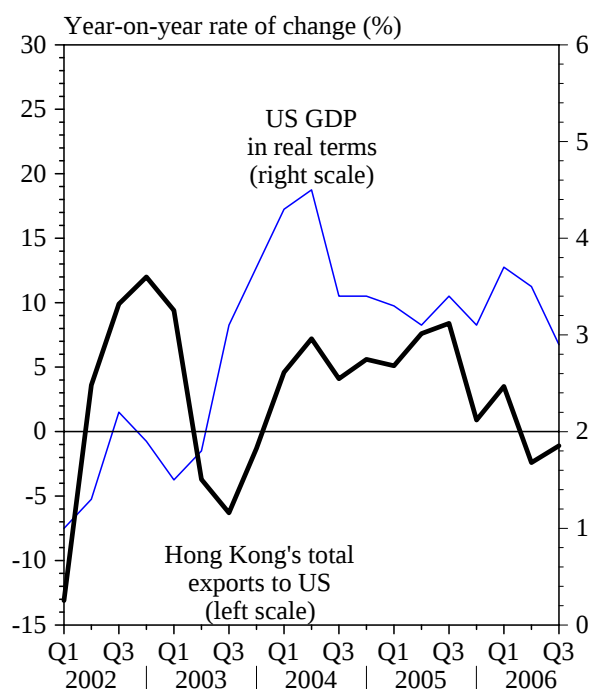
2.5 Export performance to markets outside Asia was less impressive. Along with the tapering in the growth of EU's import demand, exports to the EU showed only modest increase. The weakening of the euro in late 2005 and early 2006 might also still have some lagged dampening impact. Moreover, the high base effect resulting from the surge in T&C exports to these markets last year had yet to fully dissipate. Exports to the US market remained weak, partly reflecting the slowing US economy upon higher interest rates and a slowing housing market, and partly also because of the on-going structural shift to offshore trade.

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



Note : (*) Figure for Jul-Aug only.

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



Imports of goods

2.6 *Imports of goods* picked up to an 8.7% growth in real terms in the third quarter of 2006, after a 6.7% growth in the second quarter. Import intake for subsequent re-exporting re-accelerated in tandem with the faster re-export growth. Underpinned by the robust domestic demand, *retained imports* continued to grow solidly, by 5.4% in real terms in the third quarter of 2006, albeit moderated from the 10.5% growth in the second quarter. Retained imports of capital goods continued to surge, alongside the sustained expansion of commercial activities and upbeat business sentiment. Retained imports of consumer goods also posted a notable increase in tandem with the vibrant local retail business, though not as rapid as in the first two quarters. But retained imports of raw materials and semi-manufactures continued on a downslide.

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

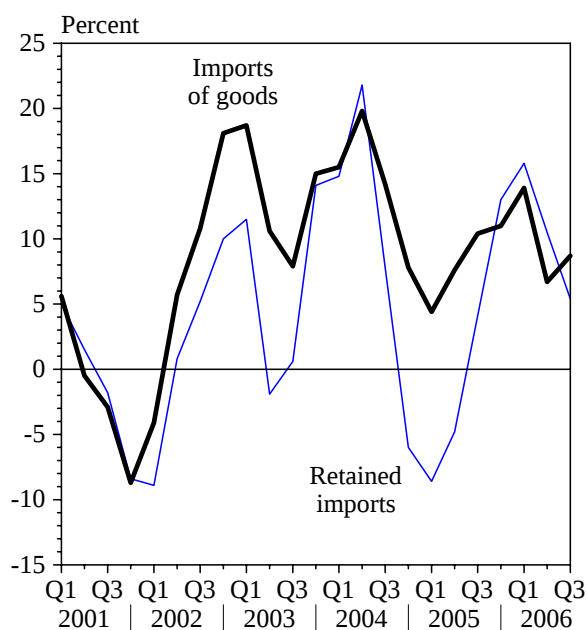
		<u>Imports of goods</u>				<u>Retained imports</u> ^(a)			
		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>		<u>In value terms</u>	<u>In real terms</u>	<u>Change in prices</u>	
2005	Annual	10.3	8.5	2.7		7.3	0.8		8.4
	Q1	8.1	4.4	(1.6)	4.0	-0.7	-8.6	(3.4)	11.1
	Q2	10.1	7.6	(5.2)	3.3	1.1	-4.8	(2.6)	9.6
	Q3	11.5	10.4	(1.6)	2.3	9.6	4.1	(0.6)	7.2
	Q4	11.3	11.0	(2.6)	1.6	19.5	13.0	(6.4)	5.3
2006	Q1	13.8	13.9	(3.8)	1.0	22.7	15.8	(6.3)	4.4
	Q2	8.1	6.7	(-1.5)	1.9	18.5	10.5	(-2.8)	4.7
	Q3	10.7	8.7	(4.3)	2.7	14.8	5.4	(-3.9)	5.8

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

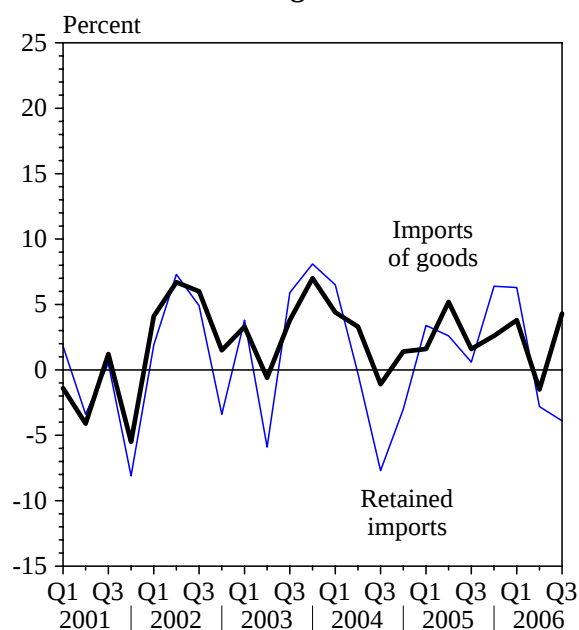
- (a) Based on the results of the Annual Survey of Re-export Trade conducted by the Census and Statistics Department, re-export margins by individual end-use category are estimated and adopted for deriving the value of imports retained for use in Hong Kong.

**Diagram 2.10 : Total imports picked up in the third quarter,
as import intake for re-exporting re-accelerated
and intake for local use showed further growth**

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



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



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

		<u>Consumer goods</u>	<u>Foodstuffs</u>	<u>Capital goods</u>	<u>Raw materials and semi-manufactures</u>	<u>Fuels</u>
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
	Q3	7.8	2.3	32.5	-27.5	3.5

Invisible trade

Exports of services

2.7 *Exports of services* maintained strong growth momentum, rising by 8.6% in real terms in the third quarter of 2006, after growth of 9.0% in the second quarter. Exports of trade-related services continued to surge under the support of thriving trade flows of the Mainland and the on-going shift from re-exports to offshore trade. Exports of transportation services were strong, as merchandise trade flows re-accelerated while transshipment maintained solid growth. Concurrently, exports of finance, business and other services attained double-digit growth, partly contributed by surging IPO and other fund raising activities in the financial markets during the quarter. Yet exports of travel services slowed upon a more moderate growth in incoming visitors.

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

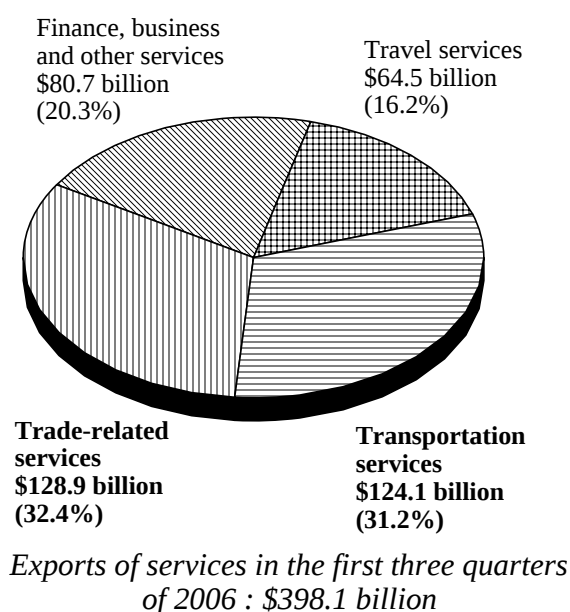


Diagram 2.12 : Exports of services continued to grow briskly, along with the pick-up in re-exports and continued robust offshore trade

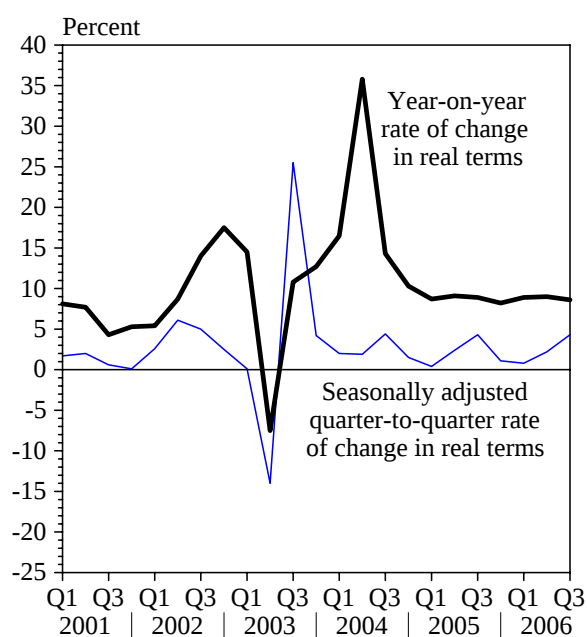


Table 2.5 : Exports of services by major service group (year-on-year rate of change in real terms (%))

Of which :

		Exports of services	Trade-related services ^(a)	Transportation services	Travel services ^(b)	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	9.0 (2.2)	10.8	7.1	5.4	11.3
	Q3	8.6 (4.3)	11.3	7.0	0.7	11.0

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.

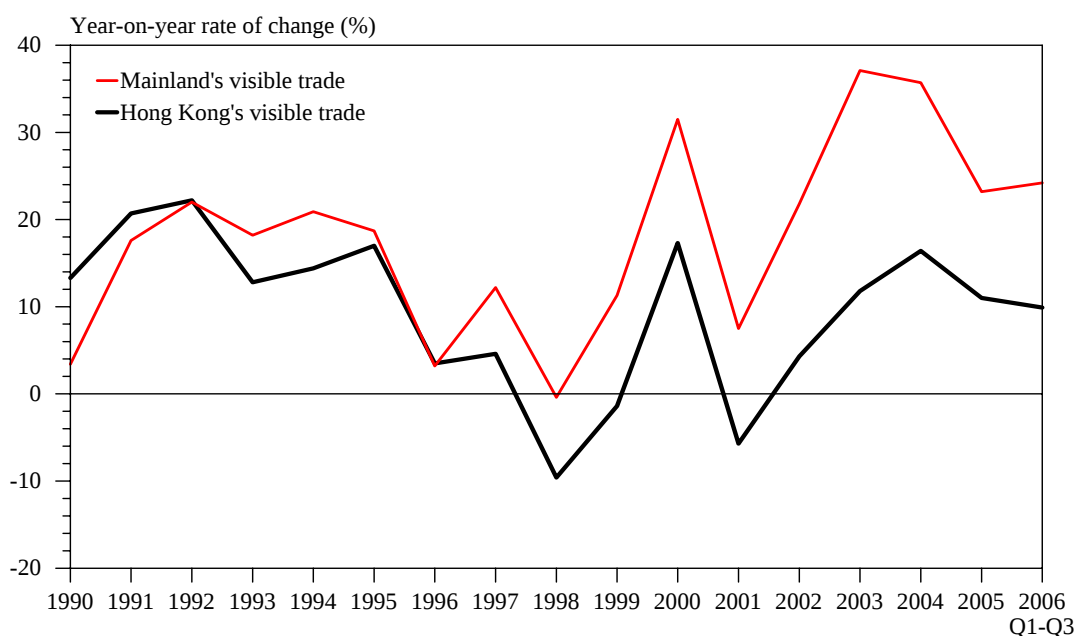
Box 2.1

Offshore trade and the Mainland's external trade

Over the past decades, the middleman role of Hong Kong as a conduit of trade between the Mainland and the rest of the world has been evolving, from a simple entrepôt to a sophisticated trading and logistics hub, supporting direct trade, re-exports, as well as the increasingly important transshipment and offshore trade activities. Notwithstanding the structural shift to different modes of operation, Hong Kong's external sector performance continues to hinge significantly on the Mainland's external trade flows. This could be seen from the high correlation between Hong Kong's visible trade and exports of trade-related services on the one hand and the Mainland's total trade on the other.

Although the movement of external trade in Hong Kong and the Mainland are highly synchronised, the growth momentum of Hong Kong's visible trade was not as strong as the Mainland's in recent years. During 1991-95, the Mainland's and Hong Kong's visible trade grew at broadly comparable average annual rates, at 19.5% and 17.4% respectively in US dollar terms. Visible trade growth in Hong Kong however set back to a modest 2.5% annual growth during 1996-2000 mainly due to reduced demand in the aftermath of the Asian financial turmoil, yet the Mainland's visible trade still maintained an average 11.0% growth per annum. The Mainland's accession to the WTO coupling with continued trade liberalisation measures saw a strong pick-up in its visible trade, by 24.6% per annum during 2001-05. By comparison, visible trade growth in Hong Kong averaged at only 7.3% per annum during the same period.

Growth in Hong Kong's visible trade was not as strong as that of Mainland's visible trade in recent years



Box 2.1 (cont'd)

Yet the slower growth in Hong Kong's visible trade than the Mainland's over the recent decade has to be viewed against the stronger performance of Hong Kong's sustained robust growth in offshore trade, underscoring the shift of Hong Kong towards a more sophisticated trading and logistics centre. These offshore trade activities in the form of merchanting or merchandising have become an increasingly important growth driver for the Hong Kong economy^(#).

**Average annual growth in Hong Kong's :
(% per annum in real terms)**

	<u>Visible trade</u>	<u>Gross margin from offshore trade</u>
1991 – 1995	15.5	5.3
1996 – 2000	4.7	15.8
2001 – 2005	8.5	14.2

Since early 1990s, exports of merchanting and trade-related services (in which offshore trade constituted the bulk of 90% in 2004) have maintained notable double-digit growth, except in 1998 and 1999 in the aftermath of the Asian financial turmoil and amidst the fall back in global demand in 2001 and 2002. During the 10-year period from 1996 to 2005, the gross margin from offshore trade grew markedly by 12.8% per annum in value terms or 15.0% per annum in real terms. In recent years, the value of goods involved in offshore trade has reached a level comparable to or even larger than the value of re-exports.

**Value of goods involved in
re-export trade and offshore trade**

	<u>Re-export of goods (HK\$Bn)</u>	<u>Offshore trade (HK\$Bn)</u>
2002	1,430	1,458
2003	1,621	1,667
2004	1,893	1,836

Further analysis indicates that merchanting activity takes up a dominant share (86%) of the total gross margin and commission earned from offshore trade. Around 60% of merchanting activity are sourced from the Mainland. A considerable and also rising proportion of these merchanting activities are conceivably related to export processing undertaken in South China, but they no longer need to route through Hong Kong as re-exports, now that China's port infrastructure has substantially improved. Specifically, in 2004, around 65% of the goods sourced from the Mainland were sold under merchanting either involving manufacturing through sub-contract processing arrangement or sourcing from affiliated companies in the Mainland, up from 55% in 2000.

(#): Merchanting refers to services associated with the trading of goods which are purchased from and then sold to parties outside Hong Kong, without the goods ever entering and leaving Hong Kong. Merchandising for offshore transactions refers to services of arranging on behalf of buyers/sellers outside Hong Kong the purchases/sales of goods according to their specifications (including for example marketing, contract and price negotiation, shipment, etc). Also see Box 2.1 in 2005 Half-yearly Economic Report.

Box 2.1 (cont'd)

In fact, Hong Kong companies reaped higher profit margin in offshore trade for goods sourced from the Mainland, another manifestation of the significance of the Mainland as Hong Kong's production hinterland. In 2004, the trade margin of merchanting for goods sourced from the Mainland stood at 10.8%, more than doubled that of 4.9% for goods sourced from other places.

When analysed by destination, sales of goods involved in merchanting to long-haul destinations such as the US and the UK generally have higher trade margins than to Asia.

Trade margin of merchanting (%)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Origin of goods :				
- from the Mainland	11.4	10.8	11.0	10.8
- from other places	5.6	5.3	5.9	4.9
Destination to :				
- The US	11.4	10.6	11.6	10.8
- The UK	9.2	10.4	10.7	8.7
- The Mainland	8.4	8.3	7.6	8.0
- Japan	9.3	8.0	7.6	5.1
- Taiwan	8.3	6.7	6.5	7.4

While the overall trade margin of merchanting, at 8.6% in 2004, was smaller than the 17.3% margin for re-exports, offshore trade should have a greater potential for further rapid expansion. Indeed, growing prosperity of the PRD and eventually the whole Pan-PRD is generating substantial demand for services in Hong Kong, enhancing our position as a regional business and trading hub and prompting Hong Kong's economic restructuring towards high value-added activities. As the trading and logistics sector moved up the value chain, and with increasing use of supply-chain management, the share of trading and logistics in Hong Kong's GDP has actually been on the rise in recent years, from 23.8% in 2000 to 27.6% in 2004.

Imports of services

2.8 *Imports of services* maintained steady momentum, up by 5.5% in real terms in the third quarter of 2006, after an 8.3% growth in the second quarter. Imports of financial and insurance services, as well as transportation services continued to register strong growth. Imports of trade-related services maintained rather steady growth, while imports of travel services rose modestly.

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

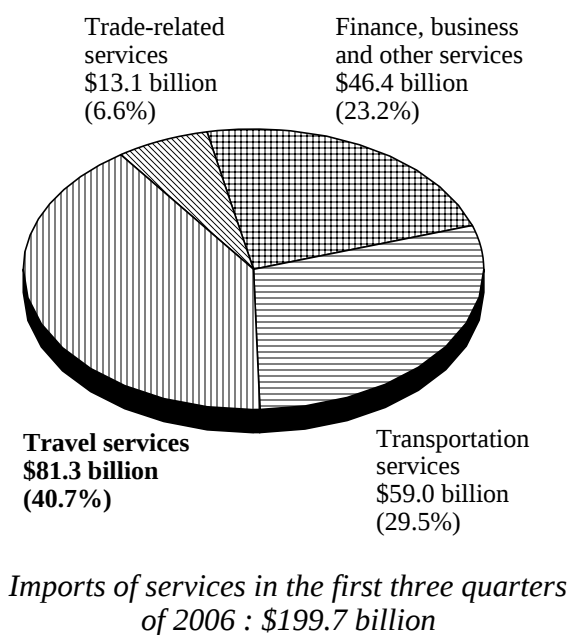


Diagram 2.14 : Imports of services maintained steady growth

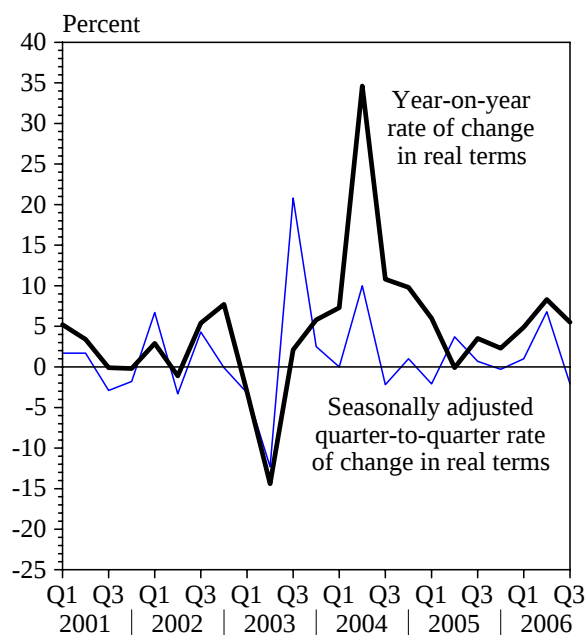


Table 2.6 : Imports of services by major service group (year-on-year rate of change in real terms (%))

		Of which :				
		Imports of services	Travel services ⁽⁺⁾	Transportation services	Trade-related services	Finance, business and other services
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	8.3 (6.8)	6.8	8.9	1.5	12.4
	Q3	5.5 (-2.1)	1.4	6.1	2.0	13.8

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

(+) Comprising mainly outbound travel spending.

Visible and invisible trade balance

2.9 The combined visible and invisible trade balance stood at \$55.5 billion in the third quarter of 2006, equivalent to 7.3% of the total value of imports of goods and services. The value was larger than the corresponding figure of \$53.7 billion (7.8%) in the same period in 2005. The sizeable surplus in the visible and invisible trade account combined was a reflection of 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	64.4	-35.4	61.8	26.4
	Q3	667.2	146.8	685.8	72.8	-18.6	74.1	55.5

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

Trade policy and other developments

2.10 In the era of globalisation and amidst the increasing integration with the Mainland, there is continuous need for Hong Kong to beef up its external competitiveness. In his 2006-07 Policy Address announced on 11 October 2006, the Chief Executive put forth various policy initiatives to sharpen competitiveness of the trading and logistics sector. For instance, at the micro front, administrative measures will be streamlined to improve operating efficiency of the river trade, while efforts will be made to expand the air cargo handling capacity. At the macro front, Hong Kong would seek to enter into more economic and trade arrangements with its trading partners to foster more favourable market conditions for our exports of goods and services.

2.11 The Policy Address also committed to work closely with the Mainland authorities at the central, provincial and municipal levels to ensure the smooth and effective implementation of CEPA⁽³⁾. As at end-September 2006, the Trade and Industry Department (TID) and five Government Approved Certificate

Organisations issued 16 821 certificates of Hong Kong origin (CEPA) to goods produced in Hong Kong, involving a total of \$5.77 billion worth of goods. TID also approved 995 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.

2.12 The Economic Summit on “China's 11th Five-Year Plan and Development of Hong Kong” held on 11 September also identified a number of strategic issues on trade in goods and services for further study. They include deepening and optimising CEPA and helping Hong Kong companies to tap the Mainland market. Besides, policy directions on areas such as cross-boundary infrastructure development, cross-boundary truck transport efficiency, upgrading of airport facilities, and enhancing competitiveness of port and shipping industry were also discussed. It is expected that a pragmatic and feasible action agenda would be worked out by the end of this year.

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.
- (3) 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.

CHAPTER 3 : DEVELOPMENTS IN SELECTED SECTORS

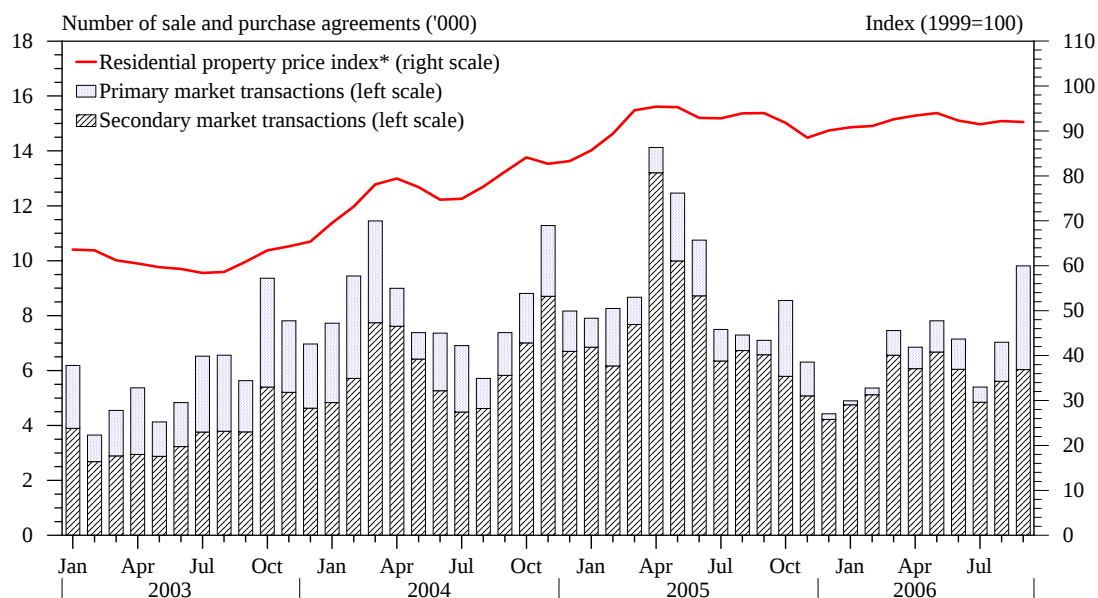
Summary

- *The residential property market continued to develop healthily in the third quarter of 2006. Flat prices stabilised after a few months of mild decline, as sentiment improved upon the recent pause in US interest rate hikes. The non-residential segment largely fared well in tandem with continued business upturn.*
- *Inbound tourism maintained a decent performance in the third quarter, manifested by a broad-based rise in visitor arrivals from major markets.*
- *The recent decision by the Government to develop new cruise terminal facilities should enable Hong Kong to better capture the growth of the cruise industry worldwide and in the Asia Pacific Region. The tourism industry stands to benefit directly by the resultant increase in number and diversity of visitors.*
- *The logistics sector is moving ahead steadily with further expansion in both air and water freight. The robust Mainland economy being Hong Kong's primary cargo source continues to be the major growth driver.*
- *The Policy Address announced by the Chief Executive in early October re-affirms the commitment of the Government to foster the development of innovative and high value-added industries. The initiatives introduced in the Address would reinforce the tendency of the business community to engage in innovative activities.*

Property

3.1 The sales market for *residential property* continued to develop healthily in the third quarter of 2006. Sentiment improved upon the recent pause in US interest rate hikes and intensified mortgage competition amongst the banks. Trading rose back in recent months, led by a visible rebound in primary sales as developers stepped up launching new projects. Meanwhile, flat prices stabilised after a brief and mild decline in the earlier months. Flat prices in September 2006 were virtually unchanged from June, yet still giving a modest increase of 2.1% over end-2005. Compared with the trough in 2003, flat prices in September 2006 were 58% higher, but still 47% off the peak in 1997.

**Diagram 3.1 : Flat prices stabilised recently
as trading returned to a moderate level**



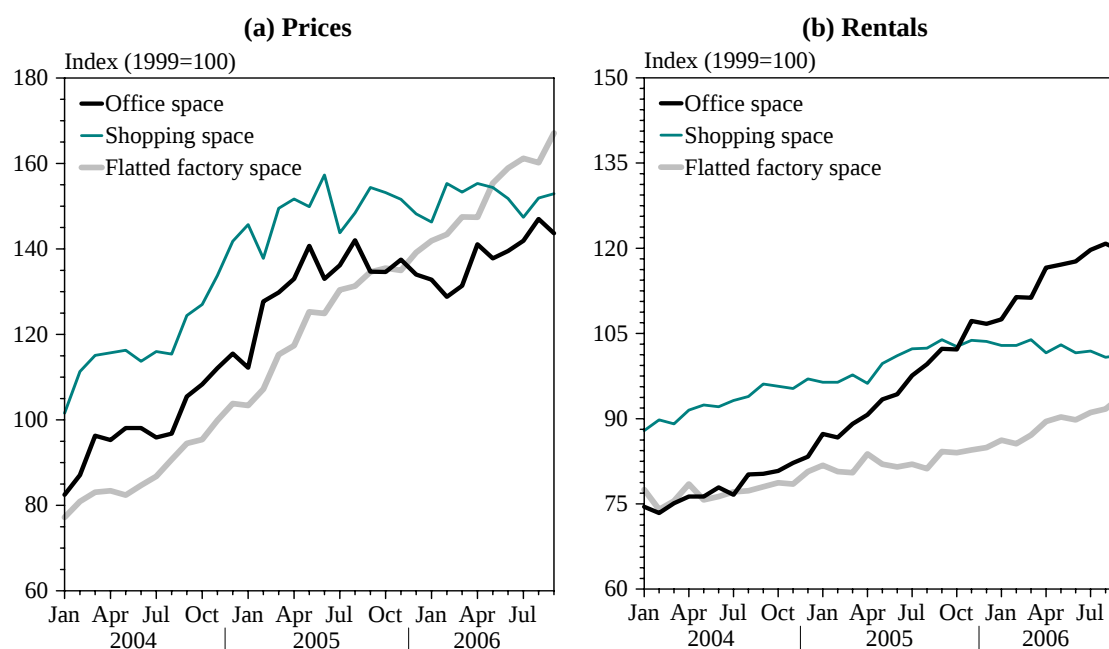
Note : (*) Residential property price index pertains to secondary market transactions only.

3.2 Leasing of residential flats continued to perform steadily. Flat rentals edged up further by 1.0% from June to September 2006, giving a cumulative increase of 2.1% during the first nine months of the year. User demand stayed solid, though activities appeared to shift somewhat to the sales front recently as acquisition interest improved.

3.3 The markets for *office and industrial spaces* kept faring well in recent months. Corporate expansion witnessed in many economic sectors bolstered leasing activities. This, coupled with abundant market liquidity seeking high capital yield, sustained acquisition interest. Prices and rentals moved up concurrently against this backdrop. During the third quarter of 2006, office prices and rentals rose further by 3.0% and 1.6% respectively, while the corresponding increases for flatted factory prices and rentals were 5.2% and 4.5%.

3.4 As regards *shopping space*, prices and rentals continued to move within a narrow band. Sentiment stayed cautious after the earlier market upsurge. During the third quarter of 2006, prices of shopping space edged up by 0.7%, while rentals held static. This notwithstanding, the recent fairly strong performance of the retail sales may provide some support for the market going forward.

Diagram 3.2 : The non-residential property markets largely fared well in tandem with continued business upturn



Land

3.5 Sentiment among property developers in land acquisition showed signs of improvement most recently. From early October to mid-November 2006, three prime residential sites on the *Application List* were successfully triggered for sale through auctions to be held in late November and mid-December. This followed 14 applications received from April to September, of which most pertained to more peripheral locations and only two were accepted and subsequently sold through auctions.

3.6 Sale of *new railway sites* kept drawing considerable market attention due to location advantages. In the third quarter of 2006, the tender of a KCR site in Tuen Mun was awarded after four tenders were received. Besides, expression of Interest for another KCR site in Tsuen Wan was invited and 13 submissions were received.

Box 3.1

Methodology of compiling property price and rental indices*

The official property price and rental indices are compiled by the Rating and Valuation Department (R&VD) and published on a monthly basis. The indices now cover 4 major types of property viz. residential property, office space, shopping space and flatted factory space. A brief introduction to the methodology underlying compilation of these indices is given below, with a view to facilitating the use of these indicators to analyse market changes.

Common mis-perceptions

There is a quite common approach to analyse property market performance by referring to the movements in average price/rental per measurement of floor area (referred hereafter as average price/rental for simplicity sake) for transacted properties. However, this approach is very broad-brush in nature and sometimes may produce misleading indications. The main reason is that properties transacted in different periods may differ substantially in qualities and characteristics, such as floor level, view, location and age. These differences can give rise to movements in average price/rental that hardly represent actual change in market condition.

In order to more accurately reflect market changes, comparison of property price/rental over time should be made with the effect due to the factors of quality and characteristics being discounted as far as possible. This can ideally be achieved by frequently updating the potential saleable/leasing value of properties. However, massive resources in conducting valuation would be involved, thereby imposing practical difficulties.

Rateable value approach to compile property price and rental indices

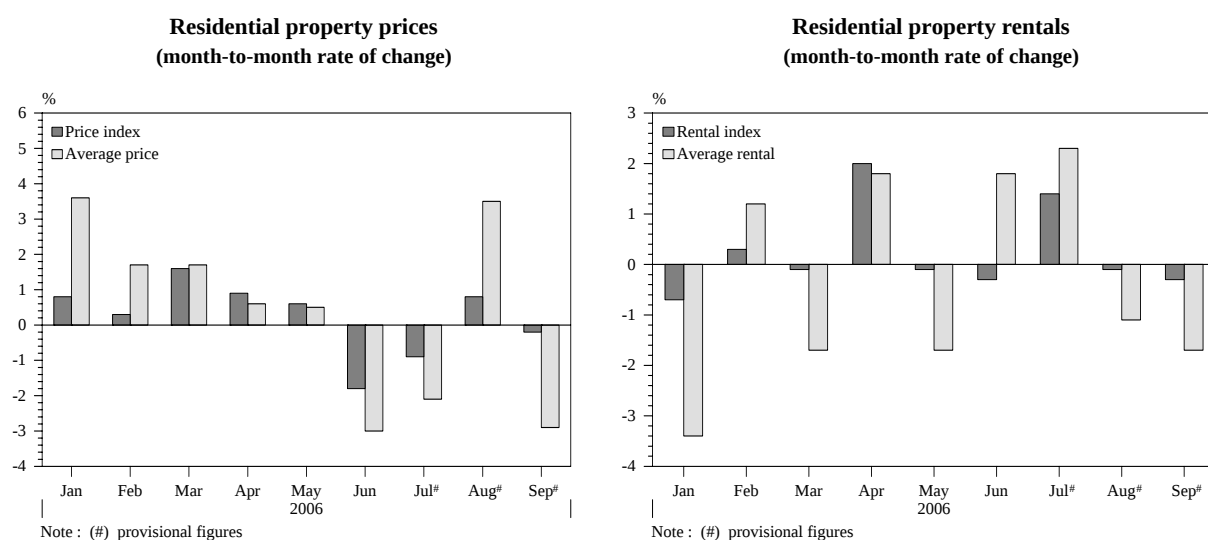
Nevertheless, the rateable value (RV) approach currently adopted by the R&VD provides a technically viable and economical solution. This approach relies primarily on the RV that is an estimate of annual open market rental value of a property assessed for rating purpose. It is reviewed on the same date annually for all completed properties, with due regard to the prevailing market condition generally and the quality and characteristics for different properties specifically. The RV approach comprises 3 major steps :

- (i) The price/rental of a transacted property in a given category (by sales/leasing and by major property type) is divided by its RV to calculate a “factor” in that category. As the market prices/rentals as well as the RVs of different properties have already reflected the vast differences in quality, the “factors” can enable a like-with-like comparison of different property transactions in the same category.
- (ii) The “factors” for all transacted properties in the same category and in a given period are pooled together and averaged in equal weighting to generate an average “factor” for the category in the period concerned.
- (iii) The average “factors” for a given category in different periods are then used to construct an index that reflects price/rental change over time.

For residential property and office space of which more than one sub-category is featured, step (ii) involves a weighting process in compiling the composite price or rental indices for the category. The weights are based on the number of transactions for different grades of residential property, and the floor area for different grades of office space, in the latest 12 months on a rolling basis to remove the seasonal effects.

Box 3.1 (cont'd)

For illustrative purpose, the following diagram compares the recent month-to-month changes of the property price/rental indices compiled by R&VD vis-à-vis the average price/rental levels. Generally, the price/rental indices exhibits a more stable movement that matches with the steady state of the private housing market so far in 2006. On the other hand, the average price/rental exhibits greater fluctuations that do not quite tally with the actual situation.



Sources of data

The data on property prices are obtained through the scrutiny of sales transactions by R&VD for stamp duty purposes, and from the Day Book of the Land Registry. The data on property rentals are mainly sourced from the returns on leasing information submitted to R&VD.

Other technical issues and caveats

The price indices do not cover primary market transactions for two major reasons. First, RV is not yet available for most of the properties traded in the primary market that are not completed. Second, there often exists a variety of concessions tied to different price levels set by the developers, in respect of payment terms, interest rate subsidy, cash rebate, etc, making like-with-like comparison of prices for different transacted properties very difficult.

In compiling the rental indices, the underlying rental data is analysed on a net basis, exclusive of rates, management fees and other charges. If the rental charged to tenants already covers such expenses, adjustment is made to enable like-with-like comparison of different transactions. By the same token, the effect of rent-free period granted to tenants is discounted if known. However, the effect of concessions not specified in the contracts cannot be adjusted in the absence of details.

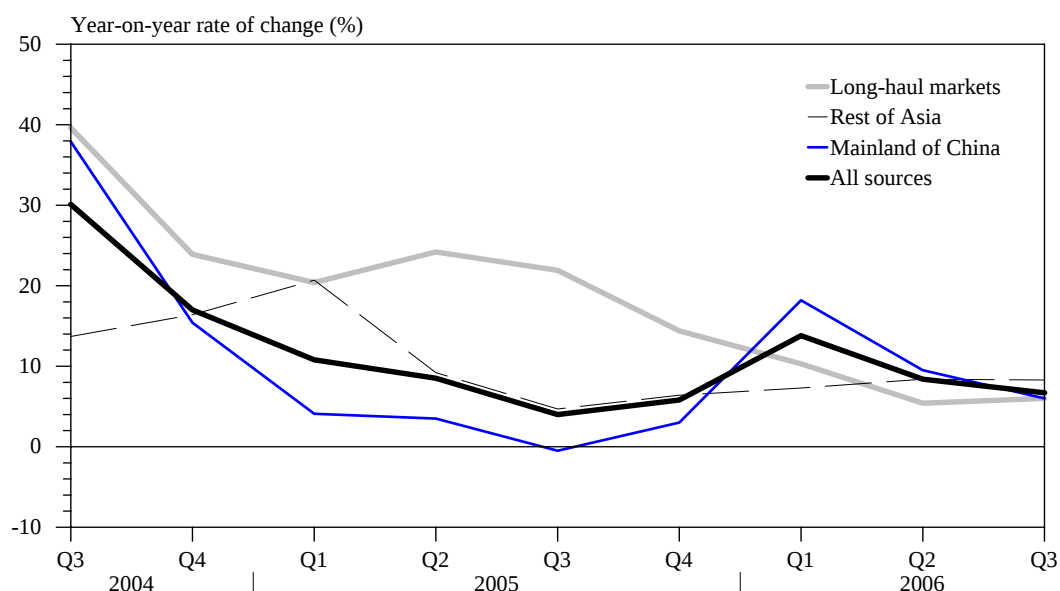
Both price and rental indices are statistical presentations to indicate a general market trend only. It is therefore not advisable to use the indices as a substitute for valuation of individual properties.

(*) This article is jointly prepared by the Rating and Valuation Department and the Economic Analysis Division.

Tourism

3.7 The total number of *incoming visitors* recorded a solid increase of 6.7% year-on-year in the third quarter of 2006, though this was moderated from the growth spurt earlier in the year. Moreover, the visitor growth continued to be broadly based across major source markets, with distinct rise in arrivals from Europe, North Asia, and South and Southeast Asia. Concurrently, the growth in incoming Mainland visitors stayed solid. For the first three quarters of 2006 taken together, overall visitor growth stood at 9.5%, exceeding the full-year average of 7.1% in 2005. Also, this compared favourably with the corresponding increases in visitor arrivals at many other popular destinations in the region⁽¹⁾.

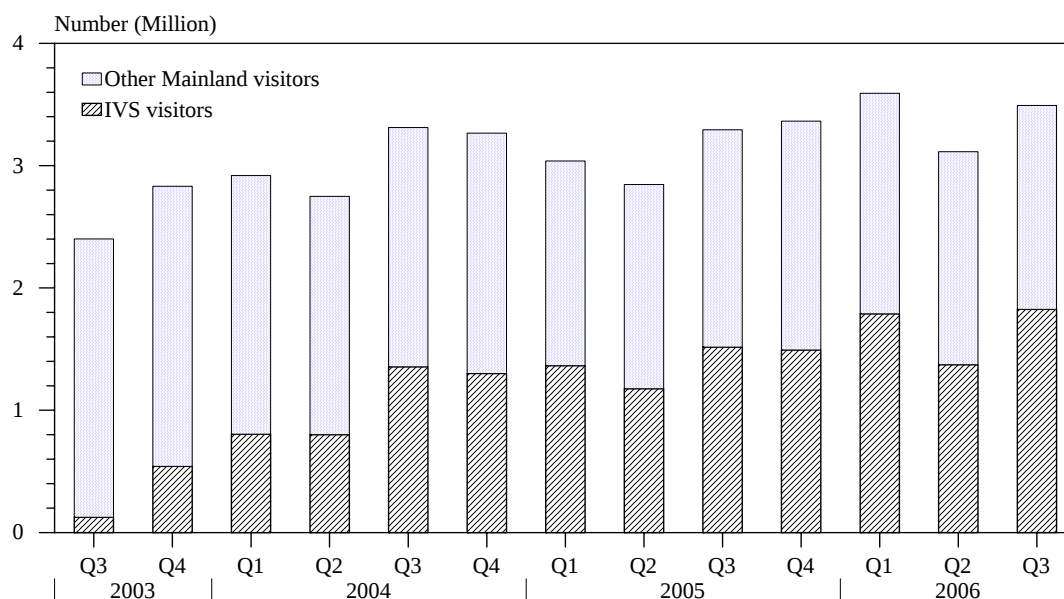
Diagram 3.3 : Inbound tourism maintained a broad-based increase across market so far this year



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.

3.8 Along with the progressive expansion of the Individual Visit Scheme (IVS), the number of Mainland visitors travelling under this scheme surged further by 22.9% year-on-year in the first nine months of 2006, with their share in total Mainland visitor arrivals rising to around 50%. Also, the increasing popularity of IVS as the mode of travel has reinforced the tendency of Mainland residents to spread out travel plans into different periods of a year. This tendency is conceivably a major factor underlying the relatively subdued performance of Mainland visitor arrivals during the recent Golden Weeks of Labour Day and National Day. As from January 2007, IVS will be further extended to cover five more cities in the Mainland, bringing the total to 49⁽²⁾.

Diagram 3.4 : Mainland visitor arrivals are now halved by trips under Individual Visit Scheme



3.9 In October 2006, the Government announced its decision to develop new cruise terminal facilities at the southern end of the former runway in Kai Tak⁽³⁾. The development primarily rests with the private sector, to which an open tender is planned to be invited in late 2007 and awarded by the second quarter of 2008. There will be two alongside berths which can meet the need of mega cruise vessels up to a displacement of 100 000 tonnes. The first berth is targeted for completion in 2012. The new facilities will help Hong Kong to leverage on the rapid growth of the cruise industry worldwide and in the Asia Pacific Region. In the first nine months of 2006, the non-local cruise passenger throughput of Hong Kong surged by 27.3% over a year earlier to 281 100. For 2006 as a whole, 41 international ship calls have been made or confirmed, up markedly from the corresponding figure of 30 in 2005.

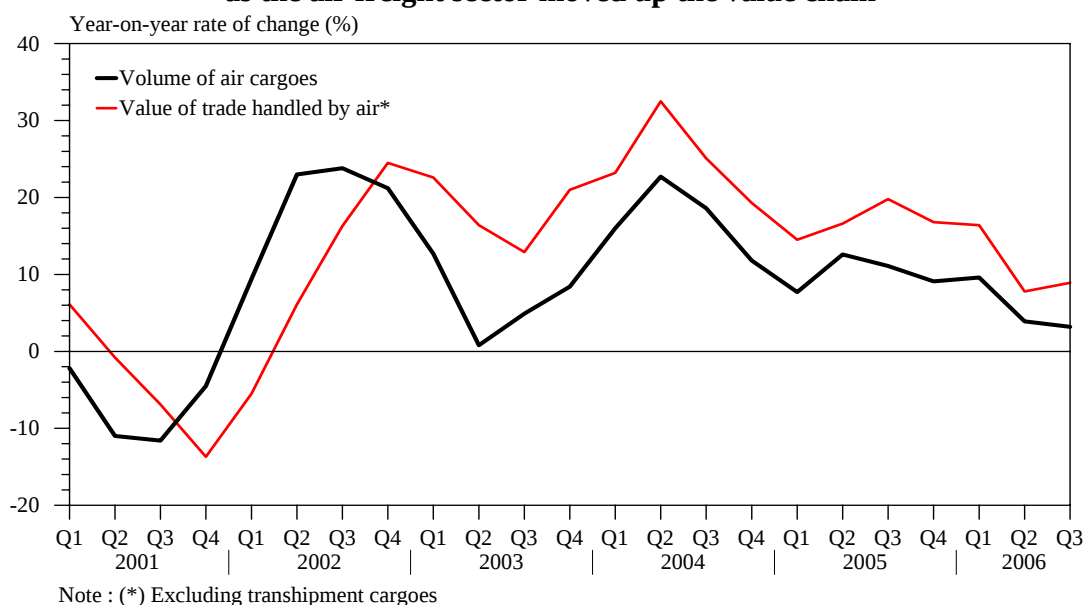
3.10 As regards Hong Kong's *outbound tourism*, resident departures rose steadily further by 3.7% year-on-year in the third quarter, giving an average growth of 4.4% for the first three quarters of 2006. Sustained pick-up in consumer spending and increased business connectivity with the Mainland were the major factors at work. It is estimated that in 2005, 87% of the outbound trips were destined for the Mainland, of which about two-thirds were personal travels. Latest indications showed that in 2004, outbound tourism accounted for 26% of the total direct value added generated by the tourism industry and 0.8% of GDP.

Logistics and maritime

3.11 The logistics sector continued to cruise ahead steadily. Sustained growth in external trade and transshipment activities, particularly in relation to the robust Mainland economy, largely contributed. On *air freight*, cargo throughput expanded further, albeit at a moderated pace of 3.2% in the third quarter of 2006. Yet the value of trade (excluding transshipment cargoes) handled by air actually picked up, to growth at 8.9% in the third quarter as against that of 7.8% in the second quarter. In recent years, these two indicators likewise progressed significantly. The increase was consistently more distinct for the latter, consequential to a rising share of high-value merchandise in air freight.

3.12 To sharpen Hong Kong's competitive edge in handling air freight, on-going efforts are devoted to expand air services network⁽⁴⁾ as well as cargo and passenger capacities of the Hong Kong International Airport (HKIA). For example, the Airport Authority is constructing 10 additional cargo parking stands for target completion by end-2007. Besides, two cargo terminal operators in HKIA are expanding their facilities that will come into operation by end-2006 and end-2007 respectively.

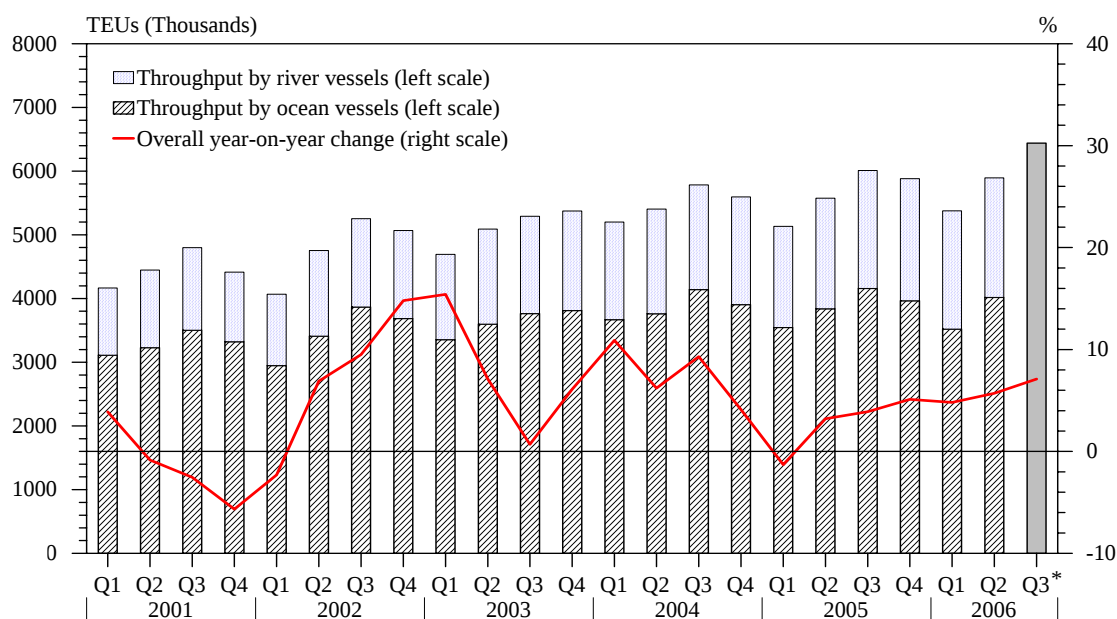
Diagram 3.5 : Despite moderated growth in air cargo volume, the value of trade handled by air actually fared well as the air freight sector moved up the value chain



3.13 On *port cargo* movement, overall container throughput handled by the Hong Kong port went up by an estimate of 4.6% in the third quarter of 2006 over a year earlier. This followed an increase of 5.2% in the first half, giving an estimated rise of 5.0% for the first nine months of 2006.

3.14 The container throughput carried by river trade vessels expanded further by 6.4% in July-August 2006 over a year earlier. This contributed to an increasing share of river trade vessels in handling cross-boundary container traffic that reached 50% in the first eight months of 2006. The growth of river trade is attributable to the extension of cargo catchment from the eastern to the western part of Pearl River Delta where manufacturing activities have been taking off in recent years.

Diagram 3.6 : Port container traffic showed further solid growth as river cargo movements kept booming



Note : (*) Preliminary estimate by Hong Kong Port Development Council. Breakdown in throughput by ocean and river vessels is not available yet.

3.15 To enhance efficiency of cross-boundary cargo flows, the Government has reached a consensus with Dongguan authorities that an express clearance system will be adopted at the new Liaobu inland control point when it comes into operation in late 2006. To attract more cargo businesses into Hong Kong, the Government introduced the relevant legislation to the Legislative Council in October 2006 for introducing multiple entry permits for river trade vessels, reducing permit fees, and streamlining application and entry procedures.

3.16 The competitiveness of the logistics sector reinforces Hong Kong's status as an international maritime centre. Currently, Hong Kong is the seventh largest maritime centre and the fifth largest shipping register in the world⁽⁵⁾. Our competitiveness mainly lies with effective rule of law and high quality of professional services. The rapid development of the shipbuilding industry in the Mainland is expected to provide vast business opportunities for Hong

Kong's maritime business. The Government has been putting on-going efforts to promote the quality maritime services available in Hong Kong. The Government will also continue to work for improving shipping register service and training up maritime professionals. In addition, the Government endeavours to continue to negotiate with major trading partners for agreements to relief double taxation on shipping and air transport incomes.

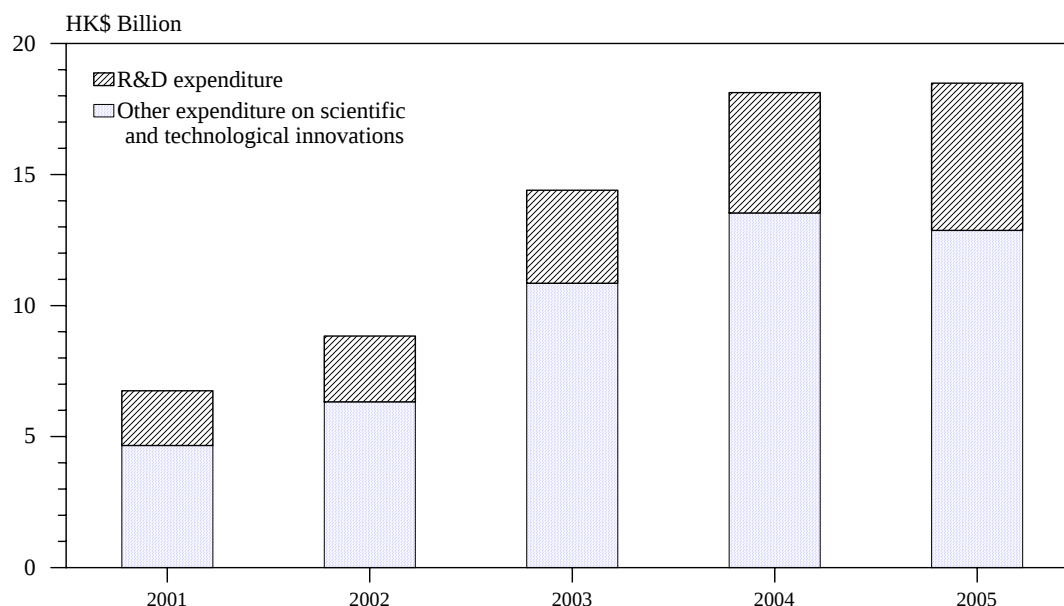
Creativity and innovation

3.17 In his Policy Address in early October, the Chief Executive highlighted the need to upgrade Hong Kong's local economic infrastructure gearing it to support innovative and high value-added industries. A number of new initiatives on promoting innovation and information technology, as well as cultural and creative industries, were announced. Examples include enhanced financial support for the Hong Kong Design Centre to encourage the use of design in value-added drive, public consultation on radio spectrum policy framework, and establishment of a Hong Kong Film Development Council.

3.18 The Digital 21 Strategy, which is the blueprint for development of information and communications technology (ICT) in Hong Kong, is under review and update⁽⁶⁾. A two-month public consultation on the new strategy proposed by the Government was kicked off in mid-October. The proposed strategy identifies five major action areas, with a view to achieving the vision of building on Hong Kong's position as a world digital city through advancing achievements and seizing new opportunities⁽⁷⁾. Apart from general applications, ICT often serves as an important element in the process of commercialising creative ideas and innovative activities.

3.19 In recent years, innovation activities proliferated in the increasingly knowledge-based Hong Kong economy. Latest indications revealed that business expenditure on in-house research and development activities rose markedly further by 22.5% to \$5.6 billion in 2005⁽⁸⁾. This brought the total business expenditure on scientific and technological innovations to a new high of \$18.5 billion. Besides, a large number of business firms were found to engage in innovations not directly related to science and technology, such as new aesthetic design of products and new business practices. The proportion of business firms engaging in one or more types of innovative activities rose distinctly to about 48.5% in 2005, from 42.8% in 2004.

Diagram 3.7 : Increase in R&D activities led the business expenditure on scientific and technological innovations to a new record high in 2005



Notes :

- (1) Based on the official statistics released by the respective regional host markets, the year-on-year growth rates for their visitor arrivals in the first nine months of 2006 stood at 15.4% for Macau, 9.2% for Singapore, 8.8% for the Philippines, 7.2% for Japan, 5.6% for Malaysia (up to July), 4.4% for Taiwan, 2.9% for the Mainland, and 2.5% for South Korea.
- (2) As from 1 January 2007, the Individual Visit Scheme will be further extended to Shijiazhuang in Hebei, Zhengzhou in Henan, Changchun in Jilin, Hefei in Anhui and Wuhan in Hubei. The Scheme will then cover 49 cities with a population exceeding 250 million.
- (3) The decision followed the Stage 3 Public Consultation on Kai Tak Planning Review that ended in August 2006, by which the public generally supported the development of a cruise terminal at the tip of the former runway in Kai Tak. As regards the Expression of Interest exercise conducted in late 2005 to gauge market feedback, the Government concluded that none of the suggestions received fully met its requirement.
- (4) In June 2006, the General Administration of Civil Aviation of China and the Economic Development and Labour Bureau concluded the annual review of the Mainland/HKSAR Air Services Arrangement, which would substantially liberalise the aviation market between the Mainland and Hong Kong.

- (5) The ranking in respect of maritime centre is compiled by the United Nations Conference on Trade and Development Secretariat according to deadweight tonnage of the world fleet. As of 1 January 2006, Hong Kong controlled about 44 million tonnes of vessels with at least 1 000 gross registered tonnes. The ranking in respect of shipping register is based on the gross tonnage of vessels in the register, according to the information kept by the Danish Shipowners' Association. As at September 2006, there were 1 128 vessels registered in Hong Kong with a total gross tonnage of 31.5 million tons.
- (6) The Digital 21 Strategy was first published in 1998 by the Government to set out the vision of developing Hong Kong into a leading digital city in a globally connected world. The strategy is aimed to outline how the Government, business, industry, academia and the public can work together to achieve this goal. To take account of advances in technology and changing needs of the community, the Strategy requires constant review. Previous updates were made in 2001 and 2004.
- (7) The five action areas identified by the proposed new Digital 21 Strategy includes (i) facilitating a digital economy; (ii) promoting advanced technology and innovation, (iii) developing Hong Kong as a hub for technological cooperation and trade, (iv) enabling the next generation of public services, and (v) building an inclusive, knowledge-based society.
- (8) For details, see the Report on "2005 Annual Survey of Innovation Activities in the Business Sector" published by Census and Statistics Department on 26 October 2006.

CHAPTER 4 : THE FINANCIAL SECTOR[#]

Summary

- *The financial sector was buoyant in the third quarter of 2006, benefiting much from the increasing financial integration with the Mainland. Market sentiment was well supported by Hong Kong's strong economic fundamentals and the leveling off of US interest rates.*
- *The monetary conditions remained accommodative, supporting the brisk expansion of the economy. The Hong Kong dollar weakened against most major currencies along with the US dollar during the third quarter.*
- *As liquidity in the banking sector was abundant, interbank interest rates edged lower. Money supply and bank loans both expanded further in the third quarter. Asset quality of the banking sector continued to improve, alongside the sustained economic upturn.*
- *The local stock market enjoyed a stellar performance in the third quarter following some consolidation in May and early June. The Hang Seng Index surged further in mid-November to reach a record high and market capitalisation broke the \$11 trillion mark. IPO activity regained vigor and attracted much interest from international investors.*
- *Hong Kong is striving to become a key asset management centre in the region. The fund management industry, including the hedge fund business, continues to flourish.*
- *In his policy address in October, the Chief Executive reiterated the importance of enhancing the role of Hong Kong as a world-class international financial centre, and announced a wide range of initiatives and measures to attain this goal.*

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

Overall situation

4.1 Amidst Hong Kong's strong economic upturn, financial sector activity was generally buoyant in the third quarter of 2006. While the Base Rate remained unchanged, interbank rates edged lower on the back of ample liquidity in the banking sector. The money markets showed a healthy development, with money supply and bank loans increasing further in the third quarter. The local stock market enjoyed a stellar performance in the third quarter, as the pause in US interest rate hikes, easing oil prices and strong economic fundamentals amidst increasing financial integration with the Mainland all provided support. Public responses to initial public offerings (IPO) of new stocks were also highly favourable, as investors displayed their confidence in Hong Kong's ability to raise capital for mainland enterprises. Funds raised in the debt market rose, but sales of mutual funds declined.

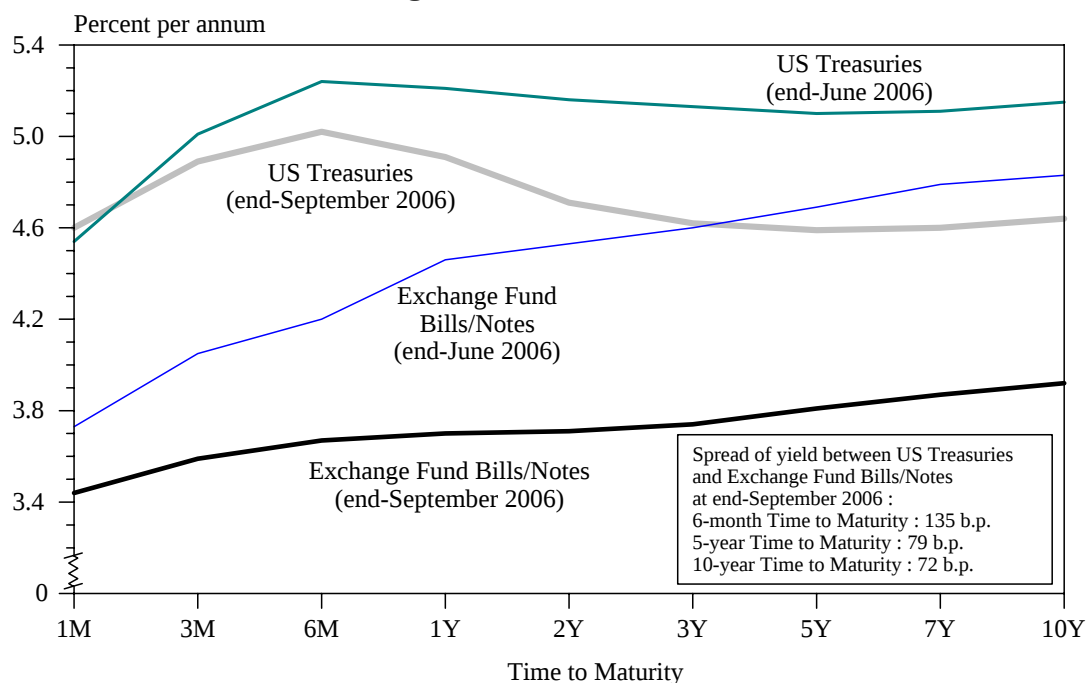
4.2 The Chief Executive's Policy Address in mid-October reiterated the need for Hong Kong to strengthen its position as Asia's premier international financial centre. A range of measures, including allowing well-established enterprises of diverse international origins to be listed in Hong Kong, the establishment of the Financial Reporting Council, and the hosting of the Asian Financial Forum, will serve to boost Hong Kong's international credentials. In addition, to deepen financial integration between Hong Kong and the Mainland, the Government is prepared to launch new Renminbi business in Hong Kong, including the settlement of accounts of direct Mainland imports in Renminbi and issuance of Renminbi bonds in Hong Kong. Finally, Hong Kong intends to develop a wide range of risk management instruments to cater to the needs of the Mainland market. The SAR will explore the potential of developing a commodity futures market, attracting more offshore securities investment businesses of Mainland insurance agencies, and providing reinsurance services for the Mainland.

Interest rates, aggregate balance and exchange rates

4.3 As a result of the pause in interest rate hikes in the US, the Base Rate under the Discount Window operated by the HKMA remained stable at 6.75% at end-September 2006⁽¹⁾. Hong Kong dollar interbank interest rates declined during the period, however, due to abundant liquidity in the local banking sector. In particular, overnight and 3-month HIBORs decreased to an average of 3.68% and 4.21% respectively in the third quarter. Meanwhile, the discount of three-month HIBOR over the corresponding Euro-dollar deposit rate widened from 99 basis points at end-June to 119 basis points at end-September 2006.

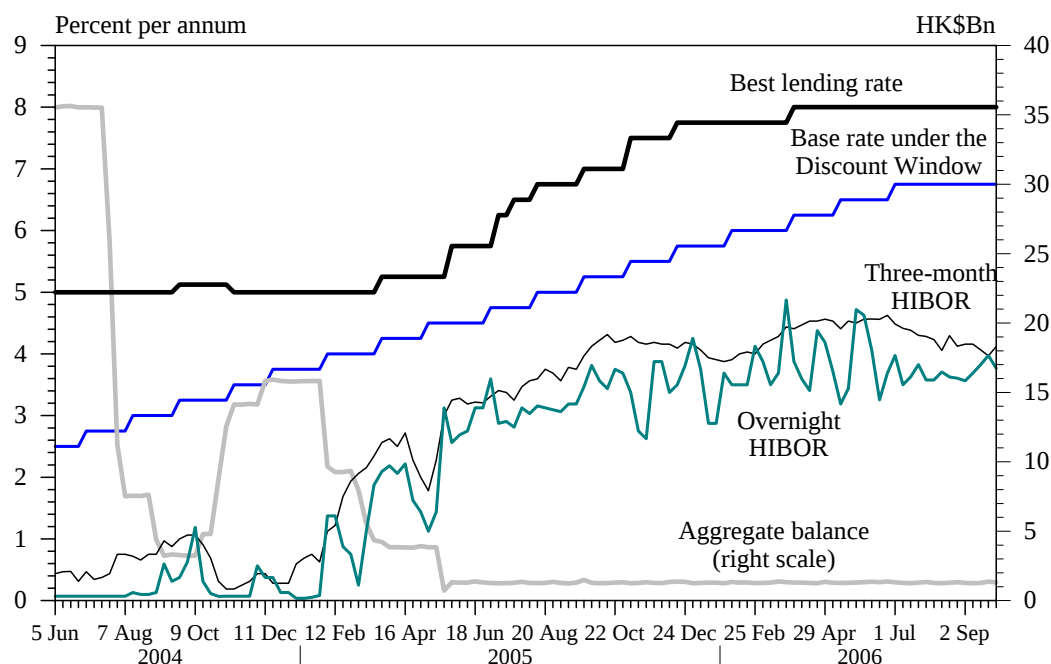
Separately, the Hong Kong dollar yield curve moved downwards at end-September 2006 compared with end-June.

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



4.4 Movements in deposit rates and the best lending rates varied across different banks in the third quarter of 2006, but they generally either showed small declines or remained unchanged. There were still two best lending rates of 8% and 8.25% in the market. The composite interest rate declined from 3.16% at end-June 2006 to 3.06% at end-September 2006⁽²⁾. Meanwhile, the Aggregate Balance was little changed at around HK\$1.3 billion.

Diagram 4.2 : Aggregate balance in the banking system remained stable, while interbank interest rates edged lower during the third quarter (end for the week)



4.5 The Hong Kong dollar exchange rate softened slightly against the US dollar in the third quarter, reportedly relating to interest carry trade to take advantage of the widening negative Hong Kong-US interest rate differentials. The spot exchange rate of Hong Kong dollar against the US dollar closed at 7.7875 at end-September 2006, compared with 7.7665 at end-June. Over the same period, the discount of the twelve-month Hong Kong dollar forward rate over the spot rate increased from 530 pips (each pip equivalent to HK\$0.0001) to 720 pips.

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. In the third quarter, the US dollar weakened against the Pound Sterling and the Euro, and strengthened against the Japanese Yen. As a result, the trade-weighted Nominal and Real Effective Exchange Rate Indices⁽³⁾ of the Hong Kong dollar dropped by 0.4% and 0.5% respectively during the quarter.

Diagram 4.3 : The Hong Kong dollar softened slightly against the US dollar, but forward spread widened (end for the week)

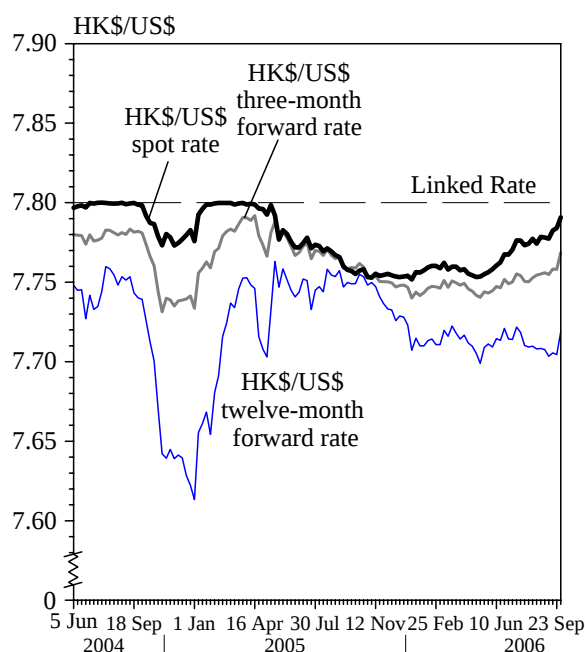
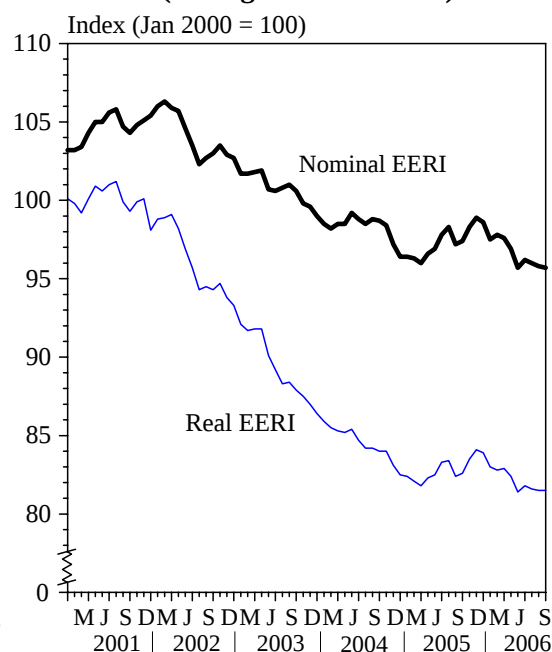


Diagram 4.4 : Trade-weighted Effective Exchange Rate Index of the Hong Kong dollar fell further in tandem with the weakening US dollar (average for the month)



Money supply and deposits

4.7 The monetary conditions remained largely accommodative, in support of the brisk economic expansion. During the third quarter of 2006, both narrow and broad money supply recorded increases. The seasonally adjusted Hong Kong dollar narrow money supply (HK\$M1)⁽⁴⁾ advanced by 4.8% over a quarter earlier, partly reflecting increases in Hong Kong dollar demand deposits associated with IPO activities. Hong Kong dollar broad money supply (HK\$M3) rose by 5.8%, with savings and time deposits increasing by 5.1% and 6.9% respectively.

【】

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

(#) Adjusted to include foreign currency swap deposits.

4.8 Total deposits with authorized institutions⁽⁶⁾ expanded by 5.1% to \$4,551 billion (comprising Hong Kong dollar deposits of \$2,442 billion and foreign currency deposits of \$2,109 billion) at end-September 2006 over end-June 2006.

Loans and advances

4.9 Total loans and advances increased by 3.3% to \$2,498 billion (comprising Hong Kong dollar loans of \$1,932 billion and foreign currency loans of \$566 billion) at end-September 2006 over end-June 2006. Loans analysed by economic uses were mixed in the third quarter. In particular, loans to stockbrokers registered a more than sixfold increase, partly reflecting increased borrowings relating to the IPO of China Merchants Bank. On the other hand, loans for purchase of residential property and lending to building, construction, property development and investment, which together accounted for about half of the domestic loans, shrank by 0.5% and 0.7% respectively. Meanwhile, the Hong Kong dollar loan-to-deposit ratio decreased from 80.9% in June to 79.1% in September.

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

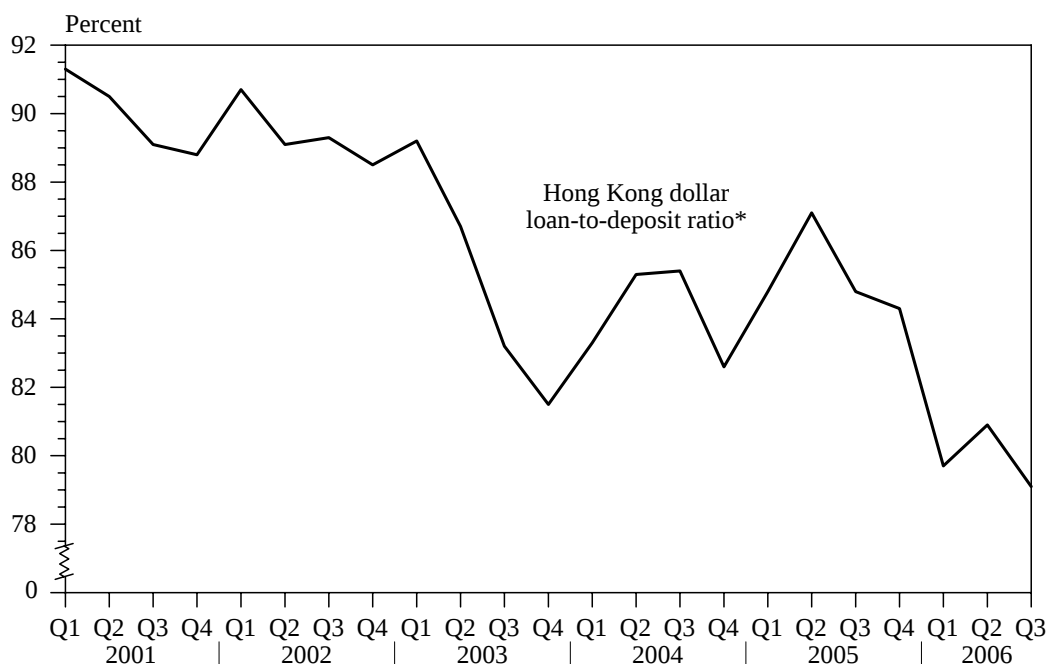
		Loans to :							
% change during the quarter		Finance visible Trade	Manu- facturing sector	Whole- sale and retail trade	Building, construction, property development and investment	Purchase of residential property ^(a)	Financial concerns	Stock- brokers	All loans and advances for use in Hong Kong ^(b)
2005	Q1	2.4	8.1	-0.6	4.3	0.6	-0.8	5.8	1.6
	Q2	12.6	7.4	5.9	2.7	1.1	3.4	10.9	4.0
	Q3	-1.9	-2.4	-1.6	2.1	-1.1	2.2	-7.8	*
	Q4	-3.8	6.4	-1.2	7.6	-1.3	1.0	-36.6	2.0
2006	Q1	-2.4	-1.9	0.9	0.6	-1.1	3.6	5.3	-0.3
	Q2	10.1	3.7	1.9	5.7	-0.6	-1.3	-6.0	2.8
	Q3	4.9	-4.4	1.4	-0.7	-0.5	6.2	620.6	2.2
Total amount at the end of September 2006 (HK\$Bn)		160	109	105	475	593	193	48	2,170
% change over a year earlier		8.4	3.4	3.0	13.7	-3.5	9.6	352.2	6.8

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 third quarter 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 improved further in the second quarter of 2006. The ratio of classified loans to total loans of retail banks fell further from 1.32% at end-March 2006 to 1.28% at end-June 2006. Over the same period, the arrears for over three months in *credit card repayment* remained stable at 0.40%. Separately, the delinquency ratio for *residential mortgage loans* was also stable at 0.20% at end-September 2006, when compared with a quarter ago. The consolidated capital adequacy ratio for local banks averaged at a strong level of 15.2% at end-June 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. A draft Banking (Capital) Rules and a draft Banking (Disclosure) Rules were released during the third quarter of 2006 for consultation. A final draft of these Rules, incorporating comments received in the consultation which has been completed, is scheduled to be introduced to the Legislative Council for negative vetting in early November 2006. 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^(a)
(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	95.97	2.66	1.37
2006	Q1	95.97	2.71	1.32
	Q2	96.33	2.39	1.28

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-September 2006, a total of 40 licensed banks were engaged in renminbi banking business in Hong Kong. Renminbi deposits with authorized institutions remained largely stable, amounting to RMB 22.6 billion yuan at end-September 2006. Meanwhile, the share of renminbi deposits in total foreign currency deposits with all authorized institutions remained small at around 1% at end-September.

Table 4.3 : Renminbi deposits in licensed banks

<u>As at end of</u>		<u>Interest rates on^(a)</u>					Number of licensed banks engaged in RMB business ^(d)
		Demand and savings deposits ^(b) (RMB Mn)	Time deposits (RMB Mn)	Total deposits (RMB Mn)	Saving deposits ^(c) (%)	Three-month time deposits ^(c) (%)	
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
	Q3	11,355	11,264	22,619	0.46	0.65	40

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 three quarters of 2006, gross issuance of Hong Kong dollar debt increased by 8.5% over a year earlier to \$344 billion. At end-September 2006, the total outstanding value of all Hong Kong dollar debt securities rose further by 3% over end-June 2006 to \$723 billion⁽⁶⁾. This was equivalent to 27% of HK\$M3, or 20% of the Hong Kong dollar-denominated assets of the entire banking sector⁽⁷⁾. Around 73% of the outstanding debt were issued by the private sector and Multilateral Development Banks, while the remaining 27% were issued by the public sector, including mainly Exchange Fund papers and debt issued by the Government and statutory organizations. 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 financial position, sound economic fundamentals, and a noted resilience to economic shocks from the Mainland and beyond due to Hong Kong's large external creditor position, a

number of rating agencies have upgraded Hong Kong's foreign currency ratings. Following various upgrades from May to August, Moody's upgraded both the region's long-term foreign currency rating and foreign-currency bank deposit ceiling from "A1" to "Aa3" in late September. With this upgrade, Hong Kong has now attained AA-category ratings by all major international credit rating agencies. These ratings are the highest that Hong Kong has achieved. And for the first time, Moody's Hong Kong rating is above that of the Mainland by more than one notch. Such upgrades help to provide an enhanced pro-growth environment by lowering corporate borrowing costs for Hong Kong businesses.

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

		<u>Exchange Fund paper</u>	<u>Statutory bodies/govern- ment-owned corporations</u>	<u>Govern- ment</u>	<u>Public sector total</u>	<u>AIs^(a)</u>	<u>Local corporates</u>	<u>Non-MDBs overseas borrowers^(b)</u>	<u>Private sector total</u>	<u>MDBs^(b)</u>	<u>Total</u>
New Issuance											
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
	Q3	54.1	2.6	-	56.7	10.0	7.0	35.5	52.5	1.8	111.0
Outstanding (period-end figures)											
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
	Q3	130.4	54.1	7.7	192.2	151.7	48.0	312.5	512.2	18.5	722.9

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

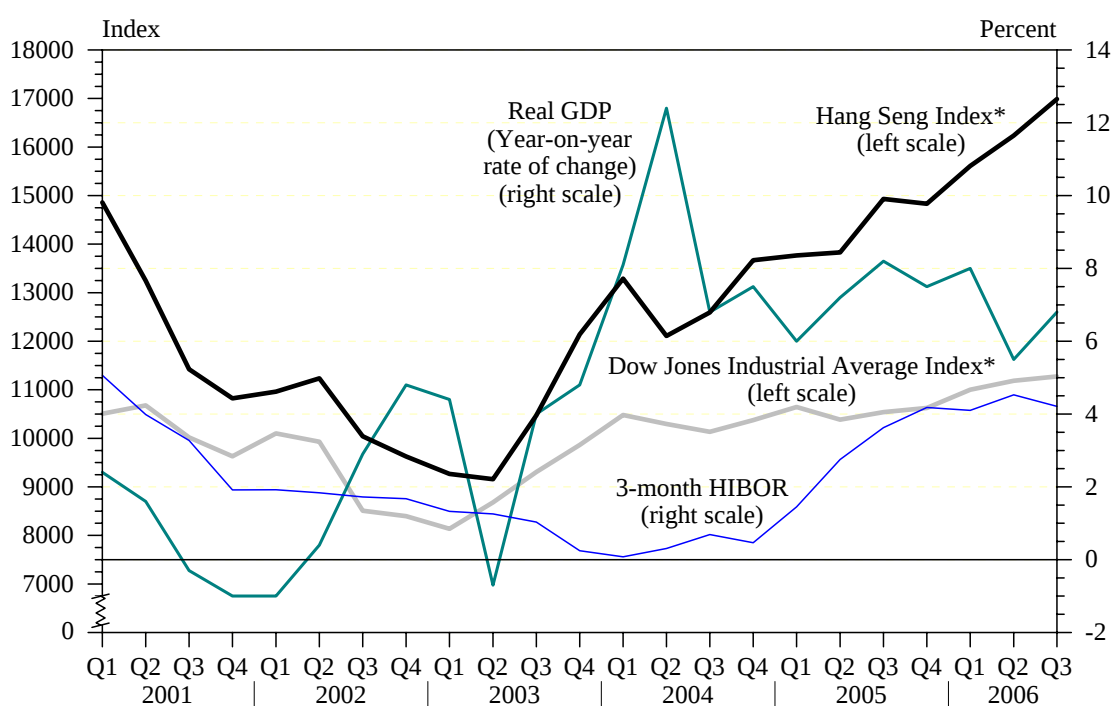
(a) AIs : Authorized Institutions.

(b) MDBs : Multilateral Development Banks.

The stock and futures markets

4.15 Following momentary weakness towards the middle of 2006, the stock market regained its buoyancy in the third quarter. The earlier market fears of potential US monetary over-tightening were by and large dissipated. IPO activity also regained much vigor, along with upbeat market sentiment. In addition, an upbeat economic outlook, recent declines in oil prices, revived speculation on further Renminbi appreciation, and strong US stock market performance were all supportive factors. The Hang Seng Index closed at 17 543 at end-September 2006, 7.8% higher than at end-June 2006. Yet average daily turnover, at \$26.3 billion in the third quarter, was 23% lower than the record high in the preceding quarter. The stock market displayed further strength in October and early November, with the Hang Seng Index closing at an all-time high of 19 093 on 15 November.

Diagram 4.7 : The stock market surged further during the third quarter after a brief correction in May

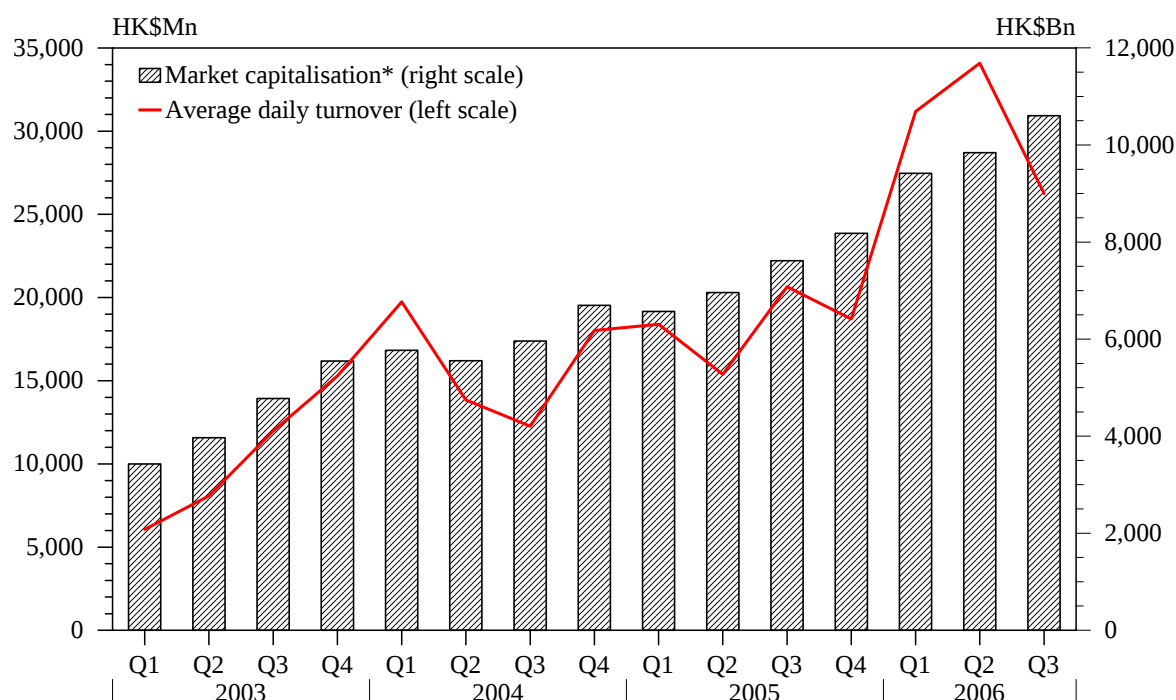


Note: (*) Period average figures.

4.16 Market capitalisation rose markedly to a fresh record high of \$10,604 billion at end-September 2006 (comprising \$10,526 billion in the Main Board and \$78 billion in the Growth Enterprise Market), mainly due to the new listings of several large Mainland enterprises during the third quarter. Market capitalisation rose further in October and broke the \$11 trillion mark on 20

October. According to the World Federation of Exchanges⁽⁸⁾, at end-September 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 nine months of 2006, equity capital raised through new share flotations and post-listing in the Main Board surged markedly to \$247.5 billion, while that in the GEM amounted to \$7.3 billion⁽⁹⁾. The total value of IPO of new stocks raised during the period was ranked third internationally among major international stock exchanges. The successful listing of Industrial and Commercial Bank of China in October should have helped to advance Hong Kong's ranking in this aspect even further.

Diagram 4.8 : Total market capitalisation hit record high in the third quarter



Note: (*) Position at end of quarter.

4.17 Hong Kong continues to serve as the premier fund-raising centre for Mainland enterprises. In the first nine months of 2006, they raised a total of \$178.7 billion from the Hong Kong stock market. This sum made up 70% of the total equity raised during that period. Since January 1993, \$1,281.3 billion of capital has been raised by Mainland enterprises in the Hong Kong stock market, accounting for 53% of the total funds raised. At end-September 2006, there were 352 Mainland enterprises (including 133 H-share companies, 90 “Red Chips” companies and 129 private enterprises) listed on the Hong Kong stock market, accounting for 31% of the total number of listed companies.

The market capitalisation of these Mainland enterprises expanded sharply to \$4.7 trillion, which accounted for 44% of the total market capitalisation of the Hong Kong stock market. In the first nine months 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 third quarter of 2006, *derivatives trading* remained bouyant 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 15% - 89% over a year earlier⁽¹⁰⁾. Stock futures also surged from a low base.

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

		<u>Hang Seng Index Futures</u>	<u>Hang Seng Index Options</u>	<u>H-shares Index Futures</u>	<u>Stock Options</u>	<u>Stock 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
	Q3	50 281	16 671	16 670	66 836	553
% change in Q3 2006 over a year earlier		19.4	14.6	89.2	34.3	678.9

Fund management and investment funds

4.19 The depth and breadth of investment funds managed in Hong Kong continued to increase, as Hong Kong strives to evolve as Asia's leading asset management centre. In the third quarter of 2006, gross sales of *mutual funds*⁽¹¹⁾ amounted to US\$3,867 million, still very sizeable, though down from the

exceptionally high level in the second quarter. After deducting redemptions, net sales amounted to US\$241 million in the third quarter of 2006, likewise down from the second quarter, yet still higher than in the same quarter last year. Analysed by asset size, equity funds continued to take up a predominant portion, accounting for 68% of the total value of funds at end-September 2006. Funds managed under the *MPF schemes* continued to grow notably. The aggregate net asset value of the approved constituent funds rose to \$182.5 billion at end-September 2006, from \$170.5 billion at end-June 2006⁽¹²⁾.

4.20 The hedge funds business continued to prosper, bolstered by the robust financial market conditions. There were 14 retail hedge funds authorised by the Securities and Futures Commission (SFC) and the net asset size of SFC-authorized hedge funds rose further to US\$1.54 billion as at end-September 2006, up by 4.3% from end-June 2006. The net asset size at end-September 2006 was more than 8.6 times larger than that as at end-2002, the year when the hedge funds guidelines were first issued. According to a recent survey by the SFC in October 2006, as at 31 March 2006, there were 296 hedge funds managed in Hong Kong by our licensed hedge funds managers. The total asset under management amounted to US\$33.5 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 economic expansion. Gross premium income from new long-term business and general business increased significantly further by 12.6% in the second quarter of 2006 over a year earlier⁽¹³⁾. Growth in long-term business, which consisted mainly of individual life and annuity business, continued to surge. This served to offset the decline in gross premium from non-life business. 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>	<u>Gross premium from long-term business and general business</u>
2004 Annual	23,478	16,578	1,957	19,722	18,515	195	163	38,595	62,073
2005 Q1	6,944	4,909	63	4,814	4,209	45	41	9,109	16,053
Q2	6,171	4,422	141	6,099	5,376	41	48	11,564	17,735
Q3	5,704	4,177	433	5,749	5,281	43	39	11,112	16,816
Q4	5,069	3,525	1,210	7,628	6,385	49	32	14,094	19,163
Annual	23,888	17,033	1,847	24,290	21,251	178	160	45,879	69,767
2006 Q1	6,795	4,881	637	4,868	7,284	37	52	12,241	19,036
Q2	5,337	3,951	723	5,360	9,195	41	38	14,634	19,971
% change from 2005 Q2 to 2006 Q2	-13.5	-10.7	412.8	-12.1	71.0	#	-20.8	26.5	12.6
Notes: (*)	Figures refer to new businesses only. Retirement scheme businesses are excluded.								
(#)	Change of less than 0.05%								

Notes :

- (1) 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.
- (2) In December 2005, the HKMA published a new data series on composite interest rate, reflecting movement in various deposit rates, interbank and other interest rates to closely track the average 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.
- (3) The trade-weighted Nominal Effective Exchange Rate Index (EERI) is an indicator of the overall exchange value of the Hong Kong dollar against a fixed basket of other currencies. Specifically, it is a weighted average of the exchange rates of the Hong Kong dollar against some 14 currencies of its major trading partners, with the weights adopted being the respective shares of these trading partners in the total value of merchandise trade for Hong Kong during 1999 and 2000.

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

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

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

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

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

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

- (5) Authorized institutions include licensed banks, restricted licence banks and deposit-taking companies. At end-September 2006, there were 137 licensed banks, 32 restricted licence banks and 34 deposit-taking companies in Hong Kong. Altogether, 203 authorized institutions (excluding representative offices) from 31 countries and territories (including Hong Kong) had a presence in Hong Kong.
- (6) The figures for private sector debt may not represent a full coverage of all the Hong Kong dollar debt paper issued.
- (7) Assets of the banking sector include notes and coins, amount due from 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.

- (8) 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.
- (9) At end-September 2006, there were 954 and 198 companies listed on the Main Board and GEM respectively.
- (10) At end-September 2006, there were 44 classes of stock options contracts and 43 classes of stock futures contracts.
- (11) 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-September 2006, there were a total of 1 078 authorized-funds covered by the Survey.
- (12) There were 19 approved trustees at end-September 2006. On MPF products, 37 master trust schemes, two industry schemes and two employer sponsored schemes, comprising altogether 313 constituent funds, were approved by the Mandatory Provident Fund Schemes Authority. A total of 234 000 employers, 2.08 million employees and 382 000 self-employed persons have participated in MPF schemes.
- (13) As at end-September 2006, there were 181 authorized insurers in Hong Kong. Within this total, 47 were engaged in long-term insurance business, 115 in general insurance business, and 19 in composite insurance business. These authorized insurers come from 23 countries and territories (including Hong Kong).

CHAPTER 5 : THE LABOUR SECTOR

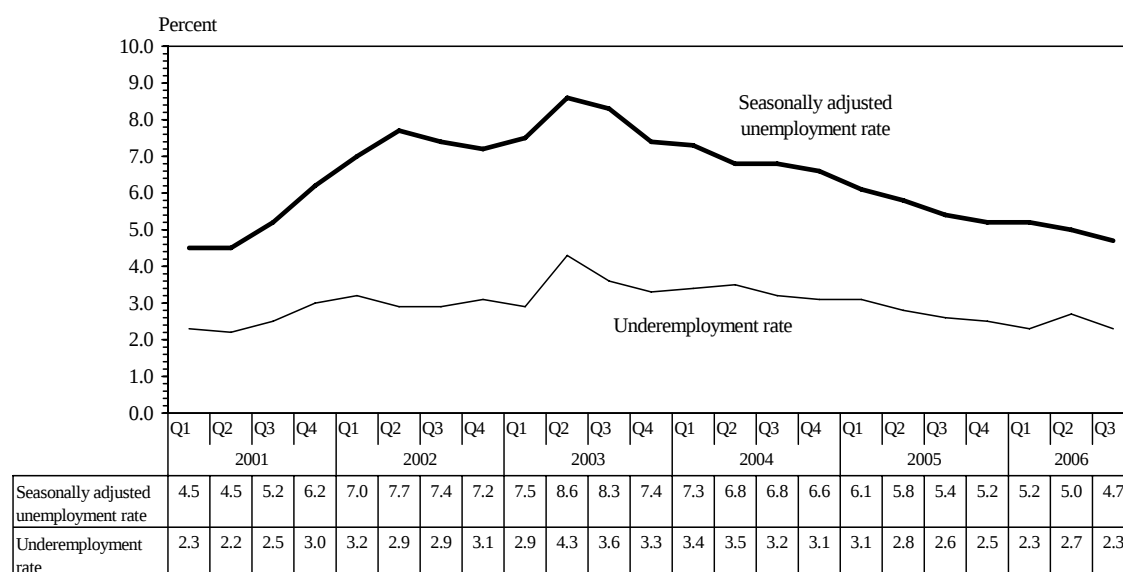
Summary

- *Stronger labour demand was evident in various major economic sectors and occupations, leading to an extensive improvement in labour market conditions in the third quarter of 2006.*
- *Total employment expanded visibly to a new high of nearly 3.5 million, while the seasonally adjusted unemployment rate moved further down to a 62-month low of 4.7%.*
- *The underemployment rate fell notably, as more full-time jobs were available to workers at the lower segment especially those engaged as craft and related workers, and plant and machine operators and assemblers.*
- *Labour wages and earnings, whilst still up modestly in overall terms, exhibited considerable variations among different industries and job categories.*

Overall labour market situation

5.1 Comparing the third quarter of 2006 with the preceding quarter, there was an abrupt surge in first-time job-seekers, comprising mostly fresh graduates and school leavers looking for work during the summer months. Partly boosted by these newcomers, the labour supply showed an accelerated increase to a new high of 3.68 million. Even so, the number of unemployed persons was only slightly up by 1 300 to 180 400. This was due to the offsetting effect of a strong expansion in labour demand, thereby pushing total employment to an all-time high of nearly 3.5 million. Discounting the seasonality of summer-time job-seekers, the *seasonally adjusted unemployment rate*⁽¹⁾ actually fell steadily further to 4.7%, the lowest level since mid-2001. Meanwhile, the underemployment rate⁽²⁾ also dropped to 2.3%.

Diagram 5.1 : Both the unemployment and underemployment rates dropped alongside the sustained pick-up in economic activity



Total employment and labour supply

5.2 The latest improvement in labour market conditions was primarily demand-led. Between the second and third quarters of 2006, *total employment*⁽³⁾ leaped by 68 600 or 2.0% to a record high of 3 496 100. This quarter-to-quarter growth was the largest since end-1997, both in absolute and percentage terms. Moreover, employment gains were not just concentrated in the service sectors, such as restaurants, transport, real estate, financing and business services, but extended to the manufacturing and construction sectors. More job opportunities thus became available to people at the lower segment of the market especially craft and related workers and workers in elementary occupations. The majority of the new jobs created were full-time in nature, reflecting the generally more positive attitude adopted by employers towards staff recruitment amid the continued economic upturn. On a year-on-year comparison, total employment also grew visibly, by 3.3%.

5.3 *Labour supply*⁽⁴⁾ likewise had an accelerated growth, by 1.9% over the quarter and 2.4% over a year earlier to a new high of 3 676 500. The growth came mainly from two sources. First, there was an influx of fresh graduates and school leavers into the labour market during the summer months. While this was a normal seasonal phenomenon, the larger inflow in this year than last was partly induced by the generally better job opportunities available to the new entrants. Secondly, the supply of older workers aged 50 or above also went up, as additional vacancies were found at the lower end of the market as well. Nevertheless, these particular groups of workers appeared to have been largely absorbed into employment during the quarter.

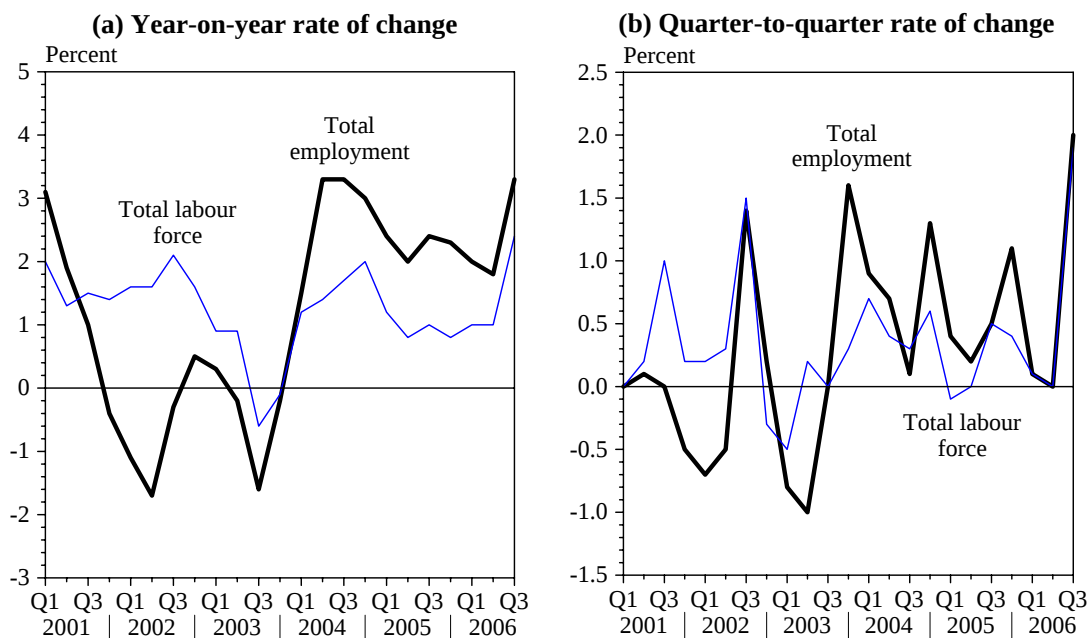
Table 5.1 : The labour force, and persons employed, unemployed and underemployed

		<u>Labour force</u>		<u>Persons employed</u>		<u>Persons unemployed^(a)</u>	<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
	Q2	3 606 600	(1.0)	3 427 500	(1.8)	179 000	96 000
	<i>Three months ending</i>						
	Jul	3 639 200	(1.5)	3 452 600	(2.4)	186 600	93 400
	Aug	3 662 700	(1.8)	3 473 800	(2.7)	188 900	88 800
	Sep	3 676 500	(2.4)	3 496 100	(3.3)	180 400	86 200
			<1.9>		<2.0>		

Notes : (a) These include first-time job-seekers and re-entrants into the labour force.
 () Year-on-year % change.
 < > % change between Q2 and Q3 (i.e. July-September).

Source : General Household Survey, Census and Statistics Department.

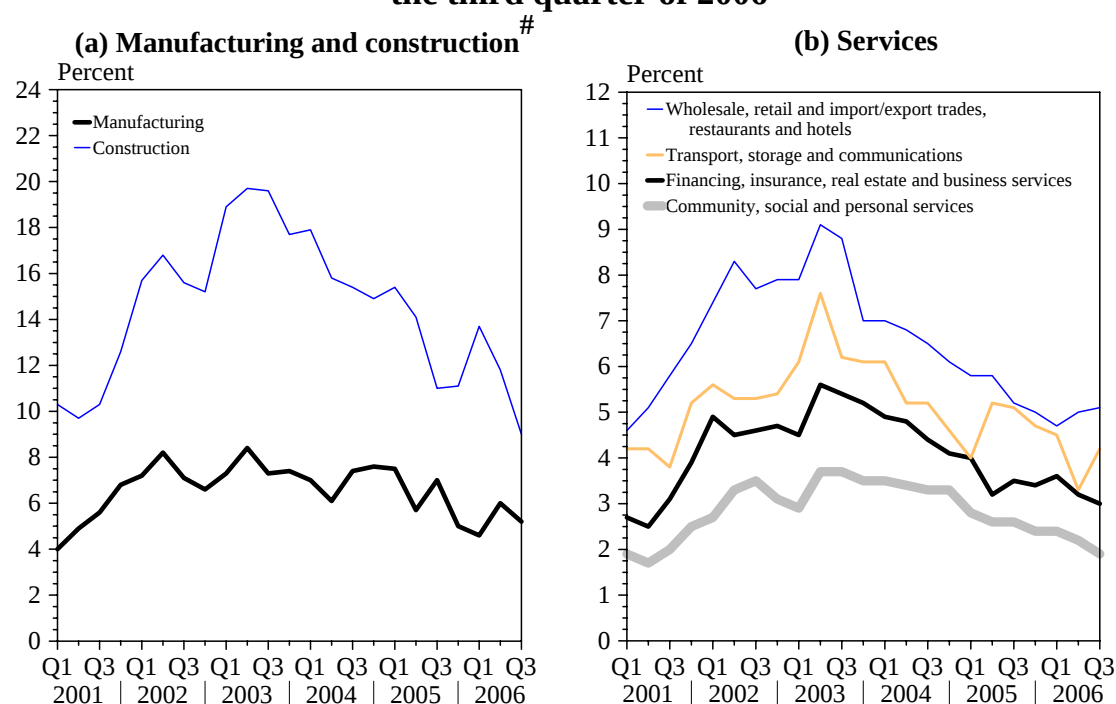
Diagram 5.2 : Growth in employment and labour force both accelerated, with the former still outstripping the latter on a year-on-year comparison



Profile of unemployment

5.4 Whereas the number of unemployed persons edged up by only 1 300 between the second and third quarters of 2006, this small increase concealed fairly wide fluctuations within the three-month period. Specifically, the numbers unemployed jumped to 188 900 in June – August, before falling back to 180 400 in July – September. This erratic profile had been largely affected by the entry of fresh graduates and school leavers in July and August, and subsequently by the return of some of these people to schools in September upon the start of the new academic year. Discounting this seasonal factor, the seasonally adjusted unemployment rate had actually remained on a steady downtrend, drifting down further from 5.0% in the second quarter to a 62-month low of 4.7% in the third quarter. A sectoral breakdown revealed that there were visible declines in unemployment rate in both the construction and manufacturing sectors during the third quarter, thanks to an increase in the number of active construction sites involving primarily smaller projects as well as the robust performance of domestic exports so far this year. Consistent with these developments, a marked reduction in unemployment was observed among male workers, largely offsetting the increase seen among female workers. Analysed by occupation category, craft and related workers, and plant and machine operators and assemblers were the ones facing more appreciable falls in unemployment rate. Yet for all the lower-skilled workers taken together, the unemployment rate was still relatively high at 5.3%. As for the higher-skilled workers, the unemployment rate showed little change at just above 2%.

Diagram 5.3 : Unemployment rates* fell more visibly in the manufacturing and construction sectors than in the service sectors during the third quarter of 2006

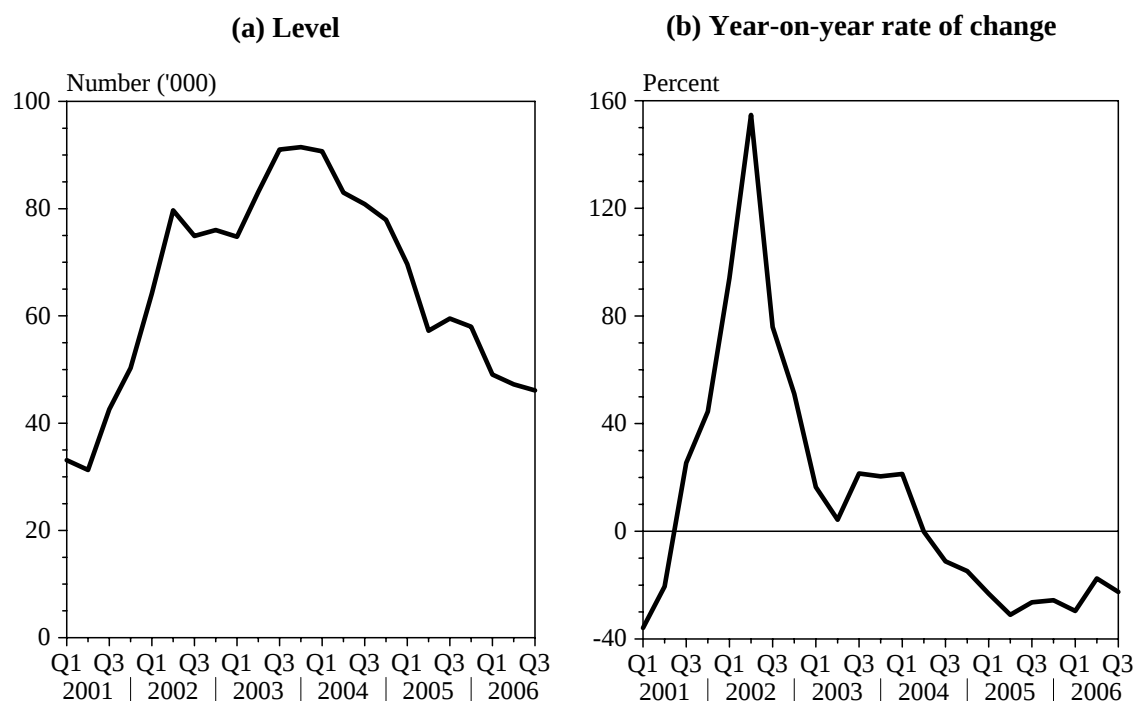


Notes : (*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.

(#) Including both site and non-site workers.

5.5 The long-term unemployment situation continued to improve, albeit only modestly. This was manifested by a further drop in the number of people unemployed for six months or longer to 46 100. Meanwhile, the median duration of unemployment remained relatively short, at 74.9 days. The improvement was more distinct as compared with a year earlier, when the corresponding figures were 59 500 and 76.0 days. Over this period, persons engaged in the manufacturing and construction sectors, and those at the middle age with lower secondary education or below were the ones having greater declines in long-term unemployment. Since manufacturing and construction used to account for a significant share of the ‘hard-core’ unemployed, a revival in business activity and labour demand therein should be of great help in reducing the severity of the long-term unemployment problem. Concurrently, persons aged 25-39 with relatively higher education also faced a notable shortening in their median duration of unemployment. A considerable proportion of them were believed to have been re-absorbed into employment at the managerial and supervisory levels along with the recent economic rebound.

Diagram 5.4 : Long-term unemployment decreasing further



Profile of underemployment

5.6 The underemployment situation also turned better. In the third quarter of 2006, the total numbers underemployed fell to 86 200, as did the underemployment rate to 2.3%. This decline occurred principally among workers at the lower segment, including craft and related workers in the construction sector (especially decoration and maintenance); plant and machine operators and assemblers, and workers in elementary occupations in the manufacturing sector; and service workers in restaurants. Most of the people in these groups had lower educational attainment of secondary education or below, and belonged to the older age group of 50 or above.

Profile of employment in establishments

5.7 The statistics on employment, vacancies and labour income in the corporate sector are available only up to mid-2006. Comparing June 2006 with a year earlier, the number of persons engaged in *private sector establishments* rose by 1.8%. The service sectors, including in particular restaurants and hotels; financing, insurance, real estate and business services; and community, social and personal services, remained the primary source of employment growth. This was underpinned by the vibrant inbound tourism

and the recent expansion in domestic demand amid the generally sanguine local consumer sentiment. Some of these services were also the ones where Hong Kong had distinct competitive edge. In stark contrast, the number of workers employed at the building and construction sites⁽⁵⁾ shrank by 12.9%, mainly attributable to the continued low level of construction activity in the public sector. Manufacturing employment held broadly stable, with a slight decrease of 0.5%. Also noteworthy was that larger enterprises were a more important provider of new jobs than small and medium-sized ones⁽⁶⁾, with the former contributing around three-fifths of the total employment gain over the past year.

5.8 In June 2006, employment in the civil service was 1.5% fewer than a year earlier. On current indications, the size of *civil service* establishment⁽⁷⁾ is expected to be reduced to around 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>	<u>Jun</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)	581 700 (0.4)
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)	229 300 (2.1)
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)	225 800 (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)	155 200 (1.0)
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)	29 300 (-5.9)
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)	475 900 (4.1)
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)	451 700 (3.4)
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)	161 100 (-0.5)
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)	52 300 (-12.9)
<i>All establishments surveyed in the private sector^(a)</i>	<i>2 328 700 (2.5)</i>	<i>2 310 000 (3.2)</i>	<i>2 327 300 (2.6)</i>	<i>2 328 900 (2.3)</i>	<i>2 348 700 (2.0)</i>	<i>2 357 200 (2.0)</i>	<i>2 370 400 (1.8)</i>
		<i><0.6></i>	<i><0.4></i>	<i><0.2></i>	<i><0.8></i>	<i><0.6></i>	<i><0.2></i>
<i>Civil service^(b)</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>	<i>154 500 (-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.

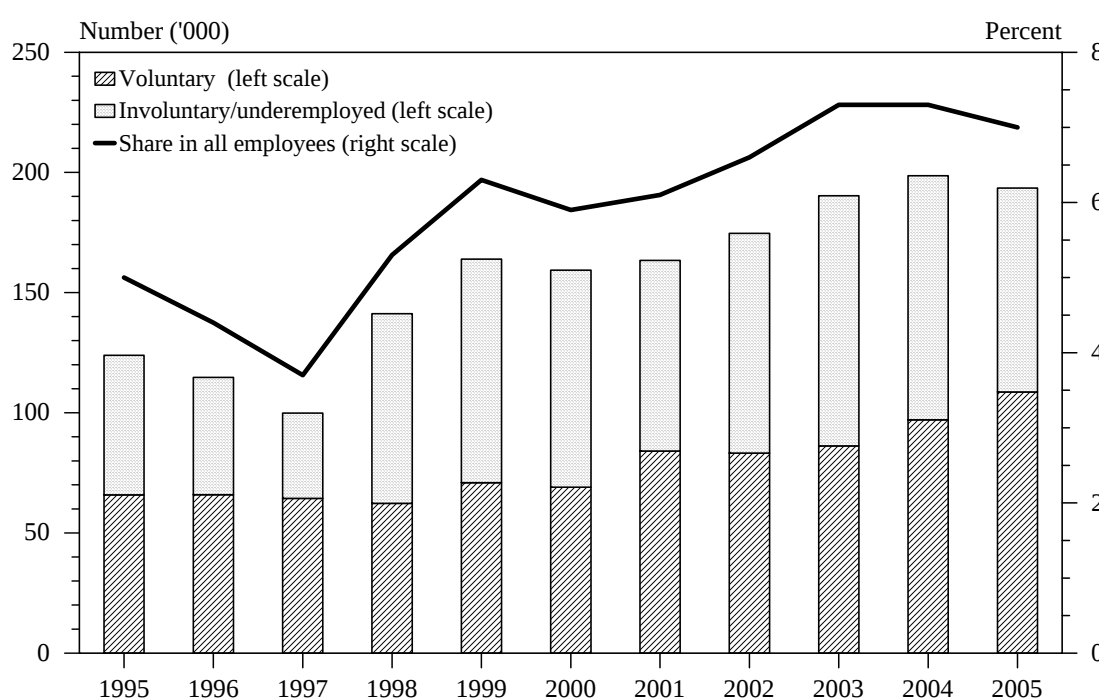
Box 5.1

Recent trends of part-time employees

Salient developments during 1995-2005

The number of part-time employees⁽¹⁾, covering mainly persons working less than 35 hours a week, followed a general uptrend for most of the past decade. Comparing 2005 with 1995, this particular group of workers grew by an average of 4.6% per annum, distinctly faster than the 1.1% increase recorded for all the employees. Growth was seen entirely between 1997 and 2004, when the number almost doubled from 99 800 to 198 600, as did their share in total employees from 3.7% to 7.3%. In 2005, the corresponding figures were 193 500 and 7.0%.

Number and share of part-time employees



A closer examination of the data showed fairly large fluctuations in part-time employees between individual years. To a larger extent, this was affected by the volatile movements in those persons working part-time on an involuntary basis (i.e. the underemployed). For instance, the number of **involuntary** part-time workers exhibited a sharp upsurge in 1998 and 1999, when the local economy was still badly hit by the Asian financial crisis. A similar jump was seen in 2002 and 2003, when another economic downturn set in. Yet thanks to the rebound in business activity since the latter part of 2003, the underemployment situation progressively changed for the better, contributing to a visible reduction in such employees. In 2005, these involuntary or underemployed workers were estimated at 84 800, corresponding to 3.1% of the total employees.

An analysis of major socio-economic attributes showed that among the involuntary part-time employees, the majority comprised middle-aged male workers, persons with lower secondary education or below, those employed in the construction sector, and those engaged as workers in elementary occupations.

⁽¹⁾ Part-time employees are defined here to include persons working less than 35 hours during the seven days before enumeration due to reasons other than vacation. Foreign domestic helpers are excluded in this analysis.

Box 5.1 (cont'd)

As to employees working **voluntarily** on a part-time basis, the pattern of movement was rather different. The number was generally steady in the late 1990s, but has since followed a notable rising trend. In 2005, these workers were estimated at 108 700 or 3.9% of the total employees.

Over the years, whereas voluntary part-time employment was also found mainly among the less-educated persons and workers at the lower segment, there were more female workers than male workers especially within the middle-aged group of 30 – 59. A significant proportion of them were believed to be housewives, who worked on a part-time basis to supplement family income. The community, social and personal services sector had the highest proportion of voluntary part-time workers.

Young persons aged 15 - 19 (comprising mostly students) were the other major group gaining in importance recently. Conceivably, many of these people worked part-time with a view to acquiring more working experience, skills and exposure, as an interim arrangement prior to their further studies or longer-term employment. This partly explained the much higher staff turnover rate observed for this particular age group.

Notable trends in more recent years

As mentioned earlier, the number of **involuntary** part-time employees fluctuated rather widely from year to year, which was affected heavily by the economic growth performance. Between 2000 and 2005, the number of these involuntary or underemployed workers fell by an average of 1.2% per annum.

In stark contrast, the number of **voluntary** part-time employees registered a rapid increase averaging at 9.5% per annum over the same period. This was mainly attributable to a surge in employment of women aged 20 - 59. To some extent, it was related to the substantial inflow of female immigrants under the One-way Permit (OWP) Scheme. Over 2000-2005, nearly half of OWP holders were women aged 25 – 44, who tended to have greater propensity to participate in the workforce and seek work opportunities of part-time nature.

Furthermore, while voluntary part-time employment was still prevalent among workers with lower educational attainment and lesser skills, there was an increasing tendency among workers at the upper segment to take up part-time jobs more recently. The majority of these part-time employees were with upper secondary education or above and engaged in occupations such as managers and administrators, professionals and associate professionals.

Concluding remarks

In sum, part-time employment has been generally on the increase over the past decade. This trend is not unique to Hong Kong, and is commonly observed in many major overseas economies. In face of intensifying competition in the global market and growing economic uncertainty, it is only natural for business enterprises, both local and overseas, to strive for more operational flexibility in a cost-effective manner. Increased recruitment of part-time workers is one of the major means to attain greater flexibility in production and work arrangements.

Vacancies

5.9 In June 2006, job vacancies in *private sector establishments* continued to surge by 9.3% over a year earlier to 41 500. This was in fact the highest level recorded for the month of June since 1997. Of the total vacancies, the overwhelming majority (95%) came from the service sectors. Restaurants and hotels, transport and storage, the retail trade, and community, social and personal services were the ones with larger gains in vacancies. Job openings at the upper segment grew faster than those at the lower segment, by 9.8% as against 8.9%, reversing the trend seen in the preceding three quarters. As a result, the former's share in total vacancies edged up to 46%, whereas the latter's share was reduced modestly to 54%. Also noteworthy was that most of the additional vacancies were offered by the large enterprises, reflecting their comparatively greater capacity to create jobs in response to growing business demands. As regards the *civil service*, the number of vacancies also leaped, as an increasing number of posts had been granted exemption from the general recruitment freeze on the operational grounds. Yet the numbers involved were rather small, at 2 500.

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 showed that the number of private sector job vacancies was 3.0% more in the third quarter of 2006 than a year earlier. For the first nine months of the year as a whole, the increase was 16.5%. On average, almost 1 900 vacancies were received per working day.

(b) Workers at the lower segment

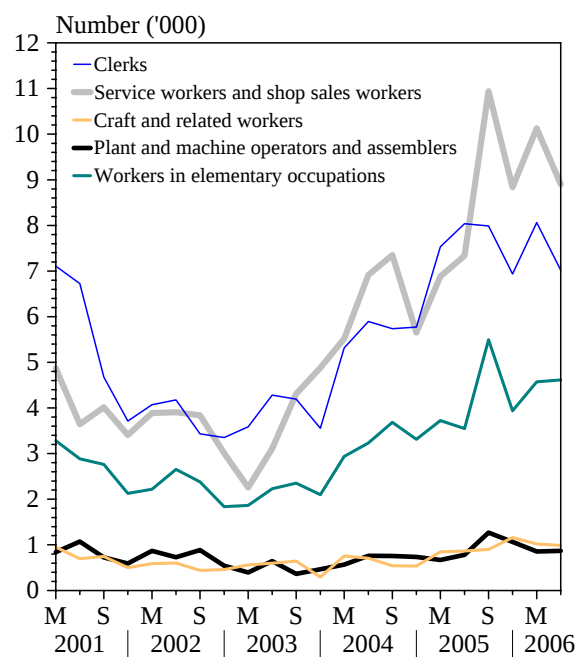


Table 5.3 : Vacancies by major economic sector

	<u>No. of vacancies</u>							Vacancy rate in Jun 2006 (%)
	<u>Annual average</u>	<u>Mar</u>	<u>Jun</u>	<u>Sep</u>	<u>Dec</u>	<u>Mar</u>	<u>Jun</u>	
	<u>2005</u>							<u>2006</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)	8 300 (-10.8)	1.4
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)	3 800 (17.4)	1.6
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)	4 000 (45.3)	1.7
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)	2 200 (17.5)	1.4
Communications	700 (34.8)	400 (-32.7)	500 (32.3)	1 200 (48.7)	900 (108.3)	800 (93.0)	800 (52.6)	2.7
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)	12 300 (9.6)	2.5
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)	8 100 (13.3)	1.8
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)	2 000 (6.1)	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^(a)</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)	41 500 (9.3)	1.7
		<5.3>	<3.9>	<14.9>	<-0.7>	<3.4>	<-6.9>	
<i>Civil service^(b)</i>	900 (57.0)	1 500 (231.5)	1 100 (270.4)	700 (672.5)	500 (-66.9)	2 600 (76.3)	2 500 (131.6)	1.6

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

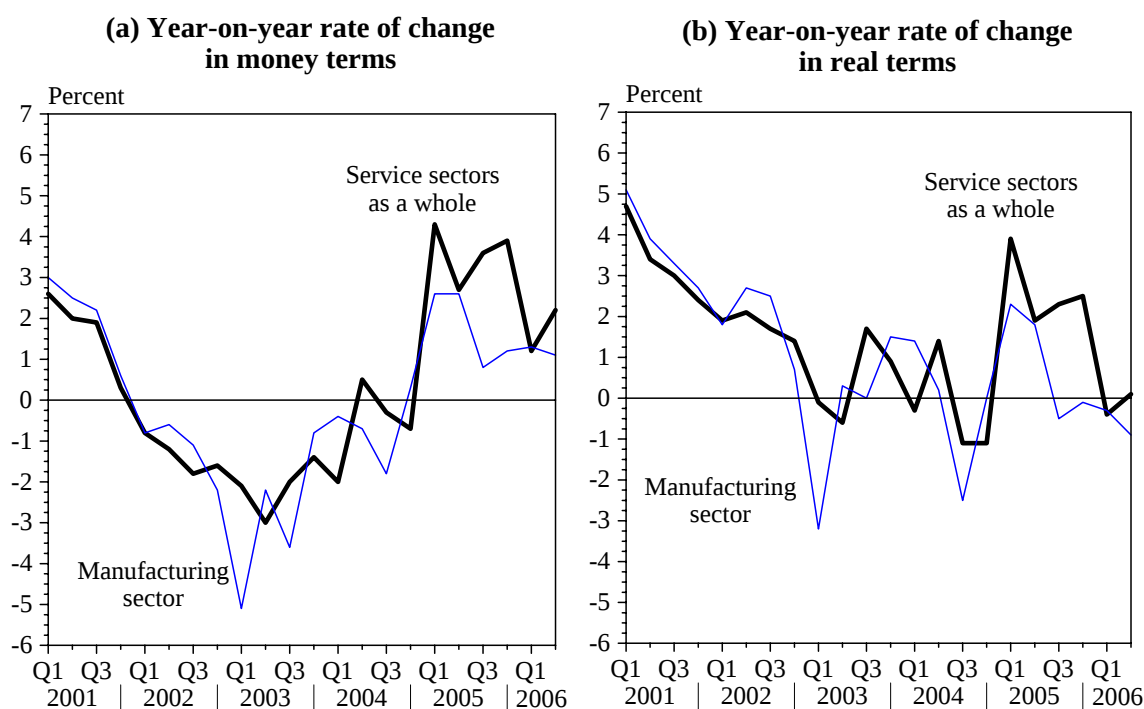
5.11 *Labour earnings*⁽⁸⁾, measured by payroll per person engaged in the private sector, were higher by 2.2% in money terms in the second quarter of 2006 than a year earlier. The mild uptrend established since early 2005 was thus sustained. After discounting price change, a slight increase of 0.1% was registered in real terms⁽⁹⁾.

5.12 Most major economic sectors reported increases in labour earnings. Specifically, workers in financial institutions had a visible gain of 8.1% in nominal payroll, outpacing the overall average increase for the fourth consecutive quarter. To a large extent, this reflected the continued tight manpower resource balance prevalent in the sector. On the other hand, more moderate increases of 2.0% and 0.7% respectively were recorded for workers engaged in sanitary services and in restaurants and hotels, where a relatively abundant supply of labour was found. As for the manufacturing sector, nominal earnings moved up by 1.1%, aided by the recent pick-up in domestic exports. Meanwhile, nominal payroll in community, social and personal services was slightly down by 0.1%.

5.13 The Salary Indices for Managerial and Professional Employees indicated a generally larger pay rise among workers at the upper segment in the recent period. Comparing June 2006 with a year earlier, the index was up by 3.7% in nominal terms or 1.2% in real terms⁽¹⁰⁾ in respect of the existing staff. When the newly recruited and promoted employees were also taken into account, the index increased by 2.4% in money terms, though virtually unchanged in real terms.

5.14 In the third quarter of 2006, the labour income situation continued to improve in overall term, according to the earnings figures compiled from General Household Survey. Anecdotal data available suggested that high-skilled workers such as accountants, financial advisers and fund managers had relatively greater upward adjustments in employment earnings.

Diagram 5.6 : Nominal earnings registered modest increases



5.15 By comparison, *labour wages*, which cover regular payments of workers at the supervisory level or below, had a smaller rise of 1.1% in money terms in June 2006 over a year earlier, owing to the looser manpower resource balance still existing for lower-end occupations. In real terms, labour wages showed a marginal decrease of 0.7%.

5.16 Similar to the situation as reflected by labour earnings, increases in nominal wages were also observed extensively across nearly all the major economic sectors. Financing, insurance, real estate and business services were the one with the largest wage gain of 2.0%, reflecting strong demand for workers not only at the managerial and professional levels but also at the supporting level in these arenas. By contrast, transport services reported a modest decrease in wages by 1.7%. When expressed in real terms, wages fell slightly on a broad front, except for those in financing, insurance, real estate and business services where a marginal rise was still recorded. Analysed by main occupation, nominal wages likewise edged up almost across-the-board, save for miscellaneous non-production workers. Among all the workers concerned, clerical and secretarial workers, and operatives had relatively larger increases in wages, both by around 2% in money terms. They were also the only groups experiencing wage hikes in real terms.

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) Figures enumerated from household data. The employed population is defined here to include those persons aged 15 or above who performed work for pay or profit or had a formal job attachment during the reference period (i.e. seven days before enumeration).
- (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 notably by 6.6% in the third 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) Manufacturing enterprises with fewer than 100 employees and non-manufacturing enterprises with fewer than 50 employees are regarded as small and medium-sized enterprises (SMEs) in Hong Kong. Yet establishments with the same main business registration number (BRN) and engaged in activities of the same industry sector are grouped into one business unit for the purpose of calculating the number of SMEs. Thus, a business with a lot of small chain stores each employing a small number of employees will be considered as a single large enterprise, instead of separate SMEs.
- (7) 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 Consumer Price Index (C) is used for compiling the Salary Indices for Managerial and Professional Employees in real terms.

CHAPTER 6 : PRICES

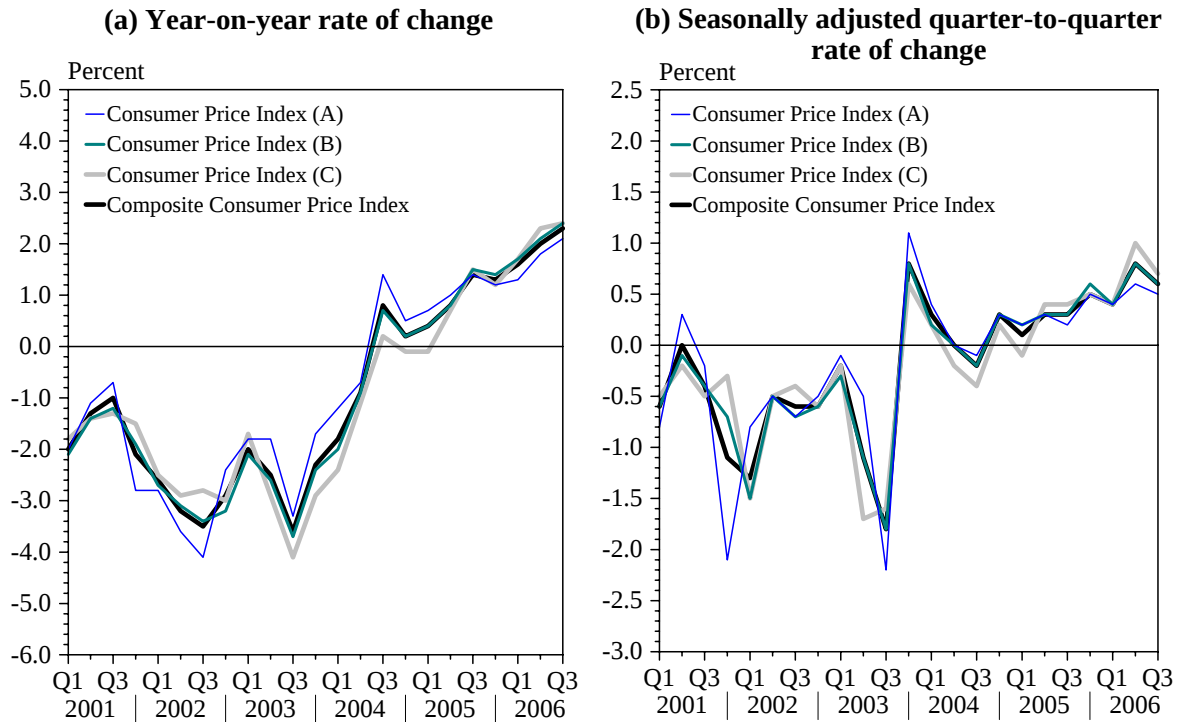
Summary

- *Along with sustained economic expansion, consumer price inflation notched up slightly further, yet to a still moderate 2.3% in the third quarter of 2006.*
- *The upward pressures on local business cost remained largely in check. Unit labour cost continued to be kept down by rising productivity, while the increase in unit rental cost also began to stabilise along with some softening in shop rentals lately.*
- *External cost pressures were likewise moderate, as can be seen from the modest increase in import prices. Another notable development was the substantial fall-off in oil prices lately, which should contribute towards some easing in fuel-related prices in the months ahead.*

Consumer prices

6.1 Consumer price inflation⁽¹⁾ continued to edge higher, averaging at 2.3% in the third quarter, from 1.6% in the first quarter and 2.0% in the second quarter. Yet on the whole, consumer price inflation was still largely in check, especially when viewed against the rapid economic expansion over the past twelve quarters or so. The momentum in unit rental cost for the consumption-related sectors as a whole seemed to be stabilising, on the backdrop of robust consumer spending and some softening in shop rentals lately. Unit labour cost⁽²⁾, adjusted for labour productivity, declined slightly further, as the cost pressure on the wage front continued to be mitigated by modest wage rise while labour productivity growth remained hefty. Also, the feed-through from the continuous increase in residential rentals⁽³⁾ appeared to have largely completed. Externally, the weakening of the Hong Kong dollar had so far exerted only modest upward pressure on import prices. Also, the fall-off in oil prices lately should help to reduce the cost pressure on prices of fuel-related items in the period ahead. Overall, while both domestic and external cost pressures remained rather moderate, the pricing power of the retailers and service providers has generally improved, as can be seen from the faster increase in the prices of certain consumer goods and services.

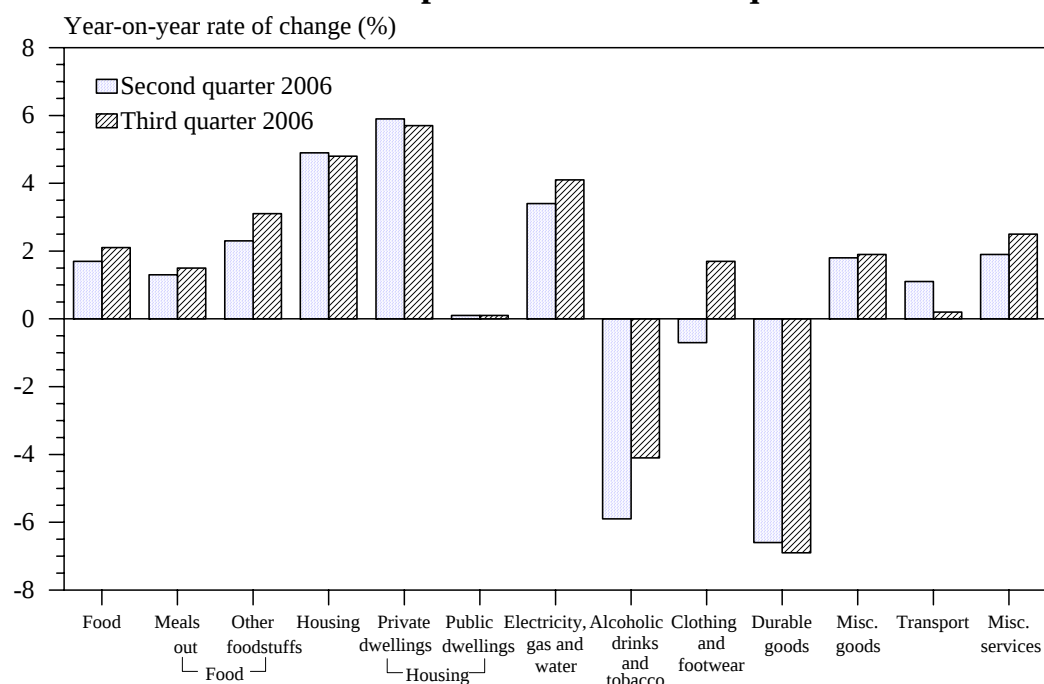
**Diagram 6.1 : Consumer price inflation,
though edging up to 2.3% this quarter, was still largely in check**



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 The main components driving the CPI inflation upward in the third quarter were food and miscellaneous services. The increase in food prices was partly due to weather-induced spikes in the prices of vegetable. Meanwhile, the relatively faster rise in the charges for utility in the quarter mostly reflected the pass-through of earlier surges in fuel prices. But in general the pricing power of retailers and service suppliers was apparently improving, on the backdrop of upbeat consumer sentiment and vibrant retail business.

Diagram 6.2 : Spikes in certain food prices, as well as improving sellers' pricing power, were behind the rise in consumer price inflation in the quarter



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
	Q3	2.3	2.1	2.4	2.4

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>	<u>Q3</u>
Food	26.94	1.4	0.9	1.7	2.1
<i>Meals bought away from home</i>	16.86	1.1	1.0	1.3	1.5
<i>Other foodstuffs</i>	10.08	1.9	1.0	2.3	3.1
Housing ^(a)	29.17	2.8	4.2	4.9	4.8
<i>Private dwellings</i>	23.93	3.3	5.0	5.9	5.7
<i>Public dwellings</i>	2.49	0.1	0.1	0.1	0.1
Electricity, gas and water	3.59	4.0	3.9	3.4	4.1
Alcoholic drinks and tobacco	0.87	0.4	-0.6	-5.9	-4.1
Clothing and footwear	3.91	0.1	-2.0	-0.7	1.7
Durable goods	5.50	-6.7	-5.8	-6.6	-6.9
Miscellaneous goods	4.78	-0.1	0.4	1.8	1.9
Transport	9.09	1.5	1.6	1.1	0.2
Miscellaneous services	16.15	1.1	1.2	1.9	2.5
All items	100.00	1.3	1.6	2.0	2.3

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.

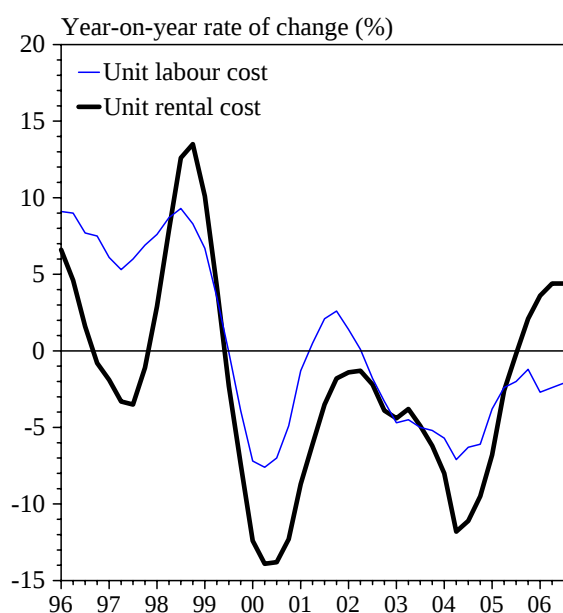
Costs of factor inputs

6.3 The upward pressures on domestic business cost remained mild. The increase in the unit rental cost should have stabilised in the third quarter, thanks to the continued brisk increase in business volume and softening in shop rentals lately. Meanwhile, labour cost was also modest. Wages were only rising slowly, and when viewed in conjunction with the hefty increase in labour productivity, unit labour cost remained on a slight decline.

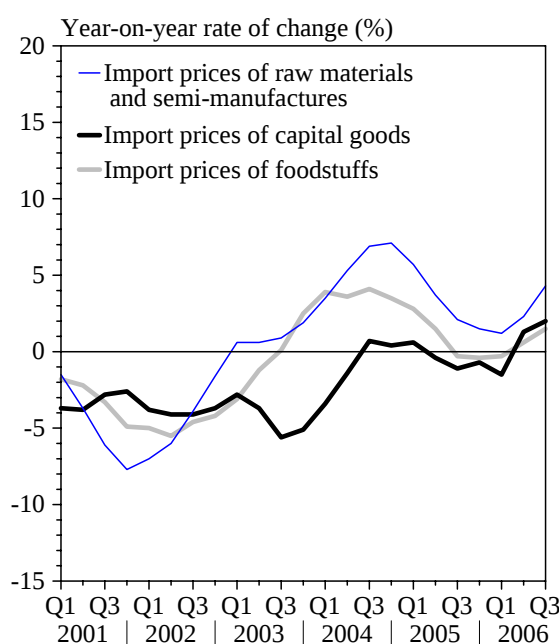
6.4 Price pressure from the external front was likewise moderate. The weakening of the Hong Kong dollar, along with the US dollar under the linked exchange rate system, so far had not pushed up import prices by any significant extent. While import prices of raw materials and capital goods picked up mildly, those of consumer goods remained soft. The momentum of the surge in import of fuels in the recent years has also started to wane, as oil prices eased back after mid-August, more notably so in September. Specifically, the increase in fuel-related items in the CPI, viz. towngas, LPG and motor gasoline, together contributed only 0.08 of a percentage point to the 2.1% CPI inflation in September, down from that of 0.19 in July and 0.18 in August.

Diagram 6.3 : Costs of factor inputs

(a) Domestic factor costs stayed mild, thanks to relatively slower factor price rises



(b) Costs on imported commodities picked up modestly

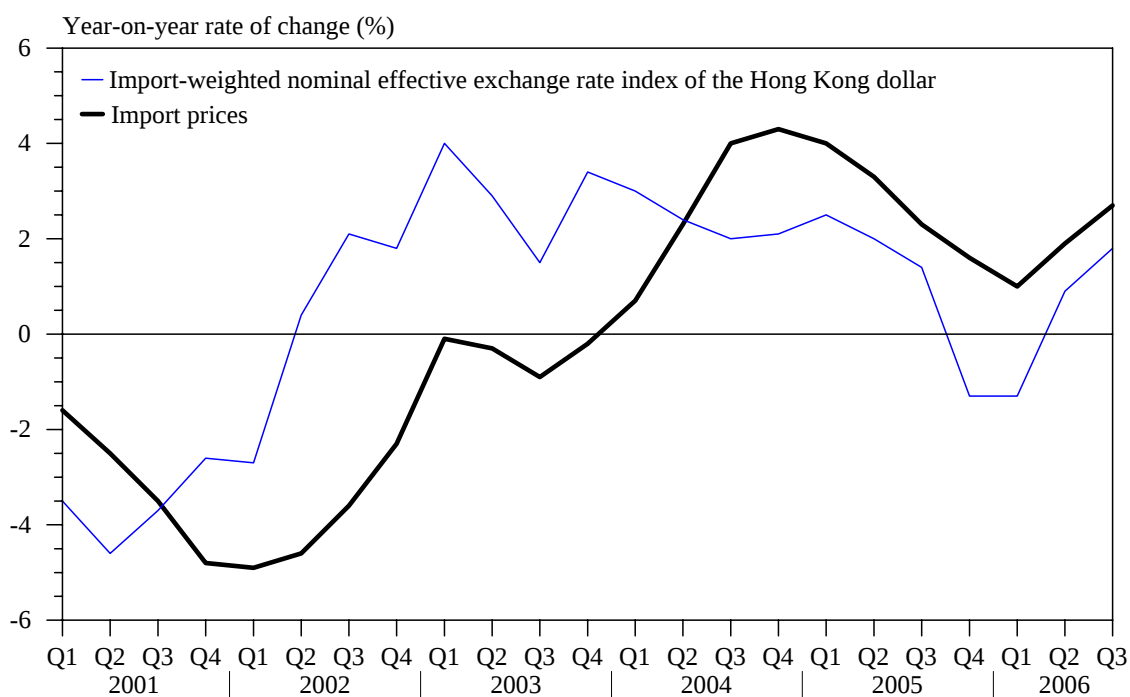


**Table 6.3 : Prices of imports by end-use category
(year-on-year rate of change (%))**

		<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
	Q3	1.5	0.4	4.3	13.6	2.0	2.7

Note : (*) Change of less than 0.5%

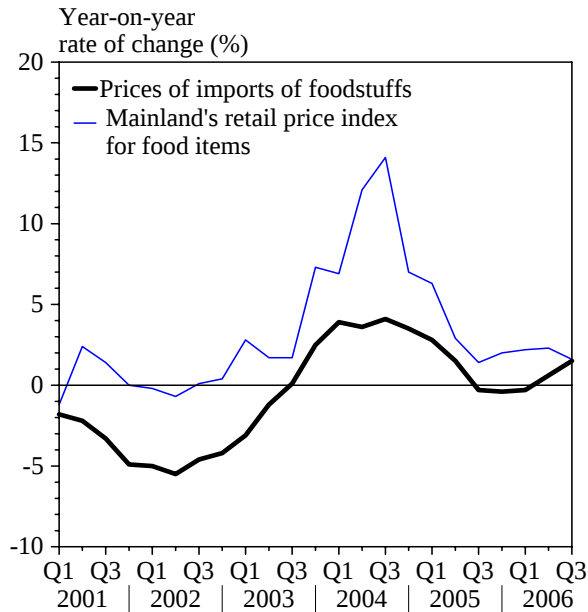
**Diagram 6.4 : The recent Hong Kong dollars depreciation
so far had not pushed up import prices by any significant extent**



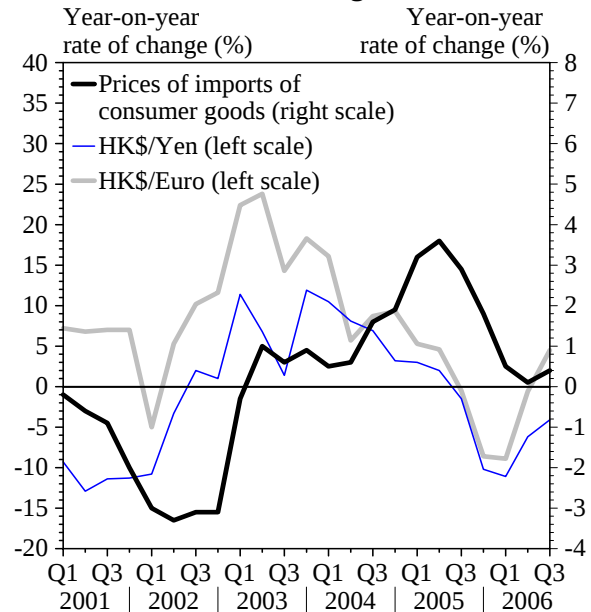
Note : The nominal EERI in this graph is inverted in scale for easier comprehension. An increase in the nominal EERI indicates weakening of the Hong Kong dollar.

Diagram 6.5 : Momentum of the surge in import fuel price starting to wane in line with global oil price movements; import prices of other commodities modestly up upon US dollar weakening

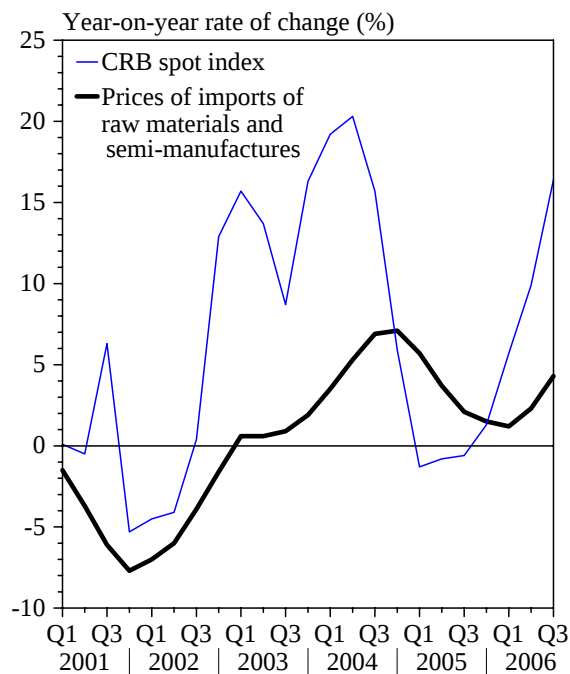
(a) Prices of imports of foodstuffs and Mainland's food prices



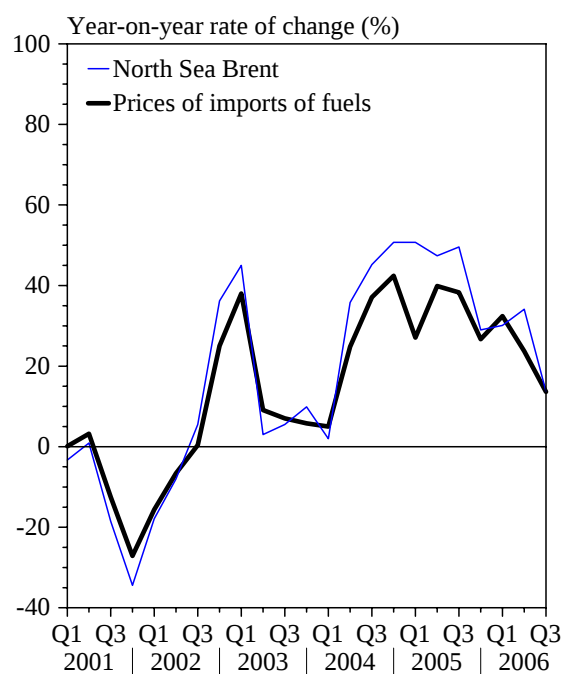
(b) Prices of imports of consumer goods and selected exchange rates



(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⁽⁴⁾

6.5 Echoing the strong growth in domestic exports of goods in the first two quarters of the year, there was a further slight pick-up in local manufacturing prices in the second quarter of 2006. Prices for hotels and boarding houses continued to surge, as hoteliers had strong pricing power given the tight supply-demand condition. On the other hand, the output price decline in maritime and air transport in the second quarter conceivably echoed the need to maintain price attractiveness in a highly competitive environment. While the rise in the prices for miscellaneous communication services held steady in the second quarter, the continued fall in the prices for telecommunications was the 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>	<u>Q2</u>
Manufacturing	0.8	0.5	0.7	0.8	1.1	2.0	2.4
Selected services sector ^(#)							
Hotels and boarding houses	12.3	14.0	11.8	11.2	12.1	10.1	9.2
Land transport	1.0	0.9	0.4	1.3	1.5	1.0	0.6
Maritime transport	0.4	1.6	0.2	0.9	-1.0	-3.6	-3.7
Air transport	2.5	1.6	2.9	3.1	2.5	0.2	-0.5
Telecommunications	-7.5	-8.2	-7.6	-8.0	-6.2	-7.5	-6.2
Miscellaneous communications services	*	-0.3	0.1	0.1	0.1	1.5	1.4

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*⁽⁵⁾, a broad measure of overall changes in prices of the economy, continued to show a marginal decline in the third quarter. This was entirely caused by a continued fall in the *terms of trade*, a dominant item in the GDP deflator given the sheer size of trade in the Hong Kong economy. Despite waning negative impact from the previous surges in fuel prices, the recent depreciation of the Hong Kong dollar has started to kick in to drag the terms of trade downward (For details, see Box 6.1). Reflecting the strong domestic demand, the *domestic demand deflator* continued to register a steady increase in the third quarter.

Diagram 6.6

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

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

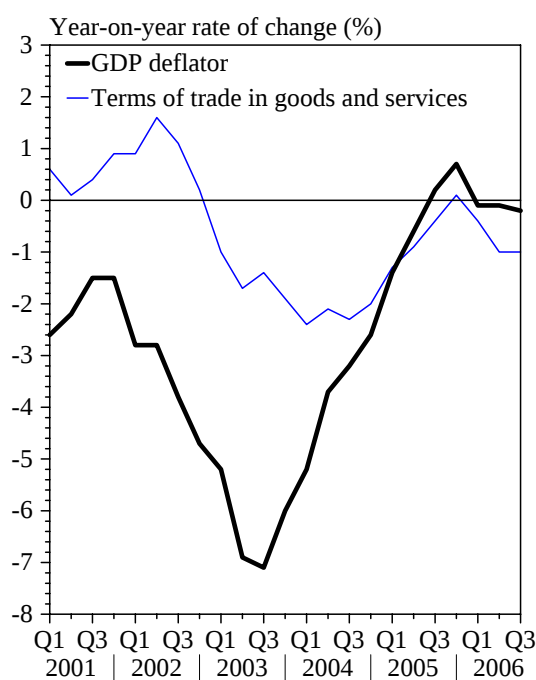
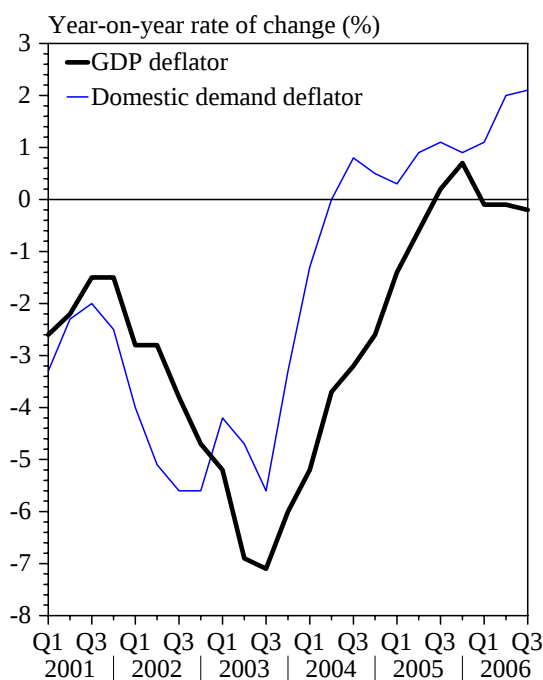


Table 6.5 : GDP deflator and the main expenditure component deflators
(year-on-year rate of change (%))

		<u>2005</u>				<u>2006</u>		
	<u>Annual</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Q1[#]</u>	<u>Q2[#]</u>	<u>Q3⁺</u>
Private consumption expenditure	1.4	0.4	1.4	1.5	2.2	1.9	1.6	1.6
Government consumption expenditure	-1.6	-1.8	-1.6	-1.7	-1.4	1.2	1.3	1.5
Gross domestic fixed capital formation	0.9	2.3	1.8	1.3	-1.7	-2.0	3.1	6.3
Total exports of goods	-0.1	1.3	0.4	-0.2	-1.3	-1.8	-0.7	-0.4
Imports of goods	1.3	2.9	1.8	0.8	*	*	1.4	1.7
Exports of services	3.5	2.6	2.9	3.2	5.2	4.8	5.4	5.1
Imports of services	0.9	2.0	1.7	0.9	-0.7	-0.2	0.7	1.3
Gross Domestic Product	-0.2	-1.4 <0.1>	-0.6 <0.2>	0.2 <*>	0.7 <0.5>	-0.1 <-0.9>	-0.1 <0.2>	-0.2 <0.1>
Total final demand	0.8	1.2	0.9	0.5	0.2	*	1.0	1.1
Domestic demand	0.8	0.3	0.9	1.1	0.9	1.1	2.0	2.1

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%.

Box 6.1

Fuel prices and the terms of trade

Although the surge in international oil price over the past year had not pushed up consumer price inflation by a significant extent (paragraph 6.4), its impact on import prices and on the terms of trade (TOT) was considerably larger. Soaring oil prices was actually the key factor underlying the deterioration in the terms of trade over the past few quarters.

The TOT is the ratio between the prices of total exports and imports faced by local exporters and importers in Hong Kong, as measured by their respective unit value index (UVI). Each of the export/import UVI is an average of export/import prices of a basket of commodities, weighted by their respective export/import values in the same month last year.

For import prices in particular, its movements are determined by a number of factors : (1) the exchange rates of the Hong Kong dollar against the currencies of import sources, in that depreciation of the Hong Kong dollar will lead to a rise in import prices, and vice versa; (2) higher inflation and higher production costs in Hong Kong's major import sources, if passed onto the output price level, will also lead to higher import prices for Hong Kong; (3) movements of world commodity prices as directly reflected in their respective import prices.

Table (1) indicates that the movements of exchange rate can explain the fluctuations of import prices quite well. The strong negative correlation suggests that a strengthening of the Hong Kong dollar would generally lead to lower import prices, which in turn should result in an improvement in the terms of trade, and vice versa.

Table (1): Simple correlation shows that the import weighted effective exchange rate index (EERI) generally explains the fluctuation of the import prices well

<u>Months of Lag</u>	Correlation coefficient between the	Correlation coefficient between the
	levels of EERI and import UVI <u>of various lags</u>	y-o-y % changes of EERI and <u>import UVI of various lags</u>
0	-0.68	-0.50
1	-0.70	-0.57
2	-0.73	-0.62
3	-0.75	-0.65
4	-0.76	-0.67

However, as seen in Table (2), the relationship is not as obvious recently as in the past, namely, when the Hong Kong dollar strengthened between November last year and April this year, i.e. Hong Kong's import prices did not ease significantly enough and as a result the terms of trade has continued to deteriorate despite the dollar strengthening.

To investigate the cause, the fuel import UVI is discerned from the import UVI. As shown in Table (2), the import prices excluding fuel actually showed a much larger degree of softening over that particular period. This is because the prices of fuel imports, despite having only a small weighting of around 2-3% in the compilation of the import UVI, have pushed up the overall import UVI by more than 1 percentage point over the past few quarters due to the feed-through of soaring international oil prices. From Diagram 6.5d, it is also clear that the fuel import UVI actually follows the global crude oil market very well. The correlation coefficient between fuel import UVI and international oil price is as high as 0.94, indicating an almost immediate 100% feed-through from the world market to the local fuel import prices.

Box 6.1 (cont'd)

Table (2): The import prices did not ease significantly enough despite the strengthening of the Hong Kong dollar in late 2005/early 2006

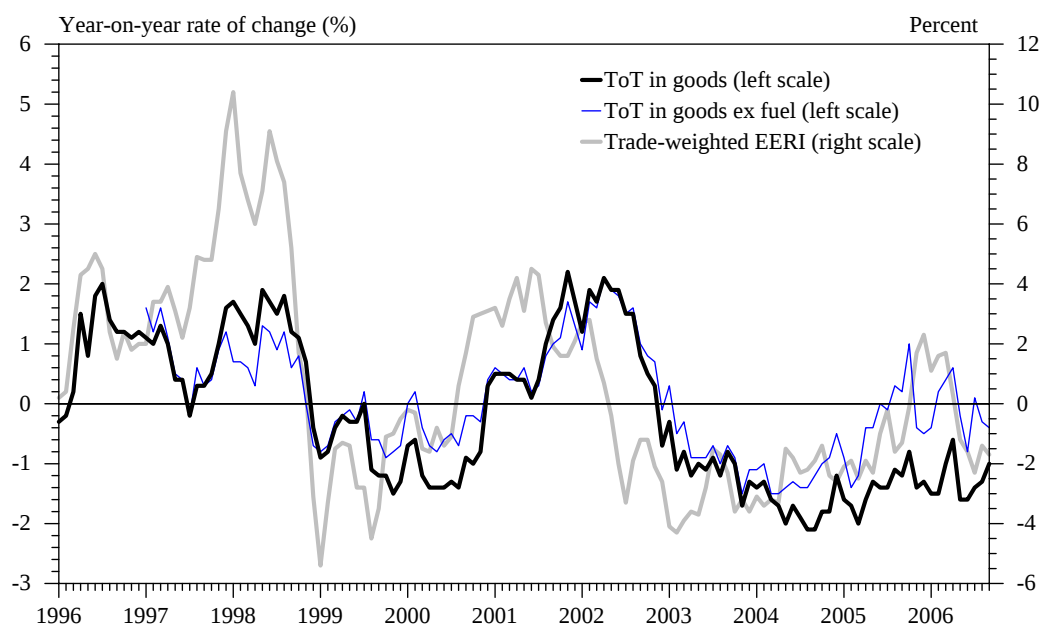
Year	Month	Import UVI ^(a)	UVI of fuel imports ^(a)	Import UVI excluding fuel ^(a)	Import-weighted EERI ^(a)
2005	Jul	2.7	40.1	1.4	-0.6
	Aug	2.2	36.0	0.7	-2.0
	Sep	2.0	39.2	0.5	-1.6
	Oct	1.4	32.8	-0.4	-0.1
	Nov	1.9	25.1	0.9	1.7
	Dec	1.4	25.1	0.5	2.3
2006	Jan	1.1	37.6	*	1.0
	Feb	0.9	36.0	-0.8	1.4
	Mar	0.9	25.2	-0.6	1.6
	Apr	1.0	20.9	-0.3	0.1
	May	2.1	26.8	0.6	-1.3
	Jun	2.6	22.9	1.8	-1.6
	Jul	2.6	19.9	1.0	-2.3
	Aug	2.7	16.3	1.6	-1.3
	Sep	2.7	4.7	2.1	-1.6

Notes: ^(a) All figures are year-on-year percentage changes.

* Change of less than 0.05%

The scenario of the import UVI being shored up by its component of fuel prices actually traces back to the beginning of the year 2004, when oil prices began to soar. Thus, when the import UVI with the fuel component excluded is used to compare with the export UVI, the resultant terms of trade actually showed an improvement not shown in the original series in the period between early last year and the middle of this year. This was mainly due to the fuel price effect stated in the previous paragraph.

Chart 1 : The TOT trod a very different path when the fuel component is excluded from the imports



Box 6.1 (cont'd)**Table (3): Terms of Trade (TOT) did improve in relative terms along the strengthening of the Hong Kong dollar when the fuel component in import UVI is excluded**

<u>Year</u>	<u>Quarter</u>	<u>TOT of Goods ^(a)</u>	<u>TOT of Goods, excluding fuel ^(a)</u>	<u>Import-weighted EERI ^(a)</u>
2004	Q1	-1.5	-1.3	-3.0
	Q2	-1.8	-1.4	-2.4
	Q3	-2.0	-1.4	-2.0
	Q4	-1.6	-0.8	-2.1
2005	Q1	-1.8	-1.1	-2.5
	Q2	-1.4	-0.2	-2.0
	Q3	-1.3	0.1	-1.4
	Q4	-1.2	0.0	1.3
2006	Q1	-1.3	0.1	1.3
	Q2	-1.3	-0.1	-0.9
	Q3	-1.3	-0.2	-1.8

Note : ^(a) All figures are year-on-year percentage changes.

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) Unit labour cost represents the labour cost per unit of output produced. It is distinct from the nominal wage index in that it will discount the effect of labour productivity growth in arriving at the labour cost measure. Technically, it refers to the product of the nominal index of payroll per person engaged and the total employment, divided by the real GDP. (For details, please refer to **Box 7.1, 2005 Economic Background and 2006 Prospect**)
- (3) 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 4.0% year-on-year in the third quarter of 2006, slower than an average of 8.2% and 6.3% increase in the first and second quarters of 2006 respectively.

- (4) 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.

- (5) 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.

Statistical Appendix

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

	(\$Mn)					
	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Private consumption expenditure	755,508	833,825	795,948	765,282	774,280	782,587
Government consumption expenditure	103,541	112,751	116,550	119,993	120,172	128,866
Gross domestic fixed capital formation	378,486	451,891	388,731	325,328	347,375	333,036
<i>of which:</i>						
Building and construction	185,648	223,264	208,235	171,930	155,441	142,651
Machinery, equipment and computer software	170,652	190,760	165,177	141,349	180,204	180,011
Changes in inventories	9,762	12,313	-15,651	-10,612	14,399	-4,060
Total exports of goods	1,397,917	1,455,949	1,347,649	1,349,000	1,572,689	1,480,987
Domestic exports	212,160	211,410	188,454	170,600	180,967	153,520
Re-exports	1,185,758	1,244,539	1,159,195	1,178,400	1,391,722	1,327,467
Imports of goods	1,511,365	1,589,876	1,408,317	1,373,500	1,636,711	1,549,222
Exports of services	285,385	286,595	262,099	276,385	315,012	320,799
Imports of services	189,753	198,424	194,245	185,174	192,427	194,180
GDP	1,229,481	1,365,024	1,292,764	1,266,702	1,314,789	1,298,813
Per capita GDP (\$)	191,047	210,350	197,559	191,736	197,268	193,135
GNP	1,218,405	1,363,409	1,317,362	1,291,470	1,323,543	1,327,356
Per capita GNP (\$)	189,326	210,101	201,318	195,485	198,581	197,379
Total final demand	2,930,599	3,153,324	2,895,326	2,825,376	3,143,927	3,042,215
Total final demand excluding re-exports ^(a)	1,949,977	2,130,313	1,952,900	1,886,191	2,045,858	1,982,896
Domestic demand	1,247,297	1,410,780	1,285,578	1,199,991	1,256,226	1,240,429
Private	1,078,661	1,233,803	1,107,816	1,014,347	1,075,654	1,053,568
Public	168,636	176,977	177,762	185,644	180,572	186,861
External demand	1,683,302	1,742,544	1,609,748	1,625,385	1,887,701	1,801,786

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>2002</u>	<u>2003</u>	<u>2004[#]</u>	<u>2005[#]</u>	Q1 [#]	<u>2006</u> Q2 [#]	Q3 [#]
Private consumption expenditure	747,850	719,304	767,769	804,708	205,697	213,942	211,518
Government consumption expenditure	131,291	130,151	127,309	121,332	33,015	28,461	30,371
Gross domestic fixed capital formation	286,020	261,367	274,872	288,821	73,597	80,167	86,071
<i>of which:</i>							
Building and construction	131,752	116,419	107,532	105,773	25,528	24,171	25,275
Machinery, equipment and computer software	144,832	136,537	150,543	163,158	44,512	51,568	56,097
Changes in inventories	5,660	9,111	7,076	-5,085	1,608	375	-4,107
Total exports of goods	1,562,121	1,749,089	2,027,031	2,251,744	538,460	586,741	667,228
Domestic exports	131,079	122,126	126,386	136,324	34,498	34,992	38,916
Re-exports	1,431,041	1,626,964	1,900,645	2,115,419	503,963	551,749	628,312
Imports of goods	1,601,527	1,794,059	2,099,545	2,311,091	568,261	622,110	685,797
Exports of services	347,836	362,420	429,563	483,455	125,162	126,163	146,819
Imports of services	202,494	203,400	242,507	251,832	62,568	64,409	72,754
GDP	1,276,757	1,233,983	1,291,568	1,382,052	346,710	349,330	379,349
Per capita GDP (\$)	188,118	181,385	187,657	199,261	--	--	--
GNP	1,282,409	1,262,474	1,314,978	1,384,515	354,763	341,708	N.A.
Per capita GNP (\$)	188,951	185,573	191,058	199,616	--	--	--
Total final demand	3,080,778	3,231,442	3,633,620	3,944,975	977,539	1,035,849	1,137,900
Total final demand excluding re-exports ^(a)	1,923,066	1,895,705	2,061,787	2,199,754	561,770	580,656	619,543
Domestic demand	1,170,821	1,199,933	1,177,026	1,209,776	313,917	322,945	323,853
Private	985,985	938,326	1,001,274	1,047,131	270,112	287,276	285,775
Public	184,836	181,607	175,752	162,645	43,805	35,669	38,078
External demand	1,909,957	2,111,509	2,456,594	2,735,199	663,622	712,904	814,047

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>	<u>2002</u>
Private consumption expenditure	3.9	6.2	-6.6	1.4	6.0	2.1	-1.0
Government consumption expenditure	3.8	2.4	0.7	3.1	2.1	6.0	2.5
Gross domestic fixed capital formation	10.9	12.6	-7.3	-16.6	11.0	2.6	-4.5
<i>of which:</i>							
Building and construction	7.0	10.5	-2.4	-15.5	-7.6	-1.1	-1.1
Machinery, equipment and computer software	12.0	13.1	-7.9	-18.2	27.0	6.2	-7.6
Total exports of goods	4.8	6.1	-4.3	3.7	17.1	-3.3	8.7
Domestic exports	-8.4	2.1	-7.9	-7.2	7.5	-10.2	-11.2
Re-exports	7.5	6.8	-3.7	5.4	18.5	-2.4	11.0
Imports of goods	4.3	7.3	-7.3	*	18.2	-1.9	7.9
Exports of services	10.2	-0.4	-3.5	8.8	12.1	6.4	10.9
Imports of services	5.1	3.9	1.6	-4.4	4.2	2.0	3.9
GDP	4.2	5.1	-5.5	4.0	10.0	0.6	1.8
Per capita GDP (\$)	-0.3	4.2	-6.2	3.0	9.0	-0.3	0.9
GNP	2.4	6.0	-3.5	4.0	8.6	2.2	0.1
Per capita GNP (\$)	-2.1	5.1	-4.3	3.0	7.6	1.3	-0.8
Total final demand	4.3	6.2	-6.0	1.3	14.4	-0.6	5.1
Total final demand excluding re-exports ^(a)	2.2	5.8	-7.6	-1.7	11.3	0.4	2.0
Domestic demand	2.1	8.2	-9.2	-4.4	10.3	1.0	-0.7
Private	1.2	9.5	-9.9	-5.4	12.3	0.7	-1.0
Public	9.2	-1.0	-3.8	2.1	-2.8	3.3	1.2
External demand	5.4	5.3	-4.3	4.4	16.4	-1.7	9.1

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>2003</u>	<u>2004[#]</u>	<u>2005[#]</u>	<u>2006</u>			Average annual rate of change:	
				Q1 [#]	Q2 [#]	Q3 [#]	10 years 1995 to 2005 [#]	5 years 2000 to 2005 [#]
Private consumption expenditure	-0.9	7.3	3.4	4.5	5.1	4.4	2.1	2.1
Government consumption expenditure	1.9	0.7	-3.1	1.2	-1.5	-1.0	2.0	1.6
Gross domestic fixed capital formation	0.9	3.0	4.1	7.6	5.0	12.7	1.3	1.2
<i>of which:</i>								
Building and construction	-5.6	-11.7	-6.1	-11.1	-3.7	-5.7	-3.6	-5.2
Machinery, equipment and computer software	6.7	11.0	10.6	23.3	12.8	22.4	4.5	5.1
Total exports of goods	14.2	15.3	11.2	14.4	6.4	8.9	7.1	9.0
Domestic exports	-7.3	2.4	7.6	44.4	25.7	-3.2	-3.5	-4.0
Re-exports	16.3	16.3	11.4	12.8	5.3	9.8	8.5	10.3
Imports of goods	13.1	14.1	8.6	14.0	6.7	8.5	6.2	8.2
Exports of services	7.9	17.9	8.7	8.9	9.0	8.6	7.7	10.3
Imports of services	-2.1	14.6	2.9	4.9	8.3	5.5	3.1	4.1
GDP	3.2	8.6	7.3	8.0	5.5	6.8	3.9	4.3
Per capita GDP (\$)	3.0	7.3	6.4	--	--	--	2.6	3.4
GNP	5.1	8.0	5.6	8.1	2.0	N.A.	3.8	4.2
Per capita GNP (\$)	4.8	6.8	4.8	--	--	--	2.5	3.3
Total final demand	8.1	12.0	7.8	11.1	6.4	7.7	5.1	6.4
Total final demand excluding re-exports ^(a)	3.5	9.2	5.3	9.9	7.1	6.1	2.9	4.0
Domestic demand	0.1	5.1	1.9	6.7	5.5	4.9	1.3	1.5
Private	-0.2	6.4	3.4	9.0	6.9	6.3	1.5	1.8
Public	1.7	-1.6	-7.0	-6.0	-5.3	-5.2	0.1	-0.5
External demand	13.1	15.8	10.7	13.3	6.8	8.9	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)**

	<u>2001</u>		<u>2002</u>		<u>2003</u>		<u>2004[#]</u>		<u>2005[#]</u>	
	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share	\$Mn	% share
Agriculture and fishing	1,003	0.1	1,002	0.1	824	0.1	886	0.1	847	0.1
Mining and quarrying	174	*	136	*	116	*	72	*	100	*
Manufacturing	59,760	4.8	51,396	4.2	44,403	3.7	44,455	3.5	45,841	3.4
Electricity, gas and water	37,957	3.1	39,609	3.2	38,839	3.2	39,726	3.2	39,852	3.0
Construction	57,167	4.6	51,534	4.2	44,910	3.7	40,376	3.2	38,612	2.9
Services	1,088,211	87.5	1,091,272	88.4	1,073,941	89.3	1,130,301	90.0	1,210,568	90.6
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	309,926	24.9	310,500	25.1	308,872	25.7	345,092	27.5	377,800	28.3
<i>Transport, storage and communications</i>	117,526	9.4	121,766	9.9	117,420	9.8	126,820	10.1	136,576	10.2
<i>Financing, insurance, real estate and business services</i>	251,495	20.2	247,045	20.0	251,085	20.9	266,834	21.2	296,168	22.2
<i>Community, social and personal services</i>	262,960	21.1	265,746	21.5	261,917	21.8	263,756	21.0	257,488	19.3
<i>Ownership of premises</i>	146,304	11.8	146,214	11.8	134,648	11.2	127,799	10.2	142,536	10.7
GDP at factor cost	1,244,271	100.0	1,234,949	100.0	1,203,034	100.0	1,255,816	100.0	1,335,821	100.0
Taxes on production and imports	53,917		43,325		48,057		58,729		63,111	
Statistical discrepancy (%)	*		-0.1		-1.4		-1.8		-1.2	
GDP at current market prices	1,298,813		1,276,757		1,233,983		1,291,568		1,382,052	

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[#]</u>	<u>2005[#]</u>	<u>2005</u>		<u>2006</u>	
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Agriculture and fishing	4.1	-0.7	-5.6	2.8	2.1	5.4	-0.8	2.6	-0.4
Mining and quarrying	-14.1	-11.1	2.2	-17.0	10.3	18.9	7.0	18.4	11.4
Manufacturing	-9.1	-10.0	-10.3	1.7	2.1	4.1	5.9	7.0	5.3
Electricity, gas and water	1.7	3.8	1.8	2.0	3.4	0.5	4.3	-0.1	2.2
Construction	-2.2	-1.5	-4.9	-9.8	-6.6	-5.5	-12.4	-12.3	-4.1
Services	1.8	2.8	4.5	9.9	7.9	8.5	7.7	9.1	7.3
<i>Wholesale, retail and import and export trades, restaurants and hotels</i>	0.3	4.5	9.1	15.1	11.1	11.0	10.9	12.4	6.8
<i>Transport, storage and communications</i>	1.9	6.5	0.7	13.9	13.5	15.3	13.5	11.2	6.8
<i>Financing, insurance, real estate and business services</i>	0.5	2.7	5.7	13.1	8.9	10.0	7.6	13.1	14.6
<i>Community, social and personal services</i>	4.0	-0.6	0.6	2.6	0.9	1.1	1.5	1.3	1.2
<i>Ownership of premises</i>	3.4	2.0	2.7	0.9	4.2	4.3	4.1	2.7	2.0
Taxes on production and imports	-1.1	-0.1	3.4	13.0	1.0	10.1	-5.0	3.3	7.6
GDP at constant (2000) market prices	0.6	1.8	3.2	8.6	7.3	8.2	7.5	8.0	5.5

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[#]</u>	<u>2005[#]</u>	<u>2005</u>	<u>2005</u>	<u>2006</u>	<u>2006</u>
						Q3 [#]	Q4 [#]	Q1 [#]	Q2 [#]
Current account	76,315	96,800	128,240	122,491	157,692	43,367	49,547	36,584	15,012
Goods	-64,970	-39,406	-44,970	-72,514	-59,347	-6,941	-13,083	-29,801	-35,369
Services	126,620	145,341	159,020	187,056	231,623	60,661	70,221	62,594	61,754
Income	28,543	5,652	28,491	23,410	2,463	-6,085	-3,214	8,053	-7,622
Current transfers	-13,878	-14,787	-14,301	-15,461	-17,046	-4,268	-4,377	-4,262	-3,750
Capital and financial account	-97,359	-151,179	-179,086	-184,640	-160,882	-48,610	-50,400	-49,186	-26,394
Capital and financial non-reserve assets (net change)	-60,829	-169,720	-171,497	-159,155	-150,202	-45,639	-39,746	-37,723	-16,330
Capital transfers	-9,155	-15,686	-8,292	-2,561	-5,237	-683	-390	-415	472
Financial non-reserve assets (net change)	-51,674	-154,033	-163,205	-156,594	-144,966	-44,956	-39,356	-37,308	-16,803
<i>Direct investment</i>	96,948	-60,685	63,372	-91,038	25,845	-30,607	51,554	27,362	-29,913
<i>Portfolio investment</i>	-322,045	-302,484	-264,619	-306,368	-168,100	-19,263	13,063	34,018	-78,343
<i>Financial derivatives</i>	39,640	51,563	78,288	44,319	13,754	952	2,847	2,275	14,544
<i>Other investment</i>	133,783	157,573	-40,247	196,492	-16,464	3,961	-106,821	-100,963	76,910
Reserve assets (net change) ^(a)	-36,530	18,541	-7,589	-25,486	-10,679	-2,971	-10,654	-11,463	-10,063
Net errors and omissions	21,044	54,379	50,846	62,149	3,190	5,244	853	12,602	11,381
Overall balance of payments	36,530	-18,541	7,589	25,486	10,679	2,971	10,654	11,463	10,063

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[#]</u>	<u>2005[#]</u>	<u>2005</u>		<u>2006</u>	
						Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
Total exports of goods	1,480,987	1,562,121	1,749,089	2,027,031	2,251,744	602,671	538,460	586,741	667,228
Imports of goods	1,549,222	1,601,527	1,794,059	2,099,545	2,311,091	615,754	568,261	622,110	685,797
Visible trade balance	-68,235	-39,406	-44,970	-72,514	-59,347	-13,083	-29,801	-35,369	-18,569
	<-4.4>	<-2.5>	<-2.5>	<-3.5>	<-2.6>	<-2.1>	<-5.2>	<-5.7>	<-2.7>
Exports of services	320,799	347,836	362,420	429,563	483,455	135,275	125,162	126,163	146,819
Imports of services	194,180	202,494	203,400	242,507	251,832	65,054	62,568	64,409	72,754
Invisible trade balance	126,619	145,342	159,020	187,056	231,623	70,221	62,594	61,754	74,065
	<65.2>	<71.8>	<78.2>	<77.1>	<92.0>	<107.9>	<100.0>	<95.9>	<101.8>
Exports of goods and services	1,801,786	1,909,957	2,111,509	2,456,594	2,735,199	737,946	663,622	712,904	814,047
Imports of goods and services	1,743,402	1,804,021	1,997,459	2,342,052	2,562,923	680,808	630,829	686,519	758,551
Visible and invisible trade balance	58,384	105,936	114,050	114,542	172,276	57,138	32,793	26,385	55,496
	<3.3>	<5.9>	<5.7>	<4.9>	<6.7>	<8.4>	<5.2>	<3.8>	<7.3>

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>	<u>2006</u>		
							<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
	(% change)					\$Mn	(% change over a year earlier)			
All markets	-5.8	5.4	11.7	15.9	11.4	2,250,174	10.0	12.1	5.4	8.4
Mainland of China	0.6	12.3	21.1	19.7	14.0	1,012,565	14.5	18.4	8.5	13.5
United States	-9.8	1.0	-2.6	5.4	5.6	360,639	1.7	3.8	-0.1	0.7
Japan	0.5	-4.5	12.3	14.4	10.3	118,578	5.7	6.9	2.3	0.0
Germany	-13.9	-5.3	15.1	11.9	15.6	72,720	14.7	10.5	2.5	0.3
United Kingdom	-12.2	-2.0	5.8	14.8	5.2	69,247	0.1	2.1	3.6	7.9
Taiwan	-11.1	-2.2	22.2	16.2	2.7	50,427	3.0	4.1	-6.3	8.6
Republic of Korea	-9.4	17.2	16.9	24.0	9.5	48,241	16.4	16.3	10.5	9.8
Singapore	-19.5	6.8	13.0	22.0	6.8	46,541	3.4	-1.0	-3.7	13.7
Rest of the world	-8.4	3.5	7.1	17.3	13.3	471,215	10.4	10.3	5.9	6.3

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>	<u>2006</u>		
							<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
	(% change)					\$Mn	(% change over a year earlier)			
All sources	-5.4	3.3	11.5	16.9	10.3	2,329,469	11.3	13.8	8.1	10.7
Mainland of China	-4.6	5.1	9.6	16.9	14.3	1,049,335	13.5	16.9	11.0	10.8
Japan	-11.2	3.4	17.2	19.7	0.1	256,501	1.5	4.4	-1.1	5.1
Taiwan	-13.1	7.4	8.0	22.8	9.4	168,227	21.2	19.4	18.4	20.4
Singapore	-2.8	3.9	19.6	22.5	21.8	135,190	32.6	34.3	15.9	17.0
United States	-7.0	-12.8	7.9	13.4	6.5	119,252	-2.4	0.1	-5.0	5.1
Republic of Korea	-12.2	7.3	15.0	15.0	2.6	103,035	15.4	19.8	13.1	7.7
Rest of the world	0.5	2.2	12.1	13.6	8.4	497,928	6.2	8.0	4.1	10.1

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>	<u>2006</u>		
							<u>Q4</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>
	(% change)					\$Mn	(% change over a year earlier)			
Overall	-9.1	-9.0	2.6	14.8	7.3	585,301	19.5	22.7	18.5	14.8
Foodstuffs	-2.6	0.2	1.5	8.6	3.1	50,763	5.1	4.1	8.5	4.7
Consumer goods	3.9	-5.2	-1.8	7.4	5.5	127,819	19.5	12.9	24.8	-5.5
Fuels	-10.2	3.9	12.9	37.5	23.5	56,964	14.9	40.0	19.4	15.2
Raw materials and semi-manufactures	-22.3	-1.6	10.7	17.6	4.2	215,854	14.0	14.3	7.9	6.8
Capital goods	-2.8	-24.9	-6.6	13.3	10.8	134,658	36.0	38.9	27.4	46.9

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[#]</u>	<u>2005[#]</u>		<u>2005</u>	<u>2006</u>		
							Q4 [#]	Q1 [#]	Q2 [#]	Q3 [#]
	(% change)					\$Mn	(% change over a year earlier)			
Exports of services	1.8	8.4	4.2	18.5	12.5	483,455	13.9	14.1	14.9	14.1
Transportation	-5.9	10.8	3.8	25.5	12.5	152,147	11.9	10.2	10.1	9.6
Travel	0.7	25.4	-4.4	26.1	14.1	79,994	15.3	13.7	12.9	9.6
Trade-related	9.0	9.0	12.2	12.6	11.6	163,498	11.1	12.9	11.4	12.9
Other services	3.4	-5.9	-1.4	12.7	12.9	87,816	22.0	23.3	31.4	28.5
Imports of services	0.9	4.3	0.4	19.2	3.8	251,832	1.6	4.7	9.2	7.0
Transportation	4.7	-4.7	7.8	29.4	8.0	73,067	3.8	7.0	10.1	7.9
Travel	-1.4	0.8	-8.0	15.9	0.1	103,492	-1.2	1.6	8.0	3.2
Trade-related	5.7	24.2	9.2	3.2	10.3	18,211	8.2	4.9	2.5	3.5
Other services	0.5	20.0	8.2	19.7	3.8	57,062	1.5	7.6	11.8	14.2
Net exports of services	3.3	14.8	9.4	17.6	23.8	231,623	28.3	25.4	21.5	22.1

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> Q4	Q1	<u>2006</u> Q2	Q3
<u>('000)</u>									
All sources	13 725.3	16 566.4	15 536.8	21 810.6	23 359.4	6 405.8	6 226.3	5 971.0	6 374.7
Mainland of China	4 448.6	6 825.2	8 467.2	12 245.9	12 541.4	3 364.0	3 591.8	3 114.5	3 492.3
South and Southeast Asia	1 746.6	1 905.2	1 359.6	2 077.7	2 413.0	751.9	543.6	695.7	601.8
Taiwan	2 418.8	2 428.8	1 852.4	2 074.8	2 130.6	541.3	526.8	513.0	599.0
Europe	1 019.9	1 083.9	780.8	1 142.7	1 398.0	414.9	351.6	364.5	360.0
Japan	1 336.5	1 395.0	867.2	1 126.3	1 210.8	326.0	320.7	305.1	336.9
United States	935.7	1 000.8	683.8	1 051.7	1 143.1	313.8	264.0	300.2	276.4
Others	1 819.2	1 927.4	1 525.8	2 091.7	2 522.6	693.9	627.7	677.9	708.3
<u>(% change over a year earlier)</u>									
All sources	5.1	20.7	-6.2	40.4	7.1	5.8	13.8	8.4	6.7
Mainland of China	17.5	53.4	24.1	44.6	2.4	3.0	18.2	9.5	6.0
South and Southeast Asia	*	9.1	-28.6	52.8	16.1	12.7	8.9	12.7	10.5
Taiwan	1.4	0.4	-23.7	12.0	2.7	2.2	4.9	-0.1	4.4
Europe	-4.6	6.3	-28.0	46.3	22.3	17.6	14.0	5.5	9.4
Japan	-3.3	4.4	-37.8	29.9	7.5	-1.7	1.2	15.3	11.0
United States	-3.1	7.0	-31.7	53.8	8.7	2.7	1.2	2.3	0.5
Others	5.6	5.9	-20.8	37.1	20.6	15.8	15.4	7.9	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>
Completion of new property by the private sector (^{'000 m² of internal floor area})							
Residential property ^(a) (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 ^(b)	121	249	208	206	64	132	138
Industrial property ^(c)	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 ^(d)	83	90	124	147	6	0	27
Production of public housing (in units)							
Rental housing flats ^(e)	18 358	16 046	14 267	26 733	40 944	47 590	20 154
Subsidized sales flats ^(e)	10 725	21 535	21 993	26 532	22 768	25 702	1 072
Building plans with consent to commence work in the private sector (^{'000 m² of usable floor area})							
Residential property ^(f)	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 ^(g)	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
Agreements for sale and purchase of property (Number)							
Residential property ^(h)	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 ⁽ⁱ⁾							
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)

	2003	2004	2005	2005 Q4	Q1	2006 Q2	Q3
Completion of new property by the private sector (^{'000 m² of internal floor area})							
Residential property ^(a) (in units)	26 397	26 036	17 321	1 522	2 785	5 765	3 555
Commercial property	417	371	145	83	8	65	42
<i>of which :</i>							
Office space	299	280	34	2	1	28	36
Other commercial premises ^(b)	118	91	111	81	8	37	6
Industrial property ^(c)	15	1	17	13	15	7	4
<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 ^(d)	0	0	13	13	15	7	4
Production of public housing (<i>in units</i>)							
Rental housing flats ^(e)	13 705	20 614	24 691	3 722	2 033	2 397	0
Subsidized sales flats ^(e)	320	0	0	0	0	0	0
Building plans with consent to commence work in the private sector (^{'000 m² of usable floor area})							
Residential property ^(f)	1 038.4	530.0	550.7	253.8	174.9	88.5	343.9
Commercial property	200.0	161.3	481.9	228.0	15.5	100.9	38.4
Industrial property ^(g)	0.8	16.4	35.1	2.9	1.4	13.1	8.2
Other properties	444.2	407.1	408.0	61.8	28.1	46.6	98.7
Total	1 683.3	1 114.8	1 475.8	546.5	220.0	249.1	489.2
Agreements for sale and purchase of property (<i>Number</i>)							
Residential property ^(h)	71 576	100 630	103 362	19 288	17 724	21 811	22 241
Primary market	26 498	25 694	15 994	4 193	1 294	3 023	5 902
Secondary market	45 078	74 936	87 368	15 095	16 430	18 788	16 339
Selected types of non-residential properties ⁽ⁱ⁾							
Office space	1 817	3 213	3 431	595	649	798	678
Other commercial premises	4 142	7 833	7 143	1 136	1 115	1 171	1 036
Flatted factory space	3 813	5 889	6 560	1 471	1 690	2 040	1 872

- 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
- (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 ^(a)	116.9	163.1	117.1	100.0	89.6	78.7	69.9
Office space ^(b)	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 ^(c) :							
Residential flats	119.0	134.5	112.6	100.0	98.1	95.4	83.4
Office space ^(b)	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 ^(a)	8.9	39.5	-28.2	-14.6	-10.4	-12.2	-11.2
Office space ^(b)	-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 ^(c) :							
Residential flats	-1.4	13.0	-16.3	-11.2	-1.9	-2.8	-12.6
Office space ^(b)	-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 recompiled according to the revised grading criteria for office space. Hence, the figures from 2000 onwards are not strictly comparable to those in the earlier years.

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

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

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

	<u>2003</u>	<u>2004</u>	<u>2005[#]</u>	<u>2005</u> Q4 [#]	Q1 [#]	<u>2006</u> Q2 [#]	Q3 ⁺
<u>(Index (1999=100))</u>							
Property price indices :							
Residential flats ^(a)	61.6	78.0	92.0	90.1	91.5	93.2	91.9
Office space ^(b)	62.5	99.3	133.0	135.4	131.0	139.5	144.2
Shopping space	85.5	119.3	149.3	151.0	151.6	153.8	150.7
Flatted factory space	71.7	88.6	125.0	136.6	144.3	153.9	162.8
Property rental indices ^(c) :							
Residential flats	73.6	77.7	86.5	89.9	89.3	90.9	91.8
Office space ^(b)	74.6	78.1	96.4	105.4	110.1	117.1	120.0
Shopping space	86.4	92.8	100.5	103.4	103.2	102.1	101.3
Flatted factory space	74.9	77.3	82.6	84.5	86.3	89.9	92.2
<u>(% change over a year earlier)</u>							
Property price indices :							
Residential flats ^(a)	-11.9	26.6	17.9	8.0	1.8	-1.4	-1.8 <55.0> {-45.8}
Office space ^(b)	-8.6	58.9	33.9	20.9	6.3	2.9	4.8 <144.4> {-35.9}
Shopping space	0.6	39.5	25.1	12.5	5.1	0.5	1.2 <86.0> {-22.1}
Flatted factory space	-4.1	23.6	41.1	37.0	32.9	25.6	23.2 <132.6> {-6.2}
Property rental indices ^(c) :							
Residential flats	-11.8	5.6	11.3	12.1	8.2	6.3	4.0 <27.7> {-33.9}
Office space ^(b)	-12.6	4.7	23.4	28.4	25.5	26.2	20.2 <67.4> {-24.5}
Shopping space	-7.0	7.4	8.3	7.7	6.6	3.1	-1.6 <20.5> {-18.7}
Flatted factory space	-9.4	3.2	6.9	6.6	6.5	9.1	11.8 <27.7> {-31.0}

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

	1996	1997	1998	1999	2000	2001	2002
<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 ^(a)	1,503,603	1,666,419	1,828,691	1,923,481	1,987,963	1,998,774	1,984,049
M3 ^(a)	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 ^(b) (\$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) ^{(c)(d)}							
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 ^(a)	19.3	--	9.7	5.2	3.4	0.5	-0.7
M3 ^(a)	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 ^(b)							
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 ^{(c)(d)}							
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)

	2003	2004	2005	2005 Q4	Q1	2006 Q2	Q3
<u>(as at end of period)</u>							
Hong Kong dollar money supply (\$Mn) :							
M1	354,752	412,629	348,248	348,248	356,869	353,297	367,188
M2 ^(a)	2,107,269	2,208,591	2,329,669	2,329,669	2,453,240	2,506,013	2,651,546
M3 ^(a)	2,122,861	2,219,557	2,345,838	2,345,838	2,469,679	2,523,153	2,669,082
Total money supply (\$Mn)							
M1	413,423	484,494	434,684	434,684	438,946	447,433	470,389
M2	3,813,442	4,166,706	4,379,057	4,379,057	4,522,812	4,636,476	4,856,179
M3	3,858,044	4,189,544	4,407,188	4,407,188	4,551,810	4,666,865	4,886,537
Deposit ^(b) (\$Mn)							
HK\$	1,930,790	2,017,911	2,131,579	2,131,579	2,248,321	2,300,179	2,441,992
Foreign currency	1,636,227	1,848,145	1,936,322	1,936,322	1,959,835	2,029,667	2,108,527
Total	3,567,018	3,866,056	4,067,901	4,067,901	4,208,156	4,329,846	4,550,519
Loans and advances (\$Mn)							
HK\$	1,573,079	1,666,740	1,797,350	1,797,350	1,792,148	1,861,763	1,931,779
Foreign currency	462,000	488,964	514,637	514,637	535,632	555,727	566,351
Total	2,035,079	2,155,704	2,311,987	2,311,987	2,327,780	2,417,490	2,498,130
Nominal Effective Exchange Rate Indices							
(Jan 2000 =100) ^{(c)(d)}							
Trade-weighted	100.7	98.3	97.4	98.6	97.6	96.2	95.8
Import-weighted	101.6	99.2	98.1	99.5	98.2	96.8	96.5
Export-weighted	99.8	97.3	96.7	97.7	97.0	95.6	95.1
<u>(% change over a year earlier)</u>							
Hong Kong dollar money supply :							
M1	36.8	16.3	-15.6	-15.6	-7.8	-2.1	4.7
M2 ^(a)	6.2	4.8	5.5	5.5	11.4	13.2	16.3
M3 ^(a)	5.9	4.6	5.7	5.7	11.5	13.3	16.3
Total money supply :							
M1	39.8	17.2	-10.3	-10.3	-5.5	2.1	9.1
M2	8.4	9.3	5.1	5.1	8.6	11.3	14.4
M3	8.3	8.6	5.2	5.2	8.6	11.3	14.4
Deposit ^(b)							
HK\$	5.8	4.5	5.6	5.6	12.2	14.0	17.4
Foreign currency	9.6	13.0	4.8	4.8	6.0	10.4	14.2
Total	7.5	8.4	5.2	5.2	9.2	12.3	15.9
Loans and advances							
HK\$	-2.6	6.0	7.8	7.8	5.5	5.9	9.5
Foreign currency	0.3	5.8	5.3	5.3	11.0	11.3	12.1
Total	-2.0	5.9	7.2	7.2	6.7	7.1	10.1
Nominal Effective Exchange Rate Indices ^{(c)(d)}							
Trade-weighted	-3.2	-2.4	-0.9	1.3	1.5	-0.9	-1.8
Import-weighted	-3.0	-2.4	-1.1	1.3	1.3	-0.9	-1.8
Export-weighted	-3.4	-2.5	-0.6	1.3	1.6	-0.8	-1.9

- 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>	
						Q3	Q4	Q1	Q2 [#]
Wholesale trade	-12.0	-10.7	-5.0	4.7	5.6	4.8	5.7	4.3	5.7
Retail trade	-1.2	-4.1	-2.3	10.8	6.8	6.1	5.3	6.1	6.7
Import/export trade	-14.1	-2.8	6.5	12.4	10.6	8.7	10.7	10.3	8.4
Restaurants	-2.5	-5.4	-9.7	10.1	6.0	6.3	7.0	8.8	11.1
Hotels	-7.6	-2.3	-19.7	39.4	22.1	19.2	23.4	14.7	15.4
Transport ^(a)	-2.4	2.3	0.5	22.8	17.8	21.2	15.4	17.6	12.6
Storage	-14.9	-19.6	-4.5	17.0	10.4	12.9	12.5	9.2	5.0
Communications	-13.2	-2.6	-2.4	1.0	5.1	7.9	3.6	1.2	2.5
Banking	2.7	-0.8	*	4.4	10.9	17.5	9.2	18.0	24.1
Financing (other than banking)	-12.6	-14.3	17.3	33.2	14.3	30.0	18.7	50.8	57.2
Insurance	14.2	10.3	19.1	22.3	16.0	17.9	21.2	35.5	21.9
Real estate	-16.9	-2.5	6.2	13.5	16.0	12.1	-1.0	-6.0	-5.3
Business services	-9.6	-5.8	0.5	8.3	4.9	6.2	5.5	19.2	18.1
Film entertainment	15.2	-9.1	2.3	3.7	5.0	-1.3	7.6	0.6	-0.7
Tourism, convention and exhibition services ⁺	-3.8	10.7	-7.3	26.5	12.9	10.4	14.8	14.3	18.3
Computer and information services	-11.6	5.7	5.7	20.5	23.4	25.2	25.8	21.5	-1.5

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

(#) Revised figures.

(+) Figures from 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> Q4	Q1	<u>2006</u> Q2	Q3
<u>(%)</u>									
Labour force participation rate	61.4	61.8	61.4	61.3	60.9	60.8	61.1	60.8	61.7
Seasonally adjusted unemployment rate	5.1	7.3	7.9	6.8	5.6	5.2	5.2	5.0	4.7
Underemployment rate	2.5	3.0	3.5	3.3	2.8	2.5	2.3	2.7	2.3
<u>('000)</u>									
Population of working age	5 579.2	5 642.8	5 694.0	5 796.0	5 885.2	5 925.6	5 905.3	5 933.8	5 958.6
Labour force	3 427.1	3 487.1	3 496.2	3 551.0	3 584.6	3 604.8	3 606.7	3 606.6	3 676.5
Persons employed	3 252.3	3 231.6	3 219.1	3 308.6	3 384.0	3 423.4	3 426.2	3 427.5	3 496.1
Persons unemployed	174.8	255.5	277.2	242.5	200.6	181.5	180.5	179.0	180.4
Persons underemployed	85.5	105.2	123.3	116.7	98.6	89.2	82.6	96.0	86.2
<u>(% change over a year earlier)</u>									
Population of working age	1.5	1.1	0.9	1.8	1.5	1.6	0.9	1.1	1.1
Labour force	1.6	1.8	0.3	1.6	0.9	0.8	1.0	1.0	2.4
Persons employed	1.4	-0.6	-0.4	2.8	2.3	2.3	2.0	1.8	3.3
Persons unemployed	4.7	46.2	8.5	-12.5	-17.3	-20.4	-14.4	-12.5	-12.2
Persons underemployed	-8.6	23.0	17.3	-5.4	-15.5	-19.8	-24.9	-4.5	-9.0

Table 17 : Employment in selected major economic sectors

Major economic sector	2001	2002	2003	2004	2005	2005		2006		No.
	(% change)					Sep	Dec	Mar	Jun	
						(% change over a year earlier)				
Manufacturing	-8.6	-9.0	-10.3	-3.0	-2.0	-1.0	1.3	-1.0	-0.5	161 100
<i>of which :</i>										
Wearing apparel, except footwear	-14.9	-19.3	-11.6	-0.8	-4.7	-1.7	-3.0	-3.7	0.3	20 600
Textiles	-8.7	-1.1	-16.8	-11.1	0.5	3.8	0.8	-3.4	-1.6	19 300
Electronics	-17.4	-13.1	-18.9	-2.3	-4.7	-4.3	-7.9	-11.9	-9.5	12 900
Plastic products	-16.4	-17.0	-19.1	-16.8	-1.3	-1.0	12.7	2.6	-4.7	3 200
Fabricated metal products, except machinery and equipment	-16.9	-14.6	-20.7	-4.9	-9.7	-12.8	-2.9	-8.3	-4.5	5 600
Wholesale, retail, import/export trades, restaurants and hotels	-1.2	-2.3	-3.0	2.9	2.6	1.8	2.0	1.9	1.8	1036 700
<i>of which :</i>										
Wholesale, retail and import/export trades	-1.9	-1.6	-1.9	2.1	2.3	1.3	1.1	1.0	0.9	810 900
Restaurants and hotels	1.2	-4.8	-7.3	6.0	3.6	3.7	5.4	5.3	5.3	225 800
Transport, storage and communications	2.4	-1.8	-4.4	3.7	2.6	2.8	1.4	1.6	-0.2	184 500
<i>of which :</i>										
Land transport	2.6	-0.3	0.5	-2.2	-1.5	-1.1	-1.7	-0.6	0.6	37 900
Water transport	3.3	1.0	-3.6	0.1	-0.3	1.2	-4.8	-3.6	-8.1	26 300
Services allied to transport	-0.8	1.1	-3.7	10.3	7.9	6.3	7.4	3.6	3.2	62 600
Financing, insurance, real estate and business services	1.6	-1.3	-1.9	3.6	4.4	4.0	3.8	4.6	4.1	475 900
<i>of which :</i>										
Financial institutions	-0.5	-5.6	-6.5	1.1	4.7	5.1	4.8	4.1	4.5	131 500
Insurance	7.1	0.3	1.2	2.4	5.9	7.6	0.9	2.3	-4.8	29 200
Real estate	-3.0	5.2	0.7	2.2	6.8	5.7	9.6	8.2	5.7	98 200
Business services except machinery and equipment rental and leasing	4.5	-1.2	-0.2	6.0	2.9	2.2	1.1	3.7	4.5	216 300
Community, social and personal services	7.2	5.9	2.9	3.2	4.5	5.3	2.7	3.9	3.4	451 700
<i>of which :</i>										
Sanitary and similar services	5.1	13.8	6.0	1.5	2.4	5.6	1.5	4.4	1.6	57 700
Education services	6.9	2.5	2.9	1.8	1.8	1.2	2.9	4.0	3.6	136 300
Medical, dental and other health services	5.5	3.2	-0.3	2.5	1.6	2.9	1.9	2.5	4.4	79 300
Welfare institutions	25.4	11.9	13.9	2.1	-0.4	-3.3	-0.5	2.4	4.0	53 400
Civil Service^(a)	-3.5	-3.7	-2.4	-3.8	-2.7	-2.4	-1.8	-1.5	-1.5	154 500

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>	<u>2005</u> Sep	Dec	<u>2006</u> Mar	Jun
<u>(number)</u>									
Building sites									
Private sector	40 556	40 017	33 892	33 619	31 556	30 679	30 310	32 156	30 997
Public sector ^(a)	17 183	11 727	16 183	13 325	10 135	10 571	8 459	8 312	7 822
Sub-total	57 738	51 744	50 074	46 944	41 690	41 250	38 769	40 468	38 819
Civil engineering sites									
Private sector	2 633	2 869	2 755	2 564	2 198	1 861	1 560	1 594	1 707
Public sector ^(a)	19 931	18 611	17 466	16 772	15 378	13 735	14 127	12 835	11 747
Sub-total	22 564	21 480	20 221	19 336	17 576	15 596	15 687	14 429	13 454
Total	80 302	73 223	70 295	66 280	59 266	56 846	54 456	54 897	52 273
<u>(% change over a year earlier)</u>									
Building sites									
Private sector	19.2	-1.3	-15.3	-0.8	-6.1	-7.4	-0.9	-5.3	-0.9
Public sector ^(a)	-37.0	-31.8	38.0	-17.7	-23.9	-12.7	-21.8	-27.6	-22.0
Sub-total	-5.8	-10.4	-3.2	-6.3	-11.2	-8.8	-6.3	-11.0	-6.0
Civil engineering sites									
Private sector	58.9	9.0	-4.0	-6.9	-14.3	-30.4	-45.4	-48.4	-25.2
Public sector ^(a)	19.6	-6.6	-6.2	-4.0	-8.3	-19.1	-16.9	-25.5	-28.5
Sub-total	23.1	-4.8	-5.9	-4.4	-9.1	-20.6	-21.0	-29.0	-28.1
Total	0.9	-8.8	-4.0	-5.7	-10.6	-12.4	-11.1	-16.5	-12.9

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						Q3	Q4	Q1	Q2
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>	12,400 (9.6) <8.2>	13,400 (9.0) <7.5>	15,500 (2.6) <1.0>	12,500 (3.4) <1.3>
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>	8,000 (-0.4) <-1.7>	8,000 (-1.4) <-2.7>	9,000 (-0.9) <-2.4>	8,000 (0.7) <-1.3>
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>	18,100 (7.4) <6.0>	20,200 (3.1) <1.7>	19,800 (-3.4) <-4.9>	18,700 (4.2) <2.1>
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>	17,200 (1.5) <0.2>	19,900 (5.1) <3.6>	22,200 (5.6) <4.0>	19,000 (5.0) <2.9>
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>	18,100 (-4.5) <-5.7>	18,100 (-1.1) <-2.4>	17,700 (-0.4) <-1.9>	17,800 (-0.1) <-2.1>
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>	10,600 (0.8) <-0.5>	11,600 (1.2) <-0.1>	12,900 (1.3) <-0.3>	11,400 (1.1) <-0.9>
All sectors surveyed	15,400 (1.8) <3.5>	15,300 (-1.1) <2.0>	15,000 (-1.8) <0.8>	14,900 (-0.7) <-0.2>	15,400 (3.5) <2.6>	14,600 (3.2) <1.9>	15,700 (3.7) <2.3>	17,000 (1.3) <-0.3>	14,900 (2.2) <0.1>

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> Sep	Dec	<u>2006</u> Mar	Jun
<u>(in money terms)</u>									
Wholesale, retail and import/export trades	1.4	-0.6	-1.7	-1.6	1.6	1.9	1.8	-0.3	1.6
Restaurants and hotels	0.7	-2.6	-4.1	-2.2	*	0.2	0.7	-0.1	1.5
Transport services	0.7	0.6	-1.9	-1.0	1.0	0.5	1.4	-0.8	-1.7
Financing, insurance, real estate and business services	-0.9	-0.8	-0.1	-0.5	*	0.5	1.8	4.0	2.0
Personal services	0.7	-1.5	-3.1	1.3	-1.5	-4.5	-2.7	-1.5	0.6
Manufacturing	2.2	-1.4	-2.7	-1.3	1.2	0.5	2.5	2.8	1.1
All sectors surveyed	0.8	-1.0	-1.9	-1.1	0.8	0.8	1.4	0.7	1.1
<u>(in real terms)</u>									
Wholesale, retail and import/export trades	4.1	1.7	0.4	-1.7	0.4	0.6	0.4	-1.7	-0.3
Restaurants and hotels	3.3	-0.4	-2.1	-2.3	-1.3	-1.1	-0.6	-1.5	-0.4
Transport services	3.4	2.9	0.1	-1.0	-0.2	-0.9	*	-2.2	-3.6
Financing, insurance, real estate and business services	1.7	1.5	2.0	-0.6	-1.2	-0.8	0.5	2.5	0.1
Personal services	3.3	0.8	-1.1	1.3	-2.7	-5.7	-4.0	-2.9	-1.3
Manufacturing	4.8	0.8	-0.7	-1.4	-0.1	-0.8	1.2	1.4	-0.8
All sectors surveyed	3.5	1.3	0.2	-1.2	-0.4	-0.6	*	-0.7	-0.7

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 ^(a) :							
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>2006</u>			Average annual rate of change:	
				Q1	Q2	Q3	10 years 1995 to 2005	5 years 2000 to 2005
GDP deflator	-6.4	-3.6 #	-0.2 #	-0.1 #	-0.1 #	-0.2 #	-1.6 #	-3.1 #
Domestic demand deflator	-4.5	* #	0.8 #	1.1 #	2.0 #	2.1 #	-0.9 #	-2.2 #
Consumer Price Indices ^(a) :								
Composite CPI	-2.6	-0.4	1.0	1.6	2.0	2.3	*	-1.4
CPI(A)	-2.1	*	1.1	1.3	1.8	2.1	0.2	-1.2
CPI(B)	-2.7	-0.5	1.0	1.7	2.1	2.4	-0.1	-1.4
CPI(C)	-2.9	-0.9	0.8	1.7	2.3	2.4	*	-1.5
Unit Value Indices :								
Domestic exports	0.2	1.5	2.2	-2.9	-3.9	-1.3	-1.3	-0.9
Re-exports	-1.5	1.1	1.2	-0.2	0.9	1.5	-1.3	-0.8
Total exports of goods	-1.4	1.2	1.3	-0.3	0.6	1.4	-1.3	-0.8
Imports of goods	-0.4	2.9	2.7	1.0	1.9	2.7	-1.2	-0.4
Terms of Trade Index	-1.0	-1.7	-1.4	-1.3	-1.3	-1.3	-0.1	-0.4
Producer Price Index for all manufacturing industries	-0.3	2.2	0.8	2.0	2.4	N.A.	-0.5	-0.3
Construction Labour and Material Cost Index	-1.0	-1.2	-2.1	-2.7	-0.6	N.A.	2.2	-0.9
Tender Price Indices :								
Public sector building projects	-0.3	-1.5	1.4	0.4	2.0	N.A.	-0.3	-4.5
Public housing projects	-10.0	3.5	7.7	3.4	7.3	N.A.	-1.3	-6.5

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>
All items	100.0	6.3	5.8	2.8	-4.0	-3.8	-1.6	-3.0
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>	3.9	4.0	2.2	-1.2	-0.9	-0.3	-1.5
<i>Food, excluding meals bought away from home</i>	<i>(10.08)</i>	3.9	3.0	1.5	-2.8	-4.2	-1.7	-3.1
Housing ^(a)	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>	10.7	9.1	5.5	-6.1	-9.8	-2.9	-6.5
<i>Public housing rent</i>	<i>(2.49)</i>	8.3	13.5	-3.4	1.4	1.1	-8.3	-2.7
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%.

N.A. Not available.

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

(%)									
	Weight	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>			Average annual rate of change:	
					Q1	Q2	Q3	10 years	5 years
								1995 to 2005	2000 to 2005
All items	100.0	-2.6	-0.4	1.0	1.6	2.0	2.3	*	-1.3
Food	26.94	-1.5	1.0	1.8	0.9	1.7	2.1	0.4	-0.3
<i>Meals bought away from home</i>	<i>(16.86)</i>	<i>-1.5</i>	<i>0.2</i>	<i>0.9</i>	<i>1.0</i>	<i>1.3</i>	<i>1.5</i>	<i>0.6</i>	<i>-0.4</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>1.0</i>	<i>2.3</i>	<i>3.1</i>	<i>*</i>	<i>-0.2</i>
Housing ^(a)	29.17	-4.8	-5.2	0.1	4.2	4.9	4.8	-1.0	-3.8
<i>Private housing rent</i>	<i>(23.93)</i>	<i>-6.3</i>	<i>-6.6</i>	<i>-0.1</i>	<i>5.0</i>	<i>5.9</i>	<i>5.7</i>	<i>-1.5</i>	<i>-4.5</i>
<i>Public housing rent</i>	<i>(2.49)</i>	<i>9.1</i>	<i>2.5</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>N.A.</i>	<i>*</i>
Electricity, gas and water	3.59	1.4	11.4	4.1	3.9	3.4	4.1	2.2	1.4
Alcoholic drinks and tobacco	0.87	0.1	*	0.4	-0.6	-5.9	-4.1	2.4	1.2
Clothing and footwear	3.91	-2.7	6.4	2.0	-2.0	-0.7	1.7	-1.7	0.3
Durable goods	5.50	-6.4	-2.2	-3.2	-5.8	-6.6	-6.9	-3.2	-5.1
Miscellaneous goods	4.78	2.3	3.6	1.5	0.4	1.8	1.9	2.1	2.1
Transport	9.09	-0.4	0.4	1.4	1.6	1.1	0.2	1.6	0.2
Miscellaneous services	16.15	-3.2	-0.2	1.0	1.2	1.9	2.5	0.7	-0.9

**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
Gross Domestic Product	5.8	5.6	0.2	-5.8	-5.6	-1.8	-3.5
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[#]</u>	<u>2005[#]</u>	<u>2006</u>			Average annual <u>rate of change:</u>	
				Q1 [#]	Q2 [#]	Q3 [#]	10 years 1995 to 2005 [#]	5 years 2000 to 2005 [#]
Private consumption expenditure	-2.9	-0.5	1.4	1.9	1.6	1.6	-0.5	-1.3
Government consumption expenditure	-2.7	-2.9	-1.6	1.2	1.3	1.5	0.6	-1.3
Gross domestic fixed capital formation	-9.4	2.1	0.9	-2.0	3.1	6.3	-2.7	-4.8
Total exports of goods	-2.0	0.5	-0.1	-1.8	-0.7	-0.4	-1.7	-1.4
Imports of goods	-0.9	2.5	1.3	*	1.4	1.7	-1.4	-1.0
Exports of services	-3.4	0.4	3.5	4.8	5.4	5.1	-1.0	-1.2
Imports of services	2.6	4.0	0.9	-0.2	0.7	1.3	0.3	1.4
Gross Domestic Product	-6.4	-3.6	-0.2	-0.1	-0.1	-0.2	-1.6	-3.1
Total final demand	-3.0	0.4	0.8	*	1.0	1.1	-1.4	-1.6
Domestic demand	-4.5	*	0.8	1.1	2.0	2.1	-0.9	-2.2

